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'SAFE move will hike capital inflow'

China's efforts to streamline approval procedures for foreign exchange business applications under the capital account category are expected to boost foreign investment into the country, experts said.

The State Administration of Foreign Exchange (SAFE) on Wednesday issued a circular giving more power to its local bureaus in approving as many as 10 foreign exchange categories under the capital account.

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"The move is to simplify procedures and facilitate foreign investment and trade," SAFE said on its website. The new rules will take effect from June 1, according to the foreign exchange administrative body.

"SAFE's measure will provide a more convenient environment for foreign investment in China on both foreign direct investment (FDI) side and for those investing in China's capital markets," Li Xiaogang, director of the Foreign Investment Research Center under the Shanghai Academy of Social Sciences, told China Daily.

"Compared to FDI, which takes rather long for investment decisions, the measure will have a more immediate effect in triggering foreign investment in the capital markets.".

According to the new SAFE rule, qualified foreign institutional investors (QFIIs) only need to get approval from local SAFE bureaus if the amount they want to buy or sell from their mutual funds on the mainland capital market exceeds $50 million.

But experts warned that the move did not mean that China would loosen controls on foreign exchange management.

"It just means SAFE will be more efficient in approving foreign investment applications," Li said.

"In the long run, SAFE will give more power to local bureaus," said Chen Bingcai, senior researcher from China National School of Administration and a former SAFE official.

The Ministry of Commerce (MOC) took a similar move in March when it decided to give its local branches more power in approving foreign-funded projects. Local officials are allowed to approve the establishment of foreign-funded companies with a registered capital of $100 million or less.

The move is part of the government's efforts to boost FDI inflow, which has been affected by the global financial crisis.

Foreign investment, both to China's financial and non-financial sectors, was significantly down last year.

The combined foreign direct investment inflow to China was $160.9 billion in 2008, up 8 percent from a year ago, but was 65 percentage points slower, SAFE said in a report on China's balance of payments in 2008, which was released last month.

The financial sector attracted $14.7 billion while the non-financial area drew $146.2 billion.

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