January–March 2011

The China Business Review

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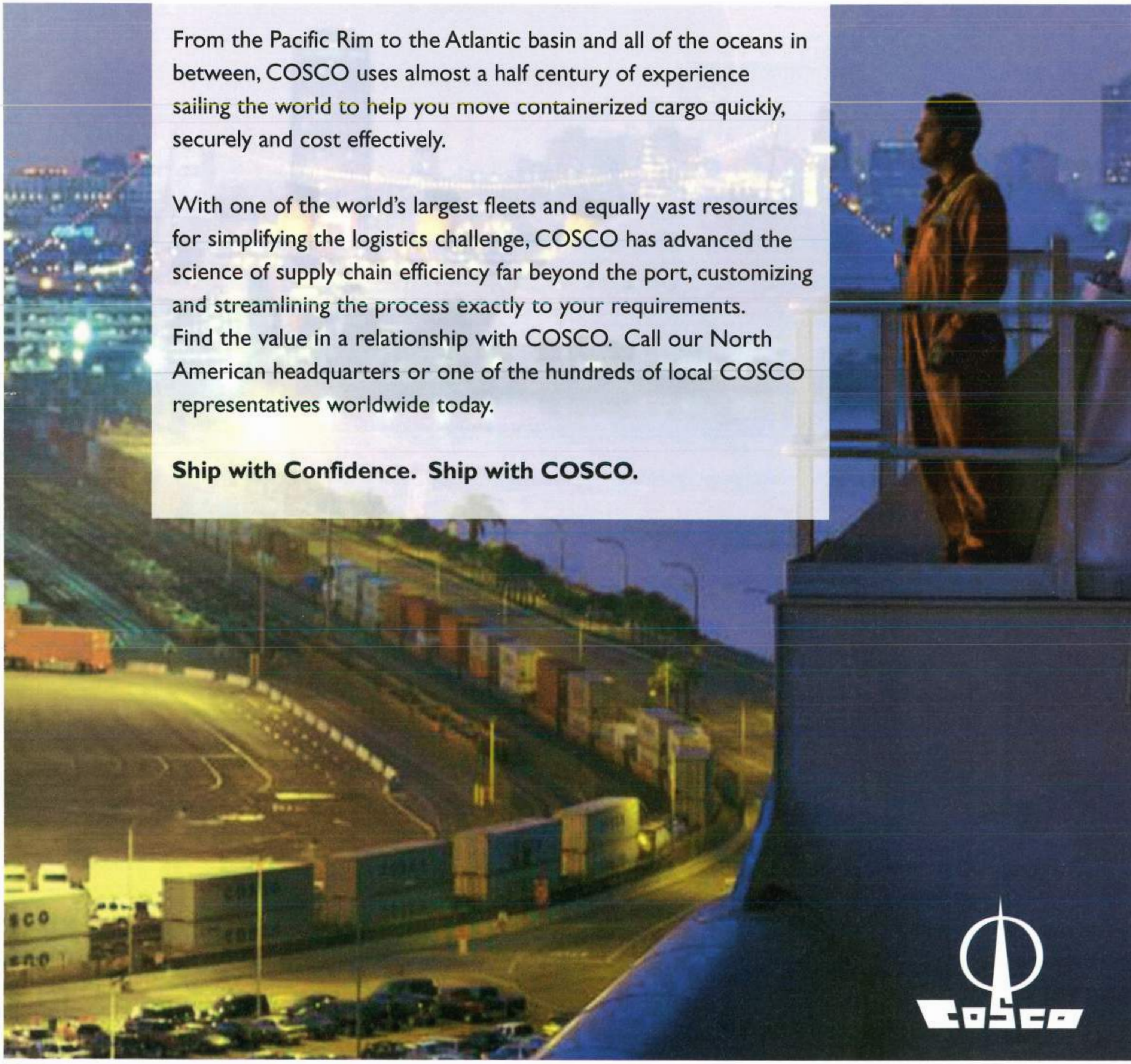

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A Message from the *China Business Review*

The *CBR* is changing its frequency in 2011. Beginning with this first issue of the year, the *CBR* print magazine will be published quarterly instead of bimonthly. The magazine will continue to be a key voice in US-China commercial relations, and the *CBR* website will contain more downloadable content than ever before.

Subscription rates will be adjusted, with print subscribers automatically receiving online subscriptions. For more information, please see www.chinabusinessreview.com or contact publications@uschina.org.

Thank you for your continued dedication to the magazine.

The China Business Review

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Short Takes

Autos

International automakers, such as Daimler AG, General Motors Co. (GM), and Volkswagen AG, are expanding their China operations and increasing sales forecasts, according to a recent *Wall Street Journal* report. Daimler's sales increased 129 percent over 2009 levels through the third quarter of 2010, and it intends to locally produce 70 percent of vehicles sold in China. *USA Today* reports that GM has taken the lead among foreign companies by selling more than 2 million vehicles in China in 2010, exceeding the company's total US sales for the same period.

State media in October 2010 reported that Li Shijin, deputy director of the PRC State Council

Development Research Center, said the government should guide automakers to improve quality and safety standards and focus on environmentally friendly and energy-saving vehicles. The announcement came only days before Dongfeng Motor Co., Ltd. announced a recall of more than 100,000 vehicles produced through its joint venture (JV) with the Japanese company UD Trucks Corp., a subsidiary of AB Volvo.

The PRC government has also promoted energy-efficient and clean-fuel vehicle development as part of its push to improve vehicle quality and reduce energy use. *China Economic Review* notes that the 12th Five-Year Plan (FYP, 2011–15) prioritizes hybrid and electric auto production, and that the government plans to invest ¥100 billion ($15 billion) in new-energy auto development through 2020. Foreign companies are adapting to the shift. Reuters reports that GM will develop an electric version of its Chevrolet New Sail sedan for China and plans to introduce the Chevrolet Volt hybrid to China in late 2011. GM's push is designed to take advantage of new government subsidies and will make it the first foreign company to produce electric vehicles in China.

Aviation

China's aviation industry is developing rapidly and has been named a "strategic emerging industry." Liu Lihua, director of the general office of the PRC Ministry of Industry and Information Technology, estimated in a November 2010 speech that manufacturing and other services in China's civil aviation industry likely reached ¥46.7 billion ($7.0 billion) during the 11th FYP, (2006–10). The speech came soon after Air China Ltd. and China Eastern Airlines Corp., Ltd. reported record third-quarter 2010 profits driven by increasing domestic air travel.

Meanwhile, foreign companies are benefiting from China's aviation boom. According to state media, China Eastern and Rolls-Royce Group plc in November 2010 signed a $1.2 billion deal for Rolls-Royce to sell China Eastern 16 Airbus-330-200 passenger jets. In addition, European aircraft management company TAG Aviation recently signed an agreement to form TAG Aviation China—a JV with China First Mandarin Group—that focuses on charter aircraft services.

The state-owned Commercial Aircraft Corp. of China, Ltd. (Comac) in November unveiled its first mock-up of the C-919 jet, a large passenger aircraft that will compete with Airbus SAS and Boeing Co. aircraft. The 156-seat aircraft is slated for production in 2016 and will be sold to China Airlines, Ltd., China Southern Airlines Co., Ltd., and China Eastern, the *Los Angeles Times* reports. Still, China relies on foreign-produced components to build its aircraft. For example, Comac will build the C-919 with help from a multinational supply chain, including US companies General Electric Co., Honeywell International Inc., and Rockwell Collins, Inc.

Intellectual Property

China is stepping up enforcement of intellectual property rights (IPR) and has initiated another national crackdown on piracy and fake goods production. The half-year initiative, which runs from October 2010 to March 2011, focuses on pirated publications, software products, and registered trademark violations, and targets 14 provinces and municipalities. The PRC government's renewed focus on IPR issues follows a November 2010 speech in which Premier Wen Jiabao called for comprehensive IPR protections. According to state media, Wen urged Chinese IPR enforcement authorities to increase international cooperation efforts and promote best practices in the private sector.

The *China Intellectual Property Index Report*, released in October 2010 by the China Intellectual Property Index Group, points to a large discrepancy between IPR protections in developed eastern and developing western regions. Nine of the ten provinces and municipalities the report identifies as possessing the strongest IPR protection systems are located in high-income eastern regions.

A recent Thomson Reuters Corp. report noted that the number of high-tech patent applications, which come primarily from China's coastal hubs, is growing at a much higher rate than the number of agricultural-related filings. The PRC government has unveiled a 10-year plan to boost patent production by 2020.

China Conference Calendar

China-related events near you

January–May 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.

International Horticultural Exposition, April 9–October 8

China Shipping Finance Outlook

JANUARY 20–21

Location: Shanghai: Ramada Plaza Pudong
Organizer: IGVision International Corp.
Contact: Tina Tian
Tel: 86-21-5181-5373
tina@igvision.com
www.shippingfinanceoutlook.com

Bloomberg China Investment Strategies

FEBRUARY 2

Location: New York Public Library
Organizer: Bloomberg LP
Contact: Tracy David
Tel: 1-212-647-6530
mdavid20@bloomberg.net
http://bloombergwashington.com/gatherings_overview.php?gathering=71

US-China Economic Law Conference

FEBRUARY 10–11

Location: Detroit: Wayne State University, Spencer M. Patrich Auditorium
Organizers: Wayne State University Law School; University of Michigan Law School; University of Michigan Center for Chinese Studies
Contact: Holly Hughes
Tel: 1-313-577-3620
hhughes@wayne.edu
http://law.wayne.edu/us-china conference.php

China (Shanghai) International Optics Fair

FEBRUARY 18–20

Location: Shanghai Everbright Convention and Exhibition Center
Organizers: China Light Industrial Corp. for Foreign Economy and Technical Cooperation; China Optometric and Optical Association; Orient International Exhibition Co., Ltd.
Tel: 852-2789-3220
orientex@netvigator.com
www.siof.cn

International Solar Industry & Photovoltaic Exhibition & Conference

FEBRUARY 22–24

Locations: Shanghai New International Expo Center (Exhibition); Kerry Hotel Pudong (Conference)
Organizers: Chinese Renewable Energy Society; Shanghai Federation of Economic Organizations; Shanghai New Energy Industry Association; Shanghai Science and Technology Development and Exchange Center
Contact: Qun Wang
Tel: 86-21-6438-0781
alywang@snec.org.cn
www.snec.org.cn

Personal Care & Homecare Ingredients

FEBRUARY 22–24

Location: Shanghai Convention and Exhibition Center
Organizer: Reed Sinopharm Exhibitions Co., Ltd.
Contact: Daniel Chan
Tel: 86-10-8455-6691
daniel.chan@reedexpo.com.cn
www.pchi-china.com

International Tradeshow for Sports Equipment & Fashion in Asia

FEBRUARY 23–25

Location: Beijing: China National Convention Center
Organizers: China International Exhibition Center Group Corp.; Messe Munchen International
Contact: Kerrin Muggenburg
Tel: 49-89-9492-0165
mueggenburg@ispo.com
www.ispochina.com

China Bio-Agriculture Industry Summit

FEBRUARY 24–25

Location: Crowne Plaza Hotel-Century Park Shanghai
Organizer: IGVision International Corp.
Contact: Sabrina Yan
Tel: 86-21-5161-5368
sabrina.yan@igvision.com
www.bio-agriculture.net

International Integrated Circuit China

FEBRUARY 24–26

Location: Guangdong: Shenzhen Convention and Exhibition Center
Organizers: Global Sources Ltd.; UBM Sinoexpo; United Business Media Ltd.
Contact: Athena Gong
Tel: 86-21-2327-0199
www.english.iic-china.com

China International Expo for Auto Electronics, Accessories, Tuning & Care Products

FEBRUARY 25–27

Location: Beijing: New China International Exhibition Center
Organizers: China Chamber of International Commerce; YASN International Exhibition Co., Ltd.
Contact: Ruby Yang
Tel: 86-10-5797-0888
info@yasn.com.cn
www.ciaacexpo.com

Bio/Pharmaceutical Cold Chain China

FEBRUARY 28–MARCH 1

Location: Swisshôtel Beijing
Organizer: International Quality and Productivity Center
Contact: Jennifer Qian
Tel: 65-6722-9388
enquiry@iqpc.com.sg
www.pharmacoldchainchina.com

China Conference Calendar

China International Building Decorations & Building Materials Exposition

MARCH 2–5

Location: Beijing: New China International Exhibition Center
Organizer: China International Exhibition Center Group Corp.
Tel: 86-10-8460-0913/0979/0917
liangchen@ciec.com.cn
www.ciec-expo.com/jiancai2007/index_e.htm

International Integrated Circuit China

MARCH 2–4

Location: Theme Pavilion, Shanghai Expo
Organizers: Global Sources; UBM Sinoexpo; United Business Media Ltd.
Contact: Athena Gong
Tel: 86-21-2327-0199
www.english.iic-china.com

Biomanufacturing & Single-Use Systems Asia

MARCH 7–9

Location: Shanghai: Sheraton Hotel
Organizer: IBC Life Sciences
Contact: Tamera Wee
Tel: 65-6508-2461
tamera.wee@ibcasia.com.sg
www.ibc-asia.com/biomanufacturing

China International Exhibition on Label Printing Technology

MARCH 9–11

Location: Guangzhou, Guangdong: China Import and Export Fair Pazhou Complex
Organizers: Adsale Exhibition Services Ltd.; China Foreign Trade Center (Group)
Contact: Sini Liu
Tel: 852-2516-3326
publicity@adsale.com.hk
www.sinolabelexpo.com

Vaccine Congress

MARCH 23–25

Location: Beijing: China National Convention Center
Organizer: Information Research Center of International Talent, PRC State Administration of Foreign Experts Affairs
Contact: Francis Wang
Tel: 86-411-8479-9609 x811
francis@bitlifesciences.com
www.bitlifesciences.com/wcv2011

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
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 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

World Congress of Industrial Biotechnology

APRIL 25–29

Location: Dalian, Liaoning: World Expo Center
Organizers: 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

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

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: Hong Kong: TBA
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

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

Event Wrap Up

BEIJING

November

Board Delegation Meets with Senior PRC Leaders, Co-hosts CEO Roundtable

US-China Business Council (USCBC) Chair and the Coca-Cola Co. Chairman and CEO Muhtar Kent led a delegation of board directors—which included USCBC Vice Chair and Procter & Gamble Co. President and CEO Robert McDonald, USCBC President John Frisbie, and USCBC Vice President of China Operations Robert Poole—to Beijing to meet with PRC officials and advocate for member company interests on numerous commercial and trade-related issues. In addition, the delegation and former PRC Ambassador to the United States Zhou Wenzhong cohosted a CEO roundtable dinner with senior Chinese executives in the consumer goods, finance, machinery, telecom, and transportation sectors.

ONLINE

December

Webinar on the Outlook for Doing Business in China in 2011

Jan Borgonjon, president of InterChina Consulting, and Chris Lundbald, associate professor of Finance at University of North Carolina's Kenan-Flagler Business School, discussed what to expect in China's 2011 economic and business environment. Organized by USCBC and the *CBR*, the webinar was sponsored by InterChina Consulting. Visit www.chinabusinessreview.com/cbr/webinars.html to view the webinar.

SHANGHAI

November

Shanghai China Operations Conference

See below

WASHINGTON

October

Debriefing on the S&ED Innovation Dialogue and Preparations for the December 2010 JCCT

Cosponsored by USCBC and the US Chamber of Commerce, Director of the White House Office of Science and Technology Policy John Holdren, Under Secretary of Commerce for International Trade Francisco Sanchez, and Deputy US Trade Representative Demetrios Marantis briefed attendees on the US-China Strategic and Economic Dialogue's (S&ED) innovation dialogue and preparations for the December US-China Joint Commission on Commerce and Trade (JCCT).

December

Gala 2010

See p.13

Reception for Participants in the 2010 US China JCCT

USCBC and the US Chamber of Commerce hosted a reception for participants in the 2010 JCCT. Attendees included members of the US and PRC government JCCT delegations, such as PRC Vice Premier Wang Qishan, PRC Minister of Commerce Chen Deming, and other ministers and vice ministers traveling from Beijing. US Secretary of Commerce Gary Locke and US Trade Representative Ron Kirk spoke at the reception.

