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# China News Alert Issue 342

## Capital Markets

### No 'hard landing' for China

China is not at risk of a double slump although it is a possibility in high-income countries, Justin Yifu Lin, chief economist of the World Bank (WB), said.

He was speaking in response to speculation that the world's third-largest economy would suffer a hard economic landing. "The Chinese government will have large fiscal scope even if the worst scenario occurred in European countries, one of the country's largest export markets," Lin said during a video news conference with Asian media representatives after the bank released its Global Economic Prospects 2010.

He said China could adopt positive fiscal policies and attract foreign investment to improve the environment and infrastructure and boost growth if a downturn occurred in external markets.

In the first quarter of this year, the Chinese economy showed unexpectedly strong growth momentum with its gross domestic product (GDP) expanding by a blistering 11.9 percent year-on-year, arousing concerns about rising inflation and potential asset bubbles.

The government and regulators, as a result, have tightened liquidity and dampened the real estate sector to prevent rising prices from evolving into a crisis.

The stringent policies, however, have led to a decrease in economic activity and triggered widespread concern about a downturn, especially in the wake of the eruption of the European debt crisis.

Lin said the government should adjust policies to cope with the new situation, but insisted China was capable of achieving 9.5 percent GDP growth this year. The bank said in the report that economic growth would slow down to 8.5 percent in 2011 and 8.2 percent in 2012.

It predicted global economic recovery would continue to advance with a GDP growth rate of 2.9 percent and 3.3 percent in 2010 and 2011, but Europe's debt crisis had created new hurdles on the road to sustainable medium term growth.

"The better performance of developing countries in today's world of multi-polar growth is reassuring," said Lin, calling on the high-income countries to seize opportunities offered by stronger growth in developing countries for the rebound to endure.

More than 40 percent of all growth in the global economy next year would come from developing countries, said Andrew Burns, manager of global macroeconomics of the World Bank.

Regardless of how the debt situation in high-income Europe evolves, a second round of financial crisis could not be ruled out in certain emerging countries in Europe and Central Asia, where rising non-performing loans and "significant" levels of short-term debt may threaten banking sector solvency, the bank cautioned. "Developing countries are not immune to the effects of a high-income sovereign debt crisis," said Burns.

While the European debt crisis has temporarily been put under control, prolonged rising sovereign debt could make credit more expensive and curtail investment and growth in developing countries, he said.

The bank projected high-income countries would grow by between 2.1 and 2.3 percent in 2010, not enough to undo the 3.3 percent contraction in 2009, followed by growth of between 1.9 and 2.4 percent in 2011.

Possible policies that favor more aggressive cuts in deficits among these countries would benefit medium-term growth in both developing and high-income countries by reducing the borrowing costs of high-income countries, said Burns.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-06/11/content_9964567.htm) ([see archive](No_hard_landing_risk_for_China_World_Bank_says.pdf))

### China to strengthen monitoring of cross-border capital flows

China's foreign exchange regulator said it will strengthen monitoring of cross-border capital flow to reduce risk.

The regulator will keep a close watch on the economic and financial situation home and abroad this year, the State Administration of Foreign Exchange (SAFE) said in its annual report on the management of foreign exchange posted on its website.

It will also enhance its monitoring of abnormal cross-border capital flow by cracking down on illegal private banks and internet-based speculation in foreign exchange.

SAFE will maintain a prudent approach to managing foreign currency reserves and will continue to improve its diversification strategy.

China's balance of payments continue to expand, albeit slowly, despite the impact of the global financial crisis. At the end of 2009, China's foreign exchange reserves hit US$2.4 trillion, a US$453 billion increase from the end of 2008.

China had gold reserves of 1,054 tonnes at the end of last year, the fifth largest in the world. Although gold has commodity and monetary properties, the global gold market is relatively small and illiquid, the report noted, adding that because of its volatile price and high cost of holding and trading, gold has limited utility in asset allocation.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90861/7021655.html) ([see archive](China_to_strengthen_monitoring_of_cross-border_capital_flows_FX_regulator.pdf))

### China trade growth boosts US and world stocks

The expected piece of news that China's exports have regained steam after a sharp slump earlier gave excitement to investors. Wall Street shot up by more than 2.8 percent.

