Individuals could soon invest abroad, NDRC suggests

By ZHENG YANGPENG (China Daily) 2014-08-07

Regulator's work agenda for second half of this year mentions possible measure but doesn't offer details

Chinese individuals might be allowed to invest abroad as early as this year. That development was quietly foreshadowed in a long document released on Tuesday by the National Development and Reform Commission, in which the nation's top economic planner discussed further economic liberalization.

It said "individual investors will be allowed to conduct outbound investment", without elaborating when and how that will happen. But since the document covered the agency's key work agenda for the second half of this year, it implied that a specific policy could be announced later this year.

The regulator also said in the document that it will enact regulations and implementation methods for outbound investment by companies and individuals.

The move marked a tentative step for China to ease its capital controls without committing to full capital account convertibility, experts said. China's foreign-exchange rules cap the maximum amount of yuan that individuals are allowed to convert to the equivalent of $50,000 each year. Those rules also ban them from transferring the currency abroad directly.

Policymakers have taken steps in recent years, including allowing freer movement of capital into and out of China, as they seek to boost the globalization of the yuan, which is still only partly convertible.

In early 2013, the central bank launched its second Qualified Domestic Individual Investor program, also known as QDII2. The first program was initiated in 2006.

QDII2 was designed to allow individuals to invest in overseas capital markets. Previously, domestic investors could only do that by buying wealth management products from financial institutions. Some argue that the NDRC's latest statement means the QDII2 program will develop faster.

But allowing direct outbound investment is a sensitive topic in China. Concerns over doing so range from an outflow of domestic capital to inadequate risk awareness among the public and money-laundering opportunities for corrupt officials.

In early July, a pilot program offered by Bank of China Ltd to enable individuals to transfer yuan abroad and convert the money into foreign currencies was halted after China's State broadcaster reported that this program might be a channel for money laundering.

Supporters of the program, called youhuitong, complained that it was actually a trial program approved by the central bank in recent years to liberalize capital movements and internationalize the yuan. Many commercial banks in Guangdong offered a similar service, Bank of China said in a statement.

In a sign of policymakers' caution over the matter, officials from the NDRC declined to answer questions about details of the move mentioned in the document when they held a news conference on Wednesday.

Many analysts said excessive caution among officials was preventing the launch of the policy for overseas investment, which would allow ordinary citizens an opportunity to diversify their assets.

"Putting up barriers, such as an upper limit for outbound investment, is unnecessary. If people really want to invest abroad, they can circumvent the regulations anyway, "said Xu Hongcai, a financial researcher at the China Center for International Economic Exchanges.

He said easing controls for corporate and individual investment abroad won't be difficult as long as regulators are willing relinquish their approval powers.

Analysts said that if individuals are allowed to invest in foreign stocks or other assets, enormous business opportunities will be created for professional brokerages and intermediaries to provide trading and consultancy services.