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# China News Alert Issue 288

## Capital Markets

### Shanghai to list foreign stocks in bid to become financial hub

Mainland said recently it would allow foreign companies to list on the Shanghai Stock Exchange and develop a greater variety of financial derivatives, elaborating on plans to make Shanghai an international financial and shipping centre by 2020.

Beijing will also allow major domestic shipping companies to establish financial leasing companies and let such leasing firms trade on the Shanghai-based interbank market and issue bonds, according to a cabinet document published on the Chinese government's website, www.gov.cn.

The State Council, announced in late March that the government had decided to build Shanghai, a financial hub, into a global financial centre to reflect the country's economic strength and the status of its yuan currency.

It said the country would also build the eastern city into a global shipping centre able to allocate international shipping resources, reflecting the nation's ambitions to gain a much bigger say in the global economic arena over the next decade as its economy strengthens.

Mainland's economy, which has expanded rapidly since the country kicked off economic reforms in the late 1970s, is now the world's third largest, and Shanghai's port is the world's busiest.

Shanghai also boasts the country's most complete system of markets, including its only currency and shipping exchanges, its key main-board stock exchange, and the most active of mainland's three commodities futures exchanges.

“Shanghai has relatively complete financial systems, a strong manufacturing base and technological innovation capabilities, as well as advanced shipping infrastructure networks,” the cabinet document said.

“It is a natural choice to continue allowing Shanghai to play the model role in leading China's development,” it said.

The document listed several concrete tasks towards building Shanghai into a global financial and transportation hub, although it gave no specific timeframe for implementing them.

* Allowing more international institutions to issue bonds.
* Developing several financial derivatives based on stock indexes, exchange rates, interest rates, bonds and bank loans.
* Launching new energy and other major commodity futures.
* Approving more foreign investors to trade on the Shanghai Stock Exchange.
* Expanding the capacity of the Shanghai Port.
* Reducing costs for Shanghai transit of international container ships.
* Improving financial services for shipping companies, including allowing them to set up financial leasing firms, which would be allowed to borrow and lend on the Shanghai-based interbank market and issue bonds there.

At a news conference, Shanghai Vice Mayor Tu Guangshao said the city was not far from launching use of the yuan to settle international trade, the only concrete step which appeared set for implementation in the near term.

Beijing said earlier this month that Shanghai and four southern cities would participate in a scheme for yuan-based trade with Hong Kong and other neighbouring trade partners, boosting expectations for a rising global role for its currency.

Mainland's central bank has also signed six swap currency deals worth 650 billion yuan (HK$739 billion) with countries including Argentina and Indonesia since mid-December to bolster the yuan's role.

Source: Reuters

### China to deepen economic reforms

China's State Council, or Cabinet, recently called for greater efforts on economic reforms to boost domestic demand, improve economic structure and maintain relatively fast and sound economic development.

An executive meeting of the Cabinet, presided over by Premier Wen Jiabao, reviewed and passed a guidance document on deepening economic reforms in 2009.

The document urged local governments to simplify administrative approval procedures to stimulate investment vitality and open more investment channels for the private sector.

The State Councilors called for deeper reforms of state-owned enterprises and promoting the development of the non-public economy and the growth of small and medium-sized enterprises.

Rural reforms, greater energy efficiency and pollution cuts, environmental protection, raising urban and rural residents' income and consumption capacity, deepening reforms in the scientific and technology sector should serve economic development, according to the document.

The executive also called for more efficient reforms in medical, education, social security and housing sectors to build a better social safety net and raise people's willingness to spend more.

China should facilitate financial reforms to build a well-structured, highly efficient and safe modern financial system. The nation should build an open economy on the basis of mutually beneficial cooperation with other countries, according to the document.

The executive decided to lower the threshold in terms of capital pooled into the projects for investment in city transportation, coal mining, airports, ports, commercial housing, railways, roads and other sectors, a move to stimulate the investment enthusiasm from the public and companies and to better cope with the adverse effects of the global financial crisis. But it gave no further details.

The executive decided to raise the threshold in terms of capital pooled into the projects for investment in high energy-consuming, high-polluting and resource-intensive industries, including electrolytic aluminum.

The executive also pointed out that it was necessary to strengthen efforts on family planning work for the country's migrants to protect their legitimate rights. It would formulate a special regulation in this regard, without specifying the exact date.

