April–June 2011

The China Business Review

THE MAGAZINE OF
THE US-CHINA BUSINESS COUNCIL

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Focus: Human Resources


50

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Special Report: China's Economy

Features

Departments

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The *China Business Review* (ISSN 0163-7169) is published quarterly by the US-China Business Council, 1818 N Street NW, Suite 200, Washington, DC 20036-2470, USA (Tel: 202-429-0340), a nonprofit organization incorporated under the laws of the District of Columbia. Periodicals postage paid at Washington, DC, and additional mailing offices. Postmaster, please send address changes to the *China Business Review*, 1818 N Street NW, Suite 200, Washington, DC 20036-2470, USA.

Annual subscription rates: $89 US/Canada and $99 international, print and online; $79 online only. Single copy issues: $23, $36 airmail; issues over 1 yr: $15, $20 airmail. DC residents add 5.75% sales tax. Subscriptions to the *CBR* are not deductible as charitable contributions for federal income tax purposes.

The China Business Review

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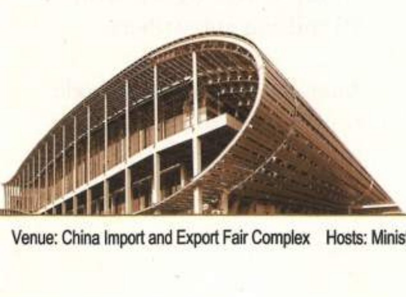
Big Business in China



Short Takes

Retail and Luxury Goods

China's retail market is developing quickly, driven by rising consumer incomes. Lunar New Year holiday sales surged 19 percent this year compared to last year, reaching ¥404.5 billion ($61.3 billion), according to state media. The jump was particularly pronounced in Shanghai, which saw a four-fold increase in retail revenues during the holiday period. A PRC Ministry of Commerce spokesperson announced that increasing domestic consumption would "top the ministry's agenda in 2011."

China's retail market is particularly promising for luxury goods manufacturers. China may become the world's largest luxury goods market by 2020, according to a new CLSA Asia-Pacific Markets report. The report—which points to recent strong performance in China by luxury retailers such as Louis-Vuitton Malletier and Hermes International, SA—claims that Greater China's luxury market may account for as much as 44 percent of global luxury sales by 2020. CSLA attributes China's fast-growing luxury goods market to China's young ultra-wealthy population (defined as individuals with more than ¥1 billion [$152.2 million]), a group that is expanding at a 50 percent annual rate.

Foreign firms are responding to the uptick in demand for luxury goods. Italy's Prada SpA plans to triple its number of stores in China over the next two years, and Hong Kong-owned Chow Tai Fook Jewelry Co., Ltd. plans to add 1,000 new mainland stores over the next five years.

Real Estate

China's real estate prices continue to rise, despite government efforts to tame inflation. PRC National Bureau of Statistics (NBS) data reveal that new home prices in January 2011 increased over January 2010 levels in 68 of 70 cities monitored by the PRC government. New home prices in Beijing rose 6.8 percent year on year, and 10 cities saw increases exceeding 10 percent.

Spurred by analysts' projections that China's real estate bubble will burst in 2011, government authorities are stepping up precautions. PRC Premier Wen Jiabao in February said that China must "resolutely control the property market," and announced government plans to add more than 10 million low-cost homes in 2011, up from 5.8 million added in 2010.

As part of the nationwide effort to contain inflation, Chongqing and Shanghai recently launched trial real estate taxes on high-end homes. Chongqing will levy taxes from 0.5 percent to 1.2 percent on existing and newly purchased homes, depending on the property's appraised value. Shanghai will levy a 0.6 percent tax on second homes bought by Shanghai residents and first homes bought by non-residents. Other recent measures include a ban on purchases of third houses in 16 major cities, increased down-payment requirements on second homes throughout the country, and new regulations on real estate brokerages.

Some efforts to restrain prices may hurt foreign investors, according to state media. PRC government regulators have tightened restrictions and increased reviews of foreign funds entering the country's real estate market.

Public Opinion

Americans continue to have mixed views of China, according to a March 2011 Indiana University study. The survey of 1,012 Americans found that 48 percent of respondents held unfavorable views of China, but 82 percent held positive views of the Chinese people. The survey also found that about 20 percent of respondents viewed China as the United States' direct adversary, while nearly 50 percent said China was not an adversary.

The Indiana University survey—first presented at a conference at Zhejiang University in Hangzhou—indicated that Americans are increasingly interested in China-related news. Three-quarters of respondents were "somewhat" or "very" interested in news about China. Fifty-one per-

Telecom

China's telecom companies are expanding rapidly, fueled by the development of third-generation (3G) and wireless technology. China's wireless population reached 841.9 million in December 2010, according to the country's top telecom providers. China Mobile Communications Corp. reached 584 million subscribers at the end of 2010, while China United Telecommunications Corp. Ltd. (China Unicom) reached 167 million users. ChinaTelecommunications Group Corp. trailed with 90 million subscribers.

Analysts expect China's telecom market to rise rapidly in the coming year. A

cent believed that China would be the world's leading economic power in 20 years.

A 2010 Shanghai Jiao Tong University survey of 810 Americans found that nearly two-thirds of respondents believe the Obama administration is not tough enough in business and economic negotiations with China. The survey also found that 21 percent of Democrats and 38 percent of Republicans believe that China manipulates its currency to gain an advantage in international trade.

A separate survey, jointly conducted by *China Daily* and the Horizon Research Consultancy Group, showed that Chinese attitudes toward Americans became more negative in 2010 but are more positive compared to 10 years ago. The survey asked respondents in seven Chinese cities to rank the United States' "likeability" on a scale of 1 to 100, with 100 being the most likeable. From 2006–10, Chinese respondents gave the United States an average ranking of 55.1, an increase over the 2001–05 average of 40.5. The United States ranked below Germany, Russia, and France, but above Japan in 2010. More than half of survey respondents characterized maintaining a good relationship with the United States as "very important."

recent Gerson Lehman Group report noted that China Mobile plans to spend ¥1.5 billion ($228.2 million) in 2011 to launch six advanced fourth-generation (4G) networks in cities across China, including Shanghai; and Guangzhou, Guangdong.

China's smartphone sales may also rise because of the increasing popularity of Apple Inc.'s iPhone among urban users. China Unicom—the only service provider currently offering the iPhone in China—reported that total iPhone sales may have reached 1.3 million in mid-December 2010.

China's smartphone sales may reach $98 million in 2015, according to a recent Coda Research Consultancy Ltd. report. Smartphone sales may increase further if China Mobile begins carrying the iPhone, a high priority for Apple, according to Bloomberg LP.

Energy and the Environment

China is intensifying energy conservation and alternative energy development efforts. The PRC government has invested ¥89.4 billion ($13.6 billion) in energy conservation projects since the 11th Five-Year Plan (FYP, 2006–10), according to the PRC National Development and Reform Commission (NDRC). State media also report that the government has introduced tax incentives for companies participating in environmental protection, water, and energy savings programs. NDRC estimates that China's energy consumption per unit of gross domestic product decreased 19.1 percent during the 11th FYP.

China's emphasis on energy and environmental policy has affected many urban areas. About one-third of 112 cities identified by the central government as the focus of energy and conservation efforts increased sustainability and maintained economic growth between 2004 and 2008, according to a recent *McKinsey Quarterly* report. The report identified strong policies for industrial redevelopment, green urban planning, mass transit, and transparency as crucial contributing factors to sustainable growth. Cities with strong policies in these areas include Qingdao, Shandong; Shenyang, Liaoning; and Tianjin.

Despite its clean energy initiatives, China is increasing production and imports of conventional fuel. China's state-owned oil and gas producer, China National Offshore Oil Corp. (CNOOC), Ltd., recently raised 2011 production targets 11 percent to 355–365 billion barrels. China's coal imports may also rise to 180 million tons in 2011—up 9 percent from 2010—according to a Bloomberg LP report.

The PRC National Energy Administration (NEA) in January estimated that the country's energy demand would rise steadily in 2011. NEA projected that energy consumption may reach 4.5 trillion kW hours in 2011, up from 4.2 trillion in 2010, while natural gas consumption could reach 130 billion m^3 in 2011, about a 20 percent year-on-year increase.

China Conference Calendar

China-related events near you

April–September 2011

Please confirm dates and venues with the organizer prior to attending events. To suggest an entry for the next issue, send an announcement to Julia Zhao (jzhao@uschina.org). You can also post listings and view additional entries on the *China Business Review* website at www.chinabusinessreview.com/conference-calendar.php.

China International Nutrition and Health Industry Expo, May 7–9

Green Fuels & Vehicles China

APRIL 7–8

Location: Renaissance Beijing Hotel
Organizer: IGVision International Corp. Shanghai
Contact: Tina Tian
Tel: 86-21-5161-5300
tina@igvision.com
www.greenfuels-vehicles.com

China International New Energy Industry Exhibition

APRIL 8–10

Location: Beijing: China International Exhibition Center
Organizers: Beijng Tiger Exhibition Co., Ltd.; China Council for the Promotion of International Trade (CCPIT)
Tel: 86-10-8460-0657/0658
tigerfair@vip.163.com
www.cneechina.com

International Horticultural Exposition

APRIL 9–OCTOBER 8

Location: Xi'an, Shaanxi: Chanba Ecological District
Organizer: Xi'an Municipal Government
Contact: Ms. Zhang
Tel: 86-29-8359-2256
horti@expo2011xa.com
www.expo2011xa.com

China Pharmaceutical Research & Development Summit

APRIL 11–13

Location: Shanghai: Grand Hyatt Hotel
Organizers: BayHelix Group; IBC Life Sciences
Contact: Rita Parasurum
Tel: 65-6508-2482
rita.parasurum@ibcasia.com.sg
www.ibclifesciences.com/china

China Summit on Export Controls

APRIL 13–14

Location: Shanghai: Le Royal Méridien
Organizers: American Conference Institute (ACI); C5 Group
Tel: 1-416-926-8200
www.C5-Online.com/ChinaExport

Airport Development & Expansions Asia

APRIL 18–19

Location: Swissôtel Beijing
Organizer: International Quality and Productivity Center
Tel: 65-6722-9388
enquiry@iqpc.com.sg
www.airportexpansions.com/event.aspx?id=432088

Strategic Shared Services & Outsourcing Summit

April 18–21
Location: Suzhou, Jiangsu: Crowne Plaza Hotel
Organizer: International Quality and Productivity Center
Contact: Sheryl Tan
Tel: 86-65-6722-9388
enquiry@iqpc.com.sg
www.ssonchina.com

China International Industry Fair

APRIL 20–22

Location: Chongqing Exhibition Center
Organizer: Broadfairs Co., Ltd.
Tel: 86-23-6292-5058
cnfair@163.com
www.cnfair.org/cif

Auto Shanghai

APRIL 21–28

Location: Shanghai New International Expo Center
Organizers: China Association of Automobile Manufacturers; CCPIT, Shanghai and Automotive sub-councils
http://autoshanghai.auto-fairs.com

World Congress of Industrial Biotechnology

APRIL 25–29

Location: Dalian, Liaoning: World Expo Center
Organizer: BIT Life Sciences, Inc.
Contact: Francis Wang
Tel: 86-411-8479-9609 x811
francis@bitlifesciences.com
www.bitlifesciences.com/ibio2011

Build Tech Asia

APRIL 27–29

Location: Singapore Expo
Organizer: Sphere Exhibits Pte. Ltd.
Contact: Vincent Chua
Tel: 65-6319-4038
cvince@sph.com.sg
www.buildtechasia.com

China's Media in a Global Context

MAY 5–7

Location: Zhejiang: University of Nottingham Ningbo
Organizer: University of Nottingham International Communications Division
Contact: Adrian Hadland
arian.hadland@nottingham.edu.cn
www.nottingham.edu.cn/news.php?n=464

China International Nutrition & Health Industry Expo

MAY 7–9

Location: Beijing: China International Exhibition Center
Organizer: China Health Care Nutrition Council
Contact: Smith Song
Tel: 86-10-8584-1055
songxq123@hotmail.com
www.jianbohui.com

Nepcon Microelectronics China

MAY 11–13

Location: Shanghai Everbright Convention and Exhibition Center
Organizers: Reed Exhibitions; CCPIT, Electronics and Information Industry Sub-Council
Contact: Linda Gao
Tel: 86-10-5763-1818
linda.gao@reedexpo.com.cn
www.nepconchina.com/en/homepage

China Conference Calendar

Asian Congress on Biotechnology

MAY 11–15

Location: Shanghai Everbright Convention and Exhibition Center
Organizers: Asian Federation of Biotechnology; East China University of Science and Technology; Hubei University of Technology; Shanghai Jiao Tong University; State Key Lab of Microbial Technology, Shandong University
acb2011@acb-2011.org
www.acb-2011.org

World Travel Fair

MAY 12–15

Location: Shanghai Exhibition Center
Organizers: Shanghai International Conference Management Organization; VNU Exhibitions Asia
Contact: Stephanie Xu
Tel: 86-21-6195-6088 x703
stephanie.xu@vnuexhibitions.com.cn
www.worldtravelfair.com.cn

China International Exhibition of Rehabilitation, Nursing & Healthcare

MAY 16–18

Location: Intex Shanghai
Organizer: Intex Shanghai
Contact: Lillian Lee
Tel: 86-21-6295-2131
intexljs@sh163.net
www.china-aid.com

China Laboratory Technology & Equipment Exhibition

MAY 16–18

Location: Guangdong: Guangzhou Jinhan Exhibition Center
Organizer: Reed Sinopharm Exhibitions Co., Ltd.
Contact: Geoff Sauer
Tel: 1-203-840-6227
gsauer@reedexpo.com
http://en.expolab.com.cn

China Downstream Technology & Markets Conference

MAY 17–18

Location: Renaissance Tianjin TEDA Convention Center Hotel
Organizer: Euro Petroleum Consultants Ltd.
Contact: Suzanne Costello
Tel: 44-20-7357-8394
suzanne_costello@europetro.com
www.europetro.com/china_downstream_2011

Chinaplas: International Exhibition on Plastics & Rubber Industries

MAY 17–20

Location: Guangzhou, Guangdong: China Import and Export Fair Pazhou Complex
Organizers: Adsale Exhibition Services Ltd.; Beijing Yazhan Exhibition Services Ltd.; China Foreign Trade Center (Group); China Plastic Machine Industry Association; China Plastics Processing Industry Association; Guangdong Plastics Industry Association; Messe Düsseldorf China Ltd.; Shanghai Society of Plastics Industry
Contact: Iris Ho
Tel: 852-2516-3374/3389
publicity@adsale.com.hk
www.chinaplasonline.com

Reverse Logistics & Returns Management Asia

MAY 18–19

Location: Novotel Century Hong Kong Hotel
Organizer: International Quality and Productivity Center
Contact: Wendy Mah
Tel: 65-6722-9388
enquiry@iqpc.com.sg
www.reverselogisticsasia.com

Laboratory Equipment South China International Expo

MAY 18–20

Location: Guangdong: Guangzhou Jinhan Exhibition Center
Organizers: Guangdong Department of Science and Technology; Guangdong Science and Technology Exchange Center
Contact: Ms. Chen
Tel: 86-20-8356-1592
cqj@ste.cn
www.labexpo.cn

China Suzhou International Small & Medium-Sized Enterprise (SME) Fair

MAY 20–22

Location: Jiangsu: Suzhou International Expo Center
Organizers: Jiangsu Provincial SME Development Center; Suzhou Economic and Information Technology Commission, SME Bureau; Suzhou International Expo Center
Contact: Xu Zili
Tel: 512-6861-5643
www.chinasmefair.com

World Cancer Congress

MAY 22–25

Location: Dalian, Liaoning: World Export Center
Organizers: BIT Life Sciences, Inc.; PRC State Administration of Foreign Experts Affairs-Dalian Biotechnological and Medical Experts Subdivision
Contact: Richard Shao
Tel: 86-411-8479-9609
richard@lcesummit.com
www.bitlifesciences.com/cancer2011

Biotech China

JUNE 1–3

Location: Shanghai World Expo Theme Pavilion
Organizers: Shanghai Technology Convention and Exhibition Co., Ltd.; World Expo (Group) Shanghai Modern International Exhibition Co., Ltd.
Contact: Alfred Wang
Tel: 86-21-6328-8899
info@biotech-china.com
www.biotech-china.com/2011/english/01.asp

China Shanghai International Furniture Exhibition

JUNE 2–4

Location: Shanghai New International Expo Center
Organizer: Shanghai Buying Exhibition Co., Ltd.
Tel: 86-21-5055-2222
shby888@hotmail.com
www.furnitureshanghai.com/en.do

China International Environmental Protection Exhibition & Conference

JUNE 7–9

Location: Beijing: China International Exhibition Center
Organizer: China Association of Environmental Protection Industry
Tel: 86-10-5155-5020/5021
ciepec@163.net
www.chinaenvironment.org

China Summit on Anti-Corruption

JUNE 8–9

Location: Shanghai: Le Royal Méridien
Organizers: ACI; C5 Group
Tel: 1-416-926-8200
enquiries@c5-online.com
www.americanconference.com/AntiCorruptionChina.htm

China Conference Calendar

China International Consumer Goods Fair

JUNE 8–11

Location: Zhejiang: Ningbo International Conference and Exhibition Center
Organizers: Ningbo Municipal People's Government; Zhejiang Provincial Foreign Trade and Economic Cooperation Bureau
Contact: Chi Qiaoyu
Tel: 86-574-8717-8074/8075
trade@cicgf.com
www.cicgf.com/en

China Industrial Subcontracting & Outsourcing Fair

JUNE 9–11

Location: Chongqing Exhibition Center
Organizers: Chongqing Exhibition Center Co., Ltd.; Subcontracting and Partnership Exchange of Chongqing
Tel: 86-23-6863-3404
service@unido-spx.org
www.subcon.cn/en

China International Exhibition on Furniture, Home Fashion & Decorations

JUNE 9–12

Location: Beijing: New China International Exhibition Center
Organizers: Adsale Exhibition Services Ltd.
Contact: Fiona Pang
Tel: 852-2516-3348
hfd@adsale.com.hk
www.homefashionbj.com

International Luxury Travel Market Asia

JUNE 13–16

Location: Shanghai Exhibition Center
Organizer: Reed Travel Exhibitions
Contact: Ruth Chevell
Tel: 44-20-8910-7997
ruth.chevell@reedexpo.co.uk
www.iltm.net/asia/page.cfm/id=1/tracklogid=90425_437d998e03

Advanced Forum on Anti-Corruption Compliance in Emerging Markets

JUNE 14–15

Location: Washington, DC: The Gaylord National Resort
Organizer: ACI
Tel: 1-888-224-2480
www.americanconference.com/fcpaemergingmarkets.htm

International Exhibition on Textile Industry

JUNE 14–17

Location: Shanghai New International Expo Center
Organizers: Adsale Exhibition Services Ltd.; Shanghai International Exhibition Co., Ltd.; Shanghai Textile Technology Service and Exhibition Center
Tel: 852-2811-8897
textile@adsale.com.hk
www.shanghaitexonline.com

Clean Energy Expo

JUNE 22–24

Location: Beijing: China National Convention Center
Organizers: CCPIT, Beijing Sub-Council; China Electricity Council; Koelnmesse Inc.
Contact: Helen Chen
Tel: 86-10-6590-7766 x736
h.chen@koelnmesse.cn
www.cleanenergyexpochina.com

Guangzhou International Logistics Equipment & Technology Exhibition

JUNE 22–24

Location: Guangzhou: Pazhou Complex, China Import and Export Fair
Organizers: Guangzhou Best Exhibition Co., Ltd.; Guangzhou Yifa Exhibition Co., Ltd.
Tel: 86-20-8637-4869
bestguangzhou@vip.163.com
www.84t.cn/wl/en

Wind Power Asia

JUNE 22–24

Location: Beijing: China National Convention Center
Organizers: CCPIT, Beijing Sub-Council; China Electricity Council; Koelnmesse Inc.
Contact: Helen Chen
Tel: 86-10-6590-7766 x736
h.chen@koelnmesse.cn
www.windpowerasia.com

China International Liquified Natural Gas Conference

JUNE 28–JULY 1

Location: Beijing International Hotel
Organizer: Gateway International Exhibitions (Beijing) Co., Ltd.
Contact: Kelly Fan
Tel: 86-10-8757-7885
kellyfan@lngchina.org
www.lngchina.org

Global Trade & Investment Outlook Conference

JUNE 29–30

Location: Beijing: Doubletree by Hilton Hotel
Organizer: KC Standard Conferences
Contact: Sarah Ferdjani
Tel: 86-10-5877-1605
sarah.ferdjani@kcstandard.com
www.kcstandardconferences.com/globalinvestment/globalinvestment.html

China International Building Energy Saving & Renewable Energy Utilization Fair

JULY 21–24

Location: Qingdao International Convention Center
Organizer: Qingdao Haichen International Expo. Co., Ltd.
Tel: 86-532-8395-1011
qdcese@163.com
www.qdcese.com

China Jilin-Northeast Asia Investment & Trade Expo

SEPTEMBER 6–11

Location: Jilin: Changchun International Conference and Exhibition Center
Organizer: PRC Ministry of Commerce
Contact: Juan Du
Tel: 86-431-8276-5550
louise@jl.gov.cn
www.neasiaexpo.org.cn

Find more China-business events on the *China Business Review*'s website at www.chinabusinessreview.com/conference-calendar.php.

