Charltons - China News Alerts Newsletter - 30 April 2008

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# China News Alert Issue 238

## Capital Markets

### China cuts stock stamp tax to 0.1% to support market

The Chinese government recently announced it is to cut the share trading stamp tax from 0.3 per cent to 0.1 per cent from 24th April in an effort to boost the equities market, which has fallen 46 per cent from its high on 16th October.

Analysts expect the long-awaited support measure to give a strong boost to weak investor sentiment, following heavy sell-offs this year.

The benchmark Shanghai Composite Index closed 4.15 per cent higher at 3,278.33 on 23rd April, before the tax cut announcement. Despite the rise, it has dropped 37.7 per cent this year after almost doubling in 2007.

After approval from the State Council, the Ministry of Finance and State Administration of Taxation decided to cut the transaction tax, a government statement announced.

The tax will be levied on both sides of the transaction.

The government raised the stamp tax to 0.3 per cent from 0.1 per cent on 30th May 2007, in a bid to cool the stock market.

[Source: People's Daily Online](http://english.people.com.cn/90001/90776/90884/6397853.html) ([see archive](China_cuts_stock_stamp_tax_to_01_to_support_market.pdf))

### Non-financial investment rises 6%

Direct investment abroad in the non-financial sector increased slightly in 2007 from a year earlier, but investors are being warned of possible risks in overseas markets.

Overseas investment hit US$18.7 billion last year, up 6.2 per cent year-on-year, Wang Shengwen, deputy director of the commerce ministry's foreign economic cooperation department, told the second Chinese Enterprise Outbound Investment Conference in Beijing recently.

The meeting was organised by the China Council for the Promotion of International Trade and the Ministry of Commerce.

Cumulative outbound investment in the non-financial sector amounted to US$93.7 billion by the end of 2007.

Figures for overseas direct investment in the financial sector, which are monitored by the State Administration of Foreign Exchange, are not yet available for 2007. The amount was US$3.53 billion in 2006.

Since the government initiated the "go global" strategy for domestic companies in 1998, investment overseas has been rising.

By the end of 2007, more than 12,000 enterprises had a presence in 172 countries and regions.

"Chinese investors are also diversifying their investment," Wang said.

There are now more mergers and acquisitions in outward investment, with such investment accounting for a third of the total during 2007.

Some 1,400 enterprises in Africa employ about 11,000 local people and have trained 54,000 people.

China's outward investment has provided at least 300,000 jobs for people overseas.

But Wang warned that investors should beware of possible risks, such as problems brought about by a slowdown in the global economy, trade protectionism as well as security incidents involving Chinese businesses.

Zhang Xiaoqiang, deputy director of the National Development and Reform Commission, said the government is trying to create a better environment for investors abroad through joint efforts with foreign governments.

[Source: Xinhua](http://news.xinhuanet.com/english/2008-04/23/content_8032947.htm) ([see archive](Overseas_non-financial_investment_rises_6.pdf))

### China orders lenders to rein in overseas loans

China ordered foreign and local banks to rein in overseas borrowings in a bid to curb the influx of speculative capital.

Overseas loans with a maturity of less than a year will be limited to US$12.7 billion by June for 23 foreign banks and to US$8 billion for 19 local banks, a State Administration of Foreign Exchange document showed.

That is a cut of 15 per cent for global lenders from the March-end levels, and a cut of 5 per cent for domestic banks, said Xu Hanfei, an analyst at Industrial Bank Company in Shanghai.

The new quotas will run until 31st March 2009.

China's foreign-exchange reserves rose to a record US$1.68 trillion at the end of March, the central bank said on 11th April, fueling concerns that an influx of speculative capital will hamper efforts to dampen inflation, which is close to the fastest rate in 11 years.

"Growth in foreign-exchange lending beat that of yuan loans last year," said Li Huiyong, an analyst at Shenyin Wanguo Research and Consulting Company in Shanghai. "Short-term lending is one of the channels for the inflow of so-called hot-money."

