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# China News Alert Issue 285

## Capital Markets

### Yuan trade settlement gets the nod

Five major trading cities have got the nod from the central government to use the yuan in overseas trade settlement - seen as one more step in China's recent moves to expand the use of its currency globally.

Shanghai and four cities in the Pearl River Delta - Guangzhou, Shenzhen, Dongguan and Zhuhai - have been designated for the purpose, said a State Council meeting chaired by Premier Wen Jiabao recently. The Pearl River Delta boasts the country's largest cluster of export-oriented manufacturing operations.

The move is aimed at reducing the risk from exchange rate fluctuations and giving impetus to declining overseas trade, according to a statement posted on the government website.

Analysts said the experimental use of the yuan in trade settlement also reflects policymakers' rising concern over the shaky prospects of the US currency, of which China has large reserves from previous trade growth, and their willingness to gradually expand the yuan's use globally.

"The trial is the latest move toward making the yuan an international currency," Huang Weiping, professor of economics at Renmin University of China, said. "The prospect of a weaker US dollar is making the transition more imperative for China."

The mainland is trying to promote the use of the yuan among trade partners and, in the past four months, has signed 650 billion yuan ($95 billion) worth of swap agreements with Argentina, Indonesia, South Korea, Malaysia, Belarus and the Hong Kong Special Administrative Region. The agreements allow them to use their yuan reserves to directly trade with the Chinese mainland within a set limit in volume.

Stephen Green, head of China Research of Standard Chartered Bank, said the swap deals would help encourage the use of the yuan as the currency of choice for international trade.

"In the longer term, if countries around the region and beyond start pricing their trade in yuan, this will also lead to increased internationalization and status for China's currency," Green said.

China now uses the US dollar to settle most of its international trade but the drastic swings in the greenback have become a risk for Chinese exporters in recent years.

Dong Xian'an, economist with China Southwest Securities, said: "For many exporters, the dollar's fluctuation is a serious concern. The ability to settle trade in the yuan would reduce such risk," he said.

Chen Xianbin, chairman of Guangxi Sanhuan Enterprise Group, told that his company lost more than 150 million yuan in the past three years from international trade due to the exchange rate changes between the yuan and the greenback. Chen's company, a ceramic tableware exporter, relies on Southeast Asian markets for 15 percent of total sales.

China's foreign trade has been on a continuous decline amid the current global financial crisis. Exports plunged 25.7 percent year on year in February, one of the sharpest falls ever, while imports dived 24.1 percent.

Analysts said the US Federal Reserve's decision to buy long-term Treasuries, which means printing new money, may also lead to a depreciation of the US dollar. That is also one reason for China to reduce the use of the dollar in trade so that the value of its US1.95 trillion foreign exchange reserves does not depreciate.

Zhou Xiaochuan, the central bank governor, said last month that in the long run, it may be ideal to replace the dollar with a new international reserve currency under the mechanism of the International Monetary Fund.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-04/09/content_7660085.htm) ([see archive](Yuan_trade_settlement_gets_the_nod.pdf))

### China to strengthen regulation of listed securities companies

China will strengthen oversight of listed securities companies by promoting information transparency.

Recently, the China Securities Regulatory Commission (CSRC) introduced a regulation which said securities companies should remind investors about potential risks when shareholders decide to launch a new business or introduce an innovative business.

The annual report and half-year report by listed securities companies should include risk assessment conditions, as well as reasons for risk and probable effects.

In addition to the annual operation report, companies were asked to deliver a supervision and monitoring annual report which includes audit and accounting information.

If a company or high-rank official is involved with serious illegal activity, and that results in worsening financial condition, the company should inform all shareholders.

The CSRC said the regulation, which was made on the basis of the Securities Law, took effect April 3.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-04/06/content_7651594.htm) ([see archive](China_to_strengthen_regulation_of_listed_securities_companies.pdf))

### Insurers to fund infrastructure projects

China's insurance industry regulator recently specified the proportion of insurance fund that insurers were allowed to invest on infrastructure projects in an effort to lessen risks.