LIVE POSITIVELY™

Coca-Cola in China

Making a positive difference in local communities

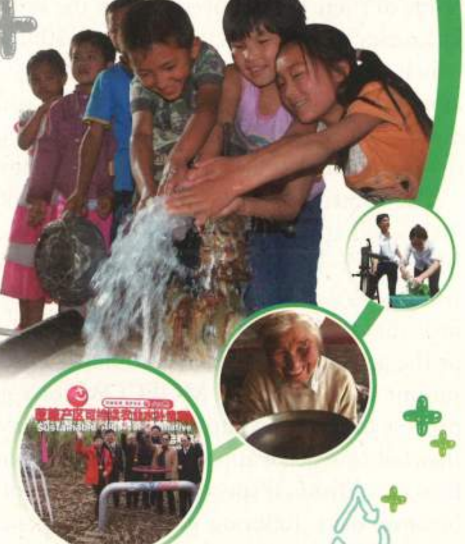
- ***1927*** First bottling plant was set up in Shanghai
- ***1948*** Shanghai was the first city outside the U.S. to sell more than one million unit cases of Coca-Cola beverages
- ***1979*** Coca-Cola returned to China
- ***1981*** First bottling plant was established in Beijing
- ***2011*** 42 plants, more than 40,000 staff, more than 400,000 jobs created in supply chain

Sustainable Communities

- More than 84 million Chinese have benefited from Coca-Cola China community and philanthropy programs.
- Since 1993, Coca-Cola has built more than 100 Project Hope Schools in China, investing a total of over RMB 150 million and helping 80,000 children attend classes in depressed rural areas. Additionally another 16 schools are to be completed by the end of 2011.
- Since 2005, Coca-Cola has raised RMB 29.65 million to consistently support over 2000 children and 505 families impacted by HIV/AIDS in Yunnan, Xinjiang, Hubei and Anhui.
- Coca-Cola fosters a healthy active lifestyle, and brings that philosophy to millions of students and children through many diversified public awareness programs.

Sustainable Environment

- A partnership with UNDP, Ministry of Water Resource, and Ministry of Commerce was established in 2007, focusing on water resources management and drinking water safety in rural areas. By 2010, the four partners had jointly provided USD 6.8 million to help more than 100,000 residents benefit from safe drinking water and sanitation facilities in Xinjiang, Sichuan, Heilongjiang and Liaoning. On Feb 17th 2011, a sustainable agriculture program was launched in Guangxi, with an aim to benefit 100,000 farmers and replenish 500 million liters of water.
- The Coca-Cola/WWF Upper Yangtze Partnership was launched in 2007, building a community based water conservation model in the Minjiang watershed, and a wetland protection network in Jialiangjiang. Over 25 wetland nature reserves in the Jialingjiang watershed carried out water conservation activities. The lives of over four million people were improved through river protection, public education, and policy advocacy. An estimated over 500 million liters of clean water was returned to nature and communities.
- Save a Barrel of Water was launched in 2005, promoting public environmental awareness at schools as a starting point. By 2010, 1.2 million students and their families had joined the program from 24 cities across China.



Sustainable Operations

- In the two years since the 2008 Beijing Olympics, Coca-Cola had installed over 18,000 green coolers. The coolers are HFC-free and powered by an intelligent energy efficiency system and have achieved as much as 50% reduction in energy use.
- From 2004 to 2009, Coca-Cola China System made a 35% improvement in both energy and water efficiency.
- Currently, the quality of the wastewater which discharged from our manufacturing processes directly to nature can support aquatic life.
- Our Global Innovation and Technology Center in Shanghai, one of the few Gold Level LEED certified buildings in China, featuring environmental innovations as well as state-of-the-art R&D equipment.

Foreign M&A in China Face Security Review

Christine Kahler

The PRC Ministry of Commerce (MOFCOM) in February released widely anticipated regulations to institute security reviews for foreign mergers and acquisitions (M&A) that relate to China's national security. The Notice on the Security Review of Foreign M&A of Domestic Enterprises includes specific procedures, more regulatory hurdles, and possible barriers to approvals for foreign investors. It also raises concerns about the ability of foreign companies to pursue M&A growth strategies in China.

Foreign investors face additional procedures

The notice finalizes the establishment of a new national security review committee, led by MOFCOM and the PRC National Development and Reform Commission (NDRC), to review foreign enterprises' M&A of domestic companies. Specifically, the committee will target reviews of M&A in enterprises related to key agricultural products, basic infrastructure, defense, energy and resources, equipment manufacturing, technology, and transportation services. Some of these sectors overlap with the nine "pillar industries" announced in December 2006 as sectors in which state-owned enterprises should play a leading role: auto, chemical, construction, electronic information, heavy equipment manufacturing, nonferrous metal, research and development (R&D), steel, and technology.

The security review process, which took effect March 5, 2011, will apply to all foreign investors that conduct M&A with domestic enterprises related to national security as defined in the notice. Specifically, foreign investors that would become the controlling shareholder or the actual controller of a domestic enterprise must submit applications to MOFCOM for a general review process that can last up to 30 business days. Applications that fail to receive approval during the general review will face an additional special review period of up to 60 business days. Relevant government agencies, industry associations, or affected enterprises or competitors may also recommend foreign M&A cases to MOFCOM for security review.

According to the notice, the security review will analyze the M&A deal's effects on national security, China's economy, social stability, and the R&D capabilities of key national security technologies. Transactions found to have "significant effect on national security" will be terminated or approved conditionally.

Effects of the security review unclear

Though companies should be concerned about the notice's broad definition of "national security," which allows MOFCOM and NDRC to use their discretion in the security review process and more easily terminate business deals, many analysts do not see the notice as a significant change from previous PRC practices. Several key questions about the new procedure remain, however.

- Though the notice removes "national economic security" as a basis for review, the stipulation that the committee review how M&A transactions affect China's economy suggests that commercial considerations—including economic protectionism—could still be a factor in the reviews.
- It remains unclear whether the notice will apply to new transactions only, or if the committee can review previous M&A deals retroactively. It is also unclear whether, alternatively, pending M&A approvals will be subject to the new rules.
- The notice does not indicate whether reviews are required or voluntary.

The PRC government has had wide latitude to block M&A since it issued the Antimonopoly Law (AML) in 2008, but few foreign acquisitions of domestic companies have been affected so far. As of December 2010, MOFCOM had reviewed more than 140 M&A cases since implementing the AML, approving 95 percent of the cases without conditions and 7 cases with conditions to remedy competition issues. Several of the conditional approvals involved international M&A only, such as InBev's acquisition of Anheuser-Busch Co. Ltd. MOFCOM has rejected only one case: the Coca-Cola Co.'s proposed acquisition of China's Huiyuan Juice Group Ltd. (Data does not exist, however, for companies that may have felt inhibited by China's AML and avoided M&A accordingly.) Though the notice will increase administrative burden for foreign companies in the targeted industries, whether the number of rejected M&A cases will increase remains to be seen.

Separate provisions for specific M&A cases

The notice states that the PRC government will issue separate security review regulations for foreign companies engaged in M&A with domestic financial institutions, but it is unclear when these regulations will be released. Furthermore, foreign M&A of domestic enterprises that result in increased fixed assets or modification of state-owned property must consult additional related regulations. 完

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Incremental Progress

Robert Poole

The first quarter of 2011 brought important developments that will affect the course of business in China for US companies. PRC President Hu Jintao made a state visit to the United States in January, helping set a broad framework for further contact and cooperation between the two countries. And China's National People's Congress (NPC) met in March for important sessions to review and approve China's 12th Five-Year Plan, which will guide the government's social and economic development initiatives for 2011–15. Looking forward, next year's NPC will see a leadership transition, as the Chinese Communist Party's fourth-generation of leaders completes their second five-year term of office and the fifth-generation takes over.

Considering the upcoming political transition and that the global economic crisis has mainly reinforced conservative economic policy, aimed principally at ensuring stability and moderate growth, few observers expect to see radical changes to China's political or economic policies in the near future.

Despite this "don't rock or sink the boat" pragmatism, major economic rebalancing efforts are underway. Some of China's broad goals are to change its growth model to increase domestic consumption alongside exports, boost the services economy and its share of gross domestic product, refocus on high-quality and sustainable growth, and balance economic benefits across urban and rural areas. The government must also tackle pressing energy, environment, urbanization, housing, stock market, and hot money challenges in the process.

China has numerous reform efforts beyond these broader goals, too, though they don't always make for exciting headlines and often proceed in small steps. For example, the country is moving to reform its energy and resource pricing, financial services sector, social safety net, rural and other land and real estate markets, healthcare system, state-owned enterprises, and the private sector. With so much at stake, a cautiously hopping rabbit may be the most appropriate symbol for this "Year of the Rabbit."

US prescriptions and China's reactions

I often tell visitors that China's economic goals of stability and manageable growth drive the country's economic and industrial policy, sometimes at the expense of what Western experts would consider better or brighter ideas. Though major reforms or Western-style changes may benefit China's markets, companies, and citizens, they seem unlikely to come soon.

But China does listen to American advice, and changes will continue. The remarkable amount of bilateral contact and cooperation in recent years will proceed in 2011, from visits by high-level officials (likely including the US vice president) to working-level exchanges across a spectrum of trade, commercial, and other issues. Furthermore, based in part on great successeses of the past 30 years of reform and opening, the PRC government generally believes that reforms are beneficial, but only after the overarching goal of stability is served.

Business menu—more of the same

On one hand, China has offered an astounding market to US companies, and rising prosperity will ensure more of the same. How many other countries have at least 140 cities with populations of more than 1 million—markets that foreign companies have only begun to reach in recent years? Many aspects of business activity—such as US exports to China, sales by China affiliates, and services trade—have skyrocketed at rates that should only increase.

On the other hand, companies will likely continue to face challenges while working in China's hypercompetitive environment—fighting intellectual property infringement, seeking equal treatment and a level playing field, and coping with the rising costs of labor, materials, and land. And, no doubt from time to time, China might release inward-looking policies in one industry sector or another that contain unwanted protectionist bias (and generate headlines and trade friction).

Even considering the known challenges—and allowing for unpredictable events—America must remember that the China market is significant for the United States and that incremental changes will continue to bring improvements ahead. 完

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Event Wrap Up

BEIJING

February

China Standards Roundtable
Co-hosted by the US-China Business Council (USCBC) and the American National Standards Institute, the event featured officials from the PRC Ministry of Industry and Information Technology, Certification and Accreditation Administration, China Electronics Standards Institute, and foreign industry representatives, who spoke about new standards rules and implementation plans for 2011.

SHANGHAI

January

Luncheon on Business Development Strategies
Wilfried Brouwer, president of A.O. Smith (China) Investment Company Ltd., and James Sinclair, partner and strategic practice director at InterChina Consulting, discussed best practices in customer identification, business development, and marketing for businesses that want to expand beyond China's major urban centers.

February

Roundtable on Intellectual Property Rights (IPR) Campaign
Co-hosted by USCBC and the American Chamber of Commerce in Shanghai, the roundtable featured Nancy Kremers, senior IPR attaché for the US Patent and Trademark Office, who spoke about the results of China's IPR campaign and solicited suggestions from business leaders on how to better address IPR issues in China.

Luncheon on China's Central and Western Regions
Anthony Chau, partner at KPMG LLP, and John Delaney, vice president at Air Products and Chemicals (China) Investment Co., Ltd., discussed policies and best practices for companies that want to expand into central and western China.

March

Luncheon on 2011 PRC Tax Priorities
Peter Ni, tax practice head at Zhonglun Law Firm, discussed the PRC State Administration of Taxation's (SAT) 2011 work plan and forecasted where SAT will conduct audits.

Seminar on Renewing PRC Visas
USCBC and the US Consulate in Shanghai co-hosted a seminar on renewing visas for expatriate employees in Shanghai.

Luncheon on the Commercial Implications of China's 12th Five-Year Plan (FYP)
Jill Qu, senior manager of Deloitte LLP's China Research and Insight Center, discussed the main policies and goals of China's 12th FYP (2011–15) for Economic and Social Development and the implications for foreign companies.

WASHINGTON

January

US Secretary of Commerce Gary Locke on the Potential of US-China Commercial Relations
Locke delivered a policy speech on the US-China trade relationship in the lead up to PRC President Hu Jintao's visit to Washington, DC, at a luncheon hosted by USCBC.

Issues Lunch with Assistant Secretary of State Kurt Campbell
Campbell spoke about the state of the US-China relationship and the year ahead for bilateral relations.

US-China Business Forum
USCBC, the China Council for the Promotion of International Trade, and the US Chamber of Commerce co-hosted a seminar on bilateral trade and investment for PRC business executives. Participants included representatives from PRC companies and provincial investment offices and members of President Hu's delegation.

Luncheon Honoring PRC President Hu Jintao
See p.18.

February

Forecast 2011 Reception and Conference
See p.17.

Briefing on the 2011 US-China Investment Forum
Co-hosted by USCBC, the US Chamber of Commerce, and the Coalition of Service Industries, the briefing featured officials from the US departments of Commerce, State, and the Treasury, who discussed the 2011 US-China Investment Forum.

March

Briefing on the JCCT Intellectual Property Rights Working Group
USCBC and the US Chamber of Commerce co-hosted a briefing on planning for the April US-China Joint Commission on Commerce and Trade (JCCT) meeting.

Upcoming Events

WASHINGTON, DC

Beijing China Operations Conference
May 2011

USCBC's 38th Annual Membership Meeting
May 31, 2011

Briefing on the 2011 Strategic & Economic Dialogue (S&ED)
David Loevinger, the US Department of the Treasury's special representative for the S&ED, discussed plans for the upcoming meeting of the S&ED, scheduled for May in Washington.

Issues Briefing on 2011 JCCT
Claire Reade, assistant US Trade Representative (USTR) for China Affairs, and Craig Allen, deputy assistant secretary of Commerce for Asia, spoke about preparations for this year's JCCT meeting.

US-China Energy and Environment Briefing
Representatives from USTR, the US Trade and Development Agency, and the departments of Commerce, Energy, and State discussed next steps for cooperative energy and environment initiatives in 2011.

Speakers Forecast Developments in China's Economy, Bilateral Relations, and Operational Issues

The US-China Business Council (USCBC) hosted its 30th annual Forecast conference—which covered China's economy, US-China relations, and operational issues in 2011—on February 10 in Washington, DC. Under Secretary of the Treasury Lael Brainard delivered the keynote address, which discussed US exports, the renminbi exchange rate, and progress made during PRC President Hu Jintao's visit in January.

Jerry Lou, managing director and China and Hong Kong strategist at Morgan Stanley, presented the outlook for inflation, currency policy, and gross domestic product growth in the coming year. Amber Cottle, international trade counsel for the Senate Finance Committee, and Angela Ellard, majority trade counsel for the House Ways and Means Committee, discussed Congress' views of China. USCBC Vice President Robert Poole forecasted top operating challenges in China in the year ahead. Susan Shirk, director of the University of California Institute on Global Conflict and Cooperation, assessed developments in US-China relations.

Lael Brainard delivers the keynote address at the Forecast conference.

Jerry Lou discusses the outlook for China's economy.

Robert Poole and Susan Shirk speak at the conference.

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Amber Cottle and Angela Ellard participate in a panel duscussion about China in the 2011 Congress.

John Phipps, senior director of global government relations at Visa Inc., raises a question at the Forecast conference.

Locke, Campbell Deliver Speeches on US-China Relations

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Gary Locke speaks about the US-China commercial relationship at a January luncheon in Washington.

Kurt Campbell discusses expectations for US-China relations at a January luncheon in Washington.

Luncheon Honors PRC President Hu Jintao

PRC President Hu Jintao expressed confidence in the future of US-China relations at a luncheon co-hosted by the US-China Business Council (USCBC) and the National Committee on US-China Relations. The January 20 luncheon in Washington, DC, also included speeches by US Secretary of Commerce Gary Locke and former US Secretary of State Henry Kissinger.

Hu's speech—the only major policy speech he delivered during his state visit to the United States—emphasized the importance of mutual respect and cooperation on economic, environmental, and security issues.

Muhtar Kent, USCBC chair and the Coca-Cola Co. chairman and CEO, hosted the luncheon and offered introductory remarks. Robert McDonald, USCBC vice chair and the Procter & Gamble Co. chairman, president, and CEO; US Ambassador to China Jon Huntsman; and US Trade Representative Ron Kirk also attended the event. PRC guests included members of Hu's delegation, such as Vice Premier Wang Qishan, State Councilor Dai Bingguo, National Development and Reform Commission Chair Zhang Ping, Minister of Foreign Affairs Yang Jiechi, and Minister of Commerce Chen Deming.

PRC President Hu Jintao, Interpreter I-Chuan Chen, and USCBC Chair and Coca-Cola Co. Chairman and CEO Muhtar Kent at the luncheon.

US Secretary of Commerce Gary Locke delivers opening remarks at the luncheon.

Former Secretary of State Henry Kissinger introduces Hu.

Head table guests listen to Hu's speech.

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Stephen Orlins, president of the National Committee on US-China Relations (NCUSCR), and John Frisbie, president of USCBC, greet Hu at the luncheon.

The Honorable Carla Hills, chair and CEO of Hills & Co. and chair of NCUSCR, and Kent welcome Hu.

USCBC

38th Annual Membership Meeting

Economic Trends in China and Major US-China Commercial Policy Issues

Tuesday, May 31, 2011, 1:30–5:00 pm
St. Regis Washington, 923 K Street, NW, Washington, DC

Learn about the key operational issues facing companies in China from those who know the issues first hand. Available to business executives of US-China Business Council (USCBC) member and prospective member companies.

Program highlights

- China's leadership changes in 2012
- Corporate executive best practices panel on government affairs and managing growth in China
- Mid-year update on China's economy
- Human resources trends that will affect companies' operations
- Keynote speech from a senior US government official

Lodging on May 30 and 31

St. Regis Washington will offer a special group rate: $285 (superior king single/double + tax). Discounted rate available until May 18.
For reservations, contact Sharon Marshall (sharon.marshall@stregis.com). Indicate that you are with the US-China Business Council group. All reservations must be guaranteed with a major credit card.

For more details and registration information, see www.uschina.org.
USCBC contact: Director of Programs Gloria González-Micklin (Tel: 202-429-0340; programs@uschina.org)

China Foto Press

Many managers have reached a stage in life where they want to balance their work and family commitments.

New Talent Outlook

A recent survey of mid- to senior-level managers in China shows they have rising ambitions—and a desire to balance work with home life.

Christine Raynaud and Chris Watkins

Is there still a talent war in China? A recent MRI China Group survey shows that the talent war is as strong as ever as Chinese professionals strive for more responsibility and money. The survey results also reveal that a subtle shift toward more work-life balance (in which employees attempt to balance their work and personal lives in the face of China's typically long hours for managers) is emerging. The shift is taking place as mid- and senior-level talent in multinational corporations and fast-growth Chinese companies begin to reevaluate their options in China's rapidly expanding economy.

Many US companies list talent recruitment and retention as one of their top concerns in China (see the *CBR*, November–December 2010, p.40). As companies expand further into China, human resources trends will become either a nightmare or an opportunity, depending on the company's ability to manage talent.

Key survey findings

The latest annual MRI China Group Talent Environment Index was conducted in China and the Asia Pacific region—including Hong Kong, Singapore, and Taiwan—during the fourth quarter of 2010. MRI surveyed mid- to senior-level management across a range of businesses, industries, and locations. Of the more than 3,200 respondents, over 2,200 were based in mainland China. More than 90 percent of the respondents held full-time positions, had bachelor's or master's degrees, and worked in publicly listed, local, regional, or multinational companies.

Quick Glance

- A recent MRI China Group survey shows that mid- to senior-level managers in China want more money, more responsibility, and the ability to balance their work with their personal lives.
- To retain managers, companies must understand their employees, provide clear career paths, and invest in employee development.
- To attract managers, companies must prioritize talent acquisition, be proactive, and offer attractive incentives.

A volatile talent environment—with no promise of recess

As China and the world emerged from financial and economic crisis in 2010, companies actively courted Chinese talent—and the talent responded. The MRI survey results show 64 percent of respondents received a job offer from another company in the previous 18 months (see Figure 1). Of this group, 73 percent received two or more offers, and 32 percent accepted counter-offers from existing employers. Of those who received counter-offers, 71 percent had already left their company or were already looking for an opportunity within two years of accepting a counter-offer.

Though the desire for more responsibility was a major motivation for employees to leave or stay at a job, the desire for higher wages also played a role: 73 percent of those who accepted offers with new companies received a 20 percent or more increase in compensation. Forty-three percent of those who accepted offers from new companies indicated they received more than a 30 percent increase in total compensation when moving to a new employer.

Whether perception or reality, 68 percent of respondents indicated that they did not see themselves in the top 30 percent of the market in terms of compensation. Roughly half (55 percent) of respondents indicated that they were unhappy with their current compensation.

Looking at the future, 77 percent of respondents stated they believe they will have better opportunities to change jobs in 2011. Most respondents (85 percent) were either actively looking for a new opportunity or said they would be open to a new opportunity if it presented itself. Only 12 percent of respondents indicated they did not intend to switch jobs in 2011.

The results suggest employees' beliefs that they are underpaid combined with great prospects for career changes in 2011 make for a potentially lethal combination for employers in China. Employees know they can test the market to confirm their value with other employers, which creates the potential for higher turnover of top performers.

A mobile workforce—but not necessarily in the right direction

Since 2007, the economies of many cities in China's interior have been rising faster than those on the coast. The economic expansion of inland Chinese cities should accelerate further in the coming years with an increased demand for top professional talent.

Ideally, companies moving westward should find and develop local talent. But as a first step, companies may need to attract management and professional talent from their coastal-based operations to transfer best practices and support their expansion.

The MRI survey indicates that employees have a strong appetite for mobility into and out of China, but less so within China.

- About three-quarters (70 percent) of respondents outside China indicated they were mobile and listed mainland China as their first destination choice for employment.
- Nearly half (45 percent) of respondents in China indicated they were interested in relocating to a job outside China, with Singapore, Hong Kong, and Australia being the most sought after locations.
- Respondents in China, primarily those living in coastal areas, still picked coastal cities as their location of choice for employment.