Debriefing on the 2010 JCCT

Cosponsored by USCBC and the US Chamber of Commerce, Claire Reade, assistant US Trade Representative for China, and Craig Allen, deputy assistant secretary of Commerce for Asia, discussed the outcomes of the 2010 JCCT.

Upcoming Events

SHANGHAI

Winning Strategies for Business Development in China

January 20, 2011

WASHINGTON

Issues Lunch with Assistant Secretary of State Kurt Campbell

January 5, 2011

Forecast 2011 Reception and Conference

February 9–10, 2011

For more information, see p.60.

USCBC Hosts Shanghai China Operations Conference

The US-China Business Council's (USCBC) China Operations Conference in Shanghai featured various presentations on China's business and investment climate. The November 18 event also offered attendees the opportunity to network with USCBC member company executives.

Economist Stephen Green, head of Greater China Research at Standard Chartered Bank in Shanghai, gave an overview of forecasts for macroeconomic conditions in 2011. Tim Stratford, partner at Covington & Burling LLP, addressed major issues affecting the US-China relationship, including the renminbi exchange rate, weak intellectual property rights protection, and market access problems in the United States. Laura Hu, director of government affairs for Asia-Pacific for Solutia, Inc., and Devry Boughner, director of international business relations at Cargill, Inc., identified government affairs strategies they have used successfully in China.

USCBC staff

Laura Hu of Solutia, Inc. speaks at the Shanghai China Operations Conference about effective government affairs strategies.

Speakers also addressed rising costs in China, labor and collective bargaining developments, commercial implications of the 12th Five-Year Plan (2011–15), and developments in cross-border settlements.

Gala 2010 Features Secretary Albright

China's leadership will be crucial to resolving global economic imbalances and political conflicts, former US Secretary of State Madeleine Albright said during a speech at the US-China Business Council's (USCBC) 2010 Gala, held December 1 in Washington, DC. Nearly 350 guests from USCBC member companies, US and PRC governments, and the China-watching community attended the event. Guests included US Secretary of Commerce Gary Locke and USCBC Chair and the Coca-Cola Co. Chairman and CEO Muhtar Kent.

Albright, who advises the Obama administration on foreign policy, delivered the keynote address at the dinner and emphasized the importance of building a strong US-China relationship. She stated that both American and Chinese citizens have a stake in the bilateral relationship: "On the economic front, our two societies are increasingly bound together. A decline in prosperity in either would have a major consequence in the other."

As the world's second-largest economy, China's "actions, decisions, and policies have a profound impact on commodity prices, energy use, climate change, and commercial opportunities in other lands," Albright said. "So it is no wonder that everything China does or fails to do receives more scrutiny now than ever before. With power comes responsibility—and the wise handling of responsibility is what leadership is all about."

Kent offered welcome remarks at the start of the dinner program. PRC Ambassador to the United States Zhang Yesui then spoke about US-China cooperation efforts and the future of the bilateral relationship. He stressed that US legislation on the renminbi exchange rate would not help the US employment rate or trade deficit.

Other US government attendees included Reps. Charles Boustany Jr. (R-LA) and Rick Larsen (D-WA), Sen. Mark Kirk (R-IL), Department of Commerce General Council Cameron Kerry, and Undersecretary of State for Economic, Energy, and Agricultural Affairs Robert Hormats.

Special thanks to the USCBC member companies that supported the 2010 Gala.

USCBC Chair and the Coca-Cola Co. Chairman and CEO Muhtar Kent, Mme. Ambassador Chen Naiqing, former US Secretary of State Madeleine Albright, PRC Ambassador to the United States Zhang Yesui, and USCBC President John Frisbie.

US Secretary of Commerce Gary Locke addresses USCBC board members at a meeting on December 1, 2010.

Kent welcomes the audience at USCBC's 2010 Gala.

sardari.com

Secretary Albright delivers the keynote address.

Ambassador Zhang spoke about the US-China commercial relationship.

US Secretary of Commerce Gary Locke, Mona Locke, Defne Kent, and Muhtar Kent at the Gala reception.

Cost of Doing Business in China Rises

Christina Nelson

Two recent PRC government policies will increase the cost of doing business in China, a top concern of many US companies. The recently passed Social Insurance Law will soon require foreigners working in China to participate in China's social insurance system. Separately, a new PRC State Administration of Taxation notice required foreign companies to pay education and urban maintenance and construction taxes beginning December 1, 2010.

Social Insurance Law

The Social Insurance Law, which will take effect July 1, 2011, consolidates previous regulations on pensions and health, work injury, unemployment, and maternity insurance. The law will benefit uninsured foreign nationals, but will likely impose additional operating costs on companies that already provide international insurance coverage for their employees. The new law does not specify whether employers must contribute to all five forms of social insurance for their foreign employees.

Employers currently contribute a percentage of their total payroll—and Chinese workers contribute a percentage of their monthly income—to China's social insurance system. Contribution rates vary by city. A company in Beijing currently pays a combined 20 percent of payroll to the city's pension system and employees' individual accounts; employees contribute 8 percent to their individual accounts (see Table).

Insurance premium calculations are based on an employee's average monthly wage. The premium cannot be higher than 300 percent of the city-wide average monthly wage, which is set annually by the local human resources and social security office. Beijing's average monthly wage was set at ¥4,037 ($608) for 2010.

It may take several years for local authorities to implement the new law, according to Andreas Lauffs, head of the employment law group at Baker & McKenzie LLP, who recently spoke to US-China Business Council (USCBC) staff about the law. Lauffs noted that the law will increase payroll costs, but the cap on premiums will keep costs from skyrocketing. More important for companies, Lauffs said, is that "this law for the first time...has some teeth. It provides for social insurance authorities to actively force employers to contribute."

According to the law, government officials will require banks to turn over funds from a delinquent company's bank account or require collateral for missed payments. The law also allows officials to seize and auction a company's assets and use the proceeds to pay outstanding social insurance premiums.

The law aims to create a nationwide pension plan and a medical payment system that allows people to use medical insurance outside their home cities. It will also prevent local governments from using social insurance funds to balance government budgets, build and renovate offices, pay personnel, or cover other expenses.

Two new taxes for foreign companies

Also contributing to rising costs in China, foreign companies were required to pay education and urban maintenance and construction taxes starting December 1, 2010, according to an October 2010 State Council notice. The maintenance and construction tax is levied at 7 percent in urban districts, 5 percent in town districts, and 1 percent in other regions. The education tax is set at 3 percent.

The PRC government has long exempted foreign companies from these taxes to encourage outside investment. After China passed the Enterprise Income Tax Law in 2007, however, corporate tax incentives for foreign firms gradually disappeared. The law aims to set the corporate tax rate for foreign and domestic enterprises at 25 percent by 2012. 完

Christina Nelson (cmnelson@uschina.org) is associate editor of the CBR.
This article is adapted from a report that first appeared in China Market Intelligence, *USCBC's members-only newsletter. To learn more about USCBC member company benefits, see www.uschina.org/benefits.html.*

Table: Beijing's Social Insurance Contribution Rates, 2010

Insurance type	Employer contribution (% of avg. mo. payroll)	Maximum employer contribution (¥)	Employee contribution (% of avg. mo. income)	Maximum employee contribution (¥)
Basic medical	10.0	1,211	2.0	242
Maternity	0.8	97	NA	NA
Pension	20.0	2,422	8.0	969
Unemployment	1.5	182	0.5	61
Worker injury	0.5–2.0*	242	NA	NA

Notes: *Rates vary by industry; NA = not applicable
Sources: Beijing Human Resources and Social Security Office, PRC media

China Foto Press

Out-of-home advertisers may find more success by switching to digital displays and integrating their communications strategy with city planning and infrastructure.

Advertising in a New Age of Media

The rise of digital media will require traditional media platforms to restrategize and will open new opportunities for advertisers.

Lucy Zhang

China presents one of the most exciting and challenging media markets in the world. Because of the country's size, complexity, and diversity, savvy marketers see China not as a single market, but as a collection of evolving, complex, and fragmented markets. Though new media has not yet replaced traditional media, traditional media's dominance is beginning to erode. Advertisers face a vast array of platform options, especially in digital media, events, sponsorship, and other forms of branded content. Each of these platforms offers new ways to reach and engage with consumers.

China's media market is about to begin an era of hyper fragmentation, offering media agencies and advertisers numerous choices when formulating media plans. This may surprise foreign advertisers that are accustomed to having fewer choices in China. The key challenge for advertisers in China is how to manage and evaluate these choices while raising media effectiveness and generating higher returns.

Generally, China's advertising market performed well in 2009, increasing by 9.8 percent year on year. In 2010, the Chinese media market benefited from the Shanghai World Expo and the Asian Games in Guangzhou, Guangdong, as well as from accelerating economic growth. China's advertising expenditures likely grew by 12.8 percent in 2010, according to GroupM China's estimates. For many advertisers, China remains a key market with a promising future.

Media market influences

Four main elements influenced the development of the Chinese media market in 2010 and will continue to do so in 2011.

Rising incomes

Though China's final 2010 statistics have not yet been released, per capita disposable income in urban areas rose 173 percent between 2000 and 2009, from ¥6,280 ($945) to ¥17,175 ($2,584). Retail sales volume nearly tripled during this period. China's gross domestic product (GDP) increased 9.1 percent in 2009, and the International Monetary Fund predicts that China will help lead the global economic recovery, expanding by 10.5 percent in 2010 and 9.6 percent in 2011. The continuing consumer spending boom will underpin China's advertising investment growth in various media platforms.

> **Quick Glance**
>
> - The emergence of new media outlets requires companies to advertise effectively across various media platforms.
> - Though television still penetrates most of China's population, advertisers should not overlook emerging platforms, such as digital newspapers, social networking sites, and online gaming.
> - Expanding retail distribution networks, media inflation, and government policies will influence the media market and advertising investment in the next few years.

Retail distribution

The rising number of stores and other retail distribution points is taking brands to more lower-tier cities. Advertisers must invest to reach and appeal to new consumers in second- and third-tier cities, which are set to expand faster than more developed cities such as Beijing, Guangzhou, and Shanghai (see the *CBR*, November–December 2010, p.12).

Media inflation

Rising communications costs will force advertising budgets to increase. Television will remain an ad seller's medium, where big channels such as China Central Television (CCTV), Beijing TV, and Shanghai Media Group wield tremendous power and influence. This power is not merely commercial: For example, CCTV remains the central government's main media voice and serves social, political, and cultural functions. Demand for airtime far exceeds supply on big TV channels, which apply stringent airtime restrictions. Local vendors are thus able to set rate cards (lists of full-price rates released by the media owner) accordingly and maintain revenue growth. Advertisers should understand that strategic marketing considerations are often a lower priority for these TV stations. The dominance of TV stations ensures that China's media market will continue to face price inflation in the foreseeable future, and advertisers should maintain a positive relationship with big TV channels to obtain the best rates.

Government policy

The PRC government in 2009 introduced the tri-play policy (integrating broadcast TV, Internet, and telecom) and a new broadcast advertising rule. The tri-play policy aims to promote digital media development; the broadcast rule restricts the amount of advertising airtime allowed on state-run TV stations. Today, media owners of different platforms should cooperate and take full advantage of the complex and rich media environment developing in China.

Television

TV dominated media investment in 2009 with a 63 percent share of China's total advertising expenditure, and TV continues to set the direction of the advertising market. Toiletries, food, and pharmaceuticals were the top advertising categories, together accounting for roughly 40 percent of all TV advertising investment.

TV coverage in China reached 97 percent in 2009. As a result, TV still receives the largest audiences and will maintain its advantage as the primary medium in the short term. TV advertising in China likely increased by 9 percent in 2010 and will increase by nearly 10 percent in 2011, according to GroupM predictions. Four trends will influence traditional TV's future development.

Longer TV viewing times in rural areas

Longer TV viewing times in rural markets will be a key driving force in the development of the TV industry, especially when combined with advertisers' continued expansion into second- and third-tier cities. In 2009, the average TV viewing time per capita increased 10 minutes per day in rural markets, but the average decreased 1 minute per day in urban markets.

China's multi-tiered TV market is more complicated than Western markets. CCTV, China's top broadcaster, has 18 channels alone. In addition, China has more than 270 provincial and 728 local- or city-level TV stations. Most stations allow advertisers to use TV to match their distribution footprint and presence, either locally or nationally. As companies extend distribution networks into smaller towns, they will also need to increase their TV advertising investment. National and provincial TV stations in particular will benefit from these increased TV advertising budgets.

Adoption of new media

Traditional TV faces fierce competition as new media compete for a greater share of viewing time. The competition is particularly acute among young and high-income audiences in upper-tier cities. In 2009, the average time young Chinese (age 15–34) spent watching TV decreased, while people age 45 and older spent five more minutes watching TV each day compared to 2008. Traditional media companies are adapting to this shift by integrating new and traditional platforms. National TV stations have built their own websites—such as China Network Television, Hunan Jinying, and Anhui web station—to increase viewership.

Stricter advertising regulations

In September 2009, the PRC State Administration of Radio, Film, and Television (SARFT) issued new rules for radio and TV advertising. The rules restrict the amount of advertising space in some timeslots and prohibit certain advertising content. SARFT in the same month also released regulations that restrict broadcast platforms and times for TV shopping advertising and home shopping programs.

In April 2010, Shanghai Oriental Media Group established the Shanghai Oriental Shopping channel, the first dedicated 24-hour analogue channel for TV shopping. Shanghai Oriental owns the first TV shopping license in China, which will improve Chinese consumers' access to the TV shopping market. This move indicates the PRC government's intent to standardize the TV shopping market.

Rising rates

China's national channels' rate card inflation averaged about 11.5 percent in 2010—ranging from 17.0 percent in northern China to 10.7 percent and 13.6 percent in the central and southern regions, respectively. Overall TV rate card inflation likely reached 13.4 percent in 2010.

Internet

China's Internet population (netizens) reached 420 million by June 2010, up 22 percent year on year, according to the China Internet Network Information Center (CNNIC). Roughly 98 percent (364 million) of netizens accessed the Internet via broadband. The number of rural Internet users reached 115 million by June 2010, 27 percent of China's total netizen population. Growth of rural Internet users in China slowed from 2008 to 2009, however.

The overall rapid increase in the number of Internet users is underpinned by rising disposable incomes, beneficial trade-in policies for electronic appliances, and information technology (IT) infrastructure development. The launch of the third-generation (3G) network in China has allowed more people to access the Internet using mobile phones. By June 2010, 66 percent of Chinese netizens had accessed the Internet using mobile devices. The rise of mobile Internet users will present more opportunities for advertisers in the mobile market.

In 2009, China's Internet advertising revenue reached ¥20.7 billion ($3.1 billion), according to iResearch Consulting Group. Network services and applications, autos, and IT products are the top online advertising categories, together accounting for nearly 50 percent of the Internet advertising market. China's search engine advertising revenue reached nearly ¥7 billion ($1 billion) in 2009, a 38 percent year-on-year increase and a strong reflection of the medium's ability to provide cost-efficient and targeted communication. Online display advertising, classified advertising, online videos, and social networking websites also fuelled the development of Internet advertising; advertising revenue in each of these categories rose sharply in 2009.

E-commerce

China's e-commerce market was the best performing online sector in 2009, with usage rising 68 percent year on year. Of all e-commerce applications (including online shopping, online payment, and online travel booking), online payment experienced the fastest growth, with usage up 81 percent over 2008—boosted by the rising population of online shoppers.

The number of online shoppers in China reached 142 million by June 2010, accounting for nearly 34 percent of netizens. According to iResearch, advertising revenue of China's online shopping websites more than doubled from 2008 to 2009 to reach ¥263 billion ($39.4 billion).

