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## Investment FAQ

- 16. What are the rules for foreign shipping companies to set up their solely owned companies in China?
- 17. What are the conditions for establishing Chinese-foreign equity and contractual joint venture medical institutions within Chinese territory?
- 18. What are the rules for establishing foreign-funded commercial enterprises in China? (1)
- 18. What are the rules for establishing foreign-funded commercial enterprises in China? (2)
- 19. What are the regulations concerning taxes for enterprises with foreign investment and foreign enterprises engaged in consultation business?
- 20. Are foreign businesses allowed to invest in cinemas? What are the relevant regulations?

## NEWS & INFO

### "Hot money" may not be that hot

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BEIJING, July 15 -- The country's foreign exchange reserve rose by 11.9 billion U. S. dollars to 1.8 trillion dollars last month, the central bank said yesterday.

The world's largest foreign exchange reserve, however, has raised worries over foreign speculative capital, or "hot money," being pushed into China to cash in on the expected further rise of the yuan.

Economists have arrived at several figures on the amount of "hot money" circulating in the country, with the most controversial being 1.75 trillion dollars, about the same as the total foreign exchange reserve.

But the general estimate is between 300 and 400 billion dollars.

It is very hard to say how much of the reserve can be considered "hot money," Li Huafang, an economist with the Shanghai Institute of Finance and Law, said. So it makes little sense to suspect that a large part of the reserve comprises "hot money."

"The increase in the reserve has largely been normal because trade surplus and foreign investments continue to increase," Li said.

"And even if there have been unexplained capital inflows, it is hard to define which is speculative and which is for long-term investment."

Some researchers have simply deducted the trade surplus and foreign direct investment from the foreign exchange reserve and cited the difference as "hot money."

If that were the case, then the flow of "hot money" in April would have been 50 billion dollars, a figure many experts shrug off as highly exaggerated.

Li said "hot money" could change into long-term investment if a country's economy is stable. That's why the government should improve its investment environment to encourage incoming capital to stay in the country as long as possible.

"The authorities, however, are capable of monitoring and checking capital flows as China's capital accounts remain under effective control," Li said.

The currency regulators, and the commerce and Customs departments have already decided to join hands to check the influx of "hot money" by sharing information.

"In the next phase, they should coordinate with banking regulators to monitor capital coming in the form of foreign direct investment, which too could be a source of 'hot money,'" said Zhang Ming, an economist at the Chinese Academy of Social Sciences. It is Zhang who estimated that 1.75 trillion dollars in "hot money" could have accumulated in the past five years.

#### Money supply

The central bank also said yesterday that growth in the broad measure of the country's money supply, or M2, which includes cash and all types of deposits, fell from 18.07 percent in May to 17.37 percent in June.

And the narrow measure of money supply, which includes cash and demand deposits, dropped 3.74 percent to 14.19 percent in June.

The two figures prove the government's tightening measures are yielding results, analysts said.

(Source: China Daily)

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