The survey results did not indicate that China's "Go West" initiatives or cost of living increases in Tier 1 cities greatly influenced people's desire to relocate. In fact, respondents did not cite location as a key motivation to move. This may imply that people will move outside of coastal areas with the right incentives, but it may also imply that incentives, including greater responsibility and compensation, must be high to encourage movement. Because managers may not be motivated to move to lower-tier cities, despite significant media coverage and investment in the "Go West" initiatives, companies looking to expand inland should focus on attracting and retaining local talent.

A demanding talent pool

The MRI survey asked respondents to share their top motivators when looking for a career change. As their top motivator, 34 percent of respondents indicated the desire for increased responsibility, 20 percent indicated the desire for higher compensation, and 13 percent indicated a desire for more work-life balance (see Figure 2).

Significantly, these findings reveal a shift in generally accepted ideas about motivations of talent in China, as well as a potential conflict in motivations. In recent years, talent in China was primarily attracted to compensation increases, but the MRI survey shows two significant additional motivators.

One possible reason that work-life balance is ranking higher could be the rapid increase in compensation for mid- to senior-level talent in China over the past five years, which may put people in a more comfortable position to take a broader, more holistic approach in their career choices. Those born between 1975 and 1987 make up a significant portion of this highly sought-after talent pool and have reached a stage in life when many are getting married, buying a house, and having a child during a critical phase of their professional career. As the competitive intensity and pace that characterizes business in China has created a highly stressful environment for this generation of professionals, it is understandable that they would want to slow down. Conflicts may occur, however, when professionals want more responsibilities, promotions, and pay at work, but also request better work-life balance. Many professionals may not yet realize that their motivators conflict with each other.

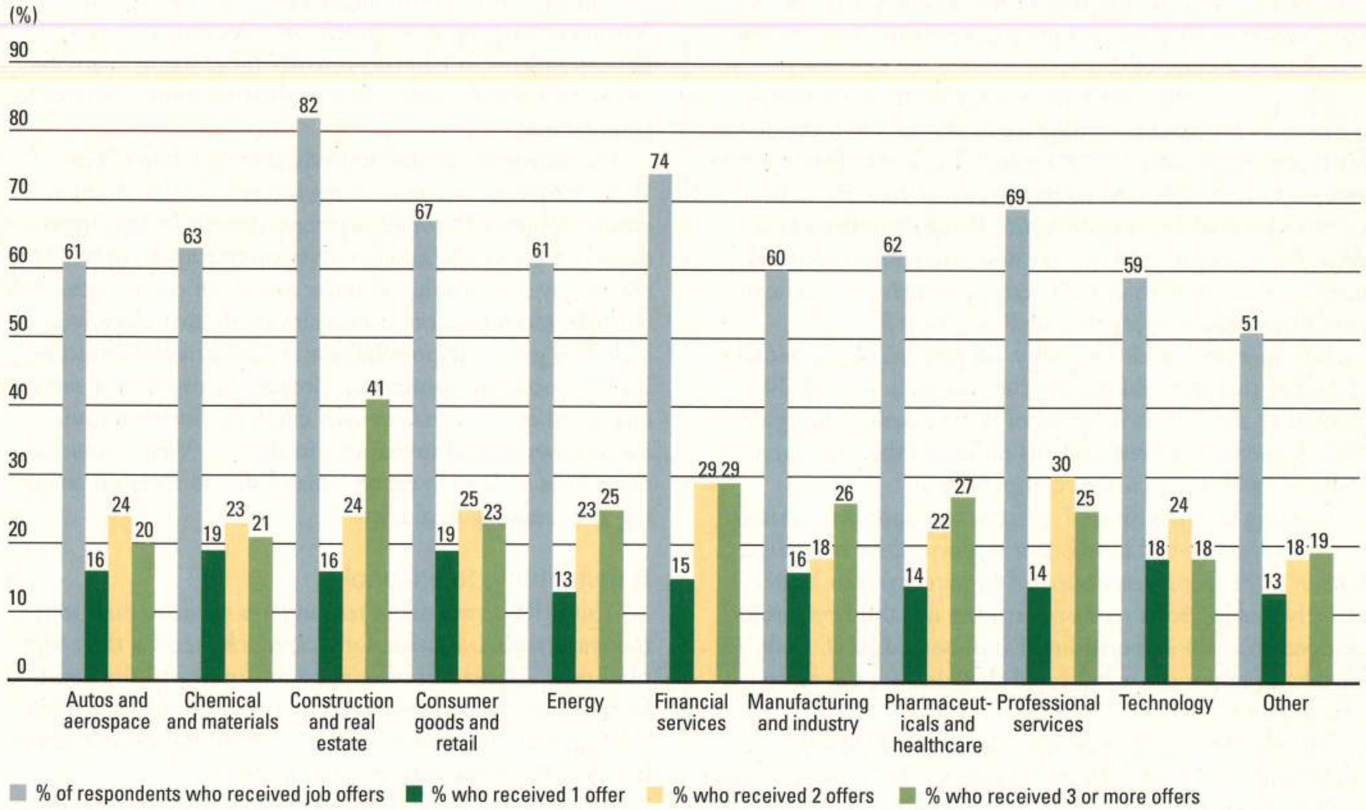
Employees' desire for increasing responsibilities and for work-life balance could create a significant problem for companies that seek to attract and retain top talent. China's development pace and companies' high year-on-year growth combine to produce long work hours for senior management. In addition, the high matrix structures (multiple reporting lines internationally, regionally, and locally) of companies require China-based mid- to senior-level talent to be engaged in late night and early morning calls to corporate offices in the United States and Europe. If a manager is no longer willing to work the long hours required of a job, a conflict could occur.

The MRI survey indicates that employees have a strong appetite for mobility into and out of China, but less so within China.

Recommendations for businesses and talent managers

Many companies are experiencing double-digit growth in their revenues and significant headcount and leadership needs

Figure 1: Respondents Who Received Job Offers in the Previous 18 Months



Note: Total number of respondents = 2,217
Source: MRI China Group Talent Environment Index, Fourth Quarter 2010

in China. The supply of mid- to senior-level talent has not kept up with demand because of China's rapid growth over the last decade. Companies must therefore re-assess their talent management and recruitment strategies and consider new approaches. In light of these latest survey results, approaches should factor in the added complexity of a maturing mid- to senior-level management profile that is looking for more work-life balance along with fast careers and money.

sibility and compensation. Each business unit or department may wish to perform a vulnerability assessment of their top employees, through an annual review process or some other method, to identify where there is the highest risk of losing talent. Companies can then reduce these risks by offering solutions, such as raises or opportunities to balance work with personal life.

Nearly every executive in China identifies failure to attract top candidates to their company as a major obstacle to meeting the company's business goals.

Even if companies recognize managers' key motivators to leave, it will be difficult to retain talent in such a competitive environment. If companies place the talent agenda at the core of their China strategy, however, they may stand a better chance of successfully coping and transforming a talent problem into a strategic weapon to surpass their competition.

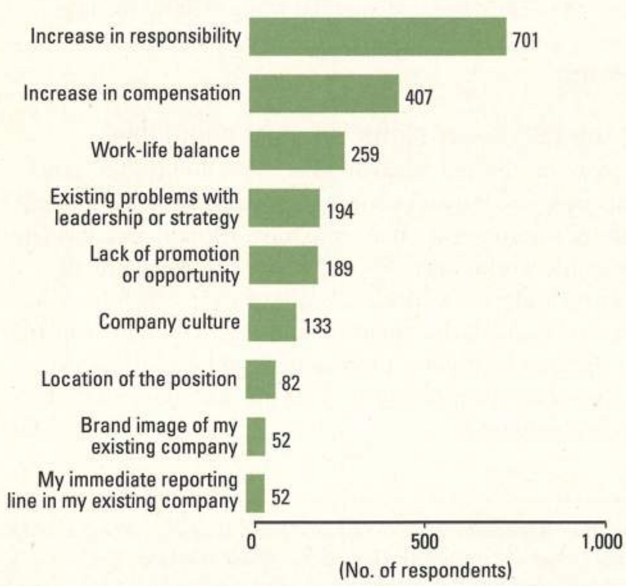
Retaining employees

Considering the insights gained from this survey, MRI recommends that to retain top talent companies should

1 Understand and listen to their workforce

Businesses should identify key internal talent as they are most vulnerable to outside proposals for higher responsibility and compensation.

Figure 2: Respondents' Top Reasons to Leave a Job



Note: Total respondents = 2,069
Source: MRI China Group Talent Environment Index, Fourth Quarter 2010

2 Provide a career path for top talent

In MRI's experience, people listen to outside proposals most when they cannot see their potential evolution—or triggers for such evolution—in their current company. Companies' top executives should communicate their vision and expansion plans for the business, as well as career paths in their organization that will enable individuals to advance while enhancing company success.

Though it is good news that talent in China does not leave a job for more money alone—but also for more responsibility—it means key talent may leave within a year of accepting a counter-offer if the promises made during the recruitment process, such as increased responsibility, are not fulfilled. Companies must implement a promotion policy framework to prevent the attrition of key talent. Knowing that staff may receive 20–30 percent salary increases externally is painful, but this knowledge provides a benchmark for how aggressive the company should be when considering compensation for critical staff. Effective counter-offers should be sincere rather than reactive to a situation.

3 Over-invest in development and mentoring

Western organizations are often surprised at the speed by which young talent are promoted in China. In some ways, promoting quickly is a self-inflicted challenge: A talent shortage drives higher risk-taking and more offers to young employees who are not necessarily ready for more responsibilities. But ready or not, when offered the job, employees often seize the opportunity. Organizations should over-invest in developing and mentoring their talent in China to enable them to climb the career ladder at a faster rate than the firm would normally consider. Employees will then be able to handle the greater challenges when they are promoted.

4 Use Tier 2 and Tier 3 city expansion plans to retain talent

Employees with high potential respond well to increased responsibility and autonomy. Companies might implement an internal development plan for key staff that includes assignments with higher responsibility in less desirable locations on a project or fixed-term basis. This approach will help retain key talent in the organization, while giving employees a chance to thrive in a visible role, earn more money, and grow in a high-impact assignment.

5 Be more aware of work-life balance
Like all challenges, striving to achieve a work-life balance may be turned into an opportunity. Companies should be aware of potential derailment in this area and develop initiatives after internal consultation. Since work-life balance is a relatively new concept in China, some business leaders may even want to build a strategy around it as a core company value, as part of the company culture, or as a staff benefit.

Attracting employees

To attract top talent externally, companies should

1 Put talent acquisition at the heart of their business structure
To better attract talent, companies may wish to assign a talent acquisition leader with a strong line to the firm's China-based president, CEO, or managing director. Many companies have moved this reporting line two or three levels down from the head of the corporate structure. By doing so, talent acquisition becomes a cost-saving exercise instead of a strategic driver of the business. Nearly every executive in China identifies failure to attract top candidates to their company as a major obstacle to meeting the company's business goals. As its own department with the full sponsorship of the China head, talent acquisition has a better chance of receiving the necessary resources and attention needed to be effective.

2 Develop an attractive employer value proposition
To enhance the effectiveness and the return on investment of hiring in a competitive market, companies should clarify what they promise employees. With career development and work-life balance holding such a strong position in the minds of staff, companies should accurately communicate the job's benefits and company culture to recruits. The firm's should also choose recruiters that are able to convey the firm's promise and employment brand to the market in a positive way.

3 Be proactive
To prevent "crisis hiring," companies must take a proactive approach to talent acquisition. Through talent mapping and a thoughtful candidate engagement strategy, companies can increase their chances of attracting "passive" candidates—meaning those who are not actively looking for new opportunities. Talent mapping involves a comprehensive assessment of the talent pool—examining the total number of potential candidates, compensation averages, and openness to opportunities—within a given function, such as sales or marketing. Engagement strategies include any method companies may use to reach and hire potential candidates, including online engagement, direct engagement through headhunters or internal staff, the interview process, and post interview communication. Passive candidates will, by definition, be at a lower risk of receiving multiple offers during the recruitment process and thereby allow the company to attract them without having to compete with multiple other firms at the same time.

4 Be decisive
The length of the hiring process in China is a critical component of a company's success rate in attracting top talent. As noted previously, the MRI survey indicated that 73 percent of respondents had received more than one offer in the last 18 months. These multiple offers are often received around the same time because of most companies' slow interview and offer processes. The long timeline gives candidates the opportunity to interview with multiple companies, compare offers to determine their "market value," and play companies off each other. Much of this could be avoided if the selection process could be streamlined and kept within 30 days.

5 Be aware of the compensation challenge
As mid- to senior-level talent in China demand international compensation standards, companies must be competitive to attract the best people to their business. As derailing an internal compensation system to attract new talent is not an easy option, companies must juggle and adapt to outside talent demands, while seeking damage control within their organization as salary bands are stretched.

As the talent war shifts, so must companies

In an overheated talent market, 2011 holds significant challenges as companies come to grips with the rising and shifting ambitions of talent in China. More than anywhere else in the world, talent should be on the agenda of all business leaders in China, as business success will be achieved through the retention and rise of a highly capable but demanding pool of professionals and executives. As always—this is a problem to solve and an opportunity for the best employers. 完

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China Foto Press

The new generation of workers expects higher wages, career development, and stronger employee rights.

A New Labor Era: Higher Costs and Greater Pressures

Recent labor unrest may bring more challenges ahead for foreign companies operating or investing in China.

Luming Chen and Samuel Estreicher

A series of labor conflicts erupted in China in 2010. Various foreign-invested factories concentrated in China's coastal areas experienced a string of labor-related protests and strikes. These publicized conflicts may signal the end of an era of low-cost labor and the beginning of a more challenging labor environment for foreign-invested enterprises (FIEs) and other employers in China.

Recent unrest

The most high-profile labor incident last year involved a number of suicides at Foxconn International Holdings, a Taiwan contract manufacturer for foreign consumer electronics companies. Though the precise cause of the suicides at Foxconn's factory in Shenzhen, Guangdong, remains unclear, some advocacy groups and media outlets have pointed to the factory's unfavorable working conditions and, above all, low wages. In response to public criticism and local government pressure, Foxconn raised basic monthly salaries for its production workers from ¥900 ($137) to ¥2,000 ($305). The Shenzhen municipal government subsequently increased the city's minimum monthly wages to ¥1,100 ($168), an average increase of 15.8 percent. In April 2011, Shenzhen raised its minimum wage again to ¥1,320 ($201). In late June 2010, Foxconn declared it would outsource the management of its worker dormitories and relocate some facilities to Taiwan and China's inland regions, where monthly minimum wages can be as low as ¥600 ($91) to ¥800 ($122). In March 2011, the company further announced that it would move 200,000 jobs to inland provinces with lower costs.

In addition to the Foxconn developments, a string of strikes broke out in May 2010 at several other factories in Guangdong and China's coastal regions. The most publicized strikes occurred at Honda Motor Co. factories in several Guangdong cities. In late May, Honda workers in Foshan walked out, demanding higher wages and better working conditions. Honda responded with a 24 percent general pay increase. The Foshan strike then triggered work stoppages at several other facilities in Guangdong: a Honda lock systems supplier, one of Honda's gearshift suppliers, and Honda's affiliate Nihon Plast Co., Ltd. Because of repercussions from the labor unrest, Honda's sales in China fell 2.7 percent in June, lagging behind China's overall auto industry sales, which increased 23.5 percent from a year earlier.

Quick Glance

- Worker shortages, higher cost of living, and greater employee attention to workplace rights have caused rising labor unrest in China.
- The PRC government is issuing more labor regulations and promoting state-led unionization and collective bargaining in foreign companies.
- As China's labor environment becomes more challenging, companies should periodically review their employment policies and wages and consider whether they wish to move operations westward to lower costs.

Sources of labor unrest

Though not widely reported by the Chinese media, observers believe that strikes in China extend beyond the well-publicized incidents at Foxconn and Honda. Several factors suggest that labor unrest may become an increasingly significant aspect of the Chinese manufacturing industry.

Tight labor market

The tight labor market in China's coastal regions is a critical element of the recent labor unrest. China's labor shortages first appeared in Guangdong in 2003 and have since appeared in other major industrial regions, including the Yangzi River Delta around Shanghai. The shortages are in part because of the PRC government's one-child policy and the household registration (*hukou*) system, which discourages the rural population from moving to the cities.

High cost of living

The high cost of living in China's coastal regions is also fueling demands for higher wages. In 2007 and 2008, China's consumer price index rose by 4.8 percent and 5.9 percent, respectively—well exceeding the official annual targets. Though cost of living in cities such as Shenzhen rose significantly in the last decade, some profitable companies have not increased wages to reflect higher prices, spurring worker dissatisfaction.

Several companies involved in the May 2010 strikes were paying the minimum wages required by local law. The wage complaints may have reflected the fact that Japanese- and Taiwan-owned factories often paid lower wages than comparably sized German-owned facilities and other FIEs, sometimes in the same area.

Greater "rights-consciousness" of workers

The new generation of Chinese blue-collar workers, born during the 1980s and 1990s, are more sensitive to social issues and workplace rights than their parents. Previous generations might have taken any city job available, even for low salaries. But young workers today seek jobs that not only pay well enough to secure a better life for their families, but also provide career development, treat employees with respect, and help them gain a foothold in the cities (see p.20). Furthermore, despite state oversight, Internet access has helped workers learn quickly about strikes, wages, and working conditions at other companies.

Government interest in labor market regulation

In the early decades of the reform era, the PRC government primarily focused on economic growth—starting with coastal regions, which rose ahead of rural areas. Since 2003, however, the government has begun to shift its focus to include social harmony, political stability, and better income distribution. The new minimum wage law issued in 2004 and the much-touted 2007 Labor Contract Law, which enhances statutory rights for employees and imposes greater obligations on employers, reflect this shift in focus. The government's tolerance of sustained, extensive media coverage of the suicides and strikes at several FIEs may also reflect this new thinking. It remains unclear, however, whether the new approach will extend to wholly and partially state-owned enterprises.

The PRC government is also formulating more labor contract regulations to protect worker rights. In September 2010, the PRC Supreme People's Court issued Interpretations on Several Issues Concerning the Application of

Laws in Labor Dispute Trials (III)—the first set of judicial guidance since the 2007 Labor Contract Law and Labor Dispute Mediation Law. The interpretations contain 18 articles, which focus on procedural issues in court trials, and include important provisions that

- Accept disputes that arise from restructuring the enterprise;
- Place the burden of proof on employees to show they worked overtime but penalize employers that refuse to produce the same evidence; and
- Generally recognize employment agreements as valid and binding, provided that they do not violate mandatory provisions of laws or regulations or involve fraud, coercion, or exploitation.

China is drafting new national regulations on wages with the aim of guaranteeing wage payments and salary increases. The proposed regulations would, among other things, clarify that

- Local legally required minimum wages do not include overtime payment or social security fees;
- Salary security funds must be set up to prevent late salary payments; and
- Cost of living increases should be factored in when determining wages.

In February 2011, the PRC National People's Congress revised the Criminal Law to make it illegal for companies to intentionally withhold employee wages if

- The company has the means to pay the wages;
- The company willfully withholds payment by refusing to pay or by transferring assets to escape the obligation to pay; and
- The situation or its effects are "serious."

These regulations and revisions may increase labor costs for some companies, but much depends on how the PRC government implements and enforces the rules.

Government interest in promoting ACFTU

The PRC government has long desired to install the All-China Federation of Trade Unions (ACFTU), the official state union system, in the FIE sector. ACFTU functions largely as an arm of, or "transmission belt" for, the state by supporting government policies and promoting workplace stability. In many regions, the local government selects ACFTU representatives. In addition, nearly all ACFTU officials and personnel are members of the Chinese Communist Party.

ACFTU has been relatively inactive in the FIE sector so far. At the end of 2006, only 18 percent of FIEs in China had entered into collective wage contracts (such contracts presumably reflect some ACFTU presence in the company). According to media reports, more than 10 million of the 13 million small and medium-sized enterprises in China did not have collective wage bargaining systems as of June 2010.

> The new generation of Chinese blue-collar workers, born during the 1980s and 1990s, are more sensitive to social issues and workplace rights than their parents.

The government has taken several measures in recent years to boost ACFTU's presence in FIEs.

- In 2008, the PRC Ministry of Human Resources and Social Security issued a "Rainbow Plan," for the stated purpose of encouraging the establishment of collective bargaining systems in companies in eastern and central China by the end of 2010 and expanding the system to all of China by 2012. In May 2010, ACFTU and two other central-government agencies issued a notice regarding implementation of the Rainbow Plan, which aimed for all companies to be covered by collective wage bargaining agreements by the end of 2012, including 60 percent coverage by the end of 2010 and 80 percent coverage by the end of 2011.
- ACFTU and Shenzhen's local government in early 2010 jointly announced that they would push for collective agreements in 120 Fortune 500 companies that have operations in Shenzhen.
- The Shanghai government in early 2010 issued new regulations on collective labor contracts, setting out procedural and substantive requirements for such agreements.

The government initiatives are bearing some fruit. For example, KFC Corp. and Pizza Hut, Inc.—both owned by YUM! Brands, Inc.—in June 2010 signed collective wage contracts with their employees in Shenyang, Liaoning. The contracts marked the company's first collective agreement with employees in China.

Because many workers reportedly distrust ACFTU, it is unclear whether ACFTU initiatives or the recent publicized labor unrest will lead to greater ACFTU penetration of FIEs. Many of the FIEs in which large-scale strikes took place in 2010 did not have unions; even where unions were present, they were bypassed by the protestors. For example, although Foxconn had unions at group company levels, the unions did not function at the plant level. Moreover, even in companies that had local factory union representatives (such as in Honda's Foshan facility), the striking workers sought a new election of union representatives as one of their strike demands.