Advertising Revenue from Various Media in China, 2006–11

	2006			2007			2008		
Media	**Revenue (¥)**	**% YOY change**	**% of total media revenue**	**Revenue (¥)**	**% YOY change**	**% of total media revenue**	**Revenue (¥)**	**% YOY change**	**% of total media revenue**
TV	109,554	26.0	63.1	127,532	16.4	65.0	150,492	18.0	62.8
Radio	3,874	66.3	2.2	5,050	30.4	2.6	6,615	31.0	2.8
Newspapers	27,895	8.8	16.1	30,344	6.8	15.5	34,584	14.0	14.4
Magazines	3,467	31.6	1.8	4,320	36.4	2.2	5,475	26.7	2.3
Out of home	23,052	49.7	13.3	18,229	-20.9	9.3	25,644	40.7	10.7
Internet	6,050	48.6	3.5	10,610	75.4	5.4	17,000	60.2	7.1
Total	**173,593**	**26.9**	**100.0**	**196,085**	**13.0**	**100.0**	**239,810**	**22.3**	**100.0**

Notes: f = forecast; YOY = year-on-year
Source: GroupM China

Blogs and social networks

About 58 percent (221 million) of China's Internet users blogged in 2009, according to CNNIC. Of these, the number of active bloggers (those who updated their blogs within the last six months) rose by 38 percent year on year to 145 million. The key drivers of this increase were higher Internet penetration rates and the popularity of micro-blogs, which allow users to send updates in small fragments. Micro-blogs are more popular in China because they integrate the features of traditional blogs, instant messaging, and mobile communication across platforms. Increased interactivity and ease of use have resulted in more regular updating of micro-blogs than traditional blogs in general. The growing popularity of micro-blogs in China requires advertisers and agencies to re-examine their marketing and communications strategy. Advertisers should create company micro-blogs to promote new products, deliver brand messages, and build and maintain relationships with consumers.

With Internet penetration growth and the adoption of more online applications, netizens are extending their real-life relationships to online society (see p.28). As a result, many social networking websites are emerging. Nearly 50 percent (210 million) of China's Internet users had visited social networking websites by June 2010. Advertisers should consider social networking websites along with traditional online display ads, especially when communicating with a young target audience. Advertising on these websites will likely expand significantly in the next couple of years and will require a more interactive and engaging communications strategy.

Online gaming

Online gaming is the only form of online entertainment with increasing usage in China—with 296 million online gamers by June 2010, up nearly 12 percent from the end of 2009. Though advertising in online games is still in its infancy, more advertisers have demonstrated a willingness to invest in this area given that the platform offers the opportunity to enhance brand engagement and association. For example, the Coca-Cola Co. and Nike, Inc. have each struck deals with online gaming companies in China to expand their presence in the China market. Companies that advertise in online games must be aware that the industry still lacks tight control over content and the ability to monitor data, however.

Future projections

With accelerating economic growth, big events such as the 2010 Shanghai Expo and World Cup in South Africa, and the skyrocketing popularity of online videos and social networking websites, GroupM predicts that China's annual Internet advertising revenue may rise by 30 percent in 2011. The Internet will attract more advertisers and gain a larger share of advertising spending in the near future as Internet coverage expands, content improves, and advertisers understand how to better leverage the data garnered from online campaigns. The Internet will dominate advertisers' marketing strategy, if not spending, in 2011 and 2012. The biggest growth areas will likely be display advertising, sponsorship, joint promotion, and original content.

Newspapers

In 2009, the main sources of newspaper advertising revenue were business and services, real estate and construction, and autos—which together accounted for about 50 percent of China's newspaper advertising revenue. Driven by the Shanghai Expo, domestic services and tourism may lead the rise in newspaper advertising expenditures. Newspaper advertising revenue likely rose by 13 percent in 2010 and may increase by 5 percent in 2011, according to GroupM predictions.

Despite rising advertising revenue, the newspaper sector faces significant external and internal challenges. Internally, unfair price competition, discounting, and conflict among newspaper groups have hindered the sector's development. The external challenge comes from the emergence of new digital media. China's first digital newspaper, *Zhejiang Daily*, launched in February 2006, and 33 newspaper groups, more than 300 newspaper offices, and more than 500 newspaper issues had gone digital by the end of 2008. As the pace of life in urban areas increases, citizens lack the time or patience to sit and read a full newspaper article, preferring instead to access the latest news and entertainment information via the Internet or

2009			2010f			2011f		
Revenue (¥)	% YOY change	% of total media revenue	Revenue (¥)	% YOY change	% of total media revenue	Revenue (¥)	% YOY change	% of total media revenue
181,033	9.4	61.0	198,290	9.5	60.3	165,478	10.0	62.8
7,530	13.8	2.9	9,209	22.3	3.1	10,130	10.0	3.1
37,924	9.7	14.4	42,854	13.0	14.4	44,997	5.0	13.7
6,174	12.8	2.3	7,297	18.2	2.5	7,662	5.0	2.3
25,531	-0.4	9.7	29,575	15.8	10.0	32,533	10.0	9.9
20,730	21.9	7.9	27,000	30.2	9.1	35,000	29.6	10.7
263,367	**9.8**	**100.0**	**296,968**	**12.8**	**100.0**	**328,611**	**10.7**	**100.0**

mobile phone. By June 2010, 230 million active users read the news on mobile phones. If traditional newspapers embrace digital technology, such as by launching mobile newspapers, they will find more market opportunities than challenges in the growing popularity of digital media. This will also increase the investment return and attractiveness of newspaper advertising.

Magazines

China has more than 9,500 magazines, but they account for only 2.3 percent of national advertising investment. Toiletries, autos, and personal items accounted for more than half of China's total magazine advertising revenue in 2009. Magazine advertising revenue rose 12.8 percent year on year in 2009. GroupM projects that such revenue rose 18 percent in 2010 and will increase 5 percent in 2011.

The key factor behind this growth is the rising affluence of Chinese consumers. Wealthy consumers have more lifestyle and leisure choices. Magazines that appeal to wealthy consumers have a small but loyal readership and offer value to brand-building advertisers. For example, *Bazaar Men, HisLife, Leon Mr. Modern,* and *L'Officiel Hommes* have all launched in China in the past two years as publishers identified an opportunity for male fashion magazines in the China market. China surpassed the United States as the second-largest global luxury market in 2009, and its magazine advertising industry's future is bright.

As with other traditional media, however, magazines face a threat from digital media. The release of Amazon.com, Inc.'s Kindle in 2007 heralded the coming of the tablet era. Other companies such as Axus Technology, LLC; BenQ Corp.; Fujitsu Ltd.; Google Inc.; Hanvon Technology, Inc.; and Sony Corp. have also entered this market. In 2009, Chinese consumers purchased 693,000 electronic readers, a surge of 121 percent from a year earlier. This boom continued in 2010 with more than 3 million sales of electronic readers.

Out of home

Though the performance of China's out-of-home (OOH) market—which advertises to consumers in public places such as on billboards or in transit systems—remained flat from 2008 to 2009, the outlook for OOH advertising remains positive. GroupM projects that OOH advertising expenditure rose roughly 16 percent in 2010, mainly from advances in OOH digital advertising.

Three key factors influenced the development of the OOH market in 2010:

- The PRC government took great efforts to regulate the OOH market before and during the Shanghai Expo and Asian Games Guangzhou, in particular by removing certain traditional OOH billboards. This left more space for digital OOH media such as mega light-emitting diode billboards.
- To host these major events, the PRC government increased investment in city transportation, which advanced the development of liquid crystal displays in buses, metro cars, and taxis.
- Three-dimensional movies attracted a larger cinema audience, and cinema advertising revenue rose accordingly.

In the longer term, because of OOH supply restrictions in certain cities and government limitations on OOH advertising formats for major events, there may be fewer opportunities for traditional OOH advertising formats such as billboards. OOH will survive in the cities only if it can become a part of city life and integrate with city planning and infrastructure.

Radio

Business and services, autos, finance, and post and communication are some of the largest categories in radio advertising. The fastest-growing categories, however, are cleaning products, clothing, and home electronics. In particular, the cleaning product sector increased its annual radio advertising spending by 208 percent in 2009.

Consumers in shopping malls, supermarkets, and fast food restaurants present big opportunities for radio advertising. Some radio stations have already started business trials in these new environments. For example, Central People's Radio *Voice of the City* broadcasts programs in Beijing's shopping malls and parks on national holidays.

With the introduction of a better system for monitoring radio advertising in 2009, advertisers are now more confident about investing in radio. Radio advertising revenue likely increased by 22 percent in 2010 and may increase by another 10 percent in 2011. In the long term, radio also must integrate with new media. For example, Beijing Radio's *Listening Pub* is one of the most popular online radio programs in Beijing. In the future, radio can use mobile Internet technology to allow for online listening. Radio will no longer be a backup in advertisers' future media planning if it is well equipped with more premium content, especially on digital audio platforms.

Advertisers have more options—and more challenges—ahead

Though TV remains the dominant advertising medium in the short term, the future of new media looks bright. In China's fast-changing and complex advertising market, options will multiply, especially in digital media, events, sponsorship, and other branded content. Each platform offers new ways to reach and engage with consumers. Moreover, companies must develop interactive and engaging communications strategies to reach and maintain consumers. 完

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China Foto Press

Young people are the most active online segment in rural regions, and the number of young Internet users will rise in the next five years.

Understand and Tap Into China's Digital Generations

China's expanding digital media and e-commerce markets offer opportunities for companies that understand the country's Internet users.

David C. Michael and Yvonne Zhou

China has more than 420 million Internet users—more than the United States and Japan combined. This number, however, represents only one-third of China's population, indicating how much room remains for expansion in the country's digital market. According to surveys by the Boston Consulting Group (BCG), Chinese Internet users, defined as those who go online at least once a month, spent an average of 2.7 hours online daily in 2009, up from 2.4 hours daily in 2006 and 0.4 hours a day more than users in the United States.

Digital technology has fundamentally changed the way Chinese people live—how they read news, shop, travel, play games, watch movies, express themselves, and relate to others. Most significantly, e-commerce in China has skyrocketed since 2007. Companies committed to engaging Chinese consumers online must recognize that understanding Chinese digital consumers' underlying needs and tastes is vital to crafting an effective communications approach. Companies must act fast, because the shift toward digital media and commerce has already become mainstream—and is gaining momentum at a tremendous rate.

China's Internet users

According to BCG research, Internet penetration in China is expected to nearly double to more than 650 million users by 2015. Most of the country's new Internet users come from rural areas—many of them young people who visit Internet cafés for the first time. In addition, young Internet users are already the most active online segment in rural areas. The under-30 population makes up 77 percent of rural Internet users, and nearly half of rural users are under 20 years old.

In interviews with 1,700 people from 12 cities in China's 22 provinces, BCG identified six categories of Chinese digital users, or "China's digital generations."

■ **Teenagers** Nearly 9 out of 10 teenagers use the Internet at least once a month (85 percent Internet penetration rate), and they spend an average of 2.7 hours a day online. These users generally focus on communication and entertainment activities, such as chatting, watching movies, gaming, and listening to music.

■ **University students** Even more active on the Internet than teenagers, this group has a 99 percent penetration rate. University students grew up with digital services and are now turning to the Internet to discover a world beyond family and friends, spending an average of 3.6 hours a day online. They use the Internet primarily for information, entertainment, and communication.

■ **Young professionals** Having benefited from China's economic and social reforms, this group has relatively high income and education levels. They have a 99 percent Internet penetration rate and are sophisticated users of technology. They also spend the most time online, an average of four hours a day. Young professionals use the Internet primarily for communication and information, but they also buy and sell products online.

■ **Young gamers** This group, which bridges younger age groups, consists of people aged 19 to 35 who have not attended a university and whose incomes are usually lower than those of college graduates. Nearly 90 percent of this group uses the Internet at least once a month, and they spend an average of 3.2 hours a day online. They tend to play games, chat, and seek other forms of entertainment online. Though the Internet penetration rate of this group is less than that of university students or young professionals, young gamers make up a much larger proportion of the Chinese population in absolute numbers.

■ **Active middle-agers** This group, aged 36 to 55, has high income and advanced education—and a 67 percent Internet penetration rate. Active middle-agers use the Internet mainly to search for information and news, spending an average of 2.5 hours a day online. Though they are less attached to chatting and entertainment, they still use these services.

■ **Passive middle-agers** Members of this group have lower incomes and less education than active middle-agers. At 38 percent, this group's Internet penetration rate is the lowest among the six groups. Passive middle-agers' Internet use lags behind average online usage in nearly every area, especially in chatting, listening to music, downloading movies, and e-mailing. They have not grown up with the Internet and, because they lack money and education, use the Internet only selectively, if at all. Still, they spend an average of 1.8 hours a day online, so this group should not be overlooked.

Quick Glance

■ Companies that commit to engage Chinese consumers online must understand Chinese digital consumers' underlying needs and tastes to craft an effective communications approach.

■ Connecting with China's younger digital generations now will allow companies to grow with consumers as their habits evolve.

■ Web 2.0 allows companies to develop two-way communication with Chinese consumers, who can contribute to a company's marketing and brand-building activities.

The e-commerce revolution

One of the biggest trend shifts in China is the rise of e-commerce. As recently as 2007, many online consumers were wary of online purchasing and China's apparent lack of enforcement or payment mechanisms. Business-to-business transactions accounted for most of China's e-commerce activities. But things have changed significantly in the last few years. While business-to-business is still the largest e-commerce segment by total transaction value, consumer-to-consumer and business-to-consumer transactions are experiencing the fastest growth: Together these transactions totaled $37 billion in 2009 and BCG expects they will surpass $100 billion in 2012. BCG also expects business-to-consumer transactions to increase 61 percent annually, and consumer-to-consumer volume to increase 45 percent annually from 2009 through 2012. The rapid rise in urban Chinese workers' disposable incomes in recent years has put more money in the hands of already-keen e-commerce users, further fueling the industry's growth.

Roughly 8 percent of the Chinese population now shops online, compared with just 3 percent in 2006. BCG estimates that e-commerce use will jump to 19 percent of the population by 2012. Young professionals, who tend to be early adopters, are at the vanguard of this trend, with 49 percent shopping online. University students follow with 39 percent shopping online. Online shoppers cite low prices as their biggest incentive to shop on the Internet, followed by convenience, efficiency, and product choice.

The purchasing activity of online shoppers is impressive—

roughly half of them made at least 11 online purchases in 2008, and 40 percent of them spent more than $294 online that year. People are buying more complex products on the Internet, with apparel and accessories, books, cosmetics, and consumer electronics topping the list in 2008, compared with books, digital greeting cards, and flowers in 2004.

Users can pay for goods online in various ways in China, including by cash upon delivery. E-commerce sites, such as Taobao (www.taobao.com), China's online shopping and auction website, are increasingly using online payment platforms, though such platforms are still in the early stages of development.

The expanding supply of Web 2.0 (web applications that facilitate shareable content and collaboration) product information on business-to-consumer and consumer-to-consumer websites has helped quell Chinese consumers' worries about product quality. On these platforms, users write comments that evaluate products to keep other consumers informed. Though 28 percent of Chinese Internet users shop online, 36 percent obtain product information online. Again, university students and young professionals conduct considerably more research online before purchasing compared with other demographic groups.

Another key element driving the popularity of consumer-to-consumer transactions is selection. Even in large cities such as Beijing, product choice online is often far more diverse than choices available in stores. For those who live outside commercial hubs, the wide selection of goods online is even more valuable.

Price transparency is also vital. E-commerce users benefit from access to hundreds of thousands of small retailers that sell goods at a tiny margin more than wholesale prices. These sellers do not necessarily trade in so-called "shadow goods"—goods that entered China at below-market prices; some are official retailers and maintain brick-and-mortar shops while also selling on websites such as Taobao. Location is still important, of course, and many buyers prefer to purchase from sellers whose physical stores are near enough so customers can seek product support if necessary.

The consumer connection

China's digital generations represent vast opportunities for any consumer-related company, but such companies must understand the needs and preferences of China's different segments to capitalize on user trends. Over the long term, it is only a matter of time before China's younger digital generations shift into mainstream Chinese society. Connecting with this generation now will allow companies to grow with consumers as their habits evolve.

