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# China News Alert Issue 275

## Capital Markets

### China to regulate its overseas investment

On January 7, China's Ministry of Commerce published on its website the draft of the Management Measures for Overseas Investment by Chinese Companies, in order to solicit opinions from the public. The new rules require that any legally binding documents on a particular project cannot be signed by the investing Chinese enterprises and their foreign partners before the project is approved by either the Ministry of Commerce or the commercial authorities at provincial level.

Projects that are subject to approval from the Ministry of Commerce include investments in countries with no diplomatic relations with China, investments in countries or regions with a high level of security risk, investments with 100 million USD and/or above from the Chinese side, investments in cross-border infrastructure constructions, or investments involving the establishment of special purpose corporations overseas.

Commercial authorities at provincial level will be responsible for reviews on projects with investments from the Chinese side amounting between 10 million and 100 million USD, on projects in the energy and mining sectors, on projects about wholesale complexes and on real estate development projects. In addition, commercial authorities at provincial level should consult China's economic and commercial offices in the Chinese embassies and consulates in foreign countries before approving overseas investments in energy and mining sectors.

The draft also outlines the documentation that the enterprises have to submit in order to apply, as well as the time frame of the whole procedure. It also illustrates the cases in which an application is denied and the punishment for violations. Uniform coded certificates will be issued for authorized projects.

The full text of the draft can be accessed on the website of the Ministry of Commerce. Comments are expected by January 20.

[Source: People's Daily](http://english.people.com.cn/90001/90776/90884/6570451.html) ([see archive](China_to_regulate_its_overseas_investment.pdf))

### More loan allowed from small, mid-sized banks

China's small- and mid-sized commercial banks will be allowed bigger room in lending, the country's banking regulator said in Beijing recently in its latest effort to ease credit for the slowed economy.

The loan-deposit ratio of small- and mid-sized lenders can exceed the required level "by a proper margin", said the China Banking Regulatory Commission (CBRC) in a statement on its website.

The CBRC prohibits Chinese commercial banks from lending out more than 75 percent of their total deposit to avoid liquidity crises. Saturday's statement didn't reveal whether the ceiling will be moved up for large lenders too.

The move to ease the limit is part of the measures the CBRC announced to give stronger credit support to the economy impacted by the global financial turmoil.

All financial institutions should improve credit services to facilitate a rapid economic growth "with resolution and practical actions", said the CBRC.

The CBRC also urged Chinese banks to boost credit support for small enterprises and rural sectors.

Lenders will be encouraged to lend to company mergers and to offer loan restructuring to enterprises with financial or managerial problems caused by the global downturn, said the CBRC.

Through loan structuring, banks can cut the burden of borrowers by extending loan maturities, reducing or remitting debts and other favorable adjustments.

The CBRC said all the moves should be made based on strict risk control.

Chinese banks granted 476.9 billion yuan ($70 billion) of loans in Renminbi, the Chinese currency, in November. That was more than four times the level in November 2007, official data show.

China has cut lending rates considerably since mid-September and unveiled a 4 trillion-yuan fiscal stimulus package in early November to rejuvenate the weakened economy.

Renowned economist Cheng Siwei told a conference recently the economy grew about 8 percent during the fourth quarter of 2008, down from 9 percent in the third quarter and 10.4 percent in the first half.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-01/10/content_7386132.htm) ([see archive](More_loan_allowed_from_small_mid-sized_banks.pdf))

### China lowers threshold for bond market entry

Experts saw the first announcement from the People's Bank of China (PBOC) in 2009 as the latest move to ease difficulties domestic companies encounter while trying to raise capital.

Companies now can issue bonds below 500 million yuan ($73 million) in the country's inter-bank bond market. The central bank lowered the threshold for market entry, which was set up in 2004, in an online statement recently.

"The abolishment will make it easier for small and medium-sized companies (SMEs) to raise capital. It also reflects the PBOC's decision to help these companies," a bond trader told.