Implications for FIEs

FIEs operating in China will face a more challenging labor environment and increasing costs. Given the recent labor unrest, companies may need to consider boosting employee compensation and benefits and improving work hours and supervisor-employee relationships. Though methods for achieving these goals vary, companies should consider paying fair wages based on commonly accepted practices and developing better communications systems with employees.

Given the recent labor unrest, companies may need to consider **boosting employee compensation and benefits and improving work hours and supervisor-employee relationships.**

Periodic review of labor regulation compliance

FIEs in China should periodically review their employment policies and practices to ensure full compliance with all applicable labor rules and regulations. Companies operating in China should expect expanded state regulation and promotion of the collective wage-bargaining system, particularly in FIEs. Foreign companies should also extend their compliance review to their supply chains, because labor compliance problems in upstream or downstream companies may negatively affect the FIE's costs and operations. Furthermore, most labor disputes filed in China's mediation and arbitration councils involve failure to issue an employment contract, though required by the PRC Labor Contract Law, and failure to pay promised wages, which is now deemed a crime under the revised Criminal law. Carefully reviewing contract manufacturers' payroll practices can reduce these causes of disputes.

Consider proactive posture on wages and unions

FIEs should consider whether they wish to take a proactive posture on wages and relations with ACFTU. These steps may have drawbacks if they are not carefully executed, however. For example, increasing wages to keep pace with inflation is one way of eliminating an oft-mentioned cause of worker discontent, but it may also stoke demands for ever-increasing pay levels. Likewise, entering into a relationship with ACFTU, possibly with local-government help, may stem labor protests but may also invite an arm of the state onto the shop floor.

FIEs should at least consider whether they wish to maintain wage parity with other comparably sized foreign manufacturers in the region to avoid being singled out by workers and the local government. Employers may also wish to consider wage parity between FIEs operating in the same industry and region as an overarching policy.

Consider moving westward

When pressed by increasing labor costs in coastal cities and provinces—including traditional manufacturing bases such as the Pearl River Delta and the Yangzi River Delta regions—FIEs in labor-intensive industries may wish to consider relocating their operations to inland provinces, especially to traditionally less-developed central and western regions. Minimum wages in China vary widely by region (see p.30). Under the recent Western Development Strategy issued by the central government, companies—including FIEs—in central and western regions may enjoy benefits that are no longer available in the coastal regions, such as reduced income taxes and low land prices and labor costs.

Challenging road ahead

This is a challenging time for China's manufacturing sector and for FIEs that own, operate, or source from facilities in China. Close review of existing practices and strategic planning to avoid future problems can help companies navigate the difficult waters. Whether the labor disputes will rise in number and importance depends on several factors, including how migrant workers are treated by their employers and the courts, whether wages sufficiently keep up with inflation, whether manufacturing remains a low-labor cost sector, and the overall economy in China. 完

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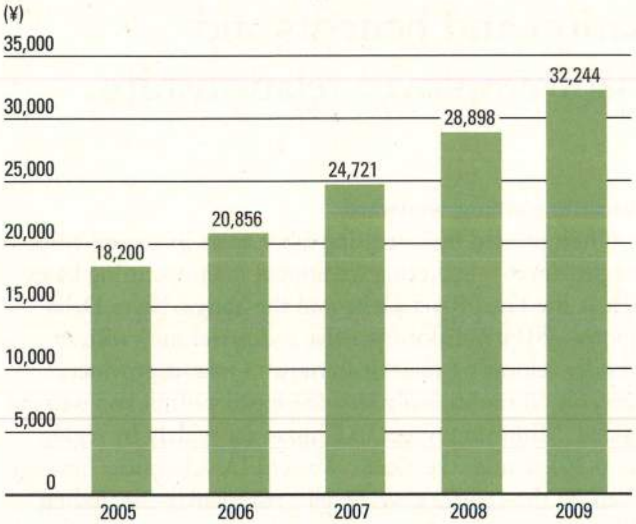
China’s Work Forc

Employee wages are rising, and workers earn the most at financial institutions and information technology companies.

Average Annual Urban Wage, 2005–09



Source: PRC National Bureau of Statistics (NBS), *China Statistical Yearbook*, 2010

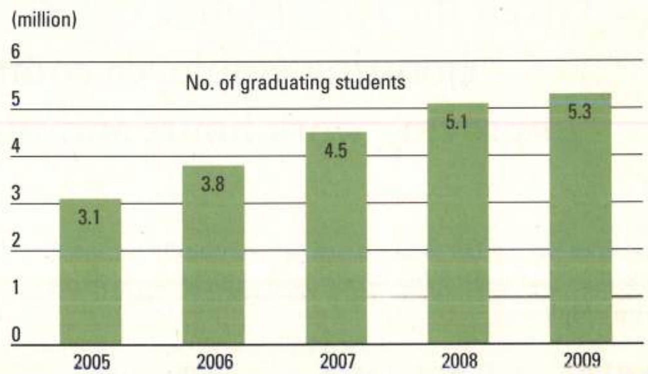
Average Urban Wage by Sector, 2009

Sector	Average annual urban wage (¥)
Financial intermediation	60,398
Information technology, computer services, and software	58,154
Scientific research, technical services, and prospecting	50,143
Electricity, gas, and water production and distribution	41,869
Mining	38,038
Culture, sports, and entertainment	37,755
Health, social security, and social welfare	35,662
Leasing and business services	35,494
Public management and social organization	35,326
Traffic, transport, storage, and postal services	35,315
Education	34,543
Real estate	32,242
Wholesale and retail	29,139
Manufacturing	26,810
Construction	24,161
Water conservation and household environmental services management	23,159
Hotels and catering services	20,860
Agriculture, forestry, animal husbandry, and fisheries	14,356

Source: NBS, *China Statistical Yearbook*, 2010

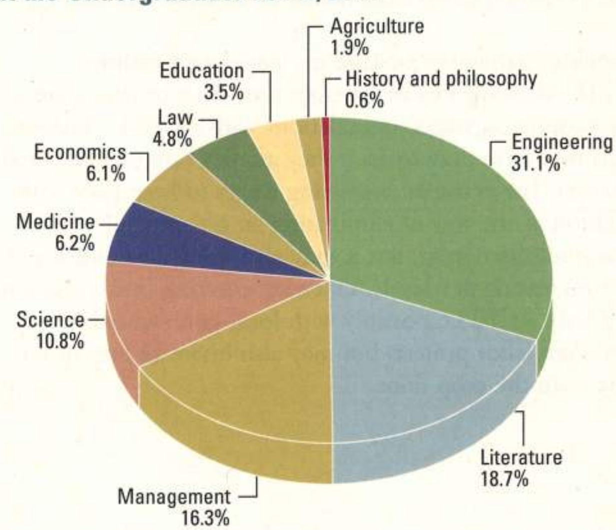
Education levels are rising, and engineering is the top major.

Higher Education Institution Graduates, 2005–09



Source: NBS, *China Statistical Yearbook*, 2010

Majors of Students Who Graduated at the Undergraduate Level, 2009



Note: Values may not equal 100 percent because of rounding.
Source: NBS, *China Statistical Yearbook*, 2010

s Gaining Strength

Wages along the coast remain the highest, and the lowest unemployment rates are in Beijing and Guangdong.

Wages and Unemployment Rates by Province, 2009

Note: *Minimum wage data was compiled in March 2011.
Sources: NBS, *China Statistical Yearbook*, 2010; China Human Resources Outsourcing Network


China Foto Press

Less than one-third of China's workforce earns formal retirement benefits, and most elderly depend on extended family support and household savings.

Can an Aging China Be a Rising China?

As China's demographics shift in the coming years, the country must prepare for slower growth and greater risks of instability.

Richard Jackson

China stands on the threshold of a stunning demographic transformation with profound implications for economic growth and social and political stability. For the past three decades, China's unusually favorable demographics, with a record share of the population of working age (age 20–64), have helped living standards skyrocket. Beginning around 2015, however, the demographic climate will change abruptly. According to the United Nations (UN), the elderly (age 65 and older) share of the population, which was only 8 percent in 2010, will double to 16 percent by 2030 and triple to 24 percent by 2050. Within 25 years, China will have an older population than the United States (see Figure 1).

As China ages, it will have to overcome many of the same obstacles to economic growth that confront developed countries, from rising old-age dependency burdens to a graying workforce and declining savings and investment rates. But one important difference makes China's aging challenge even more daunting: Today's developed countries became affluent societies before they became aging societies, but China's age wave will arrive in a society that is still developing and modernizing—and that has not yet fully implemented the social protections of a modern welfare state.

The weak social insurance system means China may face less fiscal pressure from an aging population than today's developed countries, but it also means China may face greater social stress. Only a small fraction of China's workforce earns benefits under a public or private pension system. Most elders still depend heavily on their extended family for support. Yet traditional family support networks are already unraveling as China urbanizes and modernizes, and these networks will soon come under intense new demographic pressure as the population ages and family size declines. An aging crisis of potentially immense dimensions looms in China's future if the country fails to prepare.

China's demographic tipping point

China owes its economic success to many factors, from sound macroeconomic management to massive investment in human capital. Development economists agree, however, that China's favorable demographics have played a crucial role in underpinning its economic rise.

As recently as the early 1970s, China's fertility rate hovered around 5.0 lifetime births per woman, about the developing-world average at the time. Due in part to the one-child policy, the fertility rate by the mid-1990s plunged to 1.8, where it remains today. When fertility rates first fall, societies generally enjoy a period of "demographic dividend," in which the overall dependency burden declines and the share of the population of working age rises. All other factors being equal, a larger share of the population in the working years means a higher per capita living standard. In addition, declining fertility can alter economic behavior in ways that accelerate the pace of improvements in living standards. Labor-force participation may increase because having fewer children frees up more time for adults—especially women—to participate in the market economy. Savings rates may rise, as more of the working-age population enters the higher-saving middle-age years. Declining family size and rising life expectancy also strengthen incentives to invest in the "quality" of children, and thus the future workforce.

Economists who have studied China's demographic transition agree that these dynamics have significantly boosted economic growth. Since 1975, China's total dependency ratio of children and elderly per 100 working-age adults has fallen from 114 to 56, one of the largest declines of any country in the world (see Table). Meanwhile, the working-age share of the population has risen from 47 percent to 64 percent.

Quick Glance

- The elderly share of China's population will increase significantly in the coming decades, causing slower economic growth and greater risks of social instability.
- To support an aging population, China's economy must depend more on domestic consumption and a stronger capital market than on the migrant workforce and foreign investment.
- The PRC government is improving insurance and pension systems to help alleviate the social stress that slowing growth may bring.

Many studies have concluded that the age structure shift accounts for one-quarter to two-fifths of China's per capita gross domestic product (GDP) growth since the mid-1970s.

The period of demographic dividend is coming to an end, however. In five years, China's enormous "Red Guard" generation—which was born before the country's fertility decline and came of age during the Cultural Revolution (1966–76)—will begin to reach old age. As this occurs, the relative increase in the number of elderly adults will overtake the relative decline in the number of children, the total dependency ratio will bottom out and rise again, and the working-age population will peak and begin to decline. The positive economic effects of the demographic transition will reverse when China reaches this tipping point. Though demographics have been leaning strongly with economic growth so far, they will soon lean against it.

Risk of slower economic growth

China's deteriorating demographics are unlikely to halt the country's economic rise, but they will almost certainly slow it. To begin, the changing demographics will negatively affect employment growth. Over the past three decades, China's working-age population has expanded at the average annual rate of 2 percent. By the 2030s, this population will be contracting by 0.7 percent per year (see Figure 2). Unless labor-force participation or productivity growth increases, GDP growth will inevitably slow.

A skills mismatch

Contrary to conventional wisdom, the scope for internal migration to bridge the employment gap is limited. Until recently, China was able to shift millions of underemployed workers from non-market rural sectors to full-time, low-skilled manufacturing jobs each year, generating a large and instantaneous boost to GDP growth. But migration cannot indefinitely remain a major source of economic growth since China is rapidly losing its competitive advantage in low-skilled manufacturing. As China's industries move up the global value-added scale, a mismatch is emerging between the skills of the remaining rural labor surplus and the demands of the jobs being created in economic growth sectors.

Lower savings rates

The coming demographic shift may also slow growth by lowering savings and investment rates. This prospect may seem remote now, given that China is awash in excess savings, running large current account surpluses, and accumulating massive foreign exchange reserves. Yet numerous studies have confirmed that the classic lifecycle motivation for savings—accumulating assets during the working years to be drawn down during the retirement years—functions more powerfully in China than in developed countries. This is in part because China's social insurance system is still underdeveloped and in part because the Confucian ethic that traditionally allowed elders to rely on their children for support is weakening. As China's population ages, more elders will have to draw down their savings to support themselves in retirement. As a result, household savings rates, which have risen dramatically in recent decades as youth dependency has declined, could fall just as dramatically once elder dependency begins to climb.

Curtailed foreign investment

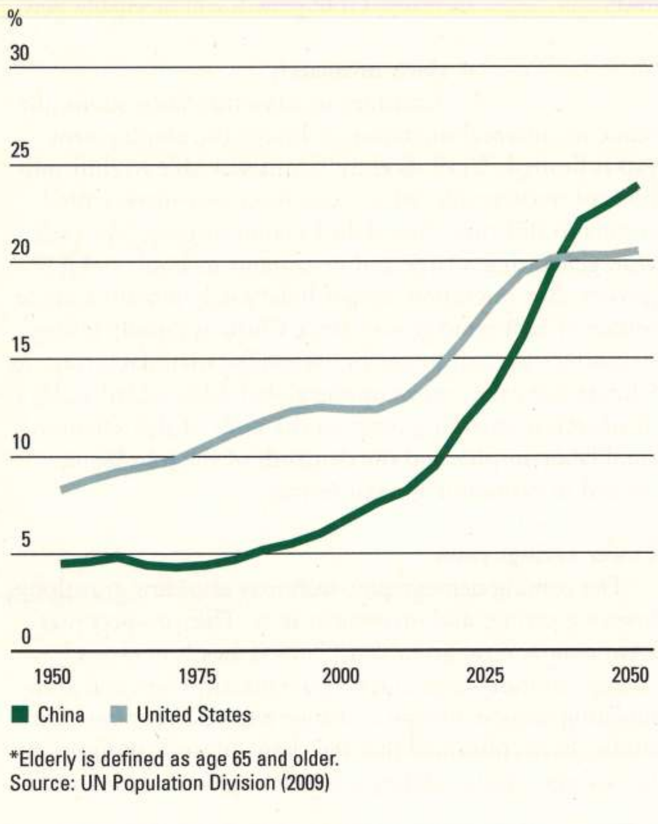
The decline in domestic savings could be accompanied by a decline in the availability of affordable foreign capital. Most of today's high-income countries also have aging populations, and most have expensive pay-as-you-go pension and health benefit programs, whose costs are projected to climb steeply in the coming decades. (For example, the total cost of public old-age benefits in the United States will increase by 7 percent of GDP over the next three decades, according to Center for Strategic and International Studies projections.) These countries therefore may also experience a sharp drop in savings rates, both private and public, which could curtail the massive inflows of foreign direct investment (FDI) that have played a central role in fueling China's economic growth.

Weak capital markets

Given the potential FDI decline, China's economic growth will have to depend increasingly on allocating domestic savings to the most productive investments—but the country's underdeveloped capital markets are its greatest economic weakness. Though China's labor and product markets are now more liberal than those of many developed economies, reform of its capital markets has lagged. Most of the capital in China is still allocated by the government through state-owned banks. As a result, banks shower many large enterprises favored by the government with investment funds despite poor expected returns and prospects, while many small unnoticed enterprises with excellent expected returns and prospects are starved for funding.

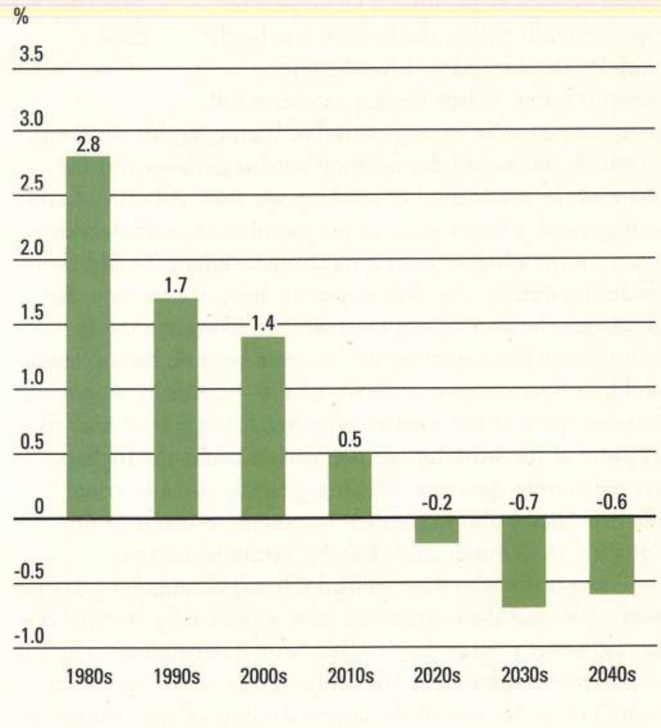
China's underdeveloped capital markets have not significantly hindered economic performance over the past three decades, because the large FDI inflows and mass internal migration of workers from rural to urban regions have generated much of GDP growth. The migration led to a huge leap in worker productivity, even when the firms offering the jobs were not accountable to financial markets. In the decades to come, however, gains in productivity and living standards will increasingly depend on workers with good jobs finding better jobs—and on firms with established markets finding innovative ways to win new markets. In other words, China's development agenda will depend more on the efficiency of its capital markets.

Figure 1: Elderly Percent of the Population in China and the United States,* 1950–2050



*Elderly is defined as age 65 and older.
Source: UN Population Division (2009)

Figure 2: Average Annual Growth Rate of the Working-Age Population,* 1980–2040



*Working age is defined as age 20–64.
Source: UN Population Division (2009)

Larger old-age dependency burdens

Even as economic growth slows, China will need to transfer a rising share of economic resources from working-age adults to nonworking elders. China had 7.8 working-age adults available to support each elder in 2010. According to UN projections, this ratio is due to fall to 3.8 by 2030 and to 2.4 by 2050, which means that the average burden borne by each worker will more than triple. Though much of this burden currently falls on families, in a rapidly aging and developing China a rising share is bound to appear in public budgets and higher tax rates. China now spends only 3 percent of GDP on public pensions, but a pension system that offers all workers the same average benefit as the current basic pension system would cost at least 10 percent of GDP by 2030 and at least 15 percent of GDP by 2050. The rising cost of healthcare for the elderly would come on top of this.

Risk of growing instability

The greatest concern raised by China's changing demographics is not the prospect of slower economic growth itself, but the potential for slower growth to trigger a social and political crisis. By the 2020s, demographic trends may weaken the two principal pillars of the PRC government's political legitimacy: rapidly rising living standards and social stability. The stresses of breakneck development so far have been bearable in a youthful China with rapidly rising incomes, but the stresses may become less tolerable in an aging China where economic growth is slowing.

Though the West's industrial revolution unfolded over a century or more, China's is taking place within a single generation. When the PRC government launched economic reform in 1978, many urban workers lost the cradle-to-grave social protection they enjoyed under the planned economy. Tens of millions of migrants have since moved from traditional agricultural villages to bustling manufacturing hubs, where they have joined a rootless "floating population" estimated to number at least 150 million. Urbanization is weakening the extended family, worker mobility and turnover rates are rising, and the income gap between the rich and poor is widening.

The rapid aging of China's population could act as a multiplier on the stresses of rapid modernization. Less than one-third of China's workforce currently earns formal retirement benefits. Despite China's lofty national savings rate, few workers are accumulating sufficient financial assets to support themselves in retirement. The majority will have to rely on their children, the most traditional form of old-age insurance. Yet many of these workers will have only one child—and that child will not always live nearby. As a result, tens of millions of today's low-wage migrant workers in China's cities may age into tens of millions of indigent elders who lack pensions, healthcare, and extended families. Meanwhile, China's rural regions may be left with entire towns populated only by elders without children to support them.

Continued on page 58

China's deteriorating demographics are unlikely to halt the country's economic rise, **but they will almost certainly slow it.**

Table: China's Demographic Indicators

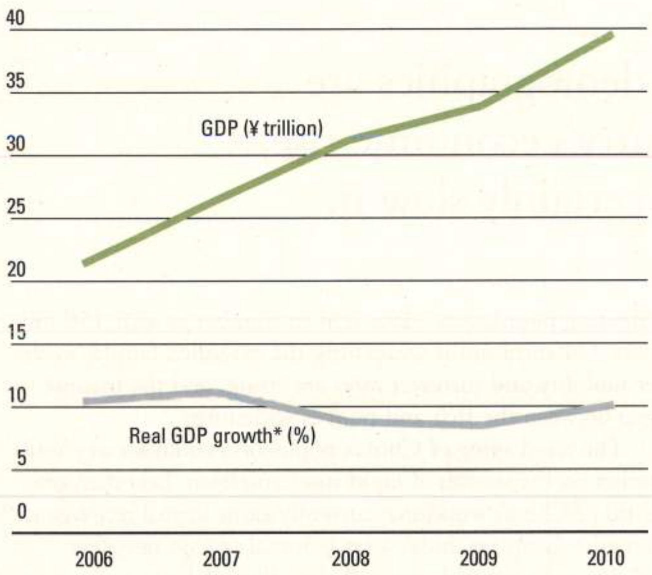
Year	1970–75	1975–80	1985–90	1995–2000	2005–10	2015–20	2025–30	2035–40	2045–50
Total fertility rate	4.8	2.9	2.6	1.8	1.8	1.8	1.8	1.8	1.8
Life expectancy	63.2	65.3	67.4	70.4	73.0	74.9	76.6	78.0	79.3
Year	**1975**	**1980**	**1990**	**2000**	**2010**	**2020**	**2030**	**2040**	**2050**
Total dependency ratio	114	104	80	68	56	57	62	73	76
Working-age share (%)	46.7	48.9	55.5	59.4	64.0	63.8	61.6	57.9	56.7
Elderly share (%)	4.4	4.7	5.5	6.8	8.2	11.7	16.1	22.1	23.9

Notes: Total fertility rate is the average number of lifetime births per woman; total dependency ratio is the number of children (age 0–19) and elderly (age 65 and older) per 100 working-age adults (age 20–64); working-age share is working-age adults as a percent of the total population; elderly share is elderly adults as a percent of the total population.

