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## Forex regulator encourages China's 'capital export'

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The State Administration of Foreign Exchange (SAFE), China's foreign exchange regulator, has issued a series of new rules aimed to further facilitate Chinese companies' overseas investments since May, and will further ease controls on foreign exchanges in coming months, *China Securities Journal* reported on Monday.

Analysts said the moves reflect the regulator's strenuous efforts to balance the country's international payments.

The regulator has partially eased the control on and cut red tape to quicken the approval of the use of foreign exchanges since last month. It has also solicited opinions on overseas investments to attract more Chinese companies to invest abroad.

Last week, the regulator allowed companies in China to render loans abroad or buy foreign exchanges with their own funds as part of the government's efforts to bolster the troubled export sector.

The SAFE will release revised rules on the use of foreign exchanges in foreign trade, which are expected to facilitate exports, the newspaper said.

Guo Tianyong, a professor with China's Central University of Finance and Economics, said the policy of encouraging domestic companies to invest overseas will help absorb China's colossal foreign exchange reserves and is also conducive to making better investment with the reserves.

China's non-financial overseas investment reached \$40.65 billion in 2008, up 63.6 percent year-on-year, according to the Ministry of Commerce.

China has been a large exporter of manufactured goods for all these years and it should "export capital" in the future, said Jing Ulrich, JP Morgan's chairwoman of China equities.

Lu Zhengwei, chief economist with Fujian-based Industrial Bank, said Chinese companies should consider making long-term strategic investments now, for the prices of financial assets and resources-based products remain low despite the stabilizing global financial market.

He added that loosening rules on capital outflow will help China avoid potential turbulence on its financial market as world financial institutions could start reducing their holdings of US dollar-denominated assets by investing them into emerging markets, including China, when world financial markets become stable.

The SAFE has turned its policy focus from attracting foreign investment to encouraging domestic enterprises to invest abroad in a bid to prevent the comeback of "hot money", or speculative investments by overseas institutional investors, according to the newspaper.

(Chinadaily.com.cn June 17, 2009)

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