Incorporate consumer behavior into your business model

Companies that engage with Chinese consumers must interact with them through digital channels and develop new capabilities to fully exploit these channels. With the pace of change accelerating, it is imperative that companies act now. What will this entail?

■ **Be visible in the places where target customers spend time** Because the average Internet customer spends nearly three hours a day online, companies need a rich and attractive web presence to increase awareness of their business, brands, and products. Remarkably, many companies still do not properly showcase themselves on the web. Many companies do not update their websites frequently or adequately because corporate budgets for web development are often limited and skepticism about the importance of e-channels remains high. Web development capabilities are also in short supply in China.

Young Professional Case Study: Feng Uses the Internet for Nearly All His Needs*

Basic data

- 26-year-old professional
- Unmarried
- Lives alone

Personal digital devices

- Laptop (Price: $2,000)
- Mobile phone (Price: $300)
- Digital camera
- MP3 player

Personal monthly finances

Income

- $735

Expenses

Communications/entertainment: $140

- Broadband: $25
- Mobile phone: $60
- Movie/CD/DVD: $20
- Online gaming: $30
- TV: $5

Education: $30

Food and clothing: $150

Other (including rent): $250

Savings

- $165

A typical day

6:00 am: Wakes up and checks Sina Sports for the results of the World Cup

7:30–8:20 am: On the subway to work, reads mobile news and an e-book on his mobile phone

8:30 am: Arrives at work and turns on his computer, which automatically logs onto QQ, Fetion, and MSN

8:45 am: After receiving an e-mail from his boss, he starts the day's work assignment

11:30 am–12:00 pm: Takes a break from work, logging on to Kaixinwang to play Happy Farm and view friends' shared videos and stories

4:30–5:00 pm: Uses PowerPoint to write a report for his boss, summarizing the work he's done for the day

5:00–5:30 pm: Helps colleagues buy discounted prepaid calling cards on Taobao

6:00–6:10 pm: Uses Fetion, an instant messaging program, to send a short message to friends about where to go for dinner that evening

9:30–10:30 pm: After returning home, settles down to play World of Warcraft before bed

*All prices are approximate.
Source: Boston Consulting Group (BCG)

■ **Provide services that Chinese consumers consider valuable and unique** Another crucial feature of a successful website is useful content that draws and retains users. Though a company could provide this content itself, it could also harness the power of Web 2.0, allowing user-generated content to create loyalty.

Integrate the Internet into your go-to-market strategy

The rise of consumer-to-consumer e-commerce in China has had huge implications for retailers. Companies looking to stay competitive and relevant should consider the Internet's role in the market before developing a coherent go-to-market strategy.

■ **Consider online-channel strategies** Companies will want to weigh whether to set up their own independent site, create a Taobao-hosted site, allow authorized retailers to act as retail channels, or leave their online sales unmanaged. Though all of these approaches have merits, many companies must bear in mind that they are playing catch-up with intermediaries that have already established their brands' market presence. Given the rise of Taobao, companies should start by assessing the extent to which their products are sold by third parties and strategize how to ride that wave. Few companies realize how extensively their products are already being sold on Taobao, how many online sellers are doing so, and the impact of this trend.

■ **Focus on price management** The rise of Taobao and other e-commerce platforms creates major challenges for consumer companies in China with regard to price management. The platform has brought a level of price transparency that few companies desire, and the site's geographic reach has reinforced this transparency throughout the entire country. Companies with products sold online and via traditional channels will need to confront the challenge of maintaining consistent pricing across channels.

■ **Build on the e-commerce opportunity** The consumer-to-consumer platform presents an enormous opportunity to expand the regional presence of brands. The Taobao channel can reach markets and consumers that are otherwise inaccessible. Companies can also use Taobao and similar platforms for other purposes, such as aggregating market information. Authorized retailers of a company's product on Taobao likely have access to customer demographic information that a company does not. Actively engaging customers on Taobao can generate valuable data on consumer behavior that can help shape the next phase of a company's marketing strategy.

Leverage the collective power of the digital network

Web 2.0 allows companies to develop two-way communication with Chinese consumers, who can contribute to a company's marketing and brand-building activities. In China, where Internet users have flocked to blogs and other pursuits that allow individual expression and personalization, online activities are an especially powerful lever. Companies can test advertising messages online and even allow product enthusiasts to drive viral-marketing campaigns. Companies can implement a few online strategies:

■ **Encourage customers to express their enthusiasm for a product** Such customers, who can become an effective sales force, can also participate in after-sales support by exchanging questions and answers on product-specific bulletin boards. Intel Corp., for example, has launched a blog in China that allows visitors to express their ideas freely, enabling the company to tap its customers' concerns and needs.

■ **Customize products and services for China's online consumers, communities, and channels** With online activities so central to the lives of many Chinese—and playing a role in everything from learning and shopping to dating and leisure—companies can set themselves apart by delivering high-quality online experiences and creating innovative

Active Middle-Ager Case Study: Jun's Digital Devices Keep Her Connected, Informed, and Amused*

Basic data	Personal monthly finances	A typical day
■ 41 years old	**Household income**	9:00–10:30 am: Starts the work day by using Excel to run statistics about her company's cartoon production schedule
■ Manager at a cartoon company in Beijing	■ $1,470	10:30–11:30 am: Logs onto Kaixinwang to play Happy Farm with friends
■ Lives with her husband and daughter	**Expenses**	11:30 am–12:00 pm: Logs onto QQ to chat with friends
	Communications/entertainment: $150	1:00 pm: Receives a call from her boss informing her of a 2:00 pm meeting
Personal digital devices	■ Broadband: $30	1:00–1:10 pm: Uses Fetion to send a meeting request to colleagues via her work computer so they can read it on their mobile phones
■ Laptop (Price: $900)	■ Fixed-line telephone: $50	5:00–6:00 pm: Visits Sina.com to read the day's news before leaving work
■ Mobile phone (Price: $440)	■ Mobile phone: $45	8:00–9:30 pm: After dinner, catches up on a popular TV show on Youku
■ Digital camera	■ Movie/CD/DVD: $25	
	Education: $440	
	Food and clothing: $150	
	Other: $360	
	Savings	
	■ $370	

*All prices are approximate.
Source: BCG

products and services. Banks should understand their customers' digital behavior to optimally design online and mobile-banking services, food and beverage companies need to adapt their products to fit a lifestyle that revolves around a computer screen, and technology companies should develop different products for different user groups.

- **Reach out to influencers such as university students, young professionals, and young gamers** To address the needs and earn the trust of China's new digital consumers, companies must court influence brokers who network, are vocal, and have gained a following online. As a first step, companies should simply be aware of "online chatter." Only then can they join the conversation by, for example, sending press releases to popular bloggers or answering questions and adding comments on online forums. Because consumers may balk at a commercial intrusion into what they regard as a noncommercial space, companies must walk a fine line between being part of the discussion and being seen as an agent trying to dominate or manipulate it. One way to counter the latter perception is to set up company- or product-specific discussion boards and blogs.

Use the Internet to advertise brands and build trust

Branding is a new but critical activity for companies in China. BCG's research suggests that brands are more relevant for Chinese consumers than for their counterparts in Europe or the United States. Given the lingering reluctance that Chinese consumers display toward online transactions and commerce, the power of brands—and their ability to convey trustworthiness—is especially important on the web.

Many companies, however, continue to target consumers through traditional channels, such as television and outdoor advertising, which were prevalent during the country's initial economic liberalization. Many marketers still regard television as the most effective medium for building basic brand awareness, but the Internet allows companies to deliver more targeted and specific messages whose impact can be more easily measured (see p.16). Companies that want to build brand recognition online should:

- **Explore the potential of the rapid mobilization of the Internet** As mobile-phone and Internet use dramatically increases, companies will have greater opportunities to exploit these media but should also consider the convergence of online consumer habits in a single mobile device. Companies will want to create services that cater to mobile-Internet users and develop mobile platforms in their marketing strategies.
- **Earn higher returns on advertising dollars by using integrated online-marketing campaigns** Even with the convergence of mobile devices and Internet use, companies should take an integrated, multichannel marketing approach. This strategy allows companies not only to maximize their returns on advertising expenditures but also to better target customer segments.
- **Reach out to consumers in lower-tier cities and rural areas** China's digital revolution is built on Internet and mobile-telephony infrastructures that extend deep into the western reaches of the country. This coverage will allow companies to overcome an enduring challenge: reaching consumers in small cities and regions at the edge of existing distribution channels (see the *CBR*, November–December, p.12). Digital devices offer a fast and cheap way for companies to access those potential customers directly. At minimum, companies can educate consumers about products and solicit feedback.
- **Build organizational capabilities to address the digital space** To fully exploit digital opportunities, companies should build organizational skills by strengthening teams in consumer research and online marketing and ensuring that sales operations can manage multiple channels. Creating online-marketing capabilities will be especially challenging because marketing and sales professionals who understand consumers' use of the Internet and mobile phones are in high demand and few advertising agencies in China have fully embraced online and mobile platforms. Against such constraints, global companies' headquarters might be tempted to interfere in Chinese marketing and sales activities. Because of the need for speed and local knowledge, however, these activities should be handled on the ground.

Mobile Internet: The 3G opportunity

One distinctive feature of the China market, as compared with other markets, is that mobile-phone owners use their devices for a broader range of activities, particularly for entertainment and communication needs. In addition to calling and sending text messages, Chinese mobile-phone users send multimedia messages, play music and games, download ringtones, and watch videos on their phones.

Though the number of Chinese mobile users reached 233 million in 2009, mobile-Internet use in China is still far from developed—and it is unclear how much of this activity is mobile-broadband usage. The current lack of a developed mobile-broadband market points to an expanding opportunity for mobile applications in the future, particularly as third-generation (3G) technology develops.

The future of digital technology in China

The adoption of the broadband Internet by Chinese consumers has already transformed the market landscape, and will continue to do so in the years ahead. In 2011–12, smartphone adoption will likely increase dramatically, and broadband Internet connections will rise. More consumers will become comfortable buying online, and will turn to the Internet for advice on major purchase decisions. Companies that seek to win over the Chinese consumer must make effective use of Internet platforms to reach and influence these consumers. 完

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China Foto Press

Social media is making a big impact on China's youth.

Social Media in China: The Same, but Different

As Chinese consumers spend more time online, foreign companies should deepen their knowledge of domestic social media platforms.

Thomas Crampton

Much has been written of late about the PRC government's efforts to control and censor the Internet. The government's censorship of websites is an important issue, but it is not the top priority of the country's 420 million Internet users (netizens). Their top priority? Connecting with other Chinese online. The Internet has opened access to information for ordinary Chinese citizens in ways that were unimaginable just a few years ago. Coming from a world where information was pre-filtered by editors at state-run media, China's Internet is freewheeling by comparison.

Rather than eliminate social media, restrictions on foreign websites and social media have resulted in a flourishing home-grown, state-approved ecosystem in which Chinese-owned properties thrive. YouTube, Facebook, and Twitter are blocked in China, but their Chinese equivalents are expanding. By some measures, usage of Chinese social media is some of the most intense in the world. A Boston Consulting Group study found that Chinese Internet users are online for an average of 2.7 hours per day, considerably more than other developing countries and more on par with usage patterns in Japan and the United States (see p.22).

Numerous factors help drive Chinese, more than other populations, to engage in social media. These include rural-to-urban migration that has separated families, the loneliness of the one-child generation, and a distrust of information from government-controlled media.

A 2008 MTV Music Matters survey found that young people across Asia have made a similar number of friends online and offline. Only in China, however, did young people actually have more friends online than offline. This points to a convergence of the offline and online worlds, where it is less important to distinguish between what happens online from the "real world." In China, more than in many countries, social media has become deeply integrated into people's lives.

Chinese netizens actively engage in discussions that could directly affect companies. A recent study by OgilvyOne in China found that 55 percent of China's netizens had initiated or participated in online discussions about companies. Understanding social media is no longer a luxury for companies operating in China—it is an imperative. Formerly, a lack of engagement with netizens could be considered a lost opportunity. Now, the penetration and impact of social media is such that failing to understand what consumers are saying about a company online has become a business risk.

Quick Glance

- Chinese Internet users are actively engaging in social media—especially home-grown social media platforms.
- Domestic social media platforms differ in various ways from Western platforms.
- Companies should learn how Chinese consumers use social media and take advantage of the platforms to conduct consumer research, launch products, manage public relations crises, and more.

Comparing social media platforms

To explain the development of social media in Asia, Ogilvy's 360 Digital Influence team has developed a series of social media "bulls-eyes" that place international platforms on the outside ring and their local equivalents on an inner ring (see Figure).

With China, as with other countries, this bulls-eye system has strengths and weaknesses. For example, the bulls-eye shows that the equivalent of Twitter in China is Sina Weibo (www.sina.com.cn), and the two equivalents of YouTube are Tudou and Youku (www.tudou.com and www.youku.com, respectively). This comparison is helpful, but it can also be misleading. China's social media platforms and online behaviors vary in important ways from those that may be considered their international equivalents. This variation is not all due to censorship. In China, as elsewhere in Asia, local variations of Internet usage are driven by language, culture, levels of economic development, and the underlying digital ecosystem. Digital ecosystems—the platforms around which populations focus online communications—can vary wildly between countries and within a single country. Substantial differences can exist even in countries at similar levels of economic development. Even without government blocks, Internet users in Japan and South Korea, for example, flock to domestically developed social media platforms such as GREE (www.gree.jp) and Cyworld (www.cyworld.co.kr), respectively, rather than internationally known sites.

YouTube vs. Youku and Tudou

Different social media usage patterns tell a great deal about the Internet and the country involved. For example, Chinese netizens use online video platforms quite differently from how Americans use YouTube. Rather than short videos of cute animals or silly domestic mishaps that may be popular among YouTube watchers, Youku and Tudou are filled with longer form content, up to 70 percent of which is professionally produced. Users in China spend up to an hour per day on the sites, compared with less than 15 minutes spent by Americans on YouTube. In the way they present programs, the Chinese sites seem more like online television stations or a replacement for digital video recorders.

Though individuals in China produce and post videos, a large portion of online video content is longer-format professional videos. Much of this content consists of foreign programs pirated, subtitled, and uploaded hours after broadcast in the United States. An odd consequence is that the stars of programs such as *Prison Break* have a huge fan base in China, despite the series never having been broadcast on Chinese television.

In addition to the pirated programs, demand for original content on Youku and Tudou has resulted in a boom of companies that focus purely on online video. In some ways, the sites resemble a variation on US-based television service Hulu more than YouTube.

The television-like feel of Youku and Tudou reflects the usage pattern of young Chinese. University students in China often express skepticism when told that their country has one of the highest levels of social media engagement in the world, because they expect that the United States would rank first. In my favorite demonstration, I ask students in a classroom to raise their hands if they have watched China Central Television (CCTV) in the last week. Generally, no one raises their hand. When I ask who has watched a video on Youku or Tudou in the last 24 hours, every hand in the room goes up, accompanied by amused laughter.

Social Media Equivalents in China

Source: Ogilvy 360 Digital Influence

This switchover to social media does more than demonstrate the popularity of new media—it affects the whole advertising industry. In China's case, certain demographics can no longer be reached effectively via traditional media channels. As the anecdote above shows, a well-crafted television advertisement on CCTV could miss university students entirely.

Twitter vs. Sina Weibo

Some differences between Chinese and foreign social media are rooted in culture and language. At first glance, Sina Weibo is a latecomer to the microblog phenomenon. But launched in 2009, just about three years after Twitter, Sina Weibo is by far the most popular microblogging platform in China. (The PRC government has blocked Twitter, though a small number of Chinese and resident expatriates hack their way around the blockage.) Similar to Twitter, Sina Weibo allows users to post 140-character messages, and users can follow friends and find interesting comments posted by others. Small but important differences in the platform have made some say it is a Twitter clone, but better. For example, unlike Twitter, Sina Weibo allows users to post videos and photos, comment on other people's updates, and easily add comments when re-posting a friend's message.