Life insurance companies will be allowed to invest as much as 6 percent of their total assets, based on statistics at the end of last quarter, on infrastructure projects, while property insurance companies could invest up to 4 percent of their total assets, the China Insurance Regulatory Commission (CIRC) said in a notice.

Insurance companies could use as much as 40 percent of the allowed investment quota on one single infrastructure project. The proportion, however, could be adjusted for major projects approved by the State Council, it said.

Late last year, the Chinese government allowed insurance companies to invest, as creditors, in infrastructure projects, such as transportation, telecom and energy facilities, as well as rural infrastructure projects. The measure aimed to increase financing for the country's 4-trillion-yuan ($585.7 billion) economic stimulus package.

Previously, the country's insurance fund was allowed to invest in bank deposits, government and financial bonds, stocks, securities-oriented funds, and in non-listed companies as shareholders.

According to the latest CIRC statistics, total assets of the country's insurance industry reached 3.42 trillion yuan at the end of February, and 2.21 trillion yuan of the total was used for investment.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-04/08/content_7658074.htm) ([see archive](Insurers_to_fund_infrastructure_projects.pdf))

## Corporate & Commercial

### Chinese market-oriented media told to become full commercial entities

Market-oriented news organizations and publishers have been given a deadline of one to two years to make the transition to full-fledged commercial players, according to guidelines released by the industry watchdog recently.

Publishers of books and electronic products at local and college levels will have to complete their reform by this year, and publishers at central and ministerial level by the next, the China General Administration of Press and Publication (GAPP) said.

Newspapers and magazines deemed to be serving the public interest are encouraged to restructure their operations but will not be subject to the full force of the market.

Most news organizations and publishers are affiliated to governments at various levels.

The new guidelines pledge policy support to media giants which publish newspapers and magazines overseas, and acknowledge the status of private publishers for the first time.

There is no official figure for the number of private publishers in the country but they contract a wide array of writers and publish most of the bestsellers using book numbers - a permit for publication - of State-owned publishing houses.

"About six or seven press and publishing giants with annual revenues of more than 10 billion yuan (about 1.46 billion U.S. dollars) will be set up to compete globally in three to five years," the paper quoted Fan Weiping, director of the publishing industry development department affiliated to the GAPP, as saying.

"The guidelines will serve as an impetus for the development of the press and publication sector," said Zhou Weihua, a professor at the school of journalism at Renmin University of China.

The latest move paves the way for press and publication houses to use market resources to flourish, he said.

Other highlights include:

* Strengthening the restructuring of four non-profit press and publishing houses: People's Press, Ethnic Minority Press, Tibetan Studies Press and Braille Press.
* Media organizations and publishing houses are encouraged to run newspapers and magazines or set up branches overseas through wholly-funded or joint ventures.
* Major publishing and media enterprises are encouraged to go public.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-04/07/content_11142676.htm) ([see archive](Chinese_market-oriented_media_told_to_become_full_commercial_entities.pdf))

### China to Accelerate Vehicle Consumption

China will revise the Implementing Measures for Administration of the Vehicle Brand Selling in the near future, support the qualified vehicle circulation enterprises to speed up their creation of independent service brands via cross-regional mergers and acquisitions (M&As) and developing the chain operation.

Eight authorities, including the Ministry of Commerce, the Ministry of Industry and Information Technology, the Ministry of Public Security, the Ministry of Finance, the State Administration of Taxation, the State Administration for Industry and Commerce, the China Banking Regulatory Commission and the China Insurance Regulatory Commission, jointly released the Opinions on Accelerating the Vehicle Consumption (Opinions) recently. Under the Opinions, China will actively develop the professional second-hand vehicle distributors, and will work on the compilation of such criteria as the Qualifications for Establishing the Second-hand Vehicle Circulation Enterprises and the Regulations for Appraising and Evaluating the Second-hand Vehicles.