Source: UN Population Division (2009)

Gross domestic product (GDP) growth increased in 2010.

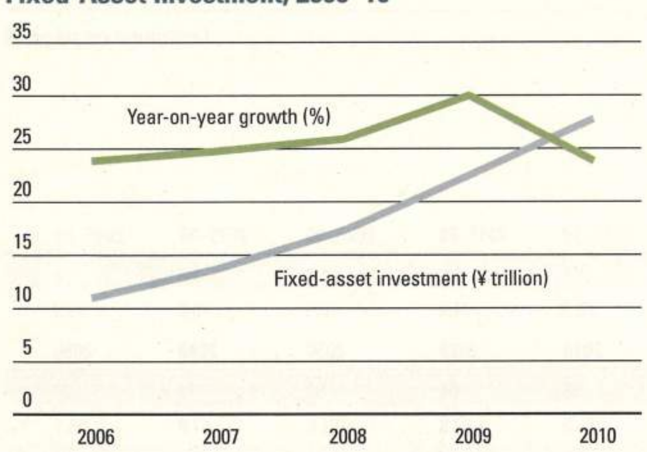
GDP Growth, 2006–10



*As reported in the PRC National Bureau of Statistics (NBS) yearly economic and social development reports.
Sources: NBS, *China Statistical Yearbook*, 2010; NBS website

Fixed-asset investment more than doubled over the last five years, but growth slowed in 2010.

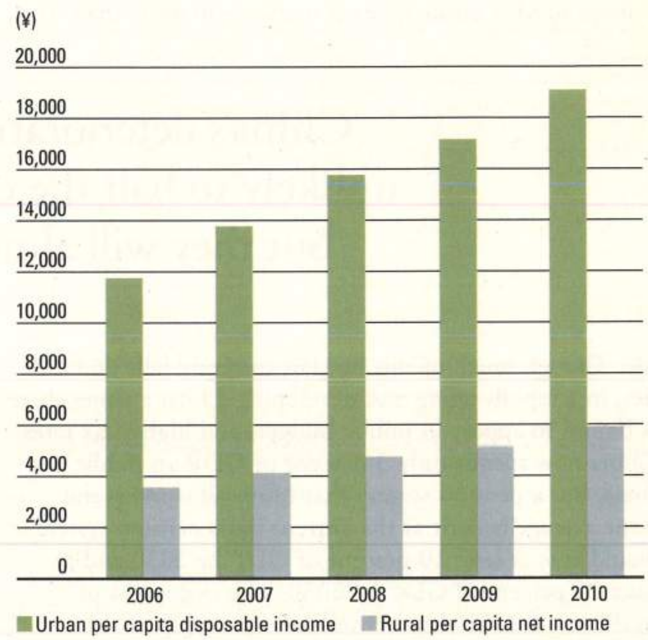
Fixed-Asset Investment, 2006–10



Sources: NBS, *China Statistical Yearbook*, 2010; NBS website

Consumer income continues to rise.

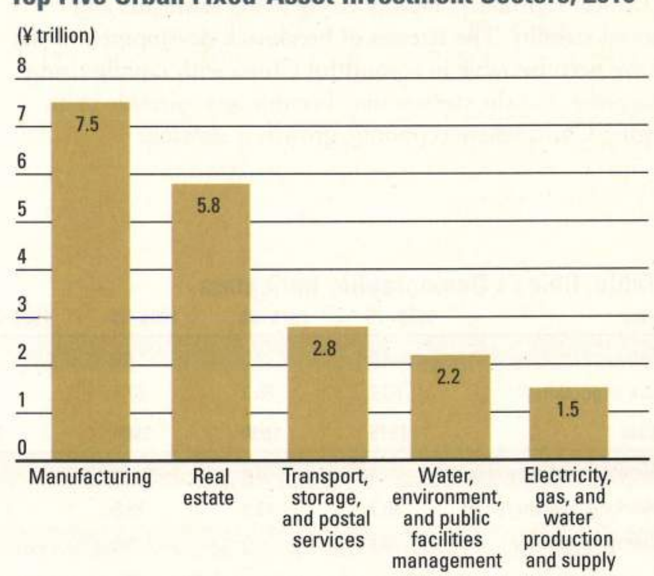
Urban and Rural Income, 2006–10



Source: NBS, *China Statistical Yearbook*, 2010

The bulk of fixed-asset investment goes to manufacturing and real estate.

Top Five Urban Fixed-Asset Investment Sectors, 2010

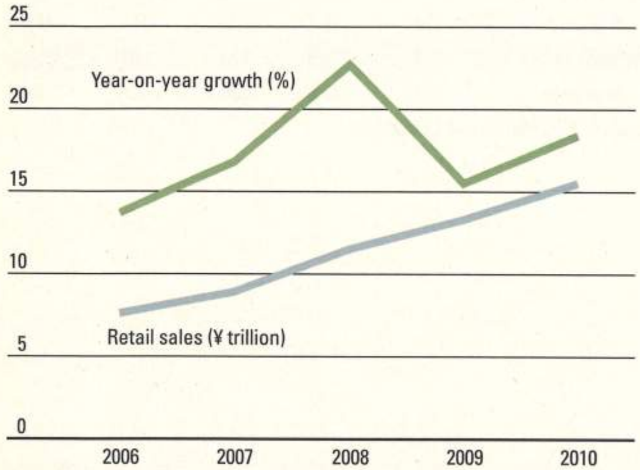


Sources: NBS, *China Statistical Yearbook*, 2010; NBS website

Expands Rapidly

Consumer spending is increasing...

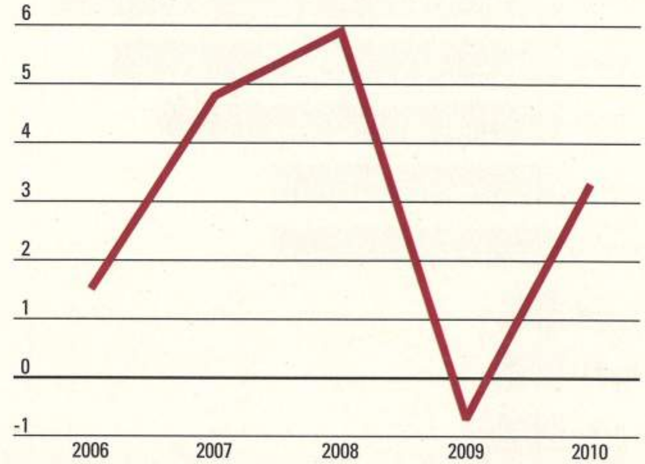
Total Retail Sales, 2006–10



Sources: NBS, *China Statistical Yearbook*, 2010; NBS website

...but inflation is a significant concern.

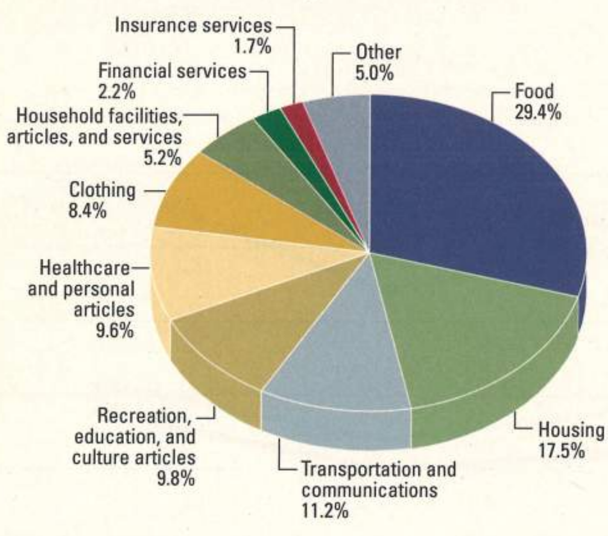
Consumer Price Index, 2006–10



Sources: NBS, *China Statistical Yearbook*, 2010; NBS website

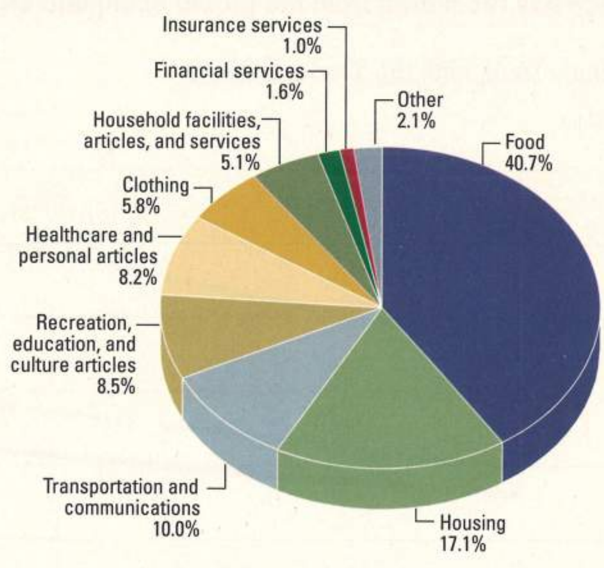
Spending remains concentrated in urban areas.

Urban Household Consumption, 2009



Source: NBS, *China Statistical Yearbook*, 2010

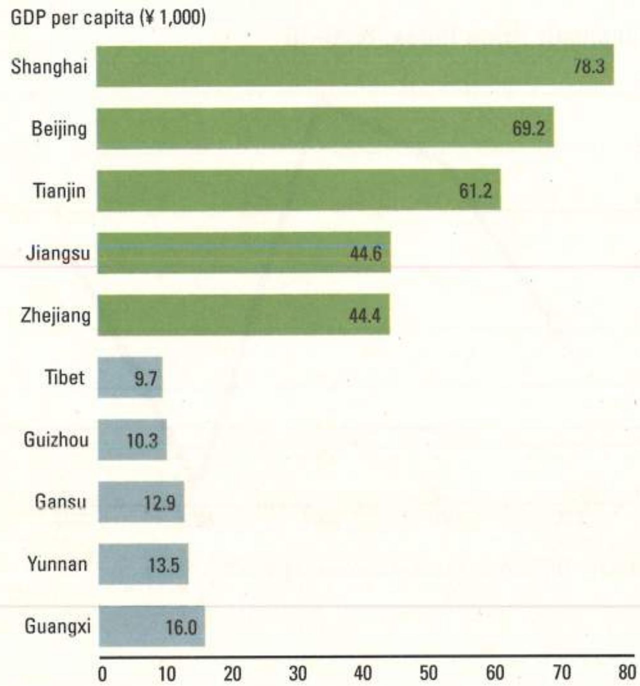
Rural Household Consumption, 2009



Note: Percentages may not add up to 100 because of rounding.
Source: NBS, *China Statistical Yearbook*, 2010

Wealth distribution between provinces remains uneven.

The Five Wealthiest and Poorest Provinces



Source: NBS, *China Statistical Yearbook*, 2010

Foreign investment inflows rose for the first time since 2006.

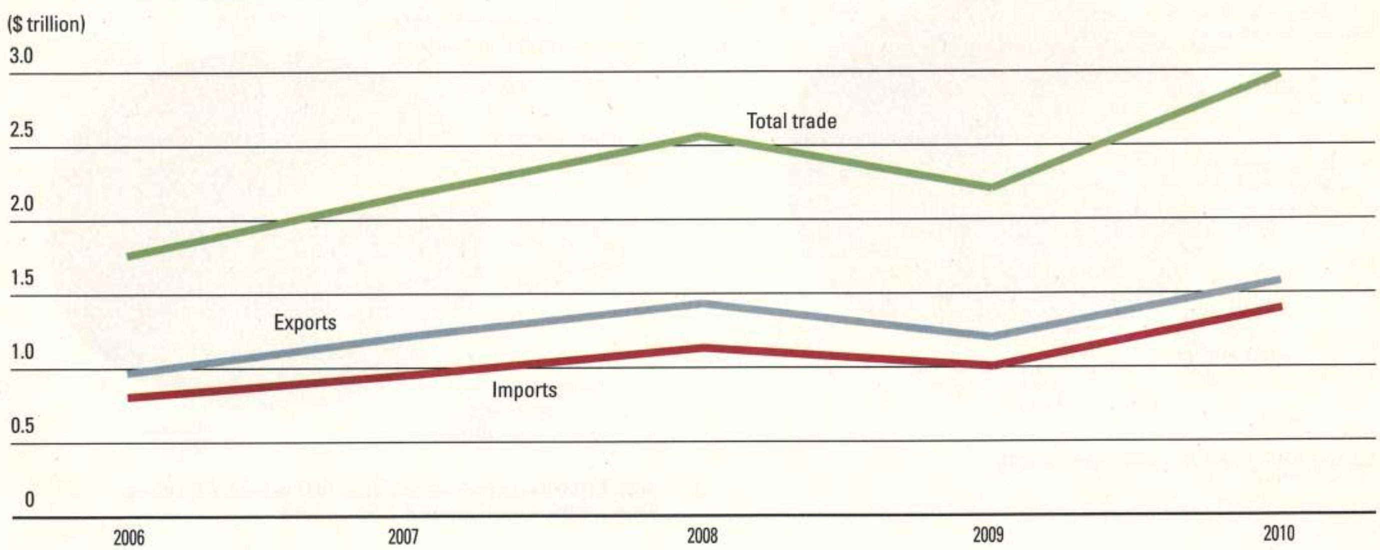
China's Non-Financial Foreign Direct Investment (FDI) Inflows, 2006–10

Year	2006	2007	2008	2009	2010
No. of projects	41,473	37,871	27,514	23,435	27,406
% growth	-5.8	-8.7	-27.4	-14.8	16.9
Utilized FDI ($ billion)	65.8	74.8	92.4	90.0	105.7
% growth	-9.1	13.6	23.6	-2.6	17.4

Source: PRC Ministry of Commerce

Trade has recovered from the global economic crisis.

China's Trade with the World, 2006–10



Notes: Chinese exports reported on a free-on-board basis; imports on a cost, insurance, and freight basis.
Sources: NBS; PRC General Administration of Customs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Increased interest in preparing for emergencies is fueling China's property and casualty insurance market.

China's Property and Casualty Insurance Market Set to Take Off

China's insurance market is expanding steadily, and foreign companies must build up their operations to remain competitive.

Eric Zheng

At a property insurance policy meeting in Shanghai, an insurance company representative asked a policy holder whether he would renew his policy. "No," said the client. "May I know why?" asked the insurer. "Well, I didn't win," the client replied, referring to the fact that he had no losses in the covered period and, therefore, did not "win" any claims.

Many Chinese consumers share this attitude toward insurance. They often do not view risk mitigation as an insurance policy's primary objective. Instead they want to get something back in claims. Otherwise, they would consider the policy a waste of money.

Though China's property and casualty (P&C) insurance market has expanded quickly in recent years, the industry remains underdeveloped and many consumers have a weak understanding of the purposes and benefits of insurance policies. (P&C insurance, also known as non-life or general insurance, refers to non-life commercial and consumer insurance such as auto, liability, property, and short-term accident and health insurance.) As awareness of insurance increases in China, foreign companies must pay careful attention to changes in the market and new prospects for growth. P&C insurance companies that do not understand the China market may risk being left behind.

China's insurance industry makes rapid strides

Though the roots of China's insurance industry extend back more than 100 years, the industry nearly disappeared from 1949 until China reopened to the outside world in the late 1970s. China's contemporary insurance industry is thus only about 30 years old. China's P&C insurance market has developed rapidly in this span, driven by the country's booming economy.

In the first decade of the twenty-first century, China's P&C insurance premium volume nearly quintupled on a nominal basis from ¥60.8 billion ($9.2 billion) in 2000 to nearly ¥300 billion ($45.5 billion) in 2009, expanding at a compound annual growth rate (CAGR) of 19.4 percent, according to statistics from the China Insurance Regulatory Commission (CIRC) and Chartis Insurance Company China Ltd. Factoring in the renminbi (RMB) exchange rate appreciation against the US dollar during this period increases China's P&C premium growth to 22.2 percent compared with a world average of 7.2 percent. Even in as difficult a year as 2009, Swiss Re research shows China's P&C insurance premiums achieved a nominal increase of 19.7 percent over 2008. By comparison, North America's nominal premium volume shrank by 2.3 percent, and the world average dropped by 2.1 percent (see Figure 1).

The insurance markets in China's coastal regions rose the fastest over the past three decades. The top 10 provinces and municipalities in China by P&C insurance premium volume are located mostly in coastal regions such as Guangdong, Jiangsu, Shandong, Shanghai, and Zhejiang (see Table 1). Expansion in these regions has been driven primarily by robust economic growth and, in several cases, by the fact that the regions were opened to foreign insurance companies before China's other areas.

Rapid P&C market expansion in recent years was fueled in part by extraordinary growth in the auto insurance sector. China has become the largest auto market in the world, selling more than 18 million cars in 2010. Car owners in China are required to purchase auto insurance, which accounts for more than 70 percent of the total P&C insurance premiums. Excluding auto insurance reduces China's P&C insurance market CAGR from 18.3 percent to 13.6 percent from 2002 to 2009 on a nominal basis.

Quick Glance

- China's insurance market remains undeveloped but is expanding rapidly.
- Because of their extensive networks and rising demand for auto insurance, domestic property and casualty insurers dominate the market.
- Foreign companies should focus on insurance sectors where they hold an advantage.

Despite the rapid rise of China's P&C business in recent years, insurance awareness and penetration remain low. The P&C insurance penetration rate (total premiums as a percentage of gross domestic product [GDP]) was roughly 1 percent in 2009, compared to the average global P&C insurance penetration rate of 3 percent. Though China achieved a milestone in 2010 by overtaking Japan as the second-largest economy in the world, China's total P&C insurance premium volume is only about half of Japan's. The May 2009 Wenchuan, Sichuan, earthquake highlighted China's low insurance penetration rate. According to PRC government officials, losses from the earthquake totaled ¥845.1 billion ($128 billion), but insured losses reportedly amounted to ¥1.8 billion ($274 million), or about 0.2 percent of total losses.

Domestic P&C insurers

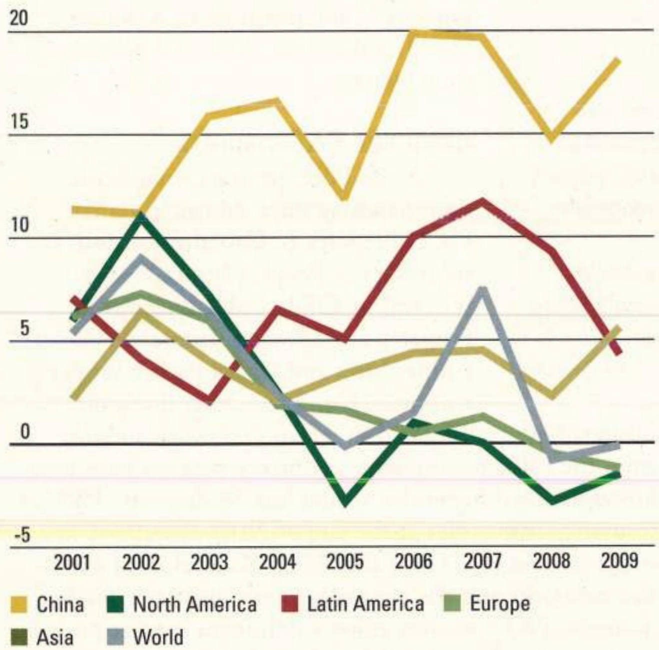
China's P&C insurance market is dominated by three domestic giants: PICC Property & Casualty Co. Ltd. (a subsidiary of People's Insurance Co. [Group] of China Ltd.); Ping An Property and Casualty Insurance Co. of China, Ltd.; and China Pacific Property Insurance Co., Ltd. Other domestic insurers have proliferated in recent years with support from the PRC government, and many insurers have established national networks. China had 34 domestic P&C insurance companies at the end of 2010, compared to a single insurer (PICC) in the 1980s. As a result of extensive networks and the expanding auto insurance market, domestic P&C insurers enjoy a dominant market position with a national market share of nearly 99 percent. Auto insurance accounts for about 73 percent of domestic P&C insurers' portfolios on average, and in some cases comprises more than 90 percent.

The rising number of insurance companies in recent years has led to increased competition, particularly in markets with a high concentration of insurers. For example, there are 34 P&C insurers in Shanghai alone, 9 of which are foreign. Despite their dominant market position, many domestic companies have operated at a loss in recent years because of cut-throat competition for auto insurance market share; nearly half of domestic P&C insurers reported an operating loss in 2009. Domestic firms' operating results improved in 2010 following aggressive measures by CIRC to standardize market behavior.

Foreign P&C insurers in China

Since the American International Group, Inc. received the first foreign insurance license in 1992, foreign P&C insurance companies have gradually established a visible presence in China. Unlike foreign life insurance companies, foreign P&C insurers are not required to form joint ventures with a domestic partner. By the end of 2010, China had granted P&C insurance licenses to 20 foreign P&C companies from 9 countries and regions (see Table 2). Foreign P&C insurers are concentrated in first-tier cities such as Beijing; Shanghai; and Guangzhou and Shenzhen, Guangdong. In 2009, premiums generated by foreign P&C insurers in those four cities accounted for 63.4 percent of foreign P&C insurers' total premiums in China, according to CIRC.

