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China toughens forex receipts and export settlements

Stepping up the battle against "hot money" flowing into and out of China, three Chinese central governmental departments are to link their internal electronic systems from July 14 in a trial check of foreign exchange receipts and exports settlements, the State Administration of Foreign Exchange (SAFE) said Thursday.

These measures were interpreted by analysts as one of the latest efforts by the Chinese government to monitor capital flows and prevent more so-called "hot money" from flooding in and out of the country.

"Hot money" is usually defined as short-term global speculative funds moving among financial markets in search of the highest short-term returns.

The SAFE said it would conduct the checks with the other two departments -- the Ministry of Commerce and the General Administration of Customs (GAC).

With the new online checking mechanism, regulators would be able to compare enterprises' forex receipts and settlements with their exported goods at the GAC.

The new mechanism would be put into formal operation as of August 4.

In another action to help implement the new mechanism, the SAFE said it would ask mainland enterprises to report advance export receipts and deferred payments of imports to it.

The SAFE said by monitoring enterprises' advance export receipts and their later actual exports it would be able to prevent overseas funds from flowing in the guise of trade into the country for speculation.

While improving the monitoring of deferred payments for imports, the SAFE could prevent a possible large capital flight in the future, said the administration.

The government doesn't release official figures about how much "hot money" there is in the system. In fact, it doesn't even use the term "hot money".

But analysts had estimated at least $147.9 billion of "hot money" had flowed into the country in the first five months. And as much as $600 billion in "hot money" had surged into the country, most of it after 2005, according to them.

They also believed that over-invoiced exports, along with over-stating foreign direct investment and underground private banks, were three major channels for "hot money" to flow into China.

China had taken a series of increasingly aggressive measures in the past several months to blunt the impact of "hot money," amid the explosive growth of its foreign exchange reserves. The inflows had been so massive as to raise alarms over the country's financial security.

According to the SAFE, as of the end of May, forex reserves stood at $1.797 trillion. During the first five months of 2008, forex reserves increased by 18.7 percent year-on-year, or $268.7 billion, SAFE figures showed.

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