Markets around the world rose after China said exports rose 48.5 percent in May, while imports jumped 48.3 percent.

Investors sent the Dow Jones index back to 10,000 after a stream of upbeat economic news convinced them that things aren't so bad after all. The Dow rose 273 points to 10,172, and all other key indexes jumped by more than 2.5 percent.

Energy stocks led the market higher after they slid over concerns that BP would be forced to cut its dividend because of the Gulf of Mexico oil spill. BP rose 12.3 percent from a 14-year low.

Most bank stocks rose but Goldman Sachs fell 2.2 percent to its lowest level in a year following news reports that it was target of another investigation by the Securities and Exchange Commission.

Investors have pounded stocks for more than a month because of concerns that Europe's sovereign debt crisis would slow a rebound worldwide. This advance was the latest swing in a market that has been volatile for weeks, including three late-day slides in the past four days.

The increase in China's May trade figures provides relief to fears that debt woes in Europe would halt a global recovery. The 27-nation European Union is China's largest trading partner. China has said it wanted to cool its economy to keep it from becoming overheated.

Earlier, investors had grown concerned that China would inadvertently slow growth too much and hurt a global rebound.

"China so far has been able to pull this off," said John Apruzzese, partner and equity portfolio manager at Evercore Wealth Management in New York. "There's more focus on Europe but I think it's more about China."

The euro, used by 16 countries in Europe, rose to US$1.2111. The currency has become an indicator of investor confidence in Europe's ability to cut debt without spoiling a recovery.

Traders grew more confident that a global rebound was intact. Beyond the news out of China, Japan's economy grew faster than expected in the first three months of the year.

While investors worry about Europe's debt problems, there are also concerns about the job market in the U.S. An unemployment rate of 9.7 percent remains one of the biggest obstacles to a strong domestic rebound.

The Labour Department said new claims for unemployment fell by 3,000 to a seasonally adjusted 456,000. While that figure fell short of economists' forecast, traders were heartened by numbers showing total claims last week dropped by the largest amount in almost a year.

On the face of it, the drop is good news but it also could indicate that people have run out of their state benefits and are moving to longer-term federal benefits.

Crude oil rose US$1.10 to US$75.48 per barrel in New York.

[Source: People's Daily](http://english.people.com.cn/90001/90776/90883/7021443.html) ([see archive](China_trade_growth_boosts_US_world_stocks.pdf))

## Corporate

### CNPC signs gas supply agreement with Uzbek oil company

The China National Petroleum Corporation (CNPC), parent of PetroChina, announced it has signed a framework agreement with Uzbekistan oil company Uzbekneftegaz to buy 10 billion cubic meters of natural gas annually.

CNPC general manager Jiang Jiemin signed the agreement with Uzbekneftegaz board chairman Ulugbek Nazarov in the Uzbekistan capital Tashkent, a statement on the CNPC website said.

The agreement was signed during Chinese President Hu Jintao's visit to the country. Hu is attending the 10th annual summit of the Shanghai Cooperation Organisation on 10th and 11th June in Tashkent.

The statement did not provide details on the value of the purchase agreement nor on a specific date when the supply would be initiated.

The two sides would first work to connect Uzbekistan's natural gas transmission system with the China-Uzbekistan natural gas pipeline, the statement said.

The China-Uzbekistan gas pipeline is part of the larger 1,833-kilometer China-Central Asia gas pipeline that opened in December 2009, linking gas fields in Turkmenistan, Uzbekistan, and Kazakhstan to northwest China's Xinjiang.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-06/10/content_9961082.htm) ([see archive](CNPC_signs_gas_supply_agreement_with_Uzbek_oil_company.pdf))

### Government targets foreign fat cats dodging taxes

The national tax authority is vowing to strengthen its collection procedure of personal income tax to catch evading high-salary foreign residents.

In particular, the authority plans to tighten up checks on individual income earned by foreign workers in the Chinese mainland but paid by overseas agencies, according to the latest announcement of the State Administration of Taxation. To achieve this, they will cooperate with banks and foreign exchange control departments directly.