[Source: China.org](http://www.china.org.cn/business/news/2009-04/30/content_17700115.htm) ([see archive](China_to_deepen_economic_reforms.pdf))

### China speeds up development in central region to cope with financial crisis

To some extent, the spreading global financial crisis brings opportunities to China's less-mentioned central region.

"To speed up development of the central region ... is significant to a new round of economic growth," Ding Xuedong, vice head of the Finance Ministry, told the Central China Forum held recently in Hefei, capital of Anhui Province.

China's central region, which encompasses the provinces of Shanxi, Henan, Hunan, Hubei, Jiangxi and Anhui, makes up 10 percent of the country's size and is home to 28 percent of its total population.

Amid the financial crisis, the central region, which focuses more on internal-oriented economy, hasn't suffered as much as the industrial east. In 2008, the combined gross domestic product (GDP) was about 6,318.8 billion yuan (about 929 billion U.S. dollars), up 12.2 percent from 2007. It accounted for 19.3 percent of China's total GDP for the same year. In 2006, the combined GDP in the six provinces accounted for 18.7 percent of the national total.

However, some experts pointed out that the financial crisis is spreading in China from the east to the west.

"The central region is next to the east coastal zone, featuring resource-based industries like mining and labor force export," said Fan Hengshan, head of the economy department of the National Development and Reform Commission.

Chinese ministries are enacting policies to help the central region brace for more severe challenges as the crisis spreads.

According to Lu Dongfu, vice head of the Ministry of Railways, new railways with a total length of 16,000 kilometers are to be built before 2020 to extend the railway network to 34,000 kilometers.

"By then, the length of railways in every 10,000 square kilometers of area will grow from 175 kilometers to 331 kilometers, twice of China's average," he said.

The six provinces together have 25 airports, 15.6 percent of the total number in China.

"By 2010, airports in the capital cities of the six provinces are all to be upgraded," said Yang Guoqing, vice head of the Civil Aviation Administration of China.

More money will be earmarked by the central government to the region.

Since last September, the central government allocated 43.1 billion yuan (about 6.3 billion U.S. dollars) to the six provinces, twice as much as the total investment in 2007, said Ding Xuedong with the Finance Ministry.

"We will put more money to the central and western regions," he vowed.

Officials from the six provinces also voiced their hope for cooperation during the financial crisis.

Wang Jun, governor of Shanxi, hoped that they could enhance cooperation in agricultural production.

The central region is the "grain warehouse" of China, turning out some 151 kilograms in 2008, or 30 percent of China's total.

"But only 40 percent of the grain was manufactured," he said, noting that in some developed countries, the rate was 80 percent.

Luo Qingquan, Party Chief of Hubei, said that they could make some tourism lines jointly focusing on ancient cities, heritages of the revolution, Buddhism sites and the Yangtze River.

Hunan's governor Zhou Qiang encouraged enterprises in the central region to "huddle together for warmth," so as to facilitate the exchange of capital and talents.

He also stressed creating more job opportunities. The central region is a big origin of migrant workers.

"Due to the financial crisis, we feel increasing employment pressure," he said.

He suggested that six provinces coordinate in improving the labor market and establishing a platform for labor and information exchange.

"Opportunities sometimes lie in calamities," he said. "Through cooperation, we are confident to tide over the difficulty and achieve economic revival."

[Source: Xinhua](http://news.xinhuanet.com/english/2009-04/25/content_11256922.htm) ([see archive](China_speeds_up_development_in_central_region_to_cope_with_financial_crisis.pdf))

### Rule issued on release of financial info

China's State Council Information Office, the Ministry of Commerce, and State Administration for Industry and Commerce recently issued a regulation on the release of financial information in China by foreign organizations.

The regulation aims to enhance service and management of foreign organizations that release financial information in China, better meet the demands of Chinese subscribers for such information, and help boost the financial information service industry in a healthy and orderly manner, said an official with the State Council Information Office.

The Office is the authorized administration for the approval of the release of financial information in China by foreign organizations, according to a State Council notice issued on Jan 29.

The new regulation, which takes effect on June 1, covers the approval, investment, supervision and legal responsibilities of foreign organizations that release financial information in China.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-04/30/content_7732573.htm) ([see archive](Rule_issued_on_release_of_financial_info.pdf))

## Corporate & Commercial

### China to launch more stimulus investment in second quarter

The Chinese central government is expected to launch its third batch of stimulus investments in large domestic projects in the second quarter to further boost its economy, citing an unidentified source.

