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# China News Alert Issue 295

## Capital Markets

### Loan surge concerns regulator

China's top banking regulator has asked banks not to resort to excessive lending to meet targets, but rather focus on strengthening credit management.

"The top priority at the moment is to stop the explosive lending, which occurs at the end of the month and the quarter," the China Banking Regulatory Commission (CBRC) said in a recent notice to Chinese lenders, highlighting the concern that banks were racing to give out loans before June to meet their half-year credit targets.

There have been rumours that China's new yuan loans in June could possibly exceed that of May, bringing the total amount of new credit in the first half of 2009 to 6.5 trillion yuan (US$951.46 billion).

The banking regulator said bank loans should continue to support industries encouraged by the nation's industrial policies. Extending loans to industries with high pollution and consumption are strictly forbidden.

"Banks should carefully monitor the process of credit approval and allocation, and make sure that loans flow into the real economy," CBRC said in the document.

China's soaring bank lending is considered a warning of a possible accumulation of bad loans. Analysts say it is necessary for the regulator to keep a close eye on banks' lending behaviour.

"The buoyant stock market could be a sign that some loans have flown into the capital market for a quick return rather than being directed into the real economy," He Ping, finance professor at Tsinghua University School of Economics and Management, said. The mainland A-share market has currently rebounded more than 50 per cent from last year's low.

"Pumping loans into the real economy has great significance, as its knock-on effect could assist the economy on a much larger scale," he said.

He Ziyun, professor at the University of International Economics and Business, said it is common for banks to increase lending near the end of a month or a quarter, as staff performance at local branches is closely linked with how much credit they issue within the time limit.

In the notice, the CBRC also asked banks to reform their system of loan officers' performance appraisals, encouraging them to focus more on credit quality and risk management.

In the first five months of the year banks have extended 5.84 trillion in new yuan loans, beating the 5 trillion yuan target for the whole year.

Andrew Crockett, president at JP Morgan Chase International and an adviser to the CBRC, said earlier that the rapid lending growth should be regarded as a warning sign, because financial difficulties at banking institutions are nearly always preceded by a rapid growth in lending."

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-06/25/content_8320536.htm) ([see archive](Loan_surge_irks_regulator.pdf))

### Chinese companies launch first 2009 IPOs on NYSE

Two Chinese companies made initial public offerings on the New York Stock Exchange (NYSE) on 24 June, signaling a pickup in the return of foreign IPOs.

Chemspec International Limited, a Shanghai-based maker of specialty chemicals, hopes to raise about US$64.8 million at US$9 per share in its deal.

The ticker symbol for Chemspec is CPC. Chemspec's deal is being underwritten by Credit Suisse and Citi. Meanwhile, Duoyuan Global Water Incorporated, the Chinese water treatment equipment supplier, priced its initial public offering at US$16 per American depositary receipt. The ticker symbol for Duoyuan is DGW and the company sold more shares than initially announced, according to Piper Jaffray, the IPO's underwriter.

The offerings mark the first IPOs by Chinese companies on the NYSE so far this year, said Sam Van, manager of the NYSE Asia & Middle East/North Africa global listings.

Chinese video-game maker Changyou.com Limited (CYOU), an offshoot of the Chinese Internet portal Sohu, kicked off IPOs by Chinese companies on a US exchange in 2009, after going public on the Nasdaq in April. The deal followed a six-month spell with no IPOs in the US by foreign companies.

Van said a handful of Chinese companies are filing for IPOs on the NYSE and a new offering may be seen as early as August.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-06/26/content_8326666.htm) ([see archive](Chinese_companies_launch_first_IPOs_on_NYSE_in_2009.pdf))

## Corporate & Commercial

### Limited partnership needs improvement to boost domestic markets

China's National Social Security Fund has made its initial foray into the investment market to become a major limited partner (LP), which is in line with the government's policy of boosting the development of venture capital (VC) and private equity (PE) markets, according to last week's 2009 LP Summit of China Venture, a research and consulting firm.

Over the past few years, domestic VC and PE markets have made great progress, and the National Social Security Fund's initial foray into the investment market is expected to help carve out more opportunities for the emergence of local VC and PE firms.

Cao Wenlian, deputy director of the department of finance and fiscal affairs with the National Development and Reform Commission (NDRC), China's top economic planner, said at the Summit that the fast expansion of investment markets depends on the sound emergence of limited partnerships which have seen sluggish growth in previous times.

He explained that this referred to the timidity shown by such players to put their money into overseas investments even if they had been courted by outside firms. In addition, government watchdogs' concerns about investment risks may also have influenced decisions.

Cao said the NDRC had consulted with relevant agencies for a consensus, in a bid to grant pension funds, insurers and commercial banks access to the PE and VC markets.

China's investment industry remained on the rise despite the serious global financial crisis in the second half of 2008, Cao said.

According to a survey carried out by China Venture, 60 per cent of overseas LPs will increase their investments in China, while another 20 per cent will maintain their current investment momentum, despite the global economic downturn.