Premier Wen Jiabao has said top priorities this year are curbing prices and preventing overheating.

The central bank has ordered lenders to set aside larger reserves three times this year.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200804/t20080423_1438741.html) ([see archive](China_orders_lenders_to_rein_in_overseas_loans.pdf))

### Central bank addresses financial tasks

The central bank will continue with its tight monetary policy in an attempt to boost consumption and the agriculture sector, the bank's governor, Zhou Xiaochuan, said at a recent bank meeting.

Zhou acknowledged the primary effects of the macro-control policy in the financial sector and outlined a series of measures in light of the current economic climate both at home and abroad.

According to Zhou, the financial regulator should continue to adopt a tight monetary policy and prevent the excess growth of credit and money supply.

Meanwhile, it will strive to improve the credit structure, giving lending preferences to the agriculture and service sectors, and encouraging consumption.

The government will also speed up reform of the financial system, focusing on pushing forward reforms of the Agricultural Bank of China and the China Development Bank, Zhou said.

Zhou also vowed to increase foreign exchange management reform, moving towards a convertible renminbi system. In addition, the bank will take comprehensive measures to improve the international balance of payments.

The central bank will urge domestic financial institutions to prepare and improve service for the upcoming Olympic Games.

[Source: Law Info China](http://www.lawinfochina.com/Search/DisplayInfo.aspx?lib=news&id=6619) ([see archive](Central_banker_addresses_financial_tasks.pdf))

## Corporate & Commercial

### Supervision rules and risk handling at security firms is vital for market stability

The new rules for supervision, management and risk handling at security firms are of great importance for a stable and healthy capital market, Shang Fulin, the China Securities Regulatory Commission (CSRC) chairman, said recently.

The executive meeting of the State Council, presided by Premier Wen Jiabao, recently approved, in principle, two draft regulations.

The regulation for risk handling at security firms became effective on 23rd April. The regulation for supervision and management at security firms is effective as from 1st June.

At an internal meeting, Shang said the two regulations reflected the government's concern and support for the capital market and securities industry.

"The regulations are of great significance for safeguarding the legitimate rights and interests of investors and maintaining normal order on the equities market," he told the meeting.

"They will help to set up a new mechanism to reduce risk at brokerages and to promote legal operations and a healthy development," the official said.

The State Council's executive meeting admitted the market needs urgent improvement in areas such as transparency and efficiency, structure, functions and operation.

The government has cut stamp tax for share trading from 0.3 per cent to 0.1 per cent, starting on 1st May, in an effort to boost the declining equities market.

[Source: China.com](http://english.china.com/zh_cn/business/news/11021613/20080425/14806570.html) ([see archive](Supervision_rules_and_risk_handling_at_security_firms_is_vital_for_market_stability.pdf))

### Restrictions set for top management of listed SMEs

The Shenzhen Stock Exchange (SZSE) and the China Securities Depositary and Clearing Corporation (CSRC) have jointly issued the 'Notice on Further Regulating Stock Trading by Directors, Supervisors and Top Management of Companies Listed on the SME Board' (Notice).

The Notice was issued in response to the behaviour of a few directors and supervisors of listed SMEs who cut substantial holdings of company shares after they left their posts.

The Notice reiterated the requirements of the CSRC and SZSE for directors and supervisors of listed SMEs to trade company shares, and set out further stipulations on share disposal after directors and supervisors leave the company, and on the share trading conducted by the spouses of directors and supervisors.

Some senior managers of listed companies sold large quantities of the company's shares, which has aroused wide concern. However, such actions are not common in listed firms on the Small and Medium-sized Enterprises (SME) board.

Shares held by directors and supervisors of these companies account for a small percentage of the total equity, and as a result their disposal had little affect on the price of shares or related production and operation.

Nevertheless, there are still some problems concerning stock trading conducted by directors and supervisors of listed SMEs.

