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## New Commerce Minister Outlines Future Goals

China's new commerce Minister Lu Fuyuan says he will unify the domestic market and crack down on forgery in a bid to try and improve the nation's market conditions.

The commerce ministry will soon set up an office to crack down on market irregularities and will make moves in promoting a unified domestic market over the next few months. "A major aim of establishing the Ministry of Commerce is to unify domestic and foreign trade, and to tutor enterprises on giving up regional protectionism and standing up to a larger global market," the minister said.

"The prospect for companies only focusing on the regional or domestic markets is gloomy." Lu noted the unification of the domestic market depends heavily on a complete legal system and said he hopes laws against regional protectionism will be introduced soon. The minister also has counterfeiting in his sights, which he said has run rampant in some regions and requires urgent and significant action.

Speaking at last week's China Development Forum, Minister of Commerce Lu Fuyuan estimated that China's imports in the next three years will reach one trillion US dollars. In 2002, China registered an increased import of 51.7 billion US dollars.

Imports from Asia rose by 29.3 percent. More than 34,000 foreign investment enterprises settled in China last year, a year-on-year increase of 30.7 percent. The majority of these enterprises reported healthy operation and benefited from the country's fast developing economy.

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## Moves to Reduce NPLs Expected Soon

When asked whether China would slice off the non-performing loans (NPLs) from its four major State-owned banks for a second time, the newly appointed People's Bank of China Governor, Zhou Xiaochuan, last week said "the government will soon adopt the measures as local banks do not have much time before the industry's full opening up."

China shifted 1.4 trillion RMB (US\$169 billion) in bad loans from the commercial banks to four assets management companies in 2000, but the scale of NPLs still troubles the four State-owned commercial banks, whose ratio stands at 21.4 per cent by the four-category classification criteria, and as high as about 25 per cent by the five-grade classification criteria, the common international practice.

The governor stressed that Chinese banks should push reforms towards market orientation. He said the central bank will continue to pay close attention to the banks' operation in case of a systemic risk, although a new banking panel is still to be established. The 10th National People's Congress has approved the establishment of the China Banking Regulatory Commission, which will run banking supervisory functions carved out from the central bank. The authorities have pinned high hopes on it for tighter supervision over China's banks that are laden with NPLs to speed up reform and reduce financial risks.

## Rules on Mergers Issued

China published its first provisional rules on mergers and acquisitions between foreign and Chinese firms, but set conditions aimed at protecting domestic industry from foreign players.

The rules set up a formal framework that may make it easier for foreign firms to invest in the corporate sector. Under the guidelines, deals involving major foreign companies in China must be approved by the Foreign Trade Ministry and the State Administration of Industry and Commerce. The rules are due to come into force on 12th April.

*Source: Far Eastern Economic Review, March 27th 2003.*

## Foreign Investment Continues to Rise

Foreign investment jumped in the first two months of 2003 and a slight increase in consumer prices soothed worries about deflation. Actual foreign direct investment was up 53.6% during January and February from a year earlier to \$7.54 billion, according to MOFTEC. Actual foreign direct investment in 2002 was a record \$52 billion.

In February, China's consumer price index rose 0.2% from the previous year, taking some of the wind out of foreign accusations that the undervalued RMB was bringing deflation to the region and that Beijing should let its currency strengthen. The prices of services rose a year-on-year 1.5% in February, while food prices were 1.8% higher. Fixed-asset investment meanwhile surged higher in January and February. Official figures said it posted a 33% year-to-year rise in the first two months of the year, to 193.6 billion RMB(\$23.4 billion).

*Source: Far Eastern Economic Review, March 27th 2003.*

## Taxation Terms

### 增值稅

"Zeng Zhi Shui"

*(Value Added Tax)*

### 增值稅

"Ying Ye Shui"

*(Business Tax)*

### 消費稅

"Xiao Fei Shui"

*(Consumption Tax)*

### 所得稅

"Suo De Shui"

## **VW goes on market offensive in China**

German auto giant Volkswagen Group is speeding up its investment in China to safeguard its reign on the world's fastest-growing car market. The company plans to invest 1 billion euros (US\$943.6 million) in China this year to build new manufacturing facilities and introduce new models.

"It is an unrealistic goal for us to control 50 per cent of China's car market according to the current market development," said Zhang Suixin, general manager of Volkswagen (China) Investment Co. "But I believe we will continue to be the market leader in China in the years to come." Volkswagen, the first foreign automaker producing passenger cars in China, had held more than half of the market by 2001.

Other big name automakers, such as General Motors, Toyota and Honda, PSA Peugeot Citroen and Hyundai Motor, have plans to bring new models into their joint ventures in China and accelerate local production. It is predicted China's car market will reach 3 million units by 2010 and 10 million by 2020.

## ***"Providing an alternative in China"***

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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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