Ching Tan, Managing Director and Chief Representative of the Greater China Region at Siguler Guff, said that the company's China-focused allocation in its investment portfolio remained unchanged. In the second round of investment to BRIC countries (Brazil, Russia, India and China), the allocation to China has been as high as 50 per cent, Tan added.

Lucian Wu, Managing Director of Paul Capital, echoed Tan's remarks and said, "Paul Capital slowed down its investment rather than changed its investment strategy. We see more opportunities in China, and may invest much more here than in India."

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-06/24/content_8318952.htm) ([see archive](Limited_partnership_needs_improvement_to_boost_domestic_markets.pdf))

### FDI curbs in real estate may be eased

The government may relax rules on inward foreign direct investment (FDI) to prevent it from sliding further, sources from the Ministry of Commerce said recently.

"We have drawn up a plan to relax some restrictions on foreign investment, particularly in the real-estate sector," said an official from the Ministry of Commerce, who did not want to be named. "This is a coordinated job, involving a number of other ministries."

The proposal, submitted to the State Council, lists 42 rules covering taxation, foreign exchange and regulatory supervision, and calls for an easier approval process for foreign investment, the China Times reported.

One of the biggest changes is the relaxation of foreign investment regulations in the property sector.

Other suggestions include giving foreign investors access to high-tech industry and relaxing checks on individual foreign investment.

FDI dropped 17.8 per cent last month from a year earlier to US$6.38 billion, the eighth straight monthly decline amid the global economic downturn. However, the drop was less steep than in April, when inflow fell 22.5 per cent year-on-year.

In the first five months of 2009, FDI fell 20.4 per cent to US$34.05 billion.

"The ministry's proposal is important to maintain growth in investment, one of the three drivers of economic growth, in the second half of the year," said Li Jianfeng, macro-economic and trade analyst with Shanghai Securities. As government-led investment cannot maintain momentum in the next six months, stimulating investment from the private sector, including FDI, is critical to ensure GDP growth, Li added.

According to statistics from Shanghai Securities, real estate-related investment accounted for 10-15 per cent of FDI in the past three years.

"The relaxing of foreign investment rules in the real-estate sector would help to boost FDI quickly," said Grant Ji, director of Savills (Beijing), a UK-based real estate service provider. "And the change will be particularly attractive to international property developers who do not have a presence in China."

Ji said that a number of US property developers dropped investment plans at the end of last year because of too many restrictions and the slow approval process.

The government introduced a number of policies to prevent the influx of foreign capital into the sizzling real-estate market in 2006 and 2007.

These included raising the ratio of registered capital in developers' overall investment and restrictions on residential purchases by foreign institutions and individuals, as well as tightening the approval process and the supervision of foreign investment in the sector.

The decline in property prices and transactions amid the economic slowdown last year has prompted policymakers to consider relaxing controls to bolster economic growth.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-06/23/content_8311245.htm) ([see archive](FDI_curbs_in_real_estate_may_be_eased.pdf))

### Chinese mainland to exempt tariffs on some Hong Kong and Macao products

China's mainland will eliminate import tariffs on 28 items of Hong Kong origin and 475 items of Macao origin as of 1 July 2009, according to the Ministry of Finance.

The relevant items fall under the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA), and the Mainland-Macao Closer Economic Partnership Arrangement, the Ministry said in a statement.

Food, medicine and textiles will be the main items in this zero-tariff category.

Hong Kong origin textiles are now subject to a 10 per cent import levy, and pineapples and potatoes are subject to a 12 per cent and 15 per cent import levy, respectively.

Macao origin medicines now face 4 per cent to 6 per cent import tariffs, according to the statement.

The mainland signed the CEPA with Hong Kong and Macao in 2003. The sixth complementary agreement of the CEPA was signed on 9 May this year by the mainland and Hong Kong, and on 11 May between the mainland and Macao.

"As an important policy favourable to Hong Kong, the CEPA has played an important role in bringing positive change to the city," Tang Wei, director of the Taiwan, Hong Kong, and Macao Affairs Department of the Ministry of Commerce, told Xinhua.

Ministry of Commerce statistics show that trade between the mainland and Hong Kong in the first five months of 2009 was valued at US$59.59 billion, down 25.5 per cent year on year.

Trade between the mainland and Macao in the first four months of 2009 stood at US$670 million, down 22.5 per cent.

[Source: People's Daily](http://news.xinhuanet.com/english/2009-06/24/content_11595536.htm) ([see archive](Chinese_mainland_to_exempt_tariffs_on_some_HK_Macao_products.pdf))

### Guanzhong-Tianshui Economic Zone to be established

On 25 June, the State Council Information Office held a news briefing, announcing that the State Council has officially approved the Guanzhong-Tianshui Economic Zone Development Program. This indicates that China's regional revitalisation program has welcomed a new member.

The program proposes to build Guanzhong-Tianshui Economic Zone into China's "strategic highland for the country's inland economic development and opening-up."