Capital shortage has long been a bottleneck in the development of Chinese SMEs, as lenders tend to be reluctant to grant loans over concerns about risk.

The PBOC announced at a work meeting this week it would carry out short-term trial bonds for the country's small and medium-sized companies in 2009. It was also considering the issue of high interest bonds and SME united bonds in the inter-bank bond market.

Zhao Xijun, professor of finance with Beijing-based China Renmin University, also saw it as good news for companies wishing to raise capital through bond issuing.

"To wipe out the regulation on the minimum fund amount is necessary to create a favorable environment to encourage enterprises to issue bonds," he said.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-01/10/content_7386124.htm) ([see archive](China_lowers_threshold_for_bond_market_entry.pdf))

### CIRC officially launched the classified supervision system in 2009

The China Insurance Regulatory Commission (CIRC) began from 1 January this year to implement the new classified supervision systems on insurance companies and insurance professional intermediaries.

As stipulated under the system, the CIRC will make a comprehensive appraisal and classification of all insurance companies in the beginning of each year based on the audited data of the previous year, and hence decide the supervision measures to be adopted on each company.

The CIRC will classify the insurance companies based on the monitoring index and the information obtained in daily supervision. The monitoring index on property insurance companies and life insurance companies is composed of five categories: solvency sufficiency ratio, corporate governance, internal and compliance risk index, capital operation risk index, business operation risk index and financial risk index. The classification of insurance professional intermediaries shall be based on the compliance and steadiness.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=5222) ([see archive](CIRC_Officially_Launched_the_Classified_Supervision_System_in_2009.pdf))

## Corporate & Commercial

### PRD region blueprint unveiled

The Pearl River Delta (PRD) region, including Hong Kong and Macao, will be built into "a globally competitive" and "vigorous area in Asia Pacific" by 2020, says a National Development and Reform Commission (NDRC) plan released recently.

The PRD region includes cities such as Guangzhou, Shenzhen, Zhuhai, Foshan, Jiangmen, Dongguan, Zhongshan, Huizhou and Zhaoqing in the southern part of Guangdong province.

The NDRC has mapped out plans for cooperation with Hong Kong and Macao, as well as comprehensive development of the PRD region, including technology innovation, environmental protection and social welfare.

Work on a bridge linking Hong Kong, Macao and Zhuhai will begin later this year, for which the central government will provide 5 billion yuan ($730 million), NDRC deputy director Du Ying told a press conference while releasing the plan.

The plan is expected to achieve economic integration in the PRD region by 2020 - including establishing an intercity mass transit system, a distribution network for natural gas and refined oil, building a public information database and unifying energy prices.

The plan outlines the positioning of the PRD region as a "leading economic powerhouse" in the country. It promises more autonomy to the region, too, through economic restructuring, coordinated urban and rural development and social reforms.

"The combined economic output of Guangdong, Hong Kong and Macao makes it the largest economy in Asia after Japan, the Republic of Korea and India," Du said.

The NDRC plan will intensify cooperation among Hong Kong, Macao and mainland cities in the PRD region, focusing on infrastructure construction, industrial development, technological innovation and improving living standards, he said.

The mainland cities in the region will benefit further from increasing economic interactions with Hong Kong and Macao, and by participating in the developing of China-ASEAN (Association of Southeast Asian Nations) Free Trade Area, according to the plan.

The region will continue to serve as "an experimental field" of the country's 30-year reforms, Du said.

Guangdong province is the powerhouse of China's economy, with an annual GDP growth of 13.45 percent - 3.5 percentage points higher than the national average - over the past three decades.

Other objectives outlined in the NDRC plan include:

Raising per capita GDP in the PRD region from the current $7,000 to $20,000 in 2020.

Urbanizing 80 percent of the PRD region by 2012.

Raising the region's average life expectancy to 78 years by 2012.

Ensuring pension insurance cover for more than 95 per cent of urban workers, over 80 per cent migrant workers and more than 60 per cent rural residents.