Though mobile phones are used to send less than 20 percent of Twitter updates in the United States, nearly half of Sina Weibo's updates are sent via mobile phone. This phenomenon points to the growth of China's mobile Internet, one of the biggest trends in China and Asia.

Perhaps the most striking difference between Chinese and foreign social media, however, is the length of communications expressed via microblogs in Chinese versus English. One measure is to look at what Dell Inc., a company skilled at social media, can communicate on microblogs in Chinese compared to English. Twitter holds messages to 140 characters, which is quite short in English, especially if users want to include a URL. Dell often uses its Twitter feed, @delloutlet, to promote special offers, such as this posting: "Today's Deal: Get FREE Eco-Lite Sleeve with the purchase of any Dell Outlet Insprion Mini 10 or 10v Netbook! http://bit.ly/77fUFG." This message came in at 136 characters, almost the maximum length.

Since each character in Chinese is a word, @delldirect, Dell's Chinese-language feed, can write much more using the Chinese-language Zuosa microblogging platform (http://zuosa.com). As translated by Ogilvy's Beijing team, a similar message reads:

> Dell's National Day Sale runs from Sept. 11 to Oct. 8. To celebrate the 60th anniversary with the motherland, Dell Home Computers is offering 6 cool gifts and deals on 10 computer models. These exciting offers will run non-stop for 4 weeks. Also, get a free upgrade to color casing and a 512MB independent graphics card, as well as other service upgrades. All offers are on a first-come, first-served basis. What are you waiting for? Act now!

Even with a message this length—114 characters in Chinese—there is still enough space to put in a webpage link. In other words, 114 characters in Chinese translates into 434 characters in English, well beyond the text limit of a "tweet" in English. This language efficiency turns microblogging in China into a more blog-like platform.

Like Facebook, but different

Throughout much of the West, particularly the United States, Facebook holds sway as the default social network, gathering all demographics. The same does not hold true in China, where a handful of social networks attract segmented audiences, ranging from upmarket urban youth to university students and migrant workers.

- Douban (www.douban.com), a more specialized social networking site, attracts art students and those passionate about books, cinema, culture, and music. Users connect according to their interests and often hold offline activities, such as trips to local art exhibitions.

- Kaixin001 (www.kaixin001.com), a platform designed for a more mature audience of young professionals, has a membership that is heavily dominated by white collar workers in Beijing; Guangzhou, Guangdong; Shanghai; and second-tier cities. Users do not upload personal content but rather share information they find elsewhere, often relating to health, relationships, and professional advancement.
- QZone (http://qzone.qq.com), the first and largest social networking site in China, attracts youth from teens through age 25, often from second- and third-tier cities. A sizable portion of migrant workers, many of whom share personal diaries in a blog-like format, use QZone.
- RenRen (www.renren.com), the platform in China most similar to Facebook, attracts university students who use the platform to connect and interact with classmates. The site is organized around users' school and graduation class. Many users upload videos and photos of their activities.

Bulletin board systems

Beyond these sites that have more modern Internet functionality, some original forms of social media still flourish in China. Bulletin board systems (BBS), which were a primal form of the early Internet, allow people to post basic messages online (see the *CBR*, January–February 2009, p.28).

In contrast to many countries, a wide range of BBS still flourish in China today, with users relying on them for critical consumer comments about products and services from clothes and cosmetics to restaurants and cars. Postings are anonymous, which encourages users to give unvarnished views. Writing under pseudonyms, many users that frequently post on BBS build reputations and sizable followings. Anonymity does, of course, also open the system to abuse by competitors writing negative comments.

The Internet as social media

A broader impact of China's deep involvement in social media is that some netizens only experience the Internet through social media platforms. This is partly because of the large population of new netizens coming online at any given time. According to the China Internet Network Information Center, China had 420 million netizens by the first half of 2010, up 36 million Internet users over year-end 2009. When new users join the Internet, a friend will often introduce them to one particularly relevant service, such as how to communicate with friends for free via Sina Weibo or buy goods via China's e-Bay equivalent—Taobao (www.taobao.com), so that service becomes their concept of the Internet. These examples show how many Chinese netizens would not distinguish between social media and the Internet itself. To them, the Internet is social media and vice versa.

Case studies in China's social media

For companies operating in China, the rise of social media opens opportunities to engage with consumers and, at times, avert serious problems. By ignoring social media, companies may not see a consumer-led crisis coming.

Companies can use social media in China to conduct consumer research, shift brand preference, launch products, and manage crises. Even monitoring online conversations can yield striking results. For example, while conducting daily online monitoring for a client, Ogilvy found a brewing consumer protest over the client's shop in Guangzhou. Early in the week, a disgruntled customer had posted complaints about customer service and announced his intention to visit the store that coming Saturday to express his dissatisfaction. Other netizens said they would join, exchanged mobile phone numbers, and discussed where to meet. By Wednesday, a group of 30 disgruntled customers had plans to meet at the store on Saturday. Because the original complainer had posted full details of his experience, the company was able to contact the customer and rectify the situation. In response, the customer announced online that he would cancel his visit to the shop. He was impressed with the direct outreach and the fact that the company listened.

An example involving a nationwide consumer recall shows how companies should use social media and speak the language of consumers. In this case, consumers had different concerns from what the company expressed in public statements about its recall. The company also posted general information about the recall, but consumers online wanted more detailed and practical information. By actively listening to consumers on BBS and other social media sites during the recall, the company adjusted its online messaging to answer consumer questions. As the recall went into full swing, the number of people visiting recall-related forums remained high, but fewer people left comments or asked questions because their questions were being answered sufficiently.

Oddly ignored

As China's population moves online, consumer behavior shifts. Oddly, many companies have failed to acknowledge the shifts in their marketing strategies. Social media has grown to become the shared commons where Chinese consumers offer opinions, ask for advice, and discuss brands. Ignoring the Internet could be considered a lost opportunity in the past, but in China today, ignoring social media is a business risk. 完

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China Foto Press

Companies must take China's government-controlled media into account when implementing public relations campaigns.

Effective Public Relations in China

Communications strategists must consider China's media, market forces, and government structure to get their message across effectively.

Gregory P. Gilligan

Communicating a message effectively in China requires understanding the subtly moving parts of the country's complex operating environment. Government-controlled media, the Chinese Communist Party's (CCP) interests, economic reforms, and rapidly expanding Internet use all affect corporate communications strategies in China. To maintain effective public relations (PR) in China, foreign executives should be open to challenges, and understand that engagement in China is much more complex than in almost any other business environment. This complexity exists in the number of stakeholders companies must influence and in the relationships and motivations that exist between and among those stakeholders. An effective PR professional in China must understand, accept, navigate, and continually reevaluate those complexities to identify threats and opportunities. Government affairs and PR are intertwined in China, and effective PR strategies must acknowledge this fact. Many foreign companies separate their PR and government affairs functions in China as they would in their home markets, but

PRC government control of the media requires companies to treat PR as they would treat government relations.

Corporate communications challenges in China

Corporate affairs professionals must deal with many government-controlled communications channels when trying to get a message across in China. A company's target audience could be government agencies, the media, public, or consumers, but it could also include the CCP, state-owned enterprises (SOEs), or quasi-independent nongovernmental organizations (NGOs). In addition, China has many organizations that hold no obvious connection to authority but take cues from a ministry or other formal government body. Companies should engage with these organizations in much the same way as they would a government agency.

China's economic reform and opening policies have lead to a significant but partial commercialization of some communication channels, such as media outlets that cover commerce and the economy. Knowing which media outlet is influenced by which precise mix of government authorities and commercial market forces is more art than science, however. It is thus quite possible for a foreign or domestic company's perfectly legal commercial objectives to run afoul of a social or political interest or a more politically connected competitor's interests.

Companies typically use communications strategies, such as marketing a product or promoting corporate social responsibility (CSR), to inspire customers to buy or support a product or service. The trick is to take these universal communication functions and integrate them in a way that effectively navigates China's unique market forces, government structure, and trends. For example, companies could integrate CSR initiatives into consumer, government, and employee communications. Companies should factor some recent trends into their communications strategies.

Quick Glance

- To get their message across in China, companies should treat public relations (PR) as they would treat government relations.
- Companies should factor recent trends into their PR strategies, including PRC government and industry consolidation, social media, and the "marketization" of the media.
- Effective PR strategies require that companies clearly and effectively demonstrate their contribution to Chinese society.

"Marketization" of Chinese media

Though officially controlled by the CCP, some state media outlets have latitude to report without the strict controls imposed in the past. Though the CCP's official media outlets, such as Xinhua News Agency and the *People's Daily*, remain subsidized and tightly controlled, the commercial and lifestyle media now have significant freedom and receive limited guidance from the CCP. The government has also eliminated media subsidies, increasing media outlets' emphasis on sustainability and profits. Market forces, coupled with an environment where journalists are accountable for safe political views more than for factual reporting, make effectively navigating China's commercial media landscape difficult. Foreign companies' interests can suffer if they are the subject of inaccurate reporting.

Internet and social media influences

China's Internet community is among the fastest growing in the world. China had roughly 420 million Internet users, or netizens, in June 2010, and the number is increasing rapidly. The rising popularity of the Internet has resulted in significant social and commercial changes that businesses have yet to fully understand. This is particularly true because the usage behavior of Chinese netizens differs significantly from that of Internet users abroad (see p.22). In the United States, Internet users are much more driven by practical needs, using the Internet as a tool to send e-mail, buy and sell goods, conduct research, plan trips, and pay bills. Chinese netizens use the Internet more for social reasons, with significantly higher use of forums and blogs, Internet chatrooms, and video, music, and entertainment sites.

Government restructuring and consolidation

The PRC government is consolidating ministries into fewer regulatory bodies and moving toward a "super-ministry system." China now has 27 ministries, down from 41 in 1988, and restructured its government five times between 1988 and 2009. The number of ministries is expected to drop further to 20.

Though restructuring improves cost and work efficiencies, simplifying the chain of command is another motivating factor. Businesses planning effective government outreach must understand previous and future government restructuring and how it affects key regulators' scopes of authority, work processes, and personnel decisions. For example, companies that worked in recent years with the PRC State Food and Drug Administration (SFDA) needed to anticipate what personnel and regulatory authority shifts would occur when SFDA was absorbed by the PRC Ministry of Health in 2008.

Industry and SOE consolidation

The PRC government recently began to emphasize "key strategic industries" deemed vital to the country's economic development and national security. In 2003, at the beginning of PRC President Hu Jintao's leadership, China had 196 SOEs, compared to 122 today. Government officials and academics expect this number to shrink to about 80 to 100 enterprises. The PRC government's influence over and protection of subsidized SOEs has far-reaching effects on businesses that intersect with SOEs and operate in an SOE-dominated communications environment.

PR strategies in practice

Events surrounding the 2008 Beijing Olympics and the earthquake in Wenchuan, Sichuan, show crisis situations where communications strategies took unexpected turns. These events also demonstrate the type of broad stakeholder outreach that can garner good results. If applied in a proactive setting, the reactive measures discussed below are a solid way to secure good return on PR efforts.

2008 Olympics

The 2008 Beijing Olympic Games highlight the complexity faced by PR professionals in China. The PRC government worked hard to maintain an open investment environment before the Olympic Games to highlight the progress of China's reform and opening policies. As a result, foreign companies benefitted from a simplified route to their business objectives. These businesses were often also a conduit for information on China to the outside world.

The 2008 Olympic Games provided a platform for China to stage its reemergence as a global power, but also gave an opportunity for many groups outside of China to advance their messages. This was particularly true for international NGOs that took issue with the PRC government's stances on numerous topics, including human rights, the environment, Taiwan, Tibet, and relations with Sudan. These groups saw the 2008 games as an opportunity to draw attention to issues that might not have gained the same international media attention otherwise. What the international NGOs did not count on, however, was the PRC government's ability to silence dissenting voices within China's borders. The government's control of media outlets, including the Internet, caused these NGOs' efforts to fall short. Instead, the CCP and PRC government communicated to China's populace the idea that international NGOs were attacking China in its time of glory, which aroused nationalism and resentment toward forces described as seeking to limit China's peaceful rise and development.

Sichuan earthquake

Three months before the Olympics, a massive earthquake struck Wenchuan, Sichuan. The tragedy sparked PR problems for several large multinational corporations (MNCs). The underlying circumstances of the ensuing controversy demonstrate the complexity of PR efforts.

When the earthquake hit, international NGO voices—which were critical of China in the lead up to the Olympics—stopped their pressure campaigns because it was unthinkable to continue criticizing China during a time of national crisis and mourning. Nationalist sentiment, previously focused on international NGOs, mixed with an overwhelming sense of anguish and grief for victims of the earthquake and refocused on foreign companies. Chinese netizens, most of whom did not have full command of the facts, swarmed the Internet and mobile text networks to deride foreign companies that allegedly enjoyed great business success in China while ignoring the plight of the suffering. Critics called these companies "iron roosters," a Chinese euphemism for "cheapskate." Dozens of text messages, blogs, and news portals criticized the iron roosters' callous profiteering.

After gaining an understanding of the objective facts, media and government observers said that MNCs in China contributed to the controversy because they did not do enough early on to communicate their significant earthquake relief efforts. Most of the MNCs labeled as "iron roosters" actually donated goods, services, and cash immediately after the earthquake but, not wanting to appear opportunistic, they took a distinctly low-key approach to downplay their efforts.

The charges of careless profiteering could have caused irreparable damage overnight to brands that took decades to build in China. A few companies, however, realized their problem was deeply political. To address the challenge, companies needed to reach out to the CCP, PRC government agencies, domestic NGOs and trade associations, the media, and direct-

Public Relations in China: Dos and Don'ts

Do

- Understand China's vertically integrated and complex power structure and all stakeholders;
- Create public relations (PR) messaging that demonstrates commercial goals aligned with the objectives of Chinese government and society;
- Determine whether a behind-the-scenes influencer may be driving issues in unexpected ways;
- Map the complex web of stakeholders needed to address each issue;
- Engage proactively before critical need emerges;
- Train PR and government relations employees to work together closely; and
- Track and evaluate PR performance and adjust strategies accordingly.

Don't

- Don't simply follow a Western model for PR strategy. Organizational structure and employee function should reflect local conditions.
- Don't shy away from engagement—PR is a contact sport.
- Don't wait for challenges to go away by themselves. The stakeholder environment in China is too complex and the rise of Internet use and social media guarantees challenges will spin out of control.
- Don't forget to consider capitalist and socialist approaches when assessing a situation.

—Gregory P. Gilligan

ly to netizens. Though only a few companies reacted effectively to the crisis, all of the alleged iron roosters eventually benefitted from those more effective efforts to convince the PRC government that they had mutual interest in setting the record straight. For example, one US retail company, though initially labeled an "iron rooster," reacted effectively by canvassing Internet bulletin boards, talking to prominent bloggers, speaking to the traditional media, imploring the government for help, and even reaching out to the CCP. After the iron rooster incident, the company was willing to try anything to communicate its true earthquake relief efforts to the public and counter the criticism brought on by unsubstantiated but harmful accusations that spread virally through social media.

China's international reputation would have suffered had things gone badly for companies that reacted responsibly to the crisis. The CCP and PRC government got the message out that foreign enterprises indeed were active participants in earthquake relief efforts. The credibility that endorsement lent was critical for those brands to escape nearly irreparable damage to their image in China. The PRC government and state-controlled media it controls are critical stakeholders in foreign companies' PR strategies, and companies should engage government officials as part of their PR efforts.

Develop a strategic and integrated approach

Context and experience in many markets, including the United States, suggests the need for a different approach to engagement in China. Effective PR in China requires taking into account the full context, embracing complex issues, and engaging stakeholders at various levels. The iron rooster incident is a dramatic example of the need for skilled PR professionals in China, and demonstrates the importance of a broad strategic and highly integrated approach to a complex stakeholder landscape.