The central government has so far cashed in a combined 230 billion yuan ($33.82 billion) for its 4-trillion-yuan stimulus package announced last November to bolster the slowing economy, 100 billion yuan in the fourth quarter and 130 billion yuan in the first quarter.

The newspaper said the new money would continue to be poured in projects that could benefit people's livelihood, such as health and education sectors, big infrastructure projects, and housing for low-income earners. Previous investments were dedicated to similar purposes.

An official of the National Development and Reform Commission (NDRC) confirmed the new investment, but said the exact amount was not decided yet. He spoke on condition of anonymity.

The newspaper said the second-quarter investment might be a larger amount than previous ones, as the government hoped to consolidate foundations for a possible economic recovery with more investment and the summer is a good time for construction work.

"It's good to cash in pledged investment as early as possible, because the economy is under deeper downward pressure in the first half," said Li Huiyong, a Shenyin & Wanguo analyst.

The central government has made arrangements on nearly 40 percent -- 230 billion yuan out of 590 billion yuan -- of the first half of its promised two-year investment, at 1.18 trillion yuan.

"Early arrangement of such investment can leave room for new stimulus plans, if the two-year 4-trillion-yuan package does not work out very well," Li said.

The report came after Premier Wen Jiabao said recently that the country would "soon" cash in the third batch of pledged central government investment as a means to further expand investment. He said the economy was doing "better than expected" thanks to government stimulus moves.

China's fixed asset investment picked up in the first quarter with an increase of 28.8 percent, which outperformed the annual rate of 25.5 percent last year

[Source: Xinhua](http://news.xinhuanet.com/english/2009-04/21/content_11228139.htm) ([see archive](China_to_launch_more_stimulus_investment_in_second_quarter.pdf))

### China Mobile to take stake in Taiwan's Far EasTone

China Mobile Ltd agreed to buy 12 percent of Taiwan's Far EasTone Telecommunications Co, the first direct investment by a mainland State-owned company in the island in six decades.

China Mobile will pay NT$17.8 billion ($528 million) for the stake, gaining access to advanced technology as it prepares to start high-speed services in the mainland. Far EasTone will tie up with the biggest phone company in the world's largest telecommunications market.

"Taiwan is in a more advanced stage of development in both 3G-technology application and value-added data services," China Mobile said in a statement recently. The deal will "help the company provide more comprehensive services to its customers".

China Mobile will pay NT$40 a share, a 14 percent premium, for the stake, the Hong Kong-listed company said in an exchange filing.

The proposed deal is the second stake purchase for China Mobile outside of the mainland.

In 2006, the Beijing-based company took over Hong Kong wireless carrier China Resources Peoples Telephone. In 2007, parent China Mobile Communications Group Corp bought Paktel Ltd.

The latest stake purchase will be another step toward enhancing trade and economic exchanges across the Taiwan Straits.

The Chinese mainland economy, the world's third largest and Taiwan's biggest trading partner, expanded at an average of 9.8 percent in the past 30 years, outpacing Taiwan's 6 percent average in the same period.

"This (the stake acquisition) is in line with Taiwan's policy of opening up to the mainland and in line with mainland business people's appetite to expand outside the mainland," Liang Kuo-yuan, head of Taipei-based Polaris Research Institute, said by phone. "The valuation of Taiwan's listed companies isn't very high, I am sure there will be more deals in the coming years."

China Mobile, which is 74.3 percent owned by State-owned China Mobile Communications, added 2.3 percent to close at HK$67.80 in Hong Kong and has dropped 13 percent for the year.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-04/30/content_7732715.htm) ([see archive](China_Mobile_to_take_stake_in_Taiwans_Far_EasTone.pdf))

### CMB to raise funds via bond, share sales

China Merchants Bank (CMB), the country's sixth-largest bank, is set to raise funds through bond and share sales this year to help cover the rapidly depreciating value of its holdings in recently acquired Wing Lung Bank of Hong Kong, a top bank executive said.

The bank will not rule out the possibility of raising funds by selling new shares this year in an effort to improve its capital adequacy ratio, which has been eroded due to the investment in Wing Lung Bank, CMB chairman Qin Xiao said earlier in Hong Kong.

The bank completed its acquisition of Wing Lung Bank in October last year.

CMB's core capital adequacy ratio also dropped 1.44 percentage points to 6.56 percent at the end of last year, compared to 8 percent at the end of the third quarter in 2008.

According to CMB's 2008 earnings report, the decrease in its core capital adequacy ratio was mainly due to the partial offsetting of surplus capital by the premium of the secondary acquisition of Wing Lung Bank.