Besides, the aforementioned authorities will also accelerate the compilation of the provisions for the credit administration of vehicle consumptions, modify the individuals' credit information management, and encourage the financial institutions to develop their credit businesses for consumption of new and second-hand vehicles, so as to expand the vehicle credit consumption.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=5581) ([see archive](China_to_Accelerate_Vehicle_Consumption.pdf))

### China Released Implementing Rules of the Travel Agency Provisions

China's National Tourism Administration (CNTA) released on April 7, 2009 the Implementing Rules of the Travel Agency Provisions (Rules), which will take effect on May 3, 2009.

Under the Rules, branches and service counters of travel agencies shall not possess the qualifications of legal person. Liabilities and aftereffects of the operation activities which the branches and service counters conduct in name of the travel agencies must be undertook by the agencies.

The Rules also stipulated the activities subject to transfer, lease or lending of travel agency operation licenses, including the travel agencies allow other enterprises, groups or individuals operate businesses of travel agencies via contracting.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=5595) ([see archive](China_Released_Implementing_Rules_of_the_Travel_Agency_Provisions.pdf))

### Chinese firms resume overseas floats

Although there was a slight increase in the number of Chinese companies raising capital abroad in March, the total amount raised fell to a record low, ChinaVenture said in its latest research report.

The report said that five Chinese companies launched their IPOs in capital markets abroad, up 150 percent from February, but down from 12 in March 2008.

The companies raised a combined $24 million which was "incomparably smaller" than that a year earlier when China Railway Construction Corporation alone raised about $5 billion yuan in Shanghai and Hong Kong, said ChinaVenture analyst Xiao Lumin, who compiled the report.

None of these five companies were, however, listed on the mainland. NIVS IntelliMedia Technology Group, a maker of audio and video consumer products in Guangdong province raised nearly $1.93 million on the American Stock Exchange under the New York Stock Exchange, making it the only company trading on the bourse last month.

The capital the company raised was "surprisingly low" compared to the average fund that the companies on the Small and Medium Enterprise Board in Shenzhen raised. "Even a small size listing could attract 300 million to 400 million yuan on an average, " Xiao said.

She attributed the embarrassingly small amount to the liquidity crunch on the global stock markets. "Underwriters have to be aware of investors' shrinking pockets, and set a lower target to avoid listing failures."

On the global front, the New York and London bourses also saw IPO activities in March after a two-month drought.

According to ChinaVenture, eight firms raised $174.4 million from IPOs in the first three months on global bourses. Among these, companies backed by venture capital/private equity managed to garner only $8.12 million yuan, down 99.1 percent from a year ago.

"The upcoming introduction of the growth enterprise board (GEB) may open new financing avenues for cash-strapped domestic firms," Xiao said, but added that only very few companies would be able to satisfy the GEB listing requirements due to the economic crisis.

Mao Nan, analyst, Orient Securities, estimated that the country's securities watchdog would propably restart the main board IPOs during the second half, prior to which the pricing mechanism would be tweaked.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-04/09/content_7661002.htm) ([see archive](Chinese_firms_resume_overseas_floats.pdf))

## Other

### China unveils health-care reform guidelines

China has unveiled a blueprint for health-care over the next decade, kicking off a much-anticipated reform to fix the ailing medical system and to ensure fair and affordable health services for all 1.3 billion citizens.

The Central Committee of the Communist Party of China and the State Council, or China's Cabinet, jointly endorsed and issued the Guidelines on Deepening the Reform of Health-care System after about three years of intense debate and repeated revision.

By 2020, the world's most populous country will have a basic health-care system that can provide "safe, effective, convenient and affordable" health services to urban and rural residents, according to the tone-setting document.

This will be supplemented by a more detailed implementation plan for the three years until 2011. The plan has yet to be published, but the State Council announced earlier this year an investment plan of 850 billion yuan ($124 billion) for the reform in three years.

The core principle of the reform is to provide basic health care as a "public service" to the people, which requires much more government funding and supervision.

The document said the government role in "formulating policies and plans, raising funds, providing service, and supervising" must be strengthened in order to ensure the fairness and equity of the service.

"This is the first time that basic medical services in China are clearly defined as a public service for all citizens, which is part of essential rights of the people," said Prof Li Ling, of Peking University.