Foreign companies can learn from the iron rooster incident, including by developing PR strategies in China that factor in local market conditions. The understated approach taken by many of these companies after the Wenchuan earthquake may have been effective in Western countries; in China, during a time of national crisis, companies must clearly and effectively demonstrate their contribution to Chinese society. In addition, new media and social networks in China have unique characteristics that require engagement on their own terms. When faced with crisis, foreign companies operating in China must also focus on the complex web of stakeholders: the CCP, PRC government, media, NGOs, netizens, and consumers. Each stakeholder influences the others in critical ways. 完

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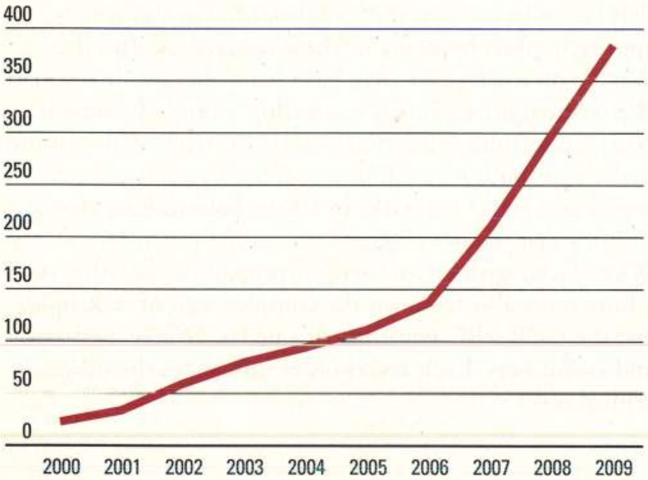
Chinese consumers flock to the Inte

China's Internet population has increased 17-fold in the past decade.

Number of Internet Users, 2000–09

No. of users (million)



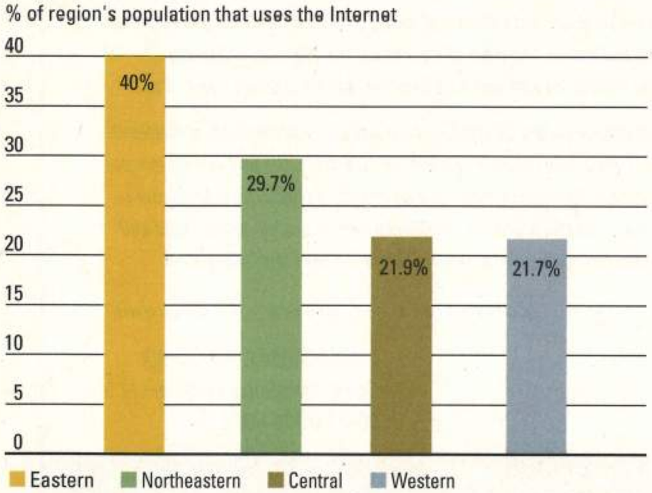
Source: PRC National Bureau of Statistics (NBS), *China Statistical Yearbook*, 2010

China Foto Press

Most Internet users are concentrated in eastern regions...

Internet Population by Region, 2009

% of region's population that uses the Internet

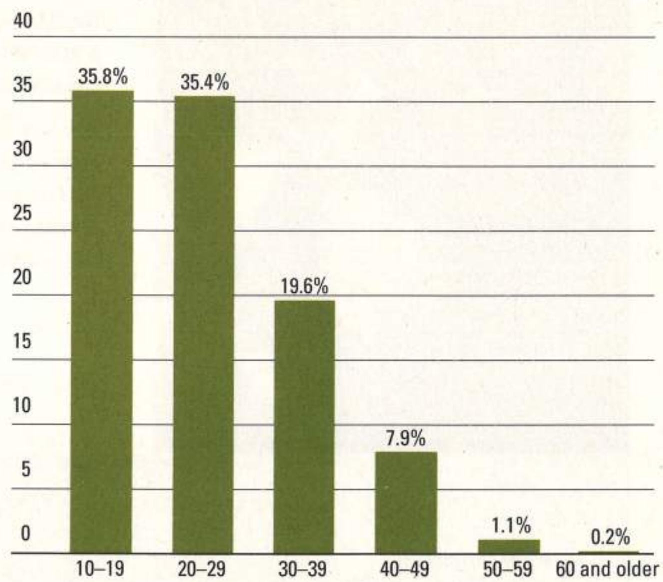


Notes: Eastern region includes Beijing, Fujian, Guangdong, Hainan, Hebei, Jiangsu, Shandong, Shanghai, Tianjin, and Zhejiang; northeastern region includes Heilongjiang, Jilin, and Liaoning; central region includes Anhui, Henan, Hubei, Hunan, Jiangxi, and Shanxi; western region includes Chongqing, Gansu, Guangxi, Guizhou, Inner Mongolia, Ningxia, Qinghai, Shaanxi, Sichuan, Tibet, Xinjiang, and Yunnan.
Source: NBS, *China Statistical Yearbook*, 2010

...and are young compared to the overall population.

Internet Population by Age, June 2010

% of Internet population



Note: Less than 0.1% of China's Internet population was under 10 years old
Source: China Internet Network Information Center (CNNIC), *Statistical Report on Internet Development in China*, July 2010

et and social networking platforms

China's netizens use the Internet primarily for communication and entertainment.

Usage Rate of Online Activities, June 2010

Activity	Usage rate (%)
Online music	82.5
Online news	78.5
Search engine	76.3
Instant messaging	72.4
Online games	70.5
Online video	63.2
E-mail	56.5
Blog updates	55.1
Social network services	50.1
Online shopping	33.8
Forum/bulletin board system	31.5
Online payment	30.5
Online banking	29.1
Online stock or fund	15.0
Travel booking	8.6

Source: CNNIC, *Statistical Report on Internet Development in China,* July 2010

Most of China's top search engines, portals, and e-commerce sites are Chinese-owned.

Top Websites, 2009

Top-Five Search Engines

1	www.baidu.com
2	www.soso.com
3	www.google.cn
4	www.hao123.com
5	www.gougou.com

Top-Five Portals

1	www.qq.com
2	www.sina.com.cn
3	www.163.com
4	www.sohu.com
5	www.yahoo.com

Top-Five E-Commerce Sites

1	www.taobao.com
2	www.alibaba.com
3	www.paipai.com
4	www.amazon.cn
5	www.alipay.com

Note: Blue text indicates US companies

Source: Nielsen Research, *Chinese Take-Away: Vital Information and Insights into China,* 2010

Homegrown sites also dominate China's social networking sphere.

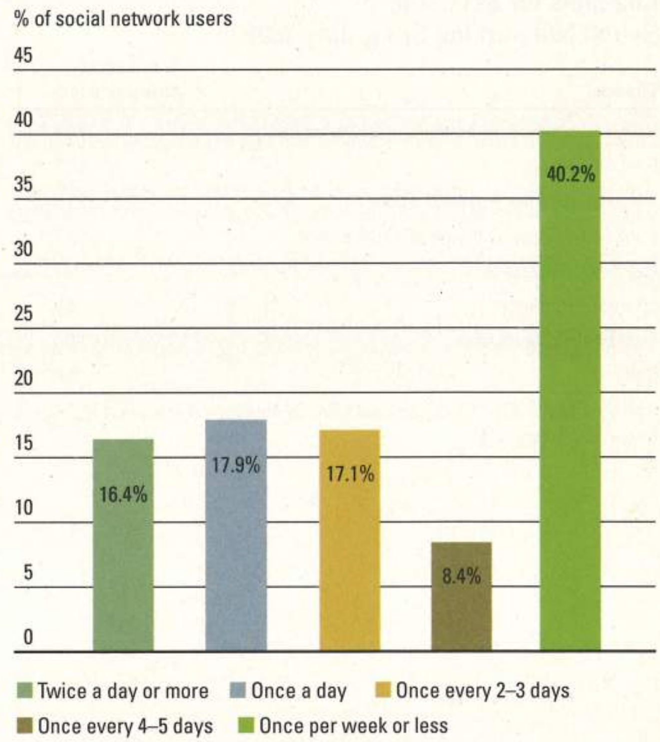
Top Social Networking and Communities Sites, 2009

Rank	Name
1	http://xiaoyou.qq.com
2	www.tianya.cn
3	www.renren.com
4	www.51.com
5	www.kaixin001.com

Source: Nielsen Research, *Chinese Take-Away: Vital Information and Insights into China,* 2010

Social networking site use is relatively high, with more than one-third of users visiting a social networking site at least once a day.

Social Networking Use, July 2009



Source: CNNIC, *China Internet Users Social Network Application Research Report,* October 2009

The top reason people use social networking sites is to connect with friends.

Use of Social Networking Functions, July 2009

Function	Usage rate (%)
Chat with friends	51.6
Check friends' updates	49.4
Visit friends' individual pages	47.4
Make blog posts	44.5
Participate in bulletin board systems	41.1
Create or view photo albums	38.1
Share links, documents, and music with friends	37.5
Play games	34.6
Visit discussion forums	30.4
Use micro-blogging services	18.5
Participate in groups	16.4

Source: CNNIC, *China Internet Users Social Network Application Research Report*, October 2009

Most people become involved in social networking sites through friends and coworkers.

Channels for Selecting Social Networking Sites, July 2009

Channel	% of social network users
Friend, classmate, or coworker recommendation	74.6
Internet search	16.2
Internet news story or information	15.4
Print, radio, TV, or billboard advertisement	12.8
Internet advertisement	9.2
Internet hyperlink	8.9
E-mail recommendation	8.0
Other	1.4

Source: CNNIC, *China Internet Users Social Network Application Research Report*, October 2009

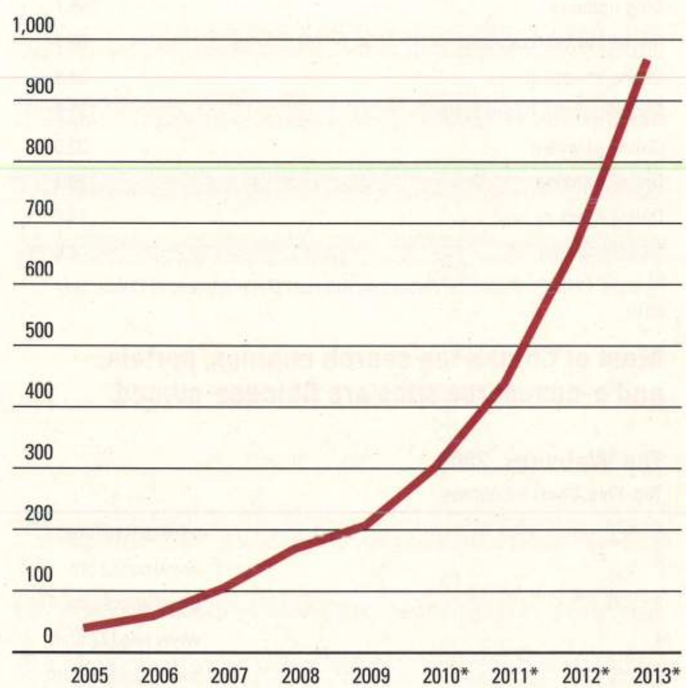
Top Industries in Online Advertising, Q1 2010

Industry	% of market
Fashion	17.7
Auto	15.7
Retail	10.8
Computers and electrical	10.1
Fast-moving consumer goods	8.8

Source: CR-Nielsen

The expansion of China's Internet population has boosted online advertising, which grew 22 percent in 2009.

Size of China's Online Advertising Market, 2005–13



*Estimate based on current projections

Source: iResearch Consulting Group

Vague PRC laws to keep information behind closed doors may increase companies' liability.

Understanding China's State Secrets Laws

Corporate compliance programs must address the risk of improper disclosures of sensitive technical or commercial information.

Mitchell A. Silk and Jillian S. Ashley

State control of information has been a focus of PRC regulation since the founding of the People's Republic in 1949. Despite several updates to laws governing "state secrets" in China over the years, the concept of state secrets remains amorphous and subject to interpretation in line with prevailing political winds. Foreign companies in China must be aware of the serious implications state secrets laws pose on inbound and outbound trade and investment, especially given the PRC government's increasing emphasis on foreign compliance. Firms doing business in China must implement comprehensive compliance policies and training programs to prevent employees from violating China's state secrets laws.

The evolution of China's state secrets laws

The PRC government issued its first regulations governing state secrets in 1950 and 1951. The regulations were broad and reflected Chairman Mao Zedong and Premier

Zhou Enlai's objectives at the time: political consolidation after decades of revolution as the government sought to combat perceived "enemies within and without" the country. Accordingly, the 1951 regulations listed a wide range of topics that could be considered state secrets—from highly sensitive matters, such as national defense, foreign relations, state finances, and infrastructure, to much less sensitive matters, such as culture, education, hygiene, and meteorological forecasts. What could not be captured through broad and vague classifications was included in a catch-all provision covering "all state affairs not yet decided upon" and "all other state affairs that must be kept secret."

1988 State Secrets Law

China's more recent state secrets regime is based on the 1988 Law on Guarding State Secrets, which attempted to balance former leader Deng Xiaoping's push to open up to the outside world with the state's interest in controlling certain types of information. The law is clearer and more detailed than the 1950 and 1951 regulations. Upgrades included categories for secrets based on sensitivity (top secret, highly secret, and secret); procedures for declassifying of information because of changes in circumstance or time; and clearer government agency responsibilities for classifying and handling information. The law, however, still lacks clarity in important areas that affect how Chinese and foreigners acquire, handle, store, and convey information. Most notably, the law's definition of "state secrets" remains ambiguous. It provides a narrower list of items that could potentially be considered state secrets, yet still contains a catch-all provision for "other matters that are classified as state secrets by the national State Secrets Bureau," with no limitation on what those matters might be. In effect, the vague "state secrets" label allows the government to choose which potential violations to prosecute and which to ignore. For foreign companies in China, however, it creates difficulties in managing risk: How does one ensure compliance with a law when what constitutes a violation remains unclear?

Quick Glance

- China's ambiguous definition of state and commercial secrets poses risks for foreign companies.
- Firms should enact strict compliance policies and training programs to prevent accidental exposure to secrets.
- Companies must understand state secrets law before entering into agreements with Chinese state-owned enterprises.

2010 amendments

The PRC government recently released Amendments to the State Secrets Law, which took effect in October 2010. The amendments add clearer standards for identifying and handling classified information, delineate authority to determine what should and should not be classified, and take into account technological developments such as the Internet.

The new amendments prohibit connecting computers that contain classified information to the Internet and other public information networks. They also stipulate that private communications may not "touch upon" state secrets and require Internet service providers and other public network operators to cooperate with state secrets investigations. Though the 2010 amendments provide clearer guidance for businesses on how to adhere to the law, they also make explicit that Chinese network operators and service providers must cooperate with a state secrets regime often used to suppress political dissent.

The 2010 amendments introduced a welcome system for labeling classified information. In addition to maximum protection periods for various categories of classified information, the amendments state that even at lower levels of the bureaucratic chain, the State Secrets Bureau must wherever possible identify the specific people who are permitted access to the information. Moreover, the amendments provide that all devices and objects that carry classified material must be clearly marked as such. The amendments do not, however, clarify the state secrets classifications themselves or the broad range of information that can be covered by the State Secrets Law.

Criminal and state security laws

The State Secrets Law's ambiguity is of concern given the criminal implications of state secrets violations under China's Criminal Law and Security Law. Article 111 of the Criminal Law provides for penalties ranging from public surveillance and deprivation of political rights to life imprisonment, depending on the severity of the act, for "whoever steals, spies into, buys, or unlawfully supplies state secrets or intelligence for an organ, organization or individual" outside China's territory. For an especially severe act that endangers national security, the article states that individuals may receive the death penalty. Article 282 provides for up to three years imprisonment for a person who "unlawfully holds documents, material, or other objects classified as 'strictly confidential' or 'confidential' state secrets and refuses to explain their sources and purposes." The Security Law addresses similar violations in the state security context.