Guanzhong-Tianshui Economic Zone is one of western China's three key economic development zones defined in the "11th Five-Year Plan on Western Region Development." The planned area for the economic zone covers Shaanxi Province's Xi'an, Xianyang, Tongchuan, Weinan, and Baoji, as well as some counties in Shangluo, Yangling Agricultural Hi-tech Industries Demonstration Zone and administrative areas under the jurisdiction of Tianshui, Gansu Province.

The Guanzhong-Tianshui Economic Zone will cover a total area of 79,800 square meters, with construction planned from 2009 to 2020.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90857/90862/6687372.html) ([see archive](Guanzhong-Tianshui_Economic_Zone_to_be_established.pdf))

## Other

### China to amend law to expand State compensation

China's top legislature recently began the group review of an amendment to the state compensation law, which, if approved, will expand the coverage of compensation.

A person may seek compensation if he is found innocent even when his arrest is made under legal procedures, according to the draft, which is under the second reading by the ninth session of the Standing Committee of the 11th National People's Congress (NPC).

The current law stipulates that compensation will only be considered when the arrest procedure is illegal.

However, no compensation would be due to those who receive administrative punishment for illegal acts that are initially considered crimes, according to the draft.

State bodies should decide on compensation claims within two months of receiving appeals. Those who claim compensation but are not satisfied with the result can appeal to supervisory departments, according to the draft.

The state compensation law was approved by the NPC in May 1994 and took effect in 1995.

[Source: China.org](http://www.china.org.cn/government/central_government/2009-06/25/content_18015303.htm) ([see archive](China_to_amend_law_to_expand_state_compensation.pdf))

### China's land use guarantees economic growth

China's land use has guaranteed the country's economic growth but has been subject to strict examination to guarantee the country's baseline of 1.8 billion mu (120 million hectares) of arable land, a senior official said recently.

As of 1 April 2009, the total area of arable land stood at about 1.826 billion mu. The amount of arable land must be kept at 1.8 billion mu, a baseline the government set to guarantee the country's grain supply, according to the 11th Five-year Plan on National Economic and Social Development (2006-2010).

Lu Xinshe, deputy minister of land and resources, said that from January to May 2009, the country had approved the use of land covering 3.51 million mu, which accounted for 55.7 per cent of the annual quota.

Land used for building communication, water conservation and energy resource projects accounted for 83 per cent of the total approved land in the five-month period. Most of the projects are among those designed to help boost domestic demand and guarantee economic growth against the backdrop of economic downturn, Lu said.

Lu said the ministry had been strict in approving land use to prevent irregularities. During the first five months of 2009, the ministry rejected applications to build 91 projects, which did not measure up to either industrial policies or land use regulations. It had also cancelled use of 8,914 mu after further checks. Lu did not elaborate on the cancellations.

The ministry will try to ensure that land supply matches the stimulus package while maintaining effective control and management to guarantee the target of arable land protection, Lu said.

[Source: China.org](http://www.china.org.cn/government/central_government/2009-06/23/content_17999726.htm) ([see archive](China_land_use_guarantees_economic_growth.pdf))

### Leakage of State secrets to be plugged

Government officials may soon need to think twice before inserting their flash-disks containing State secrets into unsecured computers.

They will likely come under tighter surveillance to prevent the leak of confidential information, the top legislature was told during briefings on amendments to the Law on Guarding State Secrets.

The revision is a direct result of the sharp rise in computer-linked intelligence leaks in recent years, lawmakers were told.

A tougher law is needed to cut access to the Internet or other public networks from secure computers, they heard.

The draft revision was submitted to the Standing Committee of the 11th National People's Congress (NPC) for deliberation.

The draft amendments include:

* Taking measures to protect networks containing confidential data by isolating them.
* Internet and telecommunication providers reporting to the authorities when they detect messages linked to State secrets.
* Having a tougher supervision system to prevent sensitive information from being passed on intentionally or unintentionally.

According to research by the NPC's internal and judicial affairs committee last year, more than 70 per cent of all cases have been linked to computers, and the number is rising sharply each year. Most leaks are unintentional.

The list of people covered has expanded from government officials and military officers to accountants for State-owned enterprises, makers of armaments and staff attending closed-door government meetings.

The Criminal Law has only two references to the subject: intentional or unintentional disclosure of State secrets, and trading information for profit. Those convicted of intentional leaks are usually executed.

Sources in the government, the military and State-run organisations have told China Daily that incidents have occurred of unintentional but damaging leaks by officials after they inserted their flash-disks into networked computers. "In one instance, it is believed the data was stolen in seconds and the official was removed," one source said.

Military personnel with access to intelligence told China Daily they usually operate on secure computers.

The NPC study also pointed out much of the government information, considered to be State secrets under the current law, should be made public under a decree issued by the Cabinet three years ago to improve administrative transparency. The draft also calls for reducing the scope of the term ‘State secrets'.

"State secrets should never become an excuse to prevent the public from knowing the truth," said Mao Shoulong, a public policy researcher at Renmin University of China.

[Source: National People's Congress](http://www.chinadaily.com.cn/china/2009-06/23/content_8310395.htm) ([see archive](Leakage_of_State_secrets_to_be_plugged.pdf))

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