Figure 1: Property and Casualty Insurance Premium Growth in China and Other Regions, 2001–09 (%)



Note: Growth rates are inflation-adjusted in local currencies.
Sources: Swiss Re, *Sigma World Insurance in 2000–09*; Chartis Insurance Co. China Ltd.

Because of regulatory constraints, most foreign P&C insurance companies that entered China before 2006 were set up as branches instead of locally incorporated subsidiaries. Most of them, however, converted to locally incorporated subsidiaries (or wholly foreign-owned enterprises [WFOEs]) by 2007, after China began allowing foreign P&C companies to establish WFOEs as part of its World Trade Organization (WTO) commitments. Nearly all foreign P&C insurance companies that entered China after 2007 chose to invest as a WFOE (see p.44).

Main product lines of foreign P&C insurers

Foreign P&C insurers may offer nearly all types of P&C insurance in their licensed territories. Such product lines include cargo transport, construction, enterprise property, liabilities, and short-term accident and health insurance. Foreign P&C insurers tend to be niche players, focusing on product lines in which they enjoy a competitive advantage.

Chartis research shows that foreign P&C insurers have acquired significant national market share in cargo transport and liability insurance, accounting for 13.4 percent and 8.2 percent market share, respectively, in 2009. These companies' strong international service networks and underwriting expertise offer a competitive advantage. Foreign insurers also have a relatively high market share in cargo transport insurance because the PRC government does not place geographic restrictions on the cargo transport insurance market. Foreign P&C insurers can thus conduct cargo transport insurance business outside their licensed territories, even with a limited number of branch operations.

Export product liability insurance is another niche product offered by several foreign P&C insurers. As a result of China's rapid export growth, several foreign P&C insurers have significantly expanded their cargo transport and product liability insurance businesses. These product lines suffered during the recent global economic downturn when China's exports decreased, but they rebounded in 2010.

Table 1: China's Top Eight Provinces and Municipalities by Property and Casualty (P&C) Insurance Premiums

Total P&C insurance					Non-auto P&C insurance				
Ranking	Province/ municipality	2009 premiums (¥ million)	Market share (%)	2002–09 CAGR (%)	Ranking	Province/ municipality	2009 premiums (¥ million)	Market share (%)	2002–09 CAGR (%)
1	Guangdong	35,048	11.8	18.0	1	Guangdong	9,989	12.0	12.1
2	Zhejiang	25,553	8.6	19.6	2	Shanghai	7,592	9.1	14.7
3	Jiangsu	23,808	8.0	19.9	3	Jiangsu	6,718	8.0	13.6
4	Shandong	21,510	7.2	18.5	4	Zhejiang	5,921	7.1	12.3
5	Beijing	16,816	5.7	18.0	5	Beijing	5,857	7.0	20.3
6	Shanghai	16,569	5.6	17.5	6	Shandong	4,138	5.0	8.7
7	Sichuan	15,325	5.2	21.5	7	Sichuan	3,908	4.7	21.3
8	Hebei	13,264	4.5	21.4	8	Liaoning	3,531	4.2	9.2
	China	**297,103**	**100.0**	**18.3**		**China**	**83,507**	**100.0**	**13.6**

Note: CAGR = compound annual growth rate
Sources: China Insurance Regulatory Commission (CIRC), *Yearbook of China's Insurance*, 2003–10; Chartis

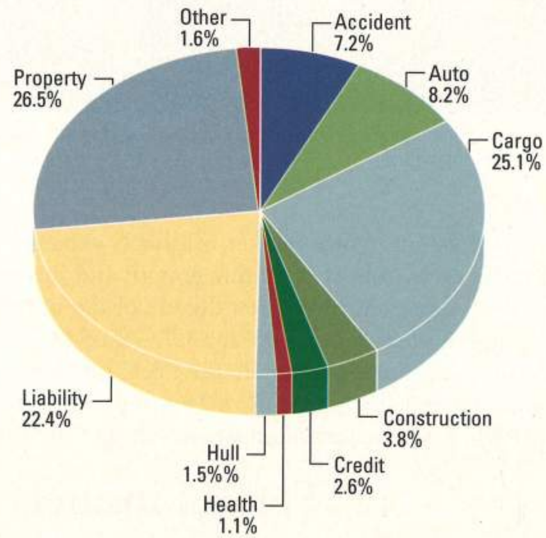
Limitations on foreign insurers

Though most P&C insurance product lines are open to foreign companies, mandatory third-party liability (MTPL) auto insurance remains off-limits because it is considered statutory insurance and is not part of China's WTO commitments. As a result, most foreign P&C insurers are not involved in China's auto insurance business. A few foreign companies have partnered with local insurers who provide MTPL auto insurance and offered additional commercial coverage for the local insurers' customers as needed. Because the auto insurance business has struggled in recent years, CIRC reportedly may consider opening MTPL to foreign insurers with the hope of introducing international expertise and best practices to China.

A main challenge that most foreign P&C insurers face in China is the inability to expand geographically because of the limited number of branch licenses that PRC regulators approve. As a result of the influx of domestic companies into the P&C market and the tremendous growth of the auto insurance market, which is essentially off-limits to foreign insurers, collective market share of foreign P&C insurers has hovered around 1 percent in recent years.

In the absence of economies of scale, the 18 foreign P&C insurers operating in China collectively reported an operating loss of ¥91 million ($13.9 million) in 2009; only 7 companies, or about 39 percent, earned an operating profit. According to a recent survey by PricewaterhouseCoopers, however, most foreign P&C insurers remain committed to the China market despite these challenges.

Figure 2: Composition of Foreign P&C Insurer Product Lines in China, 2009



Source: CIRC, *Annual Report of China Insurance Market, 2009*

Table 2: Foreign-Invested P&C Insurance Companies in China

Company	Country/ region	Year of entry	Investment form	Location	Branch-WFOE conversion	No. of branches
Chartis Insurance Co. China Ltd.	US	1992	Branch	Shanghai	2007	4
Tokio Marine & Nichido Fire Insurance Co. (China), Ltd.	Japan	1994	Branch	Shanghai	2008	2
Winterthur Insurance (Asia) Ltd., Shanghai Branch	Switzerland/France	1996	Branch	Shanghai	NA	1
Sun Alliance Insurance (China) Ltd.	UK	1998	Branch	Shanghai	2007	3
Chubb Insurance (China) Co., Ltd.	US	2000	Branch	Shanghai	2008	2
Mutsui Sumitomo Insurance (China) Co., Ltd.	Japan	2001	Branch	Shanghai	2007	4
Samsung Property & Casualty Insurance Co. (China), Ltd.	South Korea	2001	Branch	Shanghai	2005	5
Allianz China General Insurance Co., Ltd.	Germany	2003	Branch	Guangzhou, Guangdong	2010	1
Sompo Japan Insurance (China) Co., Ltd.	Japan	2003	Branch	Dalian, Liaoning	2005	4
Liberty Insurance Co., Ltd.	US	2003	Branch	Chongqing	2007	3
Groupama SA Chengdu Branch	France	2004	Branch	Chengdu, Sichuan	NA	1
Zurich Insurance Co. Beijing Branch	Switzerland	2006	Branch	Beijing	NA	1
AIOI Insurance (China) Co., Ltd.	Japan	2006	Branch	Tianjin	2008	1
Generali China Insurance Co., Ltd.	Italy	2007	JV	Beijing	NA	3
Hyundai Insurance (China) Co., Ltd.	South Korea	2007	WFOE	Beijing	NA	1
Cathay Insurance Co., Ltd.	Taiwan	2008	WFOE	Shanghai	NA	5
LIG Insurance Co., Ltd.	South Korea	2008	WFOE	Nanjing, Jiangsu	NA	1
Nipponkoa Insurance Co., Ltd.	Japan	2008	WFOE	Shenzhen, Guangdong	NA	1
XL Group, Inc.	US	2009	WFOE	Shanghai	NA	1
Fubon Insurance Co., Ltd.	Taiwan	2009	WFOE	Xiamen, Fujian	NA	1

Notes: NA = not applicable; JV = joint venture; WFOE = wholly foreign-owned enterprise
Sources: CIRC; Chartis

Foreign property and casualty insurers in China hold a significant market share in cargo transport insurance, and several foreign companies offer export product liability insurance.

Outlook

China's P&C insurance market will likely expand steadily, driven by robust economic growth and increasing insurance penetration. In the first decade of the twenty-first century, China's GDP grew at a CAGR of 14.5 percent on a nominal basis, while the P&C insurance premiums expanded at a CAGR of 19.4 percent. In other words, P&C insurance premiums grew nearly 5 percentage points faster than GDP. If China's GDP increases at a CAGR of 8 percent between 2010–16, it would reach \$9.4 trillion by 2016, up from \$5.9 trillion in 2010. Assuming China's P&C insurance premiums rise at a CAGR of 13 percent in the same period, the country's total P&C premiums would reach \$122.8 billion by 2016.

China's growth potential is particularly notable compared with more mature industrialized markets. For instance, Japan's P&C insurance market grew at a CAGR of 0.4 percent in the first decade of the twenty-first century. Assuming Japan's P&C market maintains a CAGR of 1 percent during the 2010–16 period, its total P&C insurance premiums would amount to \$115.3 billion by 2016. In other words, China would overtake Japan in total P&C insurance premiums in about five years. With such a promising outlook, more new companies, both domestic and foreign, will likely enter China's P&C insurance market in the coming years. Competition will increase as a result. Foreign P&C insurers in China may expand gradually but steadily. Their success, however, will depend largely on their ability to expand geographically. 完

> Foreign insurers also have a relatively high market share in cargo transport insurance because the PRC government does not place geographic restrictions on the cargo transport insurance market.

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Advantages of the Wholly Foreign-Owned Enterprise Structure for P&C Insurance Companies

The wholly foreign-owned enterprise (WFOE) structure is a more efficient investment vehicle for property and casualty insurance companies. WFOEs require a minimum registered capital of ¥200 million (\$30.3 million), the same as an independent branch. An additional ¥20 million (\$3 million) in registered capital is required for each new WFOE branch, with a ceiling at ¥500 million (\$75.8 million). Without a WFOE, each independent branch of a foreign enterprise would require ¥200 million in registered capital. A company under the WFOE structure with four branches would require only ¥280 million in registered capital (¥200 million for the WFOE plus ¥20 million for each branch), compared to ¥800 million for four independent branches. Moreover, WFOEs can consolidate operations and cut costs by sharing resources—such as underwriting, claims, information technology systems, and other support functions—among branches. Otherwise, multiple independent branches of the same international parent company would have to maintain separate functions without shared resources.

—*Eric Zheng*


China Foto Press

China's standards system affects dozens of industries, including aerospace, autos, and information technology.

Strategies for Participating in China's Standards Regime

Though China's evolving standards system differs from its Western counterparts, US companies can take steps to participate.

Ryan Ong

China's standards and conformity assessment system shapes many hot button issues—from product safety to indigenous innovation. For companies across sectors, standards are crucial to building and expanding product markets, as they provide the "ground rules" under which new products enter the market and existing products compete. Companies that can navigate the standards landscape gain a significant advantage. They can understand the rules for selling products and gain the ability to shape standards in ways that maximize their products' advantages while avoiding unnecessary design, production, and compliance costs.

Efforts to boost China's standards regime

PRC government officials and organizations have significantly increased their standards-related activities in recent years. Though the PRC Standardization Law dates back to 1989, China's surge in standards activity is more recent (see p.46). In 2002, as part of the 10th Five-Year Plan (FYP, 2001–05), a group of PRC government agencies launched a multi-year research project to study and suggest specific improvements to modernize China's standards system. China announced the results of that study in 2005, setting key goals to build a complete national technical standards regime on par with international systems, boost Chinese participation in regional and international standards-setting activities and groups, and increase the number of Chinese standards adopted by international standards-setting bodies. Though these results were never formalized or incorporated into further government regulations, they have guided the thinking of government officials.

Since the study's release, the PRC government has drafted and implemented many new standards in areas such as agriculture, energy and the environment, food safety, health, and information technology (IT) and telecom. According to June 2009 figures from the Standardization Administration of China (SAC), China has 23,843 national standards, more than 12,000 of which are under revision. Since 2005, foreign companies have seen notable improvements to China's overall standards regime, including the quantity and quality of standards and the evolution of the standards development process. Foreign companies today note better transparency, greater access to standards-setting activities, and stronger links between China's standards-setting groups and their international counterparts.

Despite these encouraging signs, foreign companies still face significant barriers to full participation in China's standards-setting system. While some companies have found avenues to participate in standards development and implementation, others seem to be blocked at every turn. To navigate China's standards system, companies must fully understand it and develop a roadmap tailored to their industry and to their company's unique strengths and challenges.

Quick Glance

- China's standards system is complex, involves multiple levels, and is only partially open to foreign companies.
- Foreign companies' ability to participate in standards-setting varies between industries and can depend on the company's experience, network, and capabilities.
- Companies that seek to participate in standards-setting should emphasize their technical knowledge and familiarity with international standards organizations.

Company participation in standards-setting through technical committees

China's standards are drafted and revised through formal and informal channels that vary between the type of standards and industries involved.

Most national standards are drafted and revised through technical committees (TCs), which are responsible for setting priorities and work plans within their individual technical standards area and for drafting and revising those standards. TCs fall under the supervision of SAC, though SAC can designate other agencies and organizations to oversee TC work. Many of these designees are PRC government agencies such as the Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ), the Ministry of Industry and Information Technology (MIIT), and the Ministry of Public Security, but others specialize in standards work. For example, the Chinese Electronics Standardization Institute—a research and policy group set up under the aegis of SAC, MIIT, the Ministry of Science and Technology, and the State Council Information Office—oversees TCs in the electronics sector and plays a large role in setting the industry's standards policy and direction.

As of February 2011, official SAC lists included roughly 500 separate TCs, ranging from committees that deal with standards for product voltage, current, and frequency (TC 1), to standards for mobile laboratories (TC 509). Depending on the TC's scope, activity, and membership, the committee may feature formal and informal subgroups for more specialized standards areas. For example, TC 15, which handles plastics, includes eight active subcommittees on topics such as polyvinyl chloride (PVC) resin products (SC 7), petrochemical plastic resin products (SC 1), and thermoset polymers (SC 11). Most TCs feature about 20 members, including technical experts and company representatives, and are headed by a standing secretariat led by a public-sector technical expert.

The selection process for TC members differs between committees. Though SAC attempted to standardize TC membership rules in 2008 with the release of draft Requirements for the Establishment of Technical Committees, many stakeholders resisted the changes, particularly foreign companies that would have been allowed to participate only as non-voting observers. The final draft of the requirements, passed in January 2009, deleted those provisions, thus leaving decisionmaking on membership rules and processes to individual TCs.

Since 2009, some companies have reported selection processes that have allowed individuals seeking TC membership to be openly considered based on evidence they provide to committee leadership. How a leadership committee evaluates a potential TC member can vary, however. Several factors influence TC membership decisions, including the prospective company's operations, employees, and investment in China, participation by the company in overseas or international standards groups related to the TC's coverage area, and the company's overall experience with relevant technical areas. Most TCs examine the technical expertise of potential members to evaluate what they can contribute to the committee's work. Technical contributions can include intelligence on new developments in the international standards-setting arena.

Persistent challenges with participation

For many companies, participation in standards-setting and standards policy discussions remains a challenge. In the US-China Business Council's (USCBC) 2010 member priorities survey, only one in five respondents involved in standards described their ability to participate in China's standards-setting activities as "good," with most reporting an "average" or "poor" capacity. The challenges companies face in standards participation vary and include a lack of transparency in standards-setting, inadequate harmonization with international standards, and required disclosure of sensitive information. Thirty-five percent of USCBC survey respondents said that participation in TCs remains one of their top concerns about China's standards and conformity assessment system.

Barriers to participation in China's standards system can stem from practical concerns. In established TCs and standardization groups with full membership, existing members often have no desire to reshuffle membership and admit new players. Other companies limit their participation in TCs because of constraints on the human or financial resources they can devote to standards activities. (According to the 2009 PRC Administrative Rules for National Technical Committees, individuals may not serve on more than three TCs simultaneously.) Finally, some foreign companies that might otherwise be active in TCs choose not to participate because of committee policies or practices. For example, China's standards development process lacks clearly defined policies on treatment of intellectual property rights (IPR). This shortcoming is concerning to many

Standards Primer

China's current standards system evolved out of an older state-planning regime in which standards were set by industry-specific government agencies with the goal of spurring economic development. Today's system retains aspects of that regime, despite attempts to modernize and respond to China's rapidly developing market economy. The Standardization Administration of China (SAC), created in 2001 underneath the Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ), is the main agency tasked with building and overseeing China's standards. SAC manages and supervises China's standards system and standardization activities and represents China in many key international standards groups. Other government agencies—including AQSIQ, the Ministry of Agriculture (MOA), and the Ministry of Industry and Information Technology (MIIT)—also manage some standardization activities for certain industries and represent China in specific international standards bodies.

China maintains four types of standards that can affect companies and their products.

■ National standards

Most national standards, known as *guobiao* (GB), are overseen by SAC, though some are managed by other agencies, such as MIIT, MOA, and the Ministry of Environmental Protection. Overseen by SAC, technical committees (TCs) draft, revise, approve, and manage national standards. Individual standards have the two-letter "GB" abbreviation, followed by a number and the year the standard is implemented. For example, GB 14887-2003 is a national standard for traffic signals and lights, originally approved and implemented in 2003.

■ Industry standards

Industry standards, known as *hangbiao*, are drafted by industry associations and standards-related organizations. These standards are identified by two-letter abbreviations, many of which reflect China's earlier state-planning regime. For example, "YD" is the abbreviation for many telecom products, because such standards were originally developed under the umbrella of the former Ministry of Post and Telecommunications (*youdian bu*).

■ Local standards

Provincial-level regulators oversee local standards, or *dibiao* (DB), which are generally drafted to cover standards "gaps." Such gaps may include areas that lack national or industry standards but require safety, hygiene, or other restrictions (such as for local food or health products). Given their limited geographic scope, local standards are generally managed by local branches of AQSIQ. Such standards are enumerated with a "DB," followed by a province code. For example, a standard starting with "DB 44" refers to a local standard developed in Guangdong.

■ Enterprise standards

Companies have the option to develop and register individual company standards, known as *qibiao*. These standards lay out additional technical requirements on top of national, industry, or local standards, and are used by companies to enforce standards internally or to demonstrate publicly the technological level or quality of their products.

National, industry, and local standards can be mandatory or voluntary, with voluntary standards adding a "/T" after the two-letter abbreviation at the beginning of the standard name.

Because tracking different types of standards is a challenge for many companies, some firms focus resources on national and industry standards, as these generally have the broadest impact on their products. The mix of standards that companies should follow most actively, however, may vary depending on each company's industry, product mix, and available resources.

—Ryan Ong

companies that fear participating in standards-setting activities could force them to disclose or contribute their IPR at low or zero-royalty rates.

In other cases, however, participation barriers are strategic rather than logistical. Foreign firms are sometimes excluded or limited in TCs because existing players want to protect their market position or because of perceived national security concerns. National security issues have been a major concern for IT companies in particular. Several important standards policy-making groups—such as those that deal with the encryption-related trusted computer module (TCM) and multilevel protection system (MLPS) standards—have excluded foreign IT company participation, despite those companies' considerable technical expertise and interest in assisting committees. In other cases, TCs have allowed foreign companies to participate but have limited them to observer status or partial involvement, in which companies may participate in discussions about certain standards areas only. For example, foreign companies have been allowed to observe some subcommittees and working-level discussions in committees, but have been turned down from others.

Foreign companies have a mixed record of participation in industry and local-level standards-setting activities, partly because these standards are less important for many companies and feature a wider variety of standards-setting groups. Some industry associations are active on standards issues and open to limited foreign participation. For example, the China Communication Standards Association has permitted several foreign companies to participate in its standards-setting activities through existing joint ventures—though at a significantly higher cost than their domestic counterparts.

Some companies have addressed limits on their ability to participate by finding alternative ways to interface with standards-setting groups. For example, a company may be able to participate as a technical advisor on standards-setting groups even if the company cannot be a full member. Other companies have sought to bolster their technical credentials—and thus their chances of being invited to participate in standards activities—by encouraging staff to publish in key industry journals or present at influential conferences and events in the standards community. Companies have also used their participation or leadership in international standards activities to build relationships with Chinese standards officials and groups. In addition, some companies have been able to use the prospect of participation in international standards-setting activities to create more opportunities for standards-related interaction.

Best practices

Companies that wish to participate in China's standards-setting system must be able to work within China's regime and adapt to its top-down approach and weak emphasis on voluntary standards-setting (see the *CBR*, January–February 2010, p.40). Companies that aim to participate should consider a few steps.

> To navigate China's standards system, companies must fully understand it and develop a roadmap tailored to their industry and to their company's unique strengths and challenges.

■ **Analyze the landscape**

Based on the company's key products and manufacturing processes, company personnel should research the status of relevant standards in China. Companies should learn which TCs and industry associations are active on standards that affect their products and processes, the involvement of Chinese and foreign competitors in these groups, and how PRC standards compare with international standards. In some areas—such as energy efficiency and smart grid technology—where varying groups are competing for standards leadership, multiple groups may be active on different aspects of a product or technology.

■ **Audit company resources**

Companies should assess the amount of time, resources, and technical expertise they have to invest in standards issues. They should pay particular attention to resources that can be used in China and what resources have already been allocated on international standards activities. Companies should also work internally to build a more cohesive standards team and consider how to tie standards work to their broader product strategies in China.

■ **Assign strategic priorities**

Companies should determine which resources to allocate to specific standards areas and how to best use the resources. Potential strategies include monitoring standards-related informational channels, such as government and association websites, databases, and newsletters; building relationships with standards-related officials and groups, including formal and informal industry groups, research and technical institutions, and government-affiliated groups and agencies; and formally participating in standards-setting activities.