Commercial secrets, corruption, and bribery provisions

PRC law also protects "commercial secrets." The 1993 Anti-Unfair Competition Law protects commercial secrets of state-owned enterprises (SOEs), and the 2010 Provisional Regulations for the Protection of Commercial Secrets by Centrally Governed Enterprises clarify the treatment of commercial secrets for top-level SOEs. Though the provisional regulations introduce stricter requirements for classification decisions and the labeling of classified information, they do little to clarify the Anti-Unfair Competition Law's ambiguous definition of "commercial secrets." (Parties that enter into business dealings with SOEs should note that the provisions require SOEs to adopt precautionary measures to protect commercial secrets in dealing with third parties.)

Related to state secrets legislation, China's Criminal Law and Anti-Unfair Competition Law are the basis for the state's corruption and bribery legal regime. According to these laws, commercial bribery offenses involve securing an "improper benefit" through "improper means." PRC authorities are likely to view a company that holds classified commercial information as having acquired an improper benefit, and the provision of such a secret by a company can easily be construed as improper means. Thus, corruption and bribery allegations often go hand in hand with alleged state or commercial secret disclosures.

Application of state secrets and related laws

The 2008 Rio Tinto case, in which four employees of the Australian mining conglomerate Rio Tinto Group were accused of commercial espionage by Chinese authorities, illustrates how state and commercial secrets, corruption, and bribery can converge in real-life dealings and result in criminal responsibility. The Shanghai Intermediate People's Court determined that Rio Tinto executive Stern Hu and his colleagues "enticed" the disclosure of information regarding a series of conferences convened by the Chinese Iron and Steel Association. Attended by representatives of key Chinese manufacturers, these conferences focused on the industry's strategy for upcoming iron ore price negotiations with Rio Tinto. The court inferred that Rio Tinto employees "improperly obtained" conference information, even though sources volunteered the information without solicitation from Rio Tinto employees. This case suggests that the Chinese courts may infer impropriety in situations where Chinese companies volunteer commercially sensitive information to foreign companies, even when no agreement has been made for favors in return. Foreign companies must thus be aware that they could violate commercial secrets or bribery laws by passively accepting information in circumstances where they are in a position to bestow favors or exert influence.

In addition to facing direct compliance risks, foreign technology companies face the added challenge of handling PRC information requests related to state secrets investigations of others. The requirement in the 2010 State Secrets Law amendments that network operators and service providers in China cooperate with such investigations underscores what has been the reality for some time—that technology firms are under tremendous pressure to share information with Chinese authorities. To date, companies have tended to take one of two contrasting approaches to this struggle—conflict with PRC authorities and withdrawal from the China market, or cooperation with the government resulting in client alienation and potential human rights litigation. Both approaches present significant challenges to business expansion.

Practical implications for US business in China

In the past, foreign businesses in China focused primarily on complying with their home countries' laws, such as the US Foreign Corrupt Practices Act, and regarded PRC state secrets laws as a concern for local firms. Foreign companies can no longer afford to take this approach, especially given the recent increase in cases that apply PRC state secrets law to foreign firms. The risk of state secret disclosure is particularly high in the approval process for equity investment and debt financing of foreign-invested projects in China. These projects necessitate the flow of highly detailed commercial and technical information as part of the planning and application process, and present numerous state secret-related risks for firms that pursue them.

Foreign businesses operating in China can take steps to better protect their interests and employees. In particular, companies should:

- **Develop robust compliance policies** Policies should include a mandate for employees to avoid exposure to classified or potentially classified information without proper permission from appropriate PRC authorities. The mandate should make clear that any information that could result in an unfair competitive advantage in a commercial transaction should be avoided without appropriate authorization. The policies should also include a zero-tolerance policy for corruption and bribery in every aspect of commercial activity in China, including strict limits on gift-giving and the extension of other perks.
- **Ensure through regular training sessions that all staff are well-versed in PRC state secrets laws and in the firm's compliance policy** The training should provide details of classification standards and labeling requirements under PRC law, as well as guidance on what types of unlabeled information could still be considered sensitive. Potentially sensitive unlabeled information includes raw market or industry data that is not publicly available, and processed or analyzed data whose underlying raw data is publicly available. Training is especially important for Chinese or Chinese-speaking employees who are most likely to be on the "front lines" in negotiations and other dealings with local partners and are most vulnerable to inadvertent exposure.
- **Obtain explicit assurances from Chinese counterparties prior to information exchanges** The assurances should confirm that no information provided will constitute state or commercial secrets or, to the extent it does, that the Chinese counterparty has obtained appropriate authorization to share the information with the firm's representatives. These assurances are particularly important in connection with foreign direct investment approval processes and due diligence exercises.
- **Be aware of the precautionary measures SOEs are required to take to protect commercial secrets** Such measures include entering into confidentiality agreements for all information exchanges and clearly labeling classified information. Companies should also ensure that any SOE the firm is working with complies with these procedures. If an SOE does not appear compliant, the foreign company should raise the issue and express its desire to fully comply with all PRC laws.

Practical implications for US and Chinese businesses in the United States

China's state secrets laws can also burden Chinese enterprises that seek to expand internationally. Efforts made by Chinese enterprises operating in the United States to comply with PRC state secrets laws can create difficulties in complying with US regulations and disclosure requirements. Given that US regulations and case law allow few exceptions for foreign enterprises based on home country legal commitments, some Chinese businesses may be forced to limit their US expansion plans.

Foreign banks that wish to expand in the United States, for example, must make available to the Board of Governors of the Federal Reserve System all information on bank operations that the Federal Reserve deems necessary to enforce compliance with applicable US laws. PRC banks that refuse to comply with this requirement run the risk of losing their licenses to operate in the United States. If, for example, US regulators request information about a PRC bank or one of its customers that could be considered a state or commercial secret (a likely scenario given the United States' expansive antimoney laundering and antiterrorism laws), the PRC bank may find itself in an impossible situation.

Conflicts between US law and PRC state secrets laws also arise through US courts' civil litigation discovery processes. US courts generally decide such conflicts by weighing factors such as national interests, hardship of compliance, importance of the laws at hand, and good faith of the parties. But even if a US court compels compliance, PRC authorities may not absolve the Chinese company from home country obligations.

China's state secrets regime and the conflicts it creates with US law may increasingly concern Chinese executives at the front of China's outbound direct investment drive. Future Chinese executives that lead outward investment expansion programs could find themselves on the wrong side of these laws in the bidding, negotiation, or transaction execution phases of a project.

The way forward

The control of sensitive information has been a focus of China's legislation and regulation since the founding of the People's Republic. Government reforms have refined some aspects of state secrets law over time, but other aspects of the laws remain ambiguous in scope and intended application. As such, Chinese and foreign businesses must be vigilant when dealing with sensitive information and implement effective and pragmatic policies, procedures, and internal controls to manage the regulatory risk presented by the flow of information in today's cross-border business environment. 完

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Though income levels are rising, only a small percentage of patients in China can afford highly priced innovative treatments.

The Challenges of Cancer Treatment in China

High treatment costs, insufficient insurance coverage, and lack of awareness may hinder patients' ability to receive better cancer treatments in China.

Ian Hicks, Lucy Liu, and Linda Zhao

China is a primary focus for many pharmaceutical companies because of its large population, changing demographics, rapid economic development, and evolving healthcare system. According to the PRC State Food and Drug Administration (SFDA), China's pharmaceutical industry has expanded more than 20 percent annually in the last five years, and the trend is expected to continue. But how should pharmaceutical companies stake their claim in China? Many companies may wish to focus on oncology, which has been a major driver of growth for drug companies worldwide in the last 10 years. It is the largest therapeutic area globally and the second-largest therapy class in China.

Many sources have reported an alarming increase in China's cancer rates over the last 30 years. A February

2009 CBS Broadcasting, Inc. news report stated that "many Chinese urban areas have adopted a Western lifestyle and diet, which [among other factors] has led to a massive increase in the number of people diagnosed with cancer" (see Table 1). In the last decade, incidences of many malignant cancers have steadily risen in China, including those of the country's most common cancers, such as colorectal, gastric, liver, and lung cancers. An aging population, increased pollution from overheated economic development, a more sedentary lifestyle, and a high volume of tobacco and alcohol use all contribute to the increase. Oncology is thus a key business development area for pharmaceutical companies in China.

What must foreign drug companies understand to form an effective oncology-focused business strategy? Most notably, marketing cancer drugs in China requires understanding the market. Companies must consider China's evolving healthcare system, regional economic development gaps, differences between the Chinese market and the company's home market, treatment costs and the patient's financial capabilities, and medical standards of care by tumor type.

Quick Glance

- China's cancer rates are rising, but most cancers are detected at later stages because of lack of patient awareness and standardized testing.
- Few patients in China can afford imported brand-name drugs, which typically cost more than local generics and are not covered by national insurance plans.
- Foreign pharmaceutical companies must consider patients' ability to pay and differences in standards of care to penetrate the China market.

China's healthcare system and relevance for cancer patients

The well-known slogan *kan bing nan, kan bing gui,* which means "it is difficult and expensive to seek medical treatment," aptly describes China's healthcare situation. The PRC government has aimed to improve the healthcare system and provide affordable care to the country's large population in recent years. In 2009, the central government announced a ¥850 billion ($128 billion) three-year healthcare reform plan, which focuses on making healthcare more affordable and universally available by 2020—including by expanding the medical insurance system, reimbursing essential therapies, and upgrading community and rural healthcare facilities (see p.50).

China aims to provide healthcare coverage to at least 90 percent of the population by the end of 2011 by extending three main medical insurance schemes: new rural cooperative medical insurance (NRCMI), urban employed basic medical insurance (BMI), and urban resident BMI (see the *CBR,* July–August 2009, p.32). The insurance reimburses pharmaceutical costs for inpatients, provided the drugs are included in the national or local Reimbursement Drug List (RDL). (The RDL, which lists basic drugs that are reimbursed by public medical insurance plans, is issued by the central government and then adjusted by regional governments based on local conditions.) Outpatients' prescriptions are generally paid by personal healthcare accounts established through an individual's premium payments, though some regions in China are starting to expand coverage of outpatient drugs for chronic diseases. Despite ongoing healthcare reforms, 40 percent of China's healthcare expenditures were personal out-of-pocket expenses in 2008.

Healthcare coverage for cancer patients

China's public health insurance provides several levels of coverage for cancer patients based on severity and expected cost burden. These levels usually include the following (in order of highest to lowest amount of reimbursement):

- Inpatient treatment;
- Outpatient severe disease treatment;
- Outpatient chronic disease treatment; and
- Outpatient common disease treatment.

Given that cancer treatments most likely fit under inpatient treatment or outpatient severe disease treatment, cancer treatments are usually costly and require substantial insurance coverage. For example, for cancer treatment drugs listed in the local RDL, patients covered by urban employed BMI in Shanghai have a co-pay of 8–15 percent of the treatment cost; those with urban resident BMI must pay a 30–50 percent co-pay; and the NRCMI co-pay level is about 50 percent. Other regions across the country generally have similar cancer treatment coverage, with a co-pay cap of six times the patient's annual salary, disposable income, or income for urban employed BMI, urban resident BMI, and NRCMI, respectively. (The national average annual salary was ¥29,229 [$4,386] in 2008; annual urban per capita disposable income was ¥17,175 [$2,577] in 2009; and annual rural per capita net income was ¥5,153 [$773] in 2009.)

Cancer treatment is a focus of private health insurance companies in China. Though China's private insurance sector is dominated by domestic companies, foreign insurers will likely increase their market share as more companies respond to the growing demand for private health coverage. Foreign companies that have already established a presence in China's health insurance market include American International Group, Inc.; CITIC Prudential; and DKV Group.

Private insurance providers have limited ability to manage risk, contain cost, and control fraudulent activity because these companies lack the ability to influence hospitals the way government authorities do. As a result, most private health insurance plans cover only serious or critical diseases. Most companies provide cancer-specific insurance plans that compensate for a pre-determined fixed amount (see Table 2).

The market environment

Foreign pharmaceutical companies must compete with local and generic manufacturers in the China market (generics accounted for 61.4 percent of the market in 2009). Because foreign companies produce more innovative treatments, they tend to dominate specialized markets, such as cancer, diabetes, and asthma. Companies that provide specialized high-cost cancer therapeutics must consider the patient's "spectrum of affordability." According to the PRC National Bureau of Statistics, the highest-earning urban residents had an average annual income of ¥51,350 ($7,705), disposable income of ¥46,826 ($7,035), and annual consumption expenditures of ¥29,004 ($4,358) in 2009. Considering these numbers, only a small percentage of Chinese households may be able to afford treatment costs of more than ¥100,000 ($15,076) annually out of pocket. These wealthy households may also be unevenly distributed across Chinese cities, depending on the city's size and industrial level.

Given that newer innovative therapeutics cost more, foreign companies may find greater opportunities in Tier 1 cities and Grade 3 hospitals, which have a larger population of high-income households. (Grade 3 hospitals have the most resources, including staff and medical facilities, and are mostly located in China's large cities [see the *CBR*, July–August 2009, p.35].) Cancer treatment costs much more in high-level hospitals because Grade 3 hospitals have higher standards of care. Such hospitals are also usually bigger and better equipped, and they have larger budgets that can absorb the high costs associated with cancer treatments. But patients must also pay more for the advanced drugs these hospitals use that may not be covered by China's national health insurance plan. According to the PRC Ministry of Health (MOH), average lung cancer treatment spending per hospitalization was about ¥15,000 ($2,261) in Grade 3 hospitals and about ¥5,400 ($814) in Grade 1 hospitals in 2009 (the average hospitalization period was 14 days for both grades). MOH also reported that the average curative rate for malignant cancers in urban hospitals (33.6 percent) was higher than that in rural hospitals (20.2 percent) in 2009.

The updated RDL, released by MOH in August 2009, allows numerous innovative cancer drugs to be reimbursed under a special negotiation category, which gives lower-income households more access to these treatments (see the *CBR*, January–February 2010, p.22). The most successful cases of foreign company drugs that listed on the RDL include capecitabine (Xeloda, manufactured by Hoffmann-La Roche Ltd.) and gemcitabine (Gemzar, manufactured by Eli Lilly & Co.). Roche Shanghai's pricing and reimbursement strategy for Xeloda breast cancer treatment is a good example of how to increase the use and penetration of a branded drug in the China market. Roche Shanghai labeled Xeloda as a Chinese domestic drug and priced the drug lower in the China market than in the international market. As a result, Xeloda is one of the few innovative cancer drugs on China's national reimbursement list and is one of the top-10 cancer drugs sold in China.

Cancer treatment considerations

In Western countries, regular physician office visits include routine screening for some cancers (such as mammograms for women and prostate-specific antigen [PSA] or digital rectal exams for men). Such protocols are not yet developed in China but will likely become more common as personal health and wellness education evolves and awareness of the preventive value of these procedures increases. Companies must be mindful of certain differences when

Table 1: Mortality Rates of Top-10 Malignant Cancers in China

	Mortality (1/100,000 persons)		
Cancer	**1973–75**	**1990–92**	**2004–05**
Lung cancer	7.09	17.54	30.83
Liver cancer	12.54	20.37	26.26
Gastric cancer	19.54	25.16	24.71
Esophageal cancer	18.83	17.38	15.21
Colorectal cancer	4.60	5.30	7.25
Leukemia	2.72	3.64	3.84
Brain tumor	NA	NA	3.13
Breast cancer	1.65	1.72	2.90
Pancreatic cancer	NA	NA	2.62
Bone cancer	NA	NA	1.70
All malignant cancers	**83.65**	**108.26**	**134.80**

Note: NA = not available
Source: PRC Ministry of Health

Table 2: Samples of Typical Cancer Insurance Plans in China

Annual premium	Covered disease or treatment*	Compensation
Tumor Prevention Insurance Plan (China Life Insurance Co.)		
¥450 ($68)	Primary malignant tumor	¥100,000 ($15,065)
	Specific benign tumor	¥3,000 ($452)
	Surgical removal of specific benign tumor	¥7,000 ($1,055)
Tumor Prevention Insurance Plan (People's Insurance Co. [Group] of China Ltd.)		
¥4,920 ($741) for 20 years**	Malignant tumor	¥150,000 ($22,597) x (1 + 5% x No. of years)
	Death caused by malignant tumor	¥150,000
	Nursing care for malignant tumor	¥150,000

*Examples of tumors covered include breast, colon, endometrial, gastrointestinal, liver carcinoma, ovarian, and pancreatic cancers. **The insured can receive ¥98,400 ($14,824, ¥4,920 x 20 years) back after 20 years if no malignant tumor is diagnosed.
Sources: China Life Insurance Co., People's Insurance Co. (Group) of China Ltd.

providing cancer treatments in China. Standards of care can differ considerably between China and other industrialized countries. For example, Avastin (bevacizumab, manufactured by Genetech Inc./Roche) has become a standard component of the regimen for colorectal and lung cancer treatment in the United States. SFDA, however, approved Avastin for metastatic colorectal cancer only in February 2010—six years after its initial approval in the United States. In addition to different standards of care, uneven healthcare coverage because of local economic differences and wide income disparities make serving the China market even more complex.

