China accelerated the opening of its capital markets by more than doubling the amount foreigners can invest in stocks, bonds and bank deposits as the government shifts its growth model to domestic consumption from exports.

The China Securities Regulatory Commission increased the quotas for qualified foreign institutional investors to $80 billion from $30 billion, according to a statement on its website yesterday. Offshore investors will also be allowed to pump an extra 50 billion yuan ($7.95 billion) of local currency into the country, up from 20 billion yuan.

China, the world’s second-biggest economy, has pledged this year to free up control of the yuan and liberalize interest rates as the government deepens reforms to revive growth and offset slowing exports and a cooling housing market. China needs to rely more on markets and the private sector as its export-oriented model isn’t sustainable, World Bank President Robert Zoellick said in February.

“More action on opening up their markets to outside investment is definitely a positive,” Jeff Papp, a senior analyst in Lisle, Illinois at Oberweis Asset Management Inc., which oversees about $700 million, said in a phone interview. “It’s not a huge amount. They’re taking a small-steps approach to see how markets will react with more participants.”

Chinese Stocks

The regulator had granted a total of $24.6 billion in quotas to 129 overseas companies since the program first started in 2003 through the end of March. About 75 percent of assets were invested in Chinese stocks, with the rest in bonds and deposits, according to the statement.

The CSRC accelerated the program last month, granting a record $2.1 billion of quotas to 15 companies. It was more than the $1.9 billion in 2011 as a whole.

“The QFII program enhances our experience of monitoring and regulating cross-board investment and capital flows,” the CSRC said in the statement. “It is a positive experiment to further open up the market and achieve the yuan convertibility under the capital account.”

Premier Wen Jiabao is seeking to attract international investment as economic growth cools, prompting the benchmark Shanghai Composite Index to slump 24 percent in the past year. The country posted its largest trade deficit since at least 1989 in February as Europe’s sovereign-debt turmoil damped exports.

Sustaining Investment

“Wen is signaling that China can’t afford to let investment slow down too much,” said Shen Jianguang, a Hong Kong-based economist for Mizuho Securities Asia Ltd., who previously worked for the International Monetary Fund and European Central Bank.
Separately, Credit Agricole SA (ACA) said that a cut in benchmark interest rates or banks’ reserve requirements is likely this month and could come as early as today after Wen said policy may be fine-tuned soon.

China needs to break a banking “monopoly” of a few big lenders that makes easy profits, the premier told private company executives in Fujian province yesterday, as cited by China National Radio.

Foreign investment under the QFII program accounts for 1.1 percent of the total market value of domestic A-shares, according to the statement. The Shanghai Composite Index (SHCOMP) of domestic stocks has lost 31 percent since the end of 2009, compared with a 26 percent rally in the Standard & Poor's 500 Index of U.S. stocks as of March 30.

Restrictions Remain

The increase of the QFII quota “certainly helps foreign investors,” said David Semple, director of international equity at the Van Eck Emerging Markets Fund in New York, which oversees $35 billion of assets, including Chinese stocks. “But there are still restrictions in terms of the amount, the transparency and repatriation of money. It’s still a long way from being ideal for a foreign investor.”

The government has lowered the target for the expansion this year to 7.5 percent from the 8 percent goal that had been in place since 2005. Gross domestic product probably grew 8.4 percent in the first quarter from a year earlier, according to the median estimate of analysts surveyed by Bloomberg, down from 8.9 percent in the fourth quarter.

Chinese President Hu Jintao told U.S. President Barack Obama in Seoul on March 27 that China plans to “let the market play a greater role, improve the flexibility of the yuan exchange rate, and maintain a basic stability of the rate at reasonable and balanced levels.” The yuan’s effective exchange rate has gained 30 percent since the link to the dollar ended in 2005, he said.

Asian Equities

The Bloomberg China-US Equity Index (CH55BN) of the most-traded Chinese shares in the U.S. fell 0.3 percent yesterday, paring its gain this year to 15 percent. Asian stocks fell today, with the MSCI Asia Pacific Index declining 1.2 percent as of 12:45 p.m. in Tokyo after a report signaled that the U.S. Federal Reserve may refrain from more monetary stimulus. Exchanges in mainland China are closed for a holiday.

Twelve-month non-deliverable forwards rose 0.1 percent to 6.323 per dollar in New York, indicating traders are expecting the currency to be little changed over the period, according to data compiled by Bloomberg show.

The increase of the foreign investment quota comes ahead of a once-in-a-decade leadership transition later this year and amid concern that the new government may not continue pursuing the opening-up and reform policies that sustained China’s growth since 1978. Hu and Wen will step down from their roles and let a younger generation of leaders step in that will probably include Vice President Xi Jinping and Vice Premier Li Keqiang.

‘Lasting Impact’

Bo Xilai, who promoted a larger role for state-run companies to ease the wealth gap between the rich and poor as the head of the Communist Party in southwestern municipality of Chongqing, was ousted in March.

“Maybe one of the last points of emphasis for the outgoing administration is to focus on some sort of reforms that have a lasting impact -- opening up certain industries to foreign participants,” said Papp, whose Oberweis
China Opportunities Fund returned 19 percent this year, beating 98 percent of peers, according to data compiled by Bloomberg. “That could be the bigger sign than what it actually means for the markets.”

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