

## Shanghai cracks barriers to foreign PEs' development

### Foreign PEs race into Shanghai

Thanks to the proposed regulations on foreign funded equity investment management enterprises issued by the government of Pudong district in June, Shanghai became the first Chinese city to allow foreign PEs to register as "equity investment management enterprises". The city's new policy has aroused foreign funded PEs' enthusiasm to set up assets management companies there.

"Shanghai's new policy marks that foreign PEs now enjoy equal national treatment with domestic enterprises," said a partner in a foreign PE firm.

At the end of 2008, aiming to curb hot money inflow, the State Administration of Foreign Exchange (SAFE) issued "Circular on Relevant Business Operations Issues Concerning Improving the Administration of the Payment and Settlement of Foreign Exchange Capital of Foreign-Funded Enterprises", restricting foreign PE/VCs' investment in China.

"As our limited partners (LPs) are domestic funded, our funds are civil funded corporate bodies in China. According to Shanghai's new policy, there is no limitation on our investment," said Victor Chu, the chairman of China's largest investment firm, First Eastern Investment Group.

Foreign funded PE/VCs used to enter China by setting up wholly foreign owned enterprises (WFOEs) and using RMB obtained from capital settlement for equity investment. However, the SAFE's circular stipulated that "unless otherwise specified, RMB obtained from the settlement of capital shall not be used for domestic equity investment."

Shanghai municipal government has exchanged views with the SAFE, hoping to ease this curb, said a report in Shanghai Securities News.

The city is also trying to expand investment by yuan funds that contain foreign capital. Funds that are mainly consisting of RMB capital should be treated as domestic funds, said Fang Xinghai, director of the Shanghai government's financial services office.

"Limited partners are lacking in China," said Cao Wenlian, Deputy Director-General at Department of Fiscal and Financial Affairs, National Development and Reform Commission (NDRC). China has only a very small number of LPs and most of them are not mature yet.

Shanghai has abundant state-owned capital. How to arouse state-owned capital's interest in private equity investment and make them mature LPs are two questions Shanghai municipal government is studying, said Fang.

Yangtze River Delta, the country's major economic powerhouse, will also offer strong support to the PEs in Shanghai.

*By People's Daily Online*