[Source: People's Daily](http://english.people.com.cn/90001/90776/90884/6570765.html) ([see archive](PRD_region_blueprint_unveiled.pdf))

### Guangxi issues seven preferential policies for Beibu Gulf

Southern China's Guangxi Zhuang Autonomous Region recently released the "Policies and Regulations on Promoting the Opening-up and Development of the Guangxi Beibu Gulf Economic Zone".

Preferential policies were issued in seven major categories including industry, taxes, land use, finance, as well as the development of international economic cooperation and foreign trade. The policies aim to advance the opening-up and development of the Beibu Gulf Economic Zone.

In terms of industry, the financial department at the autonomous regional level will establish government reward funds for major industry projects, offering rewards to major industry projects located in the Beibu Gulf Economic Zone.

In terms of taxes, enterprises in the economic zone, which have enjoyed preferential tax policies concerning western China's development and are currently paying a halved rate of enterprise income tax in accordance with the "two-year exemption and three-year halved payment” preferential income tax policy, will also be exempt from the enterprise income tax that is payable to local governments, equivalent to 40% of the total enterprise income tax. The enterprises will be exempt from this tax for three years, from 2008 to 2010.

In terms of land, major industry projects that are in line with national policies on industry, environmental protection requirements and land supply policies will be prioritized in the annual land-use plan.

In terms of international economic cooperation and foreign trade, the Policies and Regulations permit foreign-funded enterprises to expand their business scope and conduct cross-industry operations.

[Source: People's Daily](http://english.people.com.cn/90001/90776/90884/6572435.html) ([see archive](Guangxi_issues_seven_preferential_policies_for_Beibu_Gulf.pdf))

### Shanghai to open new areas to overseas investors

Shanghai will open more areas to overseas investors and improve government services to maintain the inflow of overseas funds this year, said a local official recently.

Sha Hailin, chief of the Shanghai Municipal Commission of Commerce, said the global financial crisis would mean a "comparatively grim" year for the city in terms of luring investment from outside the Chinese mainland.

"If we want to seize opportunities from the challenges, it is necessary for us to give equal emphasis to improving services and opening up," said Sha, who is also deputy secretary-general of the municipal government.

The city opened an online network for overseas investment on January 4 at http://wz.investment.gov.cn/SFI. The site allows investors to track their applications for new ventures or modifications to existing businesses.

The city will focus on development of regional headquarters and the expansion of the service trade this year, Sha said.

He said logistics, commerce and trade, information services, research and development and other high value-added services would be thrown open to overseas investors. He said more overseas investment would be welcomed in strategic industries such as shipbuilding and ocean-based businesses.

Shanghai achieved a record $17 billion worth of contracted overseas investment in 2008. It achieved a record $10 billion worth of paid-in overseas investment, 10 percent of the national total.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-01/13/content_7391853.htm) ([see archive](Shanghai_to_open_new_areas_to_overseas_investors.pdf))

### China issues 3G licenses

China recently officially awarded the long-awaited licenses for third generation (3G) mobile networks to three telephone operators, paving the way for investments of around 280 billion yuan in network upgradation and expansion over the next two years.

China Mobile got a license to deploy 3G networks based on TD-SCDMA, a home-grown 3G standard. Smaller rivals China Unicom and China Telecom were granted licenses for WCDMA and CDMA2000 respectively.

The Chinese government expects the new telecom investments after the 3G licensing to help stimulate the country's slowing economy.

Li Yizhong, minister of industry and information technology, said at an earlier industry conference in December that China would spend 280 billion yuan on 3G networks in 2008 and 2009.

Chen Jinqiao, deputy chief engineer from China Academy of Telecommunication Research under MIIT (Ministry of Industry and Information Technology), estimated the 3G network construction to attract investments of 1.8 to 2 trillion yuan from related sectors.

Enabling faster data transmission, 3G networks allow cell phone users to make video calls and watch TV programs.

However, 3G licensing in the country has long been postponed due to the government's support of TD-SCDMA, which was believed less mature than its foreign rivals WCDMA and CDMA2000.