Continued on page 58

Jiangxi's Key Port City

Though Jiujiang has a strong transportation network and industrial base, foreign investment has just started to take off in the city.

David Lammie

Jiujiang, whose name means "nine rivers" in Chinese, is situated in northern Jiangxi in central China. To the south of this picturesque city lies the famous Lushan Mountain; to the east is Poyang Lake, China's largest freshwater lake and a major tributary of the Yangzi River. As of 2010, Jiujiang had a population of 4.8 million, roughly 600,000 of whom lived in the city proper.

As the only Yangzi port in Jiangxi, Jiujiang was an important military town for centuries. China's Communist leaders gathered in Jiujiang to plot the Nanchang uprising against the ruling Nationalist party on August 1, 1927, which is regarded as the founding date of the People's Liberation Army. Jiujiang was also an important commercial port and a center for tea and rice trading. Its cereals market remains an important national reference for rice prices.

Jiujiang stands out as one of the most attractive, ambitious, and vibrant port cities along the Yangzi. And with a strong local government presence, Jiujiang has the feel of a provincial capital, though Nanchang holds that position in Jiangxi.

Economy and investment

Jiujiang's economy has taken off in recent years, in part because of increased foreign investment. Jiujiang's gross domestic product for 2010 reached ¥103.2 billion ($15.7 billion), an increase of 14.3 percent year on year, surpassing the government's annual target of ¥97 billion ($14.7 billion). According to the Statistical Bureau of Jiujiang, the average per capita disposable income for the first nine months of 2010 for urban dwellers hit ¥13,248 ($2,009), up 10.5 percent year on year, and the average per capita net income for rural dwellers reached ¥3,912 ($594), up 13.4 percent.

The city's utilized foreign investment reached $665.4 million in 2010, roughly one-third greater than in the same period of 2009. Jiujiang's exports nearly tripled to $843 million in the first nine months of 2010. Leading multinational corporations (MNCs) with a presence in the city include the United States' Cabot Corp., Japan's Itochu Corp., Suzuki Motor Corp., and Toshiba Corp., and France's Total SA. Significant domestic businesses include Tsinghua Tongfang Co., Ltd., China Petroleum and Chemical Corp. (Sinopec), and China Minmetals Corp.

Despite Jiujiang's extensive transport network and traditional industrial base, local investment officials say that few MNCs have invested in the city in recent years, partly because of its low international profile.

Diversified industrial base

Jiujiang has a diversified industrial base, with light industry, mining, petrochemicals, shipbuilding, and textiles as its major sectors. The surrounding area has significant antimony, copper, fluorite, gold, and tin reserves. China Minmetals, one of the largest state-owned enterprises in Jiujiang, has a white tungsten processing base. Tourism is also important. The famous Lushan Mountain Resort is just over an hour away by car.

Energy

Jiangxi is famous for its rich uranium resources, which account for one-third of China's total uranium deposits. Senior officials from the Jiangxi Provincial Development and Reform Commission have confirmed that construction of the ¥105 billion ($15.9 billion) Jiujiang Pengze Nuclear Power Plant will start in the first half of 2011. Situated about 80 km from downtown Jiujiang, Pengze will be the first of six nuclear plants that the government plans to build across the province.

Jiujiang receives its natural gas through pipes from Xinjiang and Sichuan, and the city has three wind power farms near Poyang Lake. Coal-fired power plants are still the dominant source of electricity, however. In 2010 the city imported 50 million tons of coal from Henan, Shaanxi, Shanxi, and other provinces, and the figure is expected to rise to 80 million tons by the end of 2015. In anticipation of a rapid increase in industrial demand for energy and to better serve coal-fired power plants in the region, the local government approved a plan to build a coal-mixing center at the port with an annual handling capacity of 20 million tons, according to senior managers at Shanghai International Port Group Jiujiang Port Service Co., Ltd.

Quick Glance

- As the only Yangzi port in Jiangxi and a link in a key north-south rail line, Jiujiang boasts extensive transport networks.
- The city has a diversified industrial base, with light industry, mining, petrochemicals, shipbuilding, and textiles as its major sectors.
- Few multinational corporations have invested in the city in recent years because of the city's low international profile, but foreign investment is rising.

Chemicals

Most of Jiujiang's recent investment has been in the chemical and petrochemical sectors. China Bluestar International Chemical Co., Ltd. acquired Xinghuo Organosilicon Plant in 1996. (Organosilicon compounds are used in certain types of paint, plastics, and electrical insulation.) In 2007, the new organosilicon plant went into full operation, doubling its annual capacity to 200,000 tons. Two years later, Bluestar started an ¥8 billion ($1.2 billion) upgrading and expansion project that will further increase its annual organosilicon capacity to 700,000 tons, making Xinghuo the world's largest organosilicon production base.

Bluestar also has a joint venture (JV) plant with Cabot, located in Xinghuo Industrial Park in Yongxiu County. The plant, which started operations in 2006, makes fumed silica, an advanced chemical product used in the auto and construction sectors. In January 2010, Bluestar and Cabot agreed to expand the JV's production and triple annual capacity from 5,000 tons to 15,000 tons by 2011.

Situated in the eastern suburbs of the city, Sinopec Jiujiang Co. is the only large-scale petrochemicals enterprise in Jiangxi. It includes a refinery, fertilizer and chemical plants, and new coking and hydrofining installations. The fertilizer plants are among the most technologically advanced in China. The company processed 6.5 million tons of crude oil in 2009. In December 2009, the Jiangxi provincial government and Sinopec agreed to upgrade and expand the plant's oil processing

Case Study: Sateri's Jiujiang Fiber Mill

Sateri International (Singapore) Pte. Ltd.'s fiber mill in Jiujiang, Jiangxi, is striving to improve the reliability of its supply chains in this third-tier city. Sateri, a subsidiary of Singapore's Royal Golden Pte. Ltd., operates a wholly foreign-owned viscose fiber mill in Jiujiang. With a production capacity of more than 130,000 tons a year, the mill supplies customers in the textile and non-woven hygiene products industries. Viscose fibers are used in home and hospital products, such as baby wipes and surgical facial masks.

Sateri decided to locate its China viscose fiber mill operations in Jiujiang because of the city's strong transportation links. The plant is close to the Yangzi River and about 20 km from the city's downtown.

The fiber mill imports dissolving pulp from Brazil via Shanghai. Sateri sources other raw materials, including chemicals such as sulfuric acid, in China. For example, the mill sources sodium hydroxide from Yichang, Hubei. Sateri sells its finished products domestically in Guangdong, Hubei, Jiangsu, Shandong, and Zhejiang; its major export markets are Europe and Southeast Asia.

Sateri has a private terminal on Poyang Lake, the largest freshwater lake in China and a major Yangzi tributary. The company plans to expand the terminal's capacity to handle dangerous goods, which will allow Sateri to expand and export more goods from Jiujiang.

The fiber mill imports roughly 110,000 tons of coal annually to use in the production process. Most of the coal comes from Sichuan but, according to local ship operators, the river journey can take up to 14 days because of fluctuating water levels downstream from the Three Gorges Dam. The company aims to find new sources of quality coal that can be delivered more reliably. Sateri purchases coal from Shanxi from traders in the port city of Qinhuangdao, Hebei, and has it delivered to the plant via the sea and then the Yangzi.

Though Sateri remains happy with its original decision to locate in Jiujiang because of its good transport links, the company devotes considerable resources to developing its logistical infrastructure and improving its supply chains.

—David Lammie

capacity from 5 million tons to 8–10 million tons in three to five years.

Autos

Suzuki and Chinese minibus maker Jiangxi Changhe Automobile LLC moved their JV's headquarters from Jingdezhen, Jiangxi, to Jiujiang in January 2009. Changhe has a controlling stake, while Suzuki holds 49 percent of the $312 million JV. Jiangxi Changhe Suzuki Automobile Co., Ltd. had already been operating an engine plant in Jiujiang since 2005. The plant makes fuel-efficient 1.4-liter engines, developed by Suzuki, for the "Wagon R Wide" car for the China market. According to company officials, production during the first phase of the expanded venture is 75,000 units a year, and the JV expects capacity to reach 300,000 units by 2012. In December 2008, as part of its efforts to improve efficiency, the JV also moved production of its Freedom-brand mini trucks from Hefei, Anhui, to Jiujiang. Preparation work is also underway to assemble a new Suzuki model called "Splash."

Consumer electronics

Though Jiujiang has attracted few MNCs in general, last year it saw a boost in foreign investment. Canon Inc.'s Taiwan operation, the world's largest digital camera original equipment manufacturer, invested $150 million in a major production facility in the Jiujiang Export Processing Zone. The facility manufactures cameras for Casio Computer Co., Ltd., Olympus Corp., and Sony Corp.

Leading investment zones

Jiujiang has 13 industrial parks and zones, which are headed by the Jiujiang Economic and Technological Development Zone (ETDZ), the largest of Jiujiang's development zones, and Xinghuo Industrial Park.

Jiujiang ETDZ, founded in 1992 and upgraded to national-level status in March 2010, is located in the southwest suburbs of the city, about 9 km from the downtown area, on the south bank of the Yangzi and close to the port. The 150 km^2 ETDZ has four pillar industries: auto and auto spare parts, led by Changhe Suzuki; new materials, led by Jushi Group Co., Ltd., Asia's top fiberglass producer; new energy, represented by Jiangxi Sornid Hi-Tech Co., Ltd., one of China's major multi-crystalline silicon producers; and electronics, led by Canon.

The national Jiujiang Export Processing Zone, the only one of its kind in Jiangxi, is located in the ETDZ. As of November 2010, the zone was home to 61 enterprises, including China's leading juice producer, China Huiyuan Juice Group, Ltd.

Established in 2000, Xinghuo Industrial Park mainly engages in the manufacture and research and development of organosilicon products. Currently, 2 km^2 of the park are being used out of a planned total of 10 km^2. The park, which aims to become a world-class manufacturing base for silicon products, hosts the Xinghuo Organosilicon Plant.

The Jiangxi provincial government aims to establish a national production center for mobile phones in Gongqingcheng (Youth City), a suburb of Jiujiang on the banks of Poyang Lake. According to media reports, a recent industrial conference hosted by the provincial government attracted 10 domestic projects worth a total contractual value of ¥2.8 billion ($425 million). More than 50 mobile phone manufacturers from Shenzhen, Guangdong, immediately set out on a fact-finding mission and several new mobile phone projects are being negotiated as a result of the conference.

Transport network

Jiujiang is to the Beijing-Kowloon Railway what Wuhan, Hubei, is to the Beijing-Guangzhou Railway: the

Jiujiang at a Glance

By the Numbers

	2009	% change over 2008
Population	4.8 million	7.7
GDP	¥83.1 billion ($12.6 billion)	13.8
Fixed-asset investment	¥65.9 billion ($10 billion)	43.9
Value-added industrial output	¥35.2 billion ($5.4 billion)	18.0
Retail sales	¥24.1 billion ($3.7 billion)	19.1
Government revenue	¥8.6 billion ($1.3 billion)	30.3
Utilized foreign direct investment	$521.0 million	19.3
Total trade	$710.0 million	48.1
Exports	$462.0 million	75.4
Imports	$247.0 million	14.6

Sources: Statistical Bureau of Jiujiang; PRC media

Government Contacts

Chinese Communist Party Secretary: Zhong Ligui

Mayor: Zeng Qinghong

Vice Mayors: Yin Meigeng, Zhang Hua, Liu Jianping, Lu Tianxi, Wu Jinping, Liao Kaibo, and Xiong Yongqiang

Assistant Mayors: Li Xiaogang, Zhu Xianjin, Liu Guofa, Yang Zhenhui, and Wang Zheyu

Jiujiang City Government
www.jiujiang.gov.cn

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half-way point on one of China's most important north-south trunklines. An intercity express rail link between Jiujiang and Nanchang opened in September 2010, with trains on the 135 km line running at a top speed of 180 km per hour. Jiujiang's rail network also extends to Ma'anshan, Anhui.

Linking Guangdong to Gansu, the Beijing-Zhuhai and Fuzhou-Lanzhou national highways pass through Jiujiang, and the city is connected by expressway to Jingdezhen and Nanchang. The Daqing-Guangzhou (linking Heilongjiang to Guangdong) and Hangzhou-Ruili (linking Zhejiang to Yunnan) expressways, both of which are under construction, will also pass through the city.

Construction began in October 2009 on a new Yangzi River bridge. The six-lane bridge, which will be completed in three years, will connect Jiujiang with Huangmei County in Hubei.

Jiujiang airport is only 10 km from the popular tourist attraction of Lushan Mountain. Though the airport was closed for about half of its first 10 years after opening because of low traffic levels, it reopened in 2006 and offers daily flights to Beijing and Shanghai. The nearest alternative airport is two hours away in Nanchang, which serves many more cities, including Hong Kong.

Jiangxi's vast network of inland waterways includes 56 ports of various sizes, among which Jiujiang stands out as the most important. Situated at the point where the Beijing-Jiujiang Railway meets the Yangzi, Jiujiang is one of five national hub ports along the river and one of China's 13 main ports for coal transhipment. Shipping lines—including AP Møller-Mærsk A/S; China Cosco Holdings Co. Ltd.; China Shipping (Group) Co.; MSC Mediterranean Shipping Co. SA; Sinokor Merchant Marine (China) Co., Ltd.; and Sinotrans, Ltd.—offer regular container services from Jiujiang port to destinations such as Hong Kong, Japan, and countries in Southeast Asia. In recent years, an increasing number of domestic and foreign shipping lines have set up offices in Jiujiang, which hosts 20 freight forwarders and shipping agents in the city. The port operates more than 20 international routes.

Jiujiang's rapid growth attracted the attention of Shanghai International Port (Group) Co., Ltd. (SIPG), by far the largest investor in Yangzi ports. SIPG injected ¥550 million ($83 million) in 2008 for a 92 percent equity stake in the Jiujiang port, with the remaining shares held by the Jiujiang State-Owned Assets Supervision and Administration Commission. Today, SIPG Jiujiang Port Group handles about one-third of the city's entire cargo volume; the remainder is handled by small operators and privately owned terminals.

Human resources

Jiujiang has a general shortage of workers in the city, but the local government says it helps investors address this problem by recruiting workers in and outside the city. Jiujiang University, the city's main university, has an enrollment of more than 30,000 full-time students, according to the university. Though Jiujiang is not known for its educational institutions, Nanchang, which is less than an hour away by train, has several universities and colleges.

Jiujiang's future

Jiujiang is trying to attract companies from the auto and auto parts, electronics, new-energy, and new-materials sectors. In addition, the city offers opportunities to invest in the tourism sector. For example, the city has no international five-star hotels.

Foreign-invested enterprises praise the city's strong local government support for foreign companies, relatively low levels of pollution, and pleasant surroundings of Jiujiang. The city still lacks a critical mass of foreign-invested enterprises, so expatriate family life is limited, however. Furthermore, local government officials admit that the city lacks a clear strategy on how to balance attracting industry and protecting the environment. Each of Jiujiang's districts, for example, pursues its own industrial plans, which may not be aligned with the municipal government's desire to preserve the city's natural beauty and historical heritage. 完

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Gereral Motors Co.

David S. Chen, vice president of General Motors China Group

General Motors Races Ahead in the China Market

By studying local consumers, developing vehicles to suit local needs, and benefiting from the country's economic stimulus incentives, GM has reaped success in China.

One of the world's largest automakers, General Motors Co. (GM) and its partners produce cars and trucks in 30 countries under 12 major brands. With its global headquarters in Detroit, Michigan, the company employs roughly 202,000 people in all major regions of the world and conducts business in more than 120 countries. GM's largest national market is China, followed by the United States. The company has been the sales leader among global automakers in China for six consecutive years.

David S. Chen**, vice president of GM China Group, recently discussed the company's China operations with* CBR *Editor* ***Paula M. Miller. *Chen is responsible for GM's government relations, public policy, and corporate social responsibility efforts in China. Currently based in Beijing, he has been working for GM in China since 1994, when he helped launch GM's first China joint venture (JV) in Shanghai. He began working for GM in Warren, Michigan, in 1984.*

When and where did GM first enter China?

Chen: GM first entered China in the 1920s. There was a Chevrolet dealer in Shanghai during that time. Records also show that the father of Chinese democracy, Sun Yatsen; the first premier of China, Zhou Enlai; and the last emperor, Puyi, owned Buicks. If you're wondering why Buicks are doing so well in China, the historical linkage may help. I've heard that in the 1930s, one out of every six cars in China was a Buick. GM stopped operating in China in 1949 and restarted in late 1993 or early 1994 when we began negotiating our first JV, Shanghai GM, with our partner Shanghai Automotive Industry Corp. (SAIC).

How has GM expanded in China over the years—in terms of size, products, and strategy?

Chen: In 1994, we started with five people working in two rented rooms at a Holiday Inn in Shanghai. We then rented half a floor of that building and eventually extended to two floors. Today, GM has more than 40,000 employees in nine cities in China. We launched our first vehicle that was manufactured in China, the Buick Century [similar to the Buick Regal in the United States], at the end of 1998 and started selling it in 1999. Last year, GM's total China production and sales reached 2.3 million vehicles—nearly a 29 percent increase from the 1.8 million vehicles in 2009.

When we launched the Buick Century in China, the launch was only six months behind its debut in the United States. The vehicles had state-of-the-art technology and were breathing a breath of fresh air into China. In contrast, some of the European manufacturers were releasing vehicles that were at least 10 years old when they reached the China market. At the time, we promised China that we would launch one new car per year.

In 2000, we released the Buick GL8 minivan, which is similar to a Chevrolet Lumina or Oldsmobile Silhouette in the United States, and the Buick Sail, which was based on the smaller Corsica car. The Sail was the first car that targeted families and was priced under ¥100,000 ($15,200). At the time, people thought we were crazy to release a family car for the China market when 90 percent of China sales were coming from government purchases. But the trend has reversed now—most vehicles are for private use. We weathered skepticism for launching a family car in 2000, but we were lucky—we were right.

In fact, we are a company of many firsts in China. In 1997, we set up the first technical center JV in China—the Pan Asia Technical Automotive Center (PATAC)—between GM and SAIC. It is now one of our core advantages. We were also the first to build automatic transmissions in China when almost no one wanted them. Today more than half of Chinese consumers prefer automatic transmission.

What are GM's current investment structures in China?

Chen: After setting up Shanghai GM in 1994, we acquired the second JV, SAIC-GM-Wuling Automobile Co. Ltd. (SGMW), in 2002. [The JV is between GM China, SAIC, and Liuzhou Wuling Motors Co., Ltd., and is based in Liuzhou, Guangxi.] I was pleased that eight or nine years ago it was the fourth-largest mini commercial vehicle producer in China, even though it only sold 80,000 to 100,000 units that year. Last year, however, it produced and sold more than 1.2 million units, and it has been the top mini commercial vehicle manufacturer for five years.

After the second JV, there was a sequence of mergers and acquisitions led by Shanghai GM. A few years after, we set up a plant with SAIC in Yantai, Shandong, which predominately builds Chevy vehicles now. We also expanded into northern China, setting up a plant in Shenyang, Liaoning, where we build Buick GL8 minivans and Chevrolet Cruze compact sedans. In 2009, we expanded further to build commercial light-duty trucks with First Auto Works (FAW) [China FAW Group Corp].

In November 2010, GM became the first global automaker in China to sell 2 million vehicles in a single year. How did sales by GM and its JVs in China increase in 2010 over the last few years?

Chen: When the global economy "stepped on the breaks" in 2008, it impacted China as well. In late 2008, we could see a significant weakening of the auto market. But in part due to China's timely economic stimulus incentives, which were simple but effective, 2009 and 2010 were great years for us. The incentives included consumption-tax rebates for small-engine cars, rebates for rural car-buyers, and incentives to exchange old vehicles for newer, more energy-efficient models. Those three major stimulus policies were in place in January 2009, and they were wonderful for China. Total auto industry sales in China rose over 40 percent that year. GM sales in China rose about 67 percent, so that we produced and sold 1.8 million units. Last year the incentive policies were still in effect, and we sold 2.3 million units—roughly a 29 percent increase over 2009.

This year will be challenging—mainly because the stimulus package has ended. [GM has since reported that its January 2011 China sales hit an all-time monthly high of more than 268,000 vehicles, up 22.3 percent over January 2010. Its February 2011 sales reached more than 184,000 vehicles, also setting a new record for the month.]

What are GM's best-selling brands and models in China?

Chen: Last year, of the 2.3 million GM vehicles sold in China—Shanghai GM sold more than 1 million passenger vehicles. Of the remaining vehicles, SGMW sold about 1.2 million mini-commercial vehicles, and FAW-GM sold about 88,000 trucks.

Shanghai GM produces three well-known brands: Buick, Cadillac, and Chevrolet. Buick is by far the most popular in China—we sold about 550,000 Buicks last year. Though it was launched six or seven years later than the Buick, Chevy is catching up fast; last year we sold 543,000 units. Cadillac is the newcomer facing fierce competition against well-known brands such as BMW and Mercedes. But after selling 17,000 units last year—up 139 percent over 2009—Cadillac is also doing well. Cadillac's SRX luxury utility vehicle and new SLS luxury business sedan are the most popular. As its first- and second-most popular vehicles, SAIC-GM-Wuling sold 668,000 Wuling Sunshine and 335,000 Wuling Rong Guang minivans last year.

How have GM's business strategies and types of vehicles manufactured or sold in China changed over the years? How has GM adapted certain vehicles first released in other markets for the China market?

