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Official website for foreign investment in China opens

Security firms plan large China investments after approval

Nokia CDMA handsets to be produced in China

Ice-cream business heats up in summer

Revaluing the RMB

Official website for foreign investment in China opens

The website, named Invest in China www.fdi.gov.cn, is aimed at attracting foreign investment in a positive and efficient way.

The Chinese and English bilingual website covers columns on Chinese economy, laws and regulations, relevant government departments, investment news and statistics.

It also links with other websites, such as the business agencies of Chinese embassies overseas, relevant departments of China's State Council, provincial departments in charge of attracting foreign investment, and state-level economic and technological developing zones.

Security firms plan large China investments after approval

UBS Warburg and Nomura Securities plan to invest 50 million dollars each in Chinese shares after receiving licenses to enter the local stock markets.

The plans were reported in the Shanghai Securities News one day after the two firms got licences under a new policy to allow foreign institutions to buy so-called A-shares previously restricted to locals.

Other foreign firms, including Deutsche Bank and Goldman Sachs, have also applied for licences that will permit them to buy into China's 500 billion dollar A-share market, the China Daily reported.

China's qualified foreign institutional investor (QFII) scheme, similar to one that has been in place in Taiwan for years, marks a cautious opening of the stock markets to the outside world.

Rules governing QFIIs were published late last year, and in March this year China appointed a number of custodian banks authorized with opening accounts for the QFIIs.

China launched the QFII plan in hopes of lifting its fledgling but ailing yuan-denominated A-share market and help push forward reform of the domestic capital markets.

Foreign investors are already allowed to trade in B-shares, which are denominated in hard currencies unlike the yuan-denominated A-shares.

Nokia CDMA handsets to be produced in China

Nokia was granted a license to make mobile phones based on the code-division multiple access technology in China.

BNMT, a Nokia joint venture in China, can begin producing CDMA phones for the Chinese market with shipments starting in the second half.

Nokia, which dominates the market for phones based on the global system for mobile communications, or GSM, has struggled to take market share in CDMA, a standard used in the United States, South Korea and China. It lags Motorola Inc in the Chinese market, the world's biggest with 1.3 billion consumers.

"Nokia plans to build an equally strong presence in CDMA in China as we currently have in GSM," said Urpo Karjalainen, head of Nokia's Chinese operation.

The Finnish company has said it needs to increase its share of the global CDMA market to reach its target of 40 percent of the total handset market. In the first quarter it controlled 7.6 percent of the global CDMA market and 43 percent of the GSM market, according to market researcher Strategy Analytics.

Ice-cream business heats up in summer

The ice-cream business in China is hotting up as manufacturers are vigorously promoting new products to grab a major share of the market.

Some new participants are adding to the mix. The Beijing-based Sanyuan, one of the country's largest dairy producers, said it planned to enter the ice-cream business by co-operating with the Beijing Allied Faxi Food Co, the maker of Bud's brand ice cream.

The Shanghai Bright Dairy Co Ltd, a rival of Sanyuan, also entered the business last month. The dairy giant has invested 130 million RMB (US$15.7 million) in a new company, which it expects to produce its own ice cream by the end of this year.

The prosperous future of the ice-cream market is the driving force behind the two dairy giants now both entering the market. The total ice-cream market in China was worth 23 billion RMB (US$2.78 billion) last year. The market will grow to 40 billion RMB (US$4.84 billion) in three years. Chinese per capita consumption of ice cream is less than 1 litre a year, compared with nearly 23 litres in the United States.

Taxation Terms

增值税

"Zeng Zhi Shui"

(Value Added Tax)

营业税

"Ying Ye Shui"

(Business Tax)

消费税

"Xiao Fei Shui"

(Consumption Tax)

所得税

"Suo De Shui"

(Income Tax)

Revaluing the RMB

The dollar's slide is turning into a test of China's willingness to assume its share of global economic responsibility. Since its last peak in February 2002 the US currency has declined 9 per cent on the Federal Reserve's trade-weighted index but dropped 27 per cent against the euro. The dollar's fall against the yen, meanwhile, has been only 12 per cent, while the Chinese RMB has remained firmly pegged to the greenback.

As a result, a large part of the pressure of this painful - though desirable - adjustment is falling on the already enfeebled eurozone. This is where Asia's help is called for. Japan urgently needs to expand domestic demand. And Asia's smaller economies should allow their currencies to appreciate rather than continuing to accumulate vast foreign exchange reserves. But the biggest change ought to come from China, which must be persuaded either to generate significant inflation in its domestic economy or, preferably, to appreciate its currency.

Chinese policymakers have so far ignored such calls. They fear not only a loss of export competitiveness but also a domestic price shock that could push an economy already going through painful restructuring into significant deflation. But such concerns are overblown. Nominal interest rates are indeed at a record low of just under 2 per cent; but it is desirable for real interest rates to remain solidly positive given the country's robust growth. Too-low real interest rates could encourage yet more over investment in China's capital stock.

Meanwhile, as Goldman Sachs notes, domestic credit grew 17 per cent in 2002 and the M2 measure of money expanded by 19 per cent. This does not exactly look like an economy stuck in a Japanese-style liquidity trap or heading for a deflationary spiral. Indeed, some rate of falling prices may even prove a boon, in the sense that it prevents the economy from overheating.

To the extent that China does have a problem with falling prices, this stems from the woeful state of the country's banking sector. Deflation would make that mess worse by increasing the burden of non-performing loans. But it would also increase the pressure on the authorities to overhaul the financial system - a huge challenge but one to which they will, sooner or later, have to rise.

As for the mechanics of currency appreciation, a free float of the RMB would be the ideal solution, giving China the flexibility to cope with the growing pressures stemming from trade liberalisation. However, a free float will work properly only if the country's capital and exchange controls are lifted. That, in turn, is too risky until the financial sector is sorted out, otherwise China risks huge capital flight and the implosion of its banking system. That leaves a one-off revaluation of the RMB, after which it is re-pegged at its new and stronger level. This may be a second-best solution but it is still far better than doing nothing.

Source: *The Financial Times*, June 2nd 2003

"Providing an alternative in China"

insights@lehmanbrown provides updates of the latest business news, taxation and accounting regulations in the People's Republic of China. It is designed to provide you with interesting and informative information to assist in your dealings with China or any China-related issues that you may encounter. If you do not wish to receive this newsletter, we have provided an UN-subscribe facility below.

LehmanBrown also provides a monthly newsletter ***Peeling the Onion*** which investigates certain topical issues affecting businesses in China, particularly for those companies and individuals with operations in the PRC, or looking to establish a presence in-country.

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- Corporate Valuations in China
- Crisis Management in China
- China's Changing Tax Environment
- Internal Controls in China
- Establishing an SME in China
- Managing Your China Business Under SARS
- Treasury Management in China
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