Last year, China Mobile launched construction in China's major cities of the pre-commercial TD-SCDMA network, which provided 3G services during the Beijing Olympic Games.

China International Capital Corporation Limited, a Chinese investment bank, said in a report that China Mobile may invest 25 billion yuan into TD-SCDMA in 2009, while China Telecom and China Unicom would invest 50 billion and 60 billion yuan into CDMA2000 and WCDMA respectively.

It estimated subsidies for 3G mobile phones to be around 38 billion yuan.

According to an online survey by Sina.com, China's largest portal website, 65 percent of the nearly 158,000 respondents will try 3G service as long as it is available.

But only about 47 percent said they would adopt China Mobile's 3G services, compared with 31 percent and 22 percent of users who choose China Unicom and China Telecom instead.

Analysys International, a domestic research firm, said 3G business would not see an explosive growth in China in 2009, as telecom carriers need time for network construction and upgrades.

The investments in 3G networks are expected to benefit domestic telecom equipment makers like Huawei Technologies and ZTE Corp as well as foreign firms like Ericsson, Alcatel-Lucent and Nokia Siemens Networks.

But foreign telecom equipment makers' total share in China's 3G market may amount to less than 50 percent, down from their dominating position in China's 2G market, according to BDA China, a Beijing-based research firm.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-01/08/content_7376941.htm) ([see archive](China_issues_3G_licenses.pdf))

### Agricultural Bank of China launches shareholding company

The Agricultural Bank of China (ABC) said it launched a shareholding company recently with registered capital of 260 billion yuan (38 billion U.S. dollars).

The bank said the equity in the new company was equally split between the Central Huijin Investment Co., an arm of China's sovereign wealth fund, and the Ministry of Finance.

The bank will be restructured into a state-controlled, shareholding commercial bank and renamed Agricultural Bank of China Ltd. It will be publicly listed, but no details have been released yet.

After incorporation, the bank (including its overseas institutions) will fully assume all assets, liabilities, institutions and personnel, with its business scope unchanged.

Draft articles of association and motions on members of the board of directors and the board of supervisors were reviewed and adopted in an assembly. The assembly appointed a president and chairman of the board whose names were not disclosed.

[Source: People's Daily](http://english.peopledaily.com.cn/90001/90778/90857/90860/6571441.html) ([see archive](Agricultural_Bank_of_China_launches_shareholding_company.pdf))

## Taxation

### Fuel surcharge tax scrapped

The Ministry of Finance has decided to suspend the collection of taxes on airlines' fuel surcharges in a move to alleviate the financial woes of domestic carriers.

The ministry said the suspension would be effective Jan 1 and continue untill the end of 2010. The tax rate on fuel surcharge now is 3 percent.

"The benefit is limited as the tax only accounts for a very small proportion of airlines' costs," said Mao Ang, analyst, China Galaxy Securities Co Ltd. "For listed carriers, it may see earnings per share going up by 0.01 cent."

The National Development and Reform Commission also slashed the surcharge on flights of 800 km to 40 yuan from 150 yuan per ticket. For routes shorter than 800 km, the rates have been reduced to 20 yuan from 80 yuan per ticket.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-01/09/content_7381447.htm) ([see archive](Fuel_surcharge_tax_scrapped.pdf))

## Other

### China revised the provisions for domestic watercraft management industry

China's Ministry of Transport (MOT) released on January 9, 2009 the revised Provisions for Domestic Watercraft Management Industry (Provisions), which will take effect on July 1, 2009.

Under the Provisions, enterprises engaged in domestic watercraft management businesses must be equipped with the corresponding special managers of maritime affairs and mechanical affairs according to number of watercrafts which provide maritime and mechanical affair management services.

Besides, enterprises which apply for domestic watercraft management businesses must submit such materials as the basic profiles and testimonials that specify the investment circumstances of the shareholders.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=5242) ([see archive](China_Revised_the_Provisions_for_Domestic_Watercraft_Management_Industry.pdf))

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