1. a few directors and supervisors bought and sold shares or conducted short-term transactions at a sensitive time, just before the regular reports were disclosed;
2. spouses of some directors and supervisors conducted frequent share trading during sensitive periods;
3. some of the directors and supervisors resigned from their jobs in order to sell their shares, which may generate a negative influence over the company's normal operations.

To address such problems, the SZSE issued the Notice and imposed requirements on directors and supervisors of listed firms in a bid to regulate share trading by directors and supervisors.

The Notice requires listed firms to strengthen internal control and education on stock trading for directors and supervisors, set up special management rules for share trading by their directors and supervisors, and urge directors and supervisors who intend to trade shares to inform the board secretary of the trades in writing.

Listed companies must disclose the status of share trading conducted by their directors and supervisors within the report period, and disclose short-term transactions conducted by directors and supervisors through public statements.

Directors and supervisors of listed SMEs must not trade over 50% of the total shares they hold within 12 months of handing in their resignation. In addition, listed SMEs must add relevant clauses to their articles of association.

In case there are directors and supervisors who dispose of their shares after leaving their posts, then retake up their previous posts, the listed company must report to the SZSE, in written form, the status of the share trading and reasons for reemployment. The proposal must not be submitted to the board of directors or shareholders' general meeting until the SZSE voices no objection.

Spouses of directors and supervisors of listed companies must not trade the company's shares during sensitive window periods.

A SZSE official said the SZSE would enhance the supervision of stock trading conducted by directors and supervisors of listed SMEs in a bid to fully protect the legitimate interests of investors and boost the stable and sound development of the SME board.

[Source Shenzhen Stock Exchange](http://www.szse.cn/main/en/aboutsse/marketnews/2008042912427.shtml) ([see archive](Restrictions_set_for_top_management_of_listed_SMEs.pdf))

### Directors of insurance companies must accept continuous education and training

Beginning on 28th April, directors, supervisors and senior managers of insurance companies must accept, during their tenures, continuous education and training organised by the China Insurance Regulatory Commission (CIRC), and must obtain qualification certificates.

Under the 'Circular on Releasing the Tentative Measures for Administrating the Training for Directors, Supervisors and Senior Managers of Insurance Companies' (Circular), released on 28th April, the CIRC and will record the circumstances of the aforementioned training and examinations as part of the qualification review.

The Circular also stipulated that board chairmen and general managers of insurance companies must participate in training for no less than 7 days per year, and no less than 10 days per year for directors, independent directors, supervisors and vice general managers.

[Source: Lexis Nexis](http://www.lexiscn.com/latest_message.php?id=3686) ([see archive](Directors_of_Insurance_Companies_Must_Accept_the_Continuous_Education_and_Training.pdf))

## Other

### Further opening-up urged in central regions

Chinese Vice Premier, Wang Qishan, recently called for further reform and opening-up of central regions.

Central regions need to boost awareness of reform, innovation, opening-up, markets, and the rule of law, Wang said, when he addressed the opening of the Third Central China Investment and Trade Expo in Wuhan, capital of central China's Hubei Province.

China unveiled "The Rise of Central China" in 2004, following similar policies in the West and Northeast, amid efforts to promote coordinated regional development.

Central regions include the provinces of Shanxi, Anhui, Henan, Jiangxi, Hunan and Hubei.

The vice premier ordered local authorities not to develop the economy at the cost of the environment by taking on old growth models of high energy consumption and pollution.

Provinces should make good use of local resources to speed up the construction of regional bases for raw materials, grain, culture and tourism, he said.

Central regions should also speed up the construction of railway, road and water transport infrastructures and build a service-oriented government to create a fair investment environment for both domestic and overseas investors, Wang added.

[Source: China 5e](http://www.china5e.com/news/water/200804/200804280109.html) (Link no longer active)

### Scheme to lift market efficiency

China will increase its efforts to improve market regulation and expand market access in a bid to join the World Trade Organisation (WTO) Government Procurement Agreement (GPA), a senior official in Shanghai said recently.

The GPA provides a legal framework based on transparency of procedures and equal treatment for government purchases. It is optional for members of the WTO and China made its initial offer to join the GPA at the end of 2007.

