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(Contributor: Pan Lei)

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## China Targets Seven Strategic Industries for Growth months

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## Chinese Banks' Forex Surplus Rises to \$29.1 bln in August

September 29, Chinese banks' foreign exchange surplus on behalf of clients hit \$29.1 billion in August, up 9.4% month-on-month (m-o-m), the Oriental Morning Post reported Wednesday, citing the State Administration of Foreign Exchange (SAFE).

In a statement on its website Tuesday, SAFE said foreign exchange sales to banks totaled \$113.2 billion in August while foreign exchange purchases from banks hit \$84.1 billion.

The paper said the surplus indicated a strong willingness to hold Chinese yuan.

In July, the surplus of Chinese banks' forex purchases and sales on behalf of clients jumped over 90% m-o-m to \$26.6 billion.

Some market insiders said yesterday that China's foreign reserves could grow by a combined \$50 billion in July and August.

According to SAFE, Chinese banks will offset the shortfall in foreign exchange purchases to sales in transactions with clients through their own interbank forex transactions.

As China's foreign reserves grow, there will be more pressure on China to appreciate the yuan, a forex analyst at a joint-stock bank was quoted as saying in the report.

The People's Bank of China, or central bank, set the yuan's central parity rate Wednesday at a record high of 6.6936 against per U.S. dollar, beating the previous record of 6.6997 on Sept.21.

Wednesday's rate rose by 115 basis points, or 0.17% over the 6.7051 recorded on Tuesday.

China's currency has been fixed at a record high rate versus the U.S. dollar for nine of the past 11 trading days.

*Source: By 21cbh.com*

## China May Raise CPI Growth Target to 5% in 2011-2015

September 28, China may fix its year-on-year consumer price index (CPI) growth rate target at 5% in the 12th five-year plan (2011-2015), according to Zhu Baoliang, chief economist at the State Information Center.

In the next five years, China will accelerate the transformation of its economic growth mode, which will put new demands on macro-control targets and measures.

“We have been conducting relevant research into China’s economic development in 2011-2015. We should accept the slowdown in economic growth and higher inflation within an appropriate range,” said Zhu.

Zhu said a slowdown in gross domestic growth to 8% and acceleration in consumer inflation to as high as 5% could be acceptable over that period.

China’s consumer price inflation rate hit a 22-month high of 3.5% in the year to August, five percentage points higher than its full-year target of 3%.

Hu Chi, deputy director of the research department at the China Enterprise Confederation (CEC), told the 21st Century Business Herald that regarding current price levels, China could be more tolerant of CPI growth. The growth target could be raised to 5% from the current 3%, he said.

“It is acceptable that the CPI growth may climb to 5% in some years considering changes in the global economy, but this does not mean the CPI would certainly rise to 5%,” Zhu explained.

If the government raises the inflationary control target to 5%, its monetary policy would be moderately easy and its fiscal policy would remain positive in 2011, Zhu added.

Excessive liquidity accumulated in China since last year will have a great impact in the next 5-10 years, and it will take a long time to digest the excessive money supply, said Zhou Jintao, director of China Securities Research.

“China’s broad money supply (M2) amounted to RMB 68.7 trillion by the end of August, RMB 10 trillion more than that in U.S.,” said Li Xunlei, chief economist at Guotai Junan Securities.

During the 12th five-year plan, imported inflation and fluctuation in agricultural product prices will be among the biggest uncertainties in China’s CPI.

Citigroup Inc. (Citigroup, NYSE:C) said in its latest report that China may pare its economic growth target to 7% in the 12th five-year plan, down from the 7.5% target set in the previous plan.

China’s 12th five-year plan will be discussed this October and officially issued in May 2011.

## China Targets Seven Strategic Industries for Growth

China on Wednesday reaffirmed its intention to promote seven new strategic industries, including alternative energy and biotechnology, and spur firms in those sectors to expand abroad.

The State Council, China's cabinet, said it would encourage banks to lend to the cutting-edge sectors.

It also urged venture capital firms and private equity funds to finance their growth, according to a statement posted on the main government portal, [www.gov.cn](http://www.gov.cn).

The other industries are new-generation information technology, high-end equipment manufacturing, advanced materials, alternative-fuel cars and energy-saving and environmental protection.

Plans to develop the seven sectors are likely to feature prominently in the 2011-2015 five-year plan that the ruling Communist Party is now drafting.