Close connections will also be made with the entry-exit administration bureau, since exact dates on the movement of foreign workers are needed when imposing taxes on those who leave the country.

The announcement also called on Chinese tax authorities at various levels to work together on various projects, such as investigating salary standards for expatriates from different countries.

"At present, personal income tax evasion for foreign workers is common because it is hard for our government to find comprehensive and accurate information about their salaries," said Liu Huan, deputy dean of the taxation school at the Central University of Finance and Economics. "High-salary foreign executives, for example, get their income from diversified and often international sources," Liu told METRO.

He said financial planners usually help people avoid taxes legally in developed countries, due to the opportunity to choose from various methods of tax payment or declaration.

"However, in China, the policy is very different. You can also take charge of your tax payments, but it must be done under Chinese law or else it is considered tax evasion."

Liu pointed out that because foreign workers often receive high international salaries but enjoy relatively low living costs in China, their tax situation naturally arouses attention from domestic citizens.

Compared with other countries, China imposes a relatively large tax on high-income people. Workers who earn more than 100,000 yuan per month must pay 45 percent individual income tax, which is 5 to 10 percentage points higher than countries such as the United States.

Shi Zhiqun, a lawyer from Hwuason Law Firm―a company that offers Chinese tax law consultancy to clients worldwide―said the high tax rate explains why foreigners sometimes evade tax.

[Source: China Daily](http://www.chinadaily.com.cn/metro/2010-06/11/content_9964858.htm) ([see archive](Govt_targets_foreign_fat_cats_dodging_taxes.pdf))

### EU shouldn't levy tax on Chinese airlines

China's civil aviation industry urged the European Union not to hit developing nations with the carbon tax that it wants to impose on flights in and out of Europe starting in 2012.

The EU has planned to include the aviation sector under its Emissions Trading Plan in order to urge airlines to reduce carbon emissions. Aviation is now responsible for 3 percent of EU carbon emissions.

Airlines will be allotted certain emission quotas, which are 97 percent of the average 2004-2006 emissions for 2012 and are set to decrease year-on-year. They can sell their quota surplus or buy the short fall.

China's industry insiders estimated that the move could cost Chinese airlines nearly 800 million yuan (US$114 million) in 2012 alone, and more than 3 billion yuan in 2020. From 2012 to 2020, the Chinese aviation sector will pay a total bill of 17.6 billion yuan.

But what makes the Chinese carriers feel unfairly treated is that according to the EU rules, airlines with no growth or slow growth in flights bound to Europe will pay less for carbon emissions than those that are quickly expanding their European flights.

Liu Shaoyong, director-general of China Air Transport Association, said the rules are not fair for airlines from developing countries.

After years of operations, airlines from developed countries have built a mature network with many flights linking to Europe, he said.

"Compared to them, who are not likely to add many flights to Europe in the future, carriers from developing nations have much fewer flights now but will expand fast in the future," said Liu, who is also chairman of China Eastern Airlines. "But from 2012, these fast-growing 'youngsters' will have to pay much more than the mature airlines," he said.

"It is unfair for airlines from developing nations, because they are paying bills not only for emissions made by others in the past, but also for future emissions," he said.

An official with the Civil Aviation Administration of China (CAAC), who would not be named, said developing countries like China should be treated differently from developed countries, citing principles in the United Nations Framework Convention on Climate Change and the Kyoto Protocol.

Imposing such a fee on developing countries' airlines will be "detrimental to their development", the official said.

China has made efforts in the past years to reduce aviation emissions, including cutting air routes short and introducing advanced technologies and new planes, he said.

Liu was quoted by Xinhua News Agency as saying that China now has a fleet with an average age of eight years, all equipped with fuel-efficient engines.

"In contrast, many planes in service in developed countries are aged 15 years and older," he said. Usually, the older the plane, the higher the emissions.

Despite the global aviation slowdown, China's civil aviation industry has maintained a double-digit growth in the past two years. From January to April this year, the sector saw a 30.6-percent increase, according to CAAC statistics.

[Source: English People](http://english.people.com.cn/90001/90776/90883/7018165.html) ([see archive](EU_shouldnt_levy_tax_on_Chinese_airlines_Official.pdf))

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