CMB set aside 579 million yuan as provision for impairment losses on goodwill mainly because of its takeover of Wing Lung Bank, the bank said in the report.

Although the bank had raised 30 million yuan in September 2008 to supplement capital through sale of subordinated bonds, analysts said CMB would continue to face enormous pressure in 2009 from its acquisition of Wing Lung Bank.

"CMB's provision of 579 million yuan for impairment losses on goodwill is far below our estimate of 2 to 3 billion yuan," Guohai Securities' analyst Feng Wei said.

Feng said that CMB would have to set aside a similar amount for impairment losses on goodwill in the next few years, due to the acquisition.

CMB had earlier said that it planned to issue up to 149 billion yuan worth of financial bonds in the next three years. The total amount to be raised will be no more than 10 percent of the bank's liabilities at the end of the previous year, a bank statement on April 22 said.

CMB's total liabilities at the end of 2008 stood at 1.492 trillion yuan.

Although accumulated profits of the past few years may help CMB keep its core capital adequacy ratio above 6 percent this year, it has to raise at least 40 billion yuan through bond sales to maintain the regulatory minimum of 8 percent capital adequacy ratio, Industrial Securities analyst Wang Qian wrote in a report.

CMB agreed on June 2, 2008 to buy 53.1 percent of Wing Lung Bank for HK$19.3 billion in cash and then made a general offer for the rest of the Hong Kong bank, valued at $4.66 billion.

[Source: China Securities Journal](http://www.cs.com.cn/english/com/200904/t20090430_1881833.html) ([see archive](CMB_to_raise_funds_via_bond_share_sales.pdf))

### Fortis asset sale may not impact Ping An

Fortis shareholders' approval of the sale of its banking units to French bank BNP Paribas SA will not affect the financial performance of Ping An, the largest single shareholder in the Belgian company, experts said.

Shareholders at a meeting in Ghent, Belgium, endorsed the sale with a 73 percent majority, though Ping An voted against the deal, as it believes the dismantlement of Fortis violates corporate governance procedures and destroys shareholder value.

"Since Ping An has written off some 22.8 billion yuan on its stake in Fortis, or 95 percent of its total investment, the result could hardly be worse," said Wang Xiaogang, a senior insurance analyst with Shanghai-based Orient Securities.

Ping An has lost about $3 billion on its investment, after Fortis foundered at the height of the credit crisis last October. The Dutch and Belgian governments took control of Fortis, a financial services firm that was overloaded with debt from its part in the acquisition of ABN Amro.

Wang believes that the worst is over for Ping An. "If there is any change in the future, it should be positive," said Wang.

Ping An Insurance (Group) Co, the country's second largest insurer, said in a statement recently that the changes in Fortis will not have a negative effect and it would continue to communicate with the relevant parties to protect its legal rights.

Jin Shaoliang, head of the board office at Ping An, has joined the Fortis board. In February, Zhang Zixin, the general manager of Ping An, decided to quit the Fortis board on grounds of being "too busy".

Ping An last year reported its first annual profit decline since listing in 2004 on losses from its investment in what was once Belgium's biggest financial services firm.

Part-owned by HSBC Holdings Plc, Ping An now holds almost 121 million voting shares of the Brussels- and Amsterdam-based company, or about 5.15 percent of the outstanding stock.

The decision to sell the Fortis assets has been prompted by the Belgian government. Ping An had bought the Fortis stake as it wanted to learn from its counterparts on the coordination between the banking and insurance businesses

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-04/30/content_7732707.htm) ([see archive](Fortis_asset_sale_may_not_impact_Ping_An.pdf))

## Other

### China Released 2009 Action Plan of Intellectual Property Protection

China's State Intellectual Property Office (SIPO) will revise and compile, in 2009, laws, regulations, provisions and administrative measures concerning the trademark, copyright, patent and customs intellectual property protection, and draft 3 judicial interpretations.

Under the 2009 Action Plan of Intellectual Property Protection in China (Plan) released by the SIPO recently, the SIPO will adopt 170 measures to strengthen the intellectual property protection in China. The Plan will guide the enterprises to modify their intellectual property systems via 7 measures, and increase their competitive capacities via the intellectual property systems.

China has released 3 Action Plan of Intellectual Property Protection in China since 2006.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=5697) ([see archive](China_Released_2009_Action_Plan_of_Intellectual_Property_Protection.pdf))

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