Chen: It takes about $1 billion to develop a car. Many of the first cars sold in China had small volumes per year—50,000 vehicles or less. With that kind of economy of scale, most foreign auto companies brought their cars that were popular in other markets over to China. The European and Japanese auto manufacturers in particular were successful—their designs and product features were appreciated and understood by the Chinese consumer.

GM had an adaptive strategy early on. We brought our popular models over from the United States and tailored them for the China market. When we brought the first Buick Century to China in 1998, we made more than 600 changes. Those alterations weren't just to cope with regulatory changes, such as oil and lamp design requirements that were unique to China, they were also changes to adapt a US car to Chinese consumer needs. For example, one of the key changes we made was to make the second-row leg space and seating area more roomy. This is because in China at the time, the owner, who was not the driver, usually sat in the back seat. Now, most owners drive their own car.

Essentially, we run many clinics to understand consumers before bringing a car over. We also look at who the major competitors are and try to understand what will make a winning product. Then we search the GM product portfolio, pick a car as a donor platform, and have PATAC meet the Chinese market requirements. We run clinics from the car's development all the way to its pricing to determine if we are off target. Our more successful products today are co-developed by GM global design and PATAC. For example, the Chevrolet New Sail, which is 100 percent developed by Chinese engineering, and the GL8 minivan have both sold well.

One big challenge in China is fuel efficiency—and how to adapt US technology to compete with European and Japanese models that are known to have fuel-efficient engines. We introduced the first six-speed automatic transmission in China, which is important because the more speed you have, the more fuel efficiency you have. Also, last year we made two significant cooperative agreements with SAIC—one to develop small engines and one to develop advanced double-clutch transmissions. In addition, we collaborated with partners to develop China-relevant electric vehicles.

What are some of the top auto-related issues you see in China?

Chen: The China auto industry produced 18 million vehicles last year—the highest annual volume in any country in history. For comparison, auto manufacturers in the United States produced 17 million units a year in the early 2000s.

With this volume, China is facing challenges in four main areas: energy, environment, safety, and congestion. In terms of energy—more than 50 percent of China's oil is imported, and in the last five years the country's greatest increase in oil use was from transportation. The huge concern is how China will sustain an auto industry when roughly 96 percent of its cars may run on gasoline—and many other industries consume energy as well. In terms of the environment, although China has made major accomplishments reducing auto emissions in the past 10–20 years, it still has many buses and trucks with old technologies. In many major cities, one-third of air pollutants are auto related. Concerning safety, although China has far fewer cars on the street—probably one-fifth to one-sixth of what's in the US—and far fewer auto-related accidents than in the US, China has 10 or 12 times more auto-related fatalities than in America. This is because most people that are hurt in car accidents in China are pedestrians. Finally, many cities are suffering from congestion. This January, Beijing issued a new policy to limit issuance of new car license plates to 240,000 plates a year. Last year, 700,000 new cars were sold in Beijing. Shanghai, which has significantly fewer cars on the road than Beijing, has auctioned plates for a while. Prices can top $5,000 per plate.

What are some ways that GM can help China with these problems? How does GM plan to help create "sustainable mobility," and what are some of the new energy vehicles that GM has released or plans to release in the near future?

Chen: We are developing solutions and products to address those four challenges.

GM was the only auto sponsor for the 2010 Shanghai World Expo. In fact, the SAIC-GM Pavilion, whose theme was "Drive to 2030," was the most visited corporate pavilion. It featured a 3D movie about the future of urban mobility that centered around GM's EN-V [Electric Networked-Vehicle] concept car. At the expo, we introduced the Chevrolet Equinox Fuel Cell electric vehicle, which addresses the difficulty of charging regular batteries by using liquefied or gasified hydrogen that generates electricity as it consumes hydrogen. We also demonstrated the Chevrolet Volt—which was the most popular extended-range electric vehicle launched last year in the US. In addition, we ran six technology workshops on sustainable urban mobility at the expo.

Last year, GM developed a blue paper that outlines its vision for the future of sustainable mobility. In brief, the blue paper discusses technical solutions to reach sustainable urban mobility through vehicles that are increasingly powered by electricity, connected continuously to communications infrastructure, electrically controlled through power equipment when desired, and flexibly designed to meet specific usage requirements. When most people think of the challenges of sustainable mobility they think of energy, fuel economy, and emissions—but they may not realize congestion and safety are equal challenges. The connectivity concept introduces cars that emit signals and thus can "talk" to each other and detect their surroundings, including other vehicles and pedestrians on the street. This will reduce the possibility of auto accidents and improve electric battery efficiency.

The EN-V concept car experiments with a number of futuristic technologies, but we are also working on improving the fuel efficiency of conventional technology—such as the internal combustion engine. There have been many technological improvements, such as on six-speed automatic transmission, variable timing, variable valve, SIDI [spark ignition direct injection] engine, and new power train technology. About 96 percent of vehicles in China use conventional engines.

So, GM is working to improve conventional technology and to develop hybrid, electric, and fuel cell vehicles. GM was first to launch volume production of a hybrid in China—the Buick LaCrosse Eco-Hybrid.

How many people can afford to buy hybrids or electric vehicles in China?

Chen: As in other markets, in China, hybrids are more expensive than conventional vehicles. But the PRC government has been aggressive with subsidies. An \$8,000 rebate from the central government, plus local subsidies, could reduce the price by \$10,000. Initially in China, hybrids have been purchased for public transport, taxis, government fleets, and by more well-off people. No one has sold large volumes of hybrids in China yet; the infrastructure isn't ready yet.

Does the PRC government offer subsidies for the purchase of all energy-efficient cars?

Chen: China encourages local production and many subsidies are contingent on the vehicle being locally produced. It doesn't matter who produced the vehicle—meaning whether the company was foreign or domestic—as long as it was produced in China.

GM produces many of its cars locally in China. Last year the PRC government announced a policy to give ¥3,000 (\$460) rebates on the purchase of fuel-efficient cars. GM has 26 vehicles that qualify for the rebate—that accounts for 10 percent of all vehicles in China that qualify for the incentive.

What have been GM's top challenges in China, and what has GM done to overcome them?

Chen: To win in the world, you have to win in China. So, the challenge is to know the market and continue to develop cars that the market wants. We have to be better than our competitors in terms of design, price, and service.

To win in service, GM launched OnStar [an in-vehicle security and navigation system] in China last year, and it has been very successful. Drivers hit a button, OnStar tells them where to go and where to eat. Every month, we have 15,000 new subscribers and the numbers are rising. We want customers to know that if they buy a GM car in China, they can have a sense of peace and know that we will serve them well. Building a product and offering services that consumers want and need is one of our core winning strategies. Our PATAC JV has played a critical role in adapting to local needs.

What do you predict the China market will be like for GM in 5 or 10 years? What are GM's future goals for its China operations?

Chen: As an emerging market in the world, China offers unmatched opportunities. We expect China's auto industry sales to grow in the next few years, but maybe at a more sustainable rate with a more typical pattern of 10–15 percent.

GM remains optimistic about the long-term prospects of the China market and believes we must continue to be an industry leader in sales, product development, capabilities, and advanced technologies. We will work closely with our partners to expand our business "in China, for China, with China." If auto market sales in China increase just 10–15 percent this year, sales will reach 20 million cars. I think in 15–20 years from now, China will build and sell 30 million cars per year. If a typical car has a 10-year life span, that's 300 million cars. I've been wrong about forecasting China's volume in the past, but that seems like a reachable number.

Some people worry about what will happen to the environment if China's auto sector booms. How would you respond?

Chen: In China today, probably 4 or 5 percent of consumers own a car. In the United States about 80–90 percent of people have cars. The world average is probably about 11–12 percent. China still has a long way to go to even meet the world average.

Personal mobility is a freedom. You can't deprive people from wanting a better life by saying one person can have it and another person cannot. But it has to be done in a sustainable way. It's very important to grow the industry in a harmonious way so people have mobility and convenience without sacrificing the environment or energy efficiency and while addressing safety and congestion concerns. We believe personal mobility doesn't have to conflict with the environment. GM's blue paper shares our vision of how this can be done. 完

Can an Aging China Be a Rising China?

Continued from page 35

Room for optimism

None of this is to say that China's rags-to-riches story is fated to end poorly. Though China's demographics will soon begin leaning against economic growth, the age wave will not arrive in full force until the mid-2020s. By then, China's economy will likely have overtaken the US economy in absolute size, at least measured in purchasing power parity dollars that take into account differences in living standards.

As for social instability, the PRC government is acutely aware of the risks that deteriorating demographics and slowing economic growth may bring. The government's emphasis on building a "harmonious society" and repairing the social safety net reveals how seriously it takes the danger of social upheaval. Over the past few years, PRC leaders have launched initiatives that have begun to push China's retirement system in the right direction. They have increased efforts to broaden participation in the existing basic pension system for urban workers, design a new rural pension system, and lay the groundwork for a system of private pensions known as enterprise annuities. After years of hesitation, the government also seems to have recognized that rapid population aging has become a greater threat than rapid population growth—and is starting to relax the one-child policy.

What the demographic trends do suggest is that widespread expectations of continued double-digit growth in China may be unrealistic, even in the near term, and that there are far greater risks to growth and stability in the long term than is generally appreciated. These trends leave room for optimism about China's future, but that optimism must be tempered by a realistic assessment of the significant challenge that lies just over the horizon. 完

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STANDARDS

Strategies for Participating in China's Standards Regime

Continued from page 49

■ **Assemble your pitch**

Companies looking to build relationships with standards officials or seeking formal participation in standards-setting activities should gather information about themselves and their resources to make the case that they should be involved in standards discussions. This pitch should include information about the company's operations and investment in China, but it should pay particular attention to the company's potential technical contributions to standards development.

■ **Approach targeted standards groups**

Based on the information collected, companies should reach out to relevant standards groups to offer expertise and explore possible participation at the appropriate level. Depending on the standards area, it may make sense to approach and interact with multiple standards-related groups to broaden potential information and participation channels.

■ **Advocate on technical grounds**

Once a company begins to participate, it should remember that the technical experience that enabled participation in the first place continues to hold the most value in standards-related discussions. When lobbying on a particular standard, technical concerns and proactive technical fixes make more convincing arguments to standards developers than market access issues or market impact assessments.

Strategies for success?

China's standards system is difficult and rapidly changing, making it challenging for companies to navigate. Despite the challenges, some foreign companies can point to successes—concrete instances where they were able to navigate and even guide the development of standards in key areas. To be successful, US companies must devote the time and resources to understand the differences between China's system and those in other markets, determine what level of involvement is necessary for their product and technology areas, and build the channels and relationships necessary to participate in the system. 完

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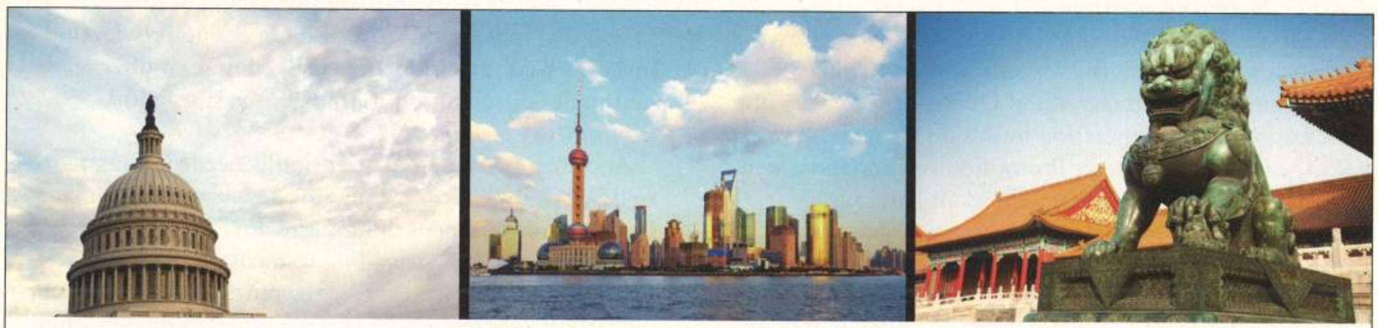

Creating American Jobs from China Trade

Jack Markell

For years, the story most Americans have heard about jobs and Asia has been about losing our jobs to the East. We all know the plot: The Chinese economy is evolving at a nearly unfathomable rate, and Chinese exports seem to dominate our grocery stores and shopping malls. But now, the plot is twisting: The Chinese growth that has long stirred fear among many Americans is increasingly opening up new opportunities for US workers and exporters.

Governor Jack Markell meets with Vice Minister of Commerce Wang Chao during President Hu Jintao's January visit.

At the National Governors Association Winter Meeting this February, I was pleased to sign an agreement with the top official from China's Hunan Province, Secretary Zhou Qiang, to cooperate on job creation. This cooperation builds on an agreement with the China Investment Promotion Agency and a visit by Chinese businesses representatives in January. Increasing exports for Delaware companies and attracting foreign investment from around the world are important parts of the effort to improve our economy.

From the moment I wake up every day, I'm focused on jobs in Delaware. Though there's no "magic bullet" that will create the thousands of high-quality jobs we need, Chinese companies and consumers can be part of the solution.

In fact, China's rapidly growing consumer class is starting to flex its spending muscle. The Chinese middle class is growing, and they're eating Delaware chicken. Our exporters shipped $361 million in goods to China in 2010, up 21 percent over 2009—despite the recession—and up 217 percent over 2005.

In addition, many Chinese companies are actively seeking to invest in the US market. Local investments boost local employment, regardless of country of origin. In Delaware, some of our most important employers are based in other countries, including India, the Netherlands, Russia, and the United Kingdom. These employers are global companies operating facilities around the world, and Chinese businesses are following suit.

Trade deals don't happen by themselves. We need to work hard to turn these opportunities into real American jobs. Though diplomacy and trade policy are best led by the federal government, the daily work of trade is done by a tremendous range of businesses, large and small, across the United States and the Pacific. Where do states fit into this picture?

States—especially small ones like Delaware—are just the right size for international trade promotion. We're big enough to bring together local businesses and reach across the ocean to market our state "brands," but are small enough to specialize in regional industries. We're also big enough to develop in-house trade expertise and small enough to offer personalized facilitation to foreign investors and US exporters.

And such personalized attention is needed. Grassroots trade work is not easy; doing business in a foreign market is, by definition, foreign. Libraries are filled with tales of Western companies struggling to navigate the China market, achieving wild success or outrageous losses. When Chinese managers look to invest in the US market, they hope for and fear much of the same.

It's obvious that our political systems are different, but the differences in our legal systems, business culture, and consumer expectations have a far greater impact on companies. If we want to attract Chinese investors and local jobs, we need to welcome them, understand them, and be prepared to help them understand our expectations.

I applaud the initiatives by Secretary of State Hillary Rodham Clinton and the National Governors Association to promote cooperation between "subnational" (state and local) governments in China and the United States. From my work in the private sector, I know that competitiveness is fortified by cooperation. These efforts will make our country and each of our states stronger. 完

__Jack Markell__ is the governor of Delaware. He began his career helping lead the wireless technology revolution as the 13th employee at Nextel (a name he coined).

News of China-Related Educational, Cultural, and Charitable Projects

US companies participate in a broad range of programs that benefit the people of China and strengthen the bonds of US-China friendship beyond the commercial realm. *Opportunities* aims to help companies identify programs that merit their assistance. The materials contained in *Opportunities* are condensed. For more detailed information, interested companies should contact the programs directly. (Note: Neither the US-China Business Council nor the *CBR* is a sponsor of any project listed in *Opportunities* and makes no recommendation with regard to corporate assistance to any specific project.)

US Institution: The Five Project, Inc.
Project Description: To promote disability awareness and advocacy, and provide professional training for teachers, government officials, and parents of children with autism and other developmental disabilities in China.

The Five Project is a 501(c)(3) organization that aims to increase the capacity of autism-focused and other disability-focused organizations in China to provide effective intervention services. The organization also promotes and supports self-help and self-advocacy skills in Chinese individuals with disabilities and their families. Specifically, the Five Project provides educational materials to families, teachers, and special education organizations nationwide and conducts training programs with local partners in Jiangsu, Liaoning, and Shaanxi.

The Five Project is seeking funding for its autism training programs, with the most urgent need for projects in Liaoning and Shaanxi. With its local collaborators, the Five Project provides ongoing capacity building and training in Anshan, Liaoning. The training is also open to special education teachers from the surrounding northeastern provinces. In addition, the Five Project is planning a project in northern Shaanxi for special education teachers, relevant local government leaders, and parents. Finally, the organization has completed multiple projects in Jiangsu and has received requests for further capacity building and training around the province, including in Changzhou, Lianyungang, and Nanjing.

Contacts:
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US Institution: Operation Smile China
Project Description: To provide free surgeries to repair cleft lip, cleft palate, and other facial deformities for children around the globe.

To commemorate 20 years of creating smiles in China, Operation Smile and Operation Smile China will hold the "Celebration of Smiles" to provide more than 2,000 new smiles for children in need. Operation Smile is seeking support for the multi-faceted Celebration of Smiles program, which will include more than 20 medical missions, a plastic surgery medical conference, galas in Beijing and Hong Kong, and the International Student Cultural Exchange conference. Operation Smile's medical volunteers will work at more than 20 medical missions throughout China from March to November 2011 as part of the program.

The partnership between Operation Smile and the people of China began in 1991 with the organization's first medical mission. Over the last 20 years, Operation Smile China has been committed to helping the more than 35,000 children born in China each year with a cleft condition.

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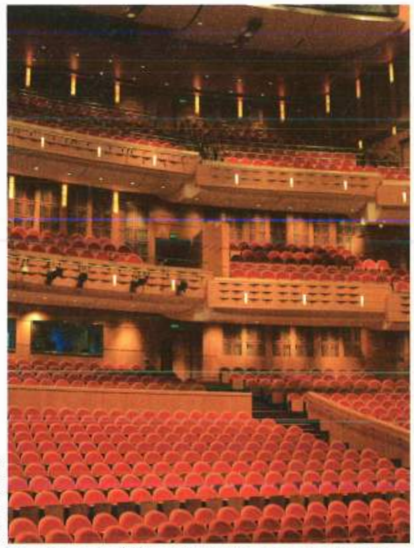
Music: The Universal Language?

Alan Michels

Music is a burgeoning industry in China, with foreign music organizations paying increasing attention to the world's largest population. The trend is also true for classical musicians. As interest in classical music wanes in the United States and parts of Europe, groups are turning to China to find new audiences with which to share their art and passion.

In late January and early February 2011, I joined the Orlando, Florida-based Mantovani Orchestra as bassoonist for my second tour of China with the group. We performed concerts in Ningbo, Zhejiang; Shanghai; Shenzhen, Guangdong; and Suzhou, Jiangsu. A classical orchestra of about 40 instrumentalists, the Mantovani Orchestra plays music in the style of Annunzio Paolo Mantovani, who, with his staff, wrote and arranged thousands of popular songs and classical works from the 1930s through the 1970s. The orchestra lives on beyond Maestro Mantovani, presenting the light-orchestra style that made him famous around the world.


Alan Michels

The Shanghai Grand Theater, opened in 1998, hosts artists from around the world.

Many Chinese are turning their cultural focus outward, seeking to import new products from other parts of the world. As with rising affluent and middle classes in any country, Chinese with more free time and disposable income want to explore new flavors to augment their own traditions. Shanghai's trendy shopping districts are full of Western clothing and jewelry stores, Suzhou has re-sellers of Apple Inc.'s iPad, and concert halls across the country host more foreign groups.

The Chinese appetite for Western classical music, and particularly for the cheerful, romantic Mantovani style, doesn't seem far-fetched. Though quite different from traditional Chinese music, Mantovani's style seems well matched to the optimistic and friendly sound of Chinese pop music.

The Mantovani Orchestra has traveled to China many times in the past, and its popularity remains strong, despite high ticket prices (¥180–¥880, or $27–$134, per ticket) and long spans between appearances. This year, we played to packed houses with rousing responses from the audience. I was warned numerous times that Chinese audiences generally don't give standing ovations and may act more subdued than Western audiences. Yet, not only did we receive the requisite polite applause between songs and enthusiastic clapping at the end of the program, but sometimes we received standing ovations and shouts for more.

Though classical music audiences in the United States are growing older, the orchestra's Chinese audiences vary widely in age. Some of the younger folks—ranging from children to young adults—chose to meet us at our buses after the concerts. They sought autographs and conversations about our performance, though most just wanted to greet and thank us. Our biggest fans would shyly tell us about their own efforts learning the violin or piano. Few had stories of participating in ensembles, however. Despite the rising interest in Western classical music, it appears that relatively few opportunities exist for young Chinese to study Western instruments. It felt incredible to have affected them to such a degree.

Cultural exchange is a two-way street, and the trip allowed us to learn about Chinese music culture as well. Many of us in the orchestra sought out Jinling Road in Shanghai, where we could peruse the many musical instrument shops. Most of the stores sell low-quality pianos, violins, and rock instruments, such as drum sets and guitars. A few offer traditional stringed instruments such as the *erhu*, *guqin*, and *pipa*. As a bassoonist, I sought wind instruments such as the *hulusi* and *dizi*. The offerings are fewer now than they were several years ago, but one shop still has a wide variety of wind instruments for sale. Several of us spent a long time in the shop playing instruments, trying to ask questions about them, and trying to understand the answers. The staff was patient with us, if a little perplexed by our curiosity. Many of the instruments looked like they had been untouched for a long time. Together, we brought a half-dozen instruments back to the United States to continue learning them and to share with other musicians.

With the easy accessibility of file transfer on the Internet, the quickest inroad to cultural understanding and reduction of cultural barriers may be music. Arguably the oldest form of art, it can be presented and observed alone or in groups. It can share a story without the need for language and can elicit ardent emotions in listeners. As China fills its concert halls with foreign musicians, its appetite for the new and diverse brings the prospect for musical groups to share cultural histories with, and find new opportunities in, the world's second-largest and fastest growing major economy. 完

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