"China has carried out various reforms aimed at improving market transparency and efficiency to establish a procurement regime in the past five years," Zhan Jingtao, director general of Treasury Department at the Ministry of Finance, said at the EU-China Conference on Government Procurement. "We have issued a law on government procurement to prepare to join the GPA,"

Zhan declined to set a time frame for China to join the GPA, which so far only includes rich countries such as EU members, the United States and Japan.

On 28th December, China formally made its initial offer to join the GPA, marking the start of the negotiating process with the other signatories to the agreement.

Bertrand Carsin, director of Public Procurement Policy at the Directorate-General for Internal Market and Services of the European Commission, said China's initial offer to join the GPA demonstrated its commitment to further integrate into the world trading system.

"The European Union is committed to the dialogue with China on government procurement and regulatory cooperation," Carsin said. "We are prepared to consider requests for transitional measures to reflect the difficulties that China faces."

Carsin said one third of tender bids in the EU procurement market were made by foreign companies through their local subsidiaries in other member states and that the agreement served as a link between an open and transparent procurement regime and government savings.

The total value of government procurement in China exceeded 400 billion yuan (US$57.1 billion) last year, compared with 368.1 billion yuan in 2006 and 165.9 billion yuan in 2005.

The WTO Agreement on Government Procurement is a set of rules that aims to ensure that the laws, regulations and procedures of its signatories are transparent and fair and do not discriminate against goods, services and supplies of the other signatories.

Eight other WTO members in addition to China are in the process of acceding to the agreement and Jordan looks likely to become the first developing country to join the GPA.

[Source: Shanghai Daily](http://www.shanghaidaily.com/sp/article/2008/200804/20080429/article_357578.htm) (Link no longer active)

### China's largest special economic zone celebrates 20th anniversary

China's southernmost Hainan Province, the largest special economic zone (SEZ) in the country, celebrated its 20th anniversary recently.

"Setting up SEZs was an important measure of China's reform and opening-up. The SEZs have played a pioneering role in prompting reform," said Chinese Vice Premier, Li Keqiang, at the celebration ceremony in Haikou.

Li asked the island province to build itself into a shipping hub, logistic center and export processing base for southeast Asia.

Founded 20 years ago, Hainan SEZ was a pioneer in experimenting with the market economy, developing land with foreign investment, implementing a provincial insurance system, abolishing agricultural tax and removing school fees for nine years of compulsory education.

During the past two decades, Hainan has seen its gross domestic product expand 7.6-fold in real terms. The disposable income of the urban population has soared 10.6 times and the net income of farmers has jumped 6.6 times.

"We should learn from the experience of Hainan: to stick to a socialist market economy-oriented reform, scientific development and innovation for sustainable economy growth, and putting people first to raise living standards and promote social harmony," Li told the ceremony.

The vice premier urged local authorities to increase reform and opening-up, and to further "emancipate the mind" to explore new approaches for economic growth.

More efforts are needed to boost innovation, upgrade economic structures, and build Hainan into an environmentally friendly, prosperous province, Li added.

He also paid a visit to an exhibition showcasing Hainan's achievement during the past 20 years.

The province unveiled a blueprint aimed at building itself into a major international tourist destination by 2028.

The province will continue to implement its visa-free policies for tourists, open up aviation rights, and introduce overseas travel agencies and hotel management corporations, according to the action plan to transform Hainan into a first-class international tourist island.

With an area of 34,000 square kilometers, tropical and sub-tropical Hainan was established in 1988 as a province and approved as a special economic zone enjoying preferential development policies.

The other four SEZs are Shenzhen, Zhuhai, Shantou and Xiamen, all in southern China.

[Source: China.org.cn](http://www.china.org.cn/business/news/2008-04/27/content_15020868.htm) ([see archive](Chinas_largest_SEZ_celebrates_20th_anniversary.pdf))

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**Charltons - China News Alerts Newsletter - Issue 238 - 30 April 2008**