*Source: By Reuters*

## Shanghai Further Regulates Property Market

October 8, Shanghai's municipal government released 12 new policies Thursday aimed at curbing soaring property prices and market speculation.

The local government ordered that families living in the city, be they local or migrants, can only buy one new home each, including secondhand ones, for the time being.

A revised land appreciation tax was also released yesterday. According to the plan, Shanghai will tax gains from the transfer of residential properties in a bid to cool climbing developer prices, according to a notice released by the authorities.

The tax rate ranges from 2% to 5%, and will use the average price of surrounding properties as benchmark criteria, the notice said.

The revised tax will discourage developers from setting immoderate home prices as they would have to pay more taxes on prices higher than surrounding homes, said Chen Guoqiang, deputy director of the China Real Estate Society.

Shanghai's new rate will be the highest in the country, he added.

Yang Hongxu, head of research at the Shanghai-based E-house China Research Development Institute, said property taxes in Shanghai and Shenzhen would be issued soon, with the rate likely to be set at 0.3-0.4%.

*Source: By 21cbh.com*

## Insurance Funds Encouraged to Go to Middle-and-late Stage Projects and Prohibited from VC

The China Insurance Regulatory Commission released the Interim Measures on Investing Insurance Funds in Real Estate (the Measures I) and Interim Measures on Investing Insurance Funds in Equity (the Measures II) on Sep. 5.

The Measures I puts forward "three prohibitions" for insurance fund investing in real estate: i) The insurance funds shall not be used to build or sell commercial housing; ii) The funds shall not be directly invested in the development of real estate (Including primary land development), and iii) They shall not be invested in the establishment of real estate development companies or the equity of unlisted real estate companies (Except project companies). But the Interim Measures on the Administration of Utilization of Insurance Funds only specified that "No direct engagement in real estate development is allowed".

The Measures II provides that the insurance fund can only be used to purchase the equity of companies in the late stage, expansion stage or in the emerging strategic industries, or those which have a clear intention of listing and a high M&A value. No investment in the establishment or participation of investment institutions is allowed, neither is the investment in the equity of companies featuring high pollution, high energy consumption and inconformity to national policies and those with low technological contents and poor return on cash. Investment in VC funds is prohibited as well.

*Source: By Chinese Business News*

## Hubei Sees Launch of Its First Bio-agriculture VC Fund

Wuhan High-tech Agriculture Biological Venture Capital Co., Ltd., initiated by Wuhan High-tech Agriculture Group, officially acquired its business license on Sep. 8. This marks the official operation of Hubei's first bio-agriculture VC fund.

Founded in 2003, Wuhan High-tech Agriculture Group is a large-sized wholly state-owned group devoted to operation and development of high-tech agricultural industries and biotechnologies. With a registered capital of RMB108M, the high-tech agriculture biological fund it launched is a private holding fund with a state stake of 31%.

The fund will mainly go to agricultural projects, including high-tech agricultural, bio-agricultural and related industrial projects, said Zhang Xiaoling, Chairman of the bio-agriculture VC fund. At present, the fund is entrusted to Hesai Investment Management Co., Ltd. (in preparation) for operation.

*Source: By Hubei Daily*

## China's First Urban-Rural Coordinated Development Fund Launched

Chengdu Longquanyi District Government, CDB Finance Co., Ltd. and China Development Bank's Sichuan Branch signed the Framework Agreement concerning the Cooperation on CDB Sichuan (Longquanyi) Urban-Rural Coordinated Development Fund on Sep. 7. According to the agreement, the three parties will jointly set up the first urban-rural coordinated development fund in China--CDB Sichuan (Longquanyi) Urban-Rural Coordinated Development Fund. As an innovative mode for regional financing, the fund will mainly be invested in the projects related to the balanced development of both urban and rural areas as well as development of urban infrastructures, major urban functional zones and urban high-end industries in Longquanyi and its neighboring regions.

The fund has a target size of RMB10B and the size of its first phase is RMB2B, which will be input in batches in mature projects linking the increase in quality land used for urban construction with the decrease in quality land used for rural construction.

Zhang Xuguang, President of CDB Finance Co., Ltd. said, a serious urban-rural dual structure has taken shape in China's economy and society over the past decades; The "Three Rural Issues" (issues of agriculture, countryside and farmer) become increasingly prominent, and coordinated development between the urban and rural areas serves as a major approach to solving the "Three Rural Issues".

*Source: By Sichuan Daily*