The reform is aimed at "solving pressing problems that have caused strong complaints from the public," the document said, referring to long-standing criticism that medical services are difficult to access and increasingly unaffordable.

Many factors were blamed for causing problems - huge development gap between cities and rural areas, low government funding, weak health-care facilities at grassroots level, and increasing disease burdens - despite the country's effort to double the average life expectancy over the past 60 years.

Soaring medical bills further strained China's social security network, already burdened by expensive education, fast population ageing and unemployment. This forces many ordinary Chinese to save money, instead of spending, as precautionary measures.

"Government's decision to spend more on public sectors such as health care comes at a crucial moment as the country strides to expand domestic markets to offset negative impacts from global economic downturn," said Prof. Zhao Xijun, of the Renmin University of China.

The long-awaited document has been repeatedly delayed since the government unveiled preliminary version for public scrutiny in October last year. It has drawn wide attentions and debates, and accordingly was revised for many times.

The blueprint highlights the establishment of a basic health-care system to cover all Chinese citizens to be formed on the basis of systems of public health, medical service, medical insurance and medicine supply.

The government will improve the public health network for disease prevention and control, health education, mother and infant health care, mental health and first aid services, according to the blueprint.

Public, non-profit hospitals will continue to be dominant providers of medical services, while more priority will be given to the development of grassroots-level hospitals and clinics in cities and rural areas, which are often ill-equipped and understaffed.

Patients will be encouraged to use more grassroots-level hospitals and clinics, which will be improved to provide more accessible and affordable services. Comprehensive hospitals in big cities will be asked to provide more support to small, local hospitals in terms of personnel, expertise and equipment.

The government plans to set up diversified medical insurance systems in order to have urban employees, urban residents who do not work or are self-employed, and rural residents covered by some sort of insurance plan.

The ratio of those covered by the basic medical insurance is expected to surpass 90 percent by 2011.

The reform is also aimed at improving the medicine supply system so that public hospitals and clinics are supplied with essential medicines with prices regulated by the government, according to the blueprint.

Other highlights include:

* The government to enhance the management and supervision of the operation of medical institutions, the planning of health service development, and the basic medical insurance system.
* Public hospitals to receive more government funding and be allowed to charge higher fees for treatment. But they will be eventually banned from making profits through subscribing expensive medicines and treatment, which is a common practice at present.
* Central and local governments to increase investment in the public health sector, grassroots-level clinics, subsidies for public hospitals, and basic medical insurance systems.
* Governments to increasingly regulate the pricing systems of medical services and medicines, with particular control on the price of basic services at non-profit hospitals and essential medicines those hospitals use.
* Supervision of medical institutions, health insurance providers, and pharmaceutical companies and retailers to be strengthened. Governments will also tighten monitoring of drinking water and food safety, and safety in workplace.

Dr Sarah Barber, a World Health Organization official, said that the aim to improve equitable access to essential health care for all in China was "laudable."

However, the success of the reforms will depend on how effectively this vision is implemented in different sectors and regions across China, Barber said.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-04/07/content_7652865.htm) ([see archive](China_unveils_health-care_reform_guidelines.pdf))

### China to regularize rural land-use rights transfer with model contract

China's industry and commerce authorities announced recently that it will work out and promote a model contract for rural land-use rights transfer to regularize the transfer of farmland-use rights and protect the rights of the farmers.

The model will clarify the object, time limit, payment, mode and time of payment of the deal, as well as the date of land transfer, rights and responsibilities of both parties, and the liability for breach of the contract, said the State Administration For Industry and Commerce (SAIC).

The move aims at ensuring the agricultural use of the land, SAIC said. It would also protect the rights of both parties of the contract, especially the rights of the farmers.

The Communist Party of China (CPC) issued a landmark land policy in October last year to allow farmers to "lease their contracted farmland or transfer their land-use right" to boost the scale of operation for farm production and provide funds for them to start new businesses.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-04/06/content_11140047.htm) ([see archive](China_to_regularize_rural_land-use_rights_transfer_with_model_contract.pdf))

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