Prostate cancer

China's prostate cancer rates are among the lowest in the world. The country's reported incidence of prostate cancer was predicted at about 32,000 patients in 2010, considerably lower than the United States (229,000) and Japan (66,300). The low reported incidence may be because of several reasons, but lack of early screening and detection for prostate cancer, namely PSA and routine prostate exams, in China is a contributing factor. Though most prostate cancer patients in the United States and Japan are diagnosed at an earlier stage, about 70 percent of prostate cancer patients in China are diagnosed at stages III or IV (see Table 3).

Initial treatment for prostate cancer in China often involves orchiectomy, a relatively low-cost surgical procedure that immediately lowers testosterone levels. Orchiectomy has fallen out of favor in Western countries, however, because hormone therapy such as medical castration is less intrusive and appears to be equally effective. The use of medical castration to treat prostate cancer is nearly universal in the United States and Japan, where Lupron (leuprolide, manufactured by Abbott Laboratories and Takeda Pharmaceutical Co. Ltd.) is the leading brand. Physicians in China still tend to rely on orchiectomy, however, possibly because of the low cost of surgery compared to the higher and continuing costs of hormone therapy.

Recent interviews conducted by Kantar Health and Draco Healthcare Consulting, LLC show that physicians in China have sound knowledge and awareness of advances in prostate patient treatment. The PRC government in March 2006 approved Lupron and in 2009 approved generic leuprorelin acetate made by several domestic companies, which may lower the cost and increase the use of medical castration in the future. China still needs to invest heavily in education, however, to increase patient awareness.

Breast cancer

Human epidermal growth factor receptor 2 (HER2, a gene found in more aggressive breast cancer) testing in China costs between ¥80 to ¥100 ($12 to $15) and is covered by public medical insurance plans. Despite the low cost, however, only 57 percent of China's breast cancer patients were tested for HER2 status in 2008, according to a 2008 Chinese Medical Association survey. Reasons for the low testing rate included patients' lack of awareness of the test and its value, as well as low confidence in the test's quality and accuracy because of the lack of standardized testing kits.

For patients who test positive for HER2, treatment options in China are also limited. Herceptin (trastuzumab, manufactured by Genentech/Roche), which is effective in combination with standard of care treatment and is considered the golden standard for treating HER2+ patients, is not included in the government's National Basic Reimbursement List—severely limiting its use in China. A Kantar Health-Draco Healthcare Consulting survey reported that only about 30 percent of HER2+ patients in China used Herceptin to treat the cancer—much lower than in the United States and Japan (about 80 percent each). This is likely because the treatment's high out-of-pocket cost may be too expensive for most patients in China.

Liver cancer

The reported incidence of liver cancer in China is projected at nearly 349,000 for 2010. Roughly 80 percent of these patients are diagnosed in stages III or IV, highlighting that many Chinese may be unaware of health issues or do not consult a physician until they have serious discomfort or other symptoms. If the cancer is operable, the patient will undergo surgery; otherwise, the patient receives chemotherapy, such as the FOLFOX regimen (fluorouracil, folinic acid, and oxaliplatin). The cost difference between branded chemotherapy products and generics is substantial: Branded products such as those in the FOLFOX regimen cost roughly $1,188 per cycle while generic equivalents cost about $350. The price of intravenous drugs in China is set by the 2004 National Basic Healthcare Insurance Drug List or capped by the PRC National Development and Reform Commission (NDRC).

Health insurance in China may not cover new cancer therapies, leaving patients no choice but to pay out of pocket for these treatments. The high price of new therapies is likely a significant factor that contributes to their relatively low use in China. For example, surafenib (Nexavar, manufactured by

Table 3:
Stage Distribution of Prostate Cancer in China, 2010

Stage	% of patients diagnosed
Stage I	12.6
Stage II	18.2
Stage III	26.2
Stage IV (M0)	20.4
Stage IV (M1)	22.6

Notes: Percentages are based on a May 2010 survey of 50 Chinese physicians who treat a total of 1,645 prostate cancer patients monthly. M0 = no distant metastasis (cancer has not spread to other organs); M1 = with distant metastasis (cancer has spread to other organs).
Sources: Kantar Health and Draco Healthcare Consulting, LLC

Bayer AG), a liver cancer treatment drug that is commonly prescribed in the United States, is priced at ¥25,192 ($3,795) for 60 tablets (200 mg each) in China—comparable to its US price, despite China's lower income levels. As a result, physicians in China tend to use less expensive agents first, and offer Nexavar as a second-line treatment if the patient can afford it.

Some foreign pharmaceutical companies have introduced patient assistance programs to help cover medication expenses that the national healthcare system may not reimburse. For example, liver cancer patients clinically eligible for Nexavar treatment usually must pay for the first two months of treatment. If the patient benefits from the treatment in the two months but lacks financial resources to continue therapy, the patient may apply for Bayer's assistance program. Though Nexavar has a huge potential market in China, the product would need to be made more affordable through price subsidies or assistance programs to increase market penetration.

The future of branded drugs in China

Many cancer drugs in China have locally produced generic versions, which compete with branded versions imported from overseas. Listing decisions for the RDL are generally based on the actual retail prices of drugs, which are determined through tendering. Because the tendering process separates branded and generic drugs into different categories, branded drugs tend to maintain prices that are close to maximum price caps set by NDRC while generic drugs—which face stiffer local competition—could be priced considerably lower. RDL includes the generic names of drugs—covering the generic and branded versions—and offers the same reimbursement and co-pay levels for both versions. As a result, though the availability of generic drugs helps foreign companies gain access to the RDL, equal reimbursement status for both versions requires the patient to pay a significantly higher out-of-pocket expense for the more expensive branded drug. For example, Eli Lilly's Gemzar and Jiangsu Hansen Pharmaceutical Co., Ltd.'s Zefei each hold a significant share of China's gemcitabine chemotherapy market, and both drugs enjoy the same reimbursement status. Chinese physicians can prescribe either version of the drug, but patients must pay a higher co-pay for Gemzar because of its higher retail price.

Ultimately, the patient decides which drug to take, depending on the drug's price and the perceived quality of imported brands versus locally manufactured generics. Chinese patients' income, household wealth, and willingness to pay will significantly affect the acceptance of high-priced, self-pay medicines in the China market. Even for the 10 percent of the population in the high-income bracket in 2009, branded cancer treatments such as MabThera (rituximab, manufactured by Roche) cost 218 percent of the household's average annual income. Only a small percentage of these high-income patients will be able to afford highly priced innovative medicines.

Because of the cost and effect on the national healthcare budget, it is unlikely the PRC government will develop a comprehensive system that reimburses for high-priced products in the near future. But China is initiating a special negotiation category for some expensive drugs to be included on the reimbursement list in 2010. Though Chinese income levels are rising, foreign pharmaceutical companies may target select Tier 1 cities and Grade 3 hospitals in the short term—until China develops a healthcare system that allows more citizens to afford high-price treatments. Meanwhile, foreign companies can develop a country-specific pricing strategy (such as Roche's strategy for Xeloda) or offer more assistance programs to further penetrate the China market.

Implications for foreign companies

Despite challenges, opportunities abound for commercializing cancer drugs in China. China is undoubtedly a hot market, with continued gross domestic product growth, strong government investment in healthcare, and higher incomes across all economic classes. The country's expanding cancer patient population increases the need for more advanced and affordable treatment options—a significant opportunity for foreign companies that can penetrate the market. When considering commercializing cancer and other specialized treatment products in China, companies should research and understand local conditions, including

- Differences from one's home market, such as disparities in current disease treatment practices and regulatory requirements;
- Medical standards of care, in particular for drugs that face domestic competition in China;
- National guidelines in place or under development;
- Cost of treatment (including all treatment modalities for the disease entity); and
- Patient affordability.

To succeed in the China market, a manufacturer must develop its plans carefully. It should consider which product lines (generics, branded generics, or premium products) to promote, how to compete locally and control cost, what its target market is, and patients' ability and willingness to pay for premium products. 完

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China Foto Press

The PRC government is providing subsidies to attract more healthcare professionals to the country's rural regions.

China's Healthcare Reform: How Far Has It Come?

Industries such as pharmaceuticals and medical devices are already feeling the effects of China's healthcare reform, and the country plans to introduce more changes in upcoming years.

Christine Kahler

China began planning for healthcare reform at the start of the twenty-first century, after several decades of market opening yielded a steady decline in the scope and quality of healthcare services. Chinese citizens had become increasingly dissatisfied with the healthcare system—which suffered from chronic government underfunding, urban and rural inequalities, and overpriced, low-quality products and services. The system had consequently left much of the population without access to medical care.

PRC leaders have made significant progress in a relatively short period to improve the healthcare system. After several failed attempts, the PRC State Council in 2008 initiated a formal drafting process for reform, which included soliciting 10 draft healthcare plans from domestic, foreign, and multilateral actors. This led to the implementation of China's ¥850 billion ($124 million) healthcare reform plan in April 2009, which aims to provide affordable medical care for the country's entire population by 2020 (see p.52). The reform calls for a complete overhaul of China's healthcare system, including by establishing or updating laws related to healthcare investment, pharmaceuticals, and medical devices. In the first phase of the plan (2009–11), the central government set a ¥139 billion ($20.9 billion) healthcare budget for 2010, and the PRC Ministry of Finance (MOF) in November 2010 announced it was allocating an additional ¥12.3 billion ($1.8 billion) for local healthcare reform initiatives.

The pace of China's healthcare reform has matched the government's goals so far, indicating that China will likely reach its targets. The quality of medical services remains to be seen, however, and efforts to develop a social healthcare plan are still in progress. China is working toward tough goals, such as improving medical care in rural areas and tackling, with limited funding, entrenched reimbursement plans for insurance, medical devices, and pharmaceuticals. Foreign companies in the healthcare sector should understand and track these changes, as China's changing regulatory system will affect sales and open investment opportunities.

Quick Glance

- China's healthcare reform, which began in April 2009, has progressed on pace so far and will likely reach its targets.
- The first phase of reform implemented pilot programs in public hospitals, established a national essential drug system to control prices, and tightened medical device regulations.
- Plans to build and upgrade more medical facilities in the next five years present significant investment opportunities for foreign companies.

Healthcare reform administration

The PRC National Development and Reform Commission (NDRC) and Ministry of Health (MOH) are jointly leading China's healthcare reform. The complicated authority division between the two agencies and numerous other ministries with healthcare responsibilities has hindered effective implementation of the reforms, however.

To minimize conflicts between ministries, the State Council in 2006 established the Leading Group for Coordinating Healthcare System Reform, an interagency team headed by Vice Premier Li Keqiang and administered by NDRC. In 2008, the leading group was restructured and tasked with overseeing all aspects of healthcare reform, as well as the provincial-level governments and various ministries, bureaus, and administrations charged with implementation. Under the leading group's supervision, four designated agencies—the Ministry of Human Resources and Social Security, MOF, MOH, and NDRC—are each responsible for certain aspects of the reform. In addition, several other PRC government bodies are involved (see Table 1).

Healthcare reform's focus

Because of China's urban-rural healthcare disparity, reforms focus primarily on grassroots medical networks, which can penetrate lower-tier and remote regions. The PRC government is constructing new and updating existing infrastructure and facilities to transform grassroots medical networks, including healthcare facilities and services in rural areas and urban communities. The reform lists specific targets for 2009–11: Build roughly 2,000 county hospitals and 29,000 township centers; upgrade or expand 5,000 township health centers; and build or upgrade 3,700 urban health service centers and 11,000 community health service stations.

In 2009, the central government allocated more than ¥20 billion ($3 billion) to expand and upgrade grassroots medical institutions. Though the number of medical centers being built is unclear, MOF claimed to have supported the construction of 34,000 hospitals in towns and townships in 2009.

The government has also issued separate guidance for constructing county hospitals, county traditional Chinese medicine hospitals, township health centers, community health service centers, and village clinics. The State Council's 2010 work plan called for establishing an additional 830 county hospitals, 1,900 village hospitals, 1,256 urban community health service centers, and more than 8,000 village healthcare clinics.

Healthcare institutions in China suffer from regional disparities in medical human resources, particularly between rural and urban areas. To lessen the disparities, MOH is taking measures to attract healthcare professionals to rural regions—where job incentives are typically lower—such as providing subsidies to improve the training and supply of qualified healthcare professionals. By 2011, the central government aims to subsidize the employment of 3,000 licensed physicians in township clinics and waive tuition fees for students who agree to work in township clinics after graduation—with the goal of employing at least one licensed physician in every township clinic by the end of 2011.

To improve the administration and governance of public hospitals, the central government has targeted 16 cities for public hospital reform (see Table 2). The pilot project to improve public hospitals is a key component of China's healthcare reform efforts, and investment—private and foreign—will play a crucial role in improving management systems and upgrading hospitals. The government is examining several focus areas during the pilot reforms, including management, governance, compensation systems, and supervising mechanisms. It is also analyzing healthcare professional training and private healthcare institution development. Public hospital reforms in 2010 focused on system administration, hospital compensation, internal management, and medical services quality.

Specific sector impacts

In addition to provincial and city initiatives (see the *CBR* web exclusive: Regional Development Sheds Light on National Progress), companies should have a strong grasp of regulatory changes that healthcare reform brings to specific product markets.

Pharmaceuticals

China's healthcare reform aims to improve the quality, accessibility, and regulation of pharmaceuticals. Though access to drugs increased significantly when China opened its economy, the steady decrease of government subsidies has left hospitals reliant on drug sales as a main source of income. As a result, hospitals have over-priced and over-prescribed pharmaceuticals to increase revenue, making drugs unaffordable for much of the population. To address this problem, the central government in 2009 created the National Essential Drug System (NEDS).

Under NEDS, China released the National Essential Drugs List (NEDL), a catalogue of drugs with capped prices that government-funded hospitals, grassroots clinics, and other health institutions must use and keep fully in stock—enabling patients to pay relatively small co-pays. The current list contains 307 drugs: 205 chemical and biological drugs and 102 traditional Chinese medicines. China plans to update the list every three years, or as needed, according to the country's economic growth, disease trends, and scientific developments. The new pricing system covers more than 30 percent of state-run grassroots hospitals and clinics, and about 50 percent of primary healthcare institutions have implemented the system since August 2009. The government plans to implement the list nationwide by 2020.

The government is also improving its oversight of essential drugs by establishing a digital network that assigns each medicine package a unique code and monitors the drug's transportation, storage, and sale. According to state media reports, the digital monitoring network will cover all companies that produce essential drugs by March 31. State-run hospitals may not purchase essential drugs outside the network beginning April 1.

NEDS centrally controls overall drug pricing. Under the system, the central government sets maximum essential drug prices, and provincial-level governments may set unified prices under that ceiling, according to local conditions. Institutions that have implemented NEDS have faced a deficit from lost drug sales profits, however. To address the problem, the PRC government in December 2010 announced it would provide subsidies to support these institutions.

All listed essential drugs are included in China's national Reimbursement Drug List (RDL) and enjoy higher reimbursement rates than non-essential drugs. The national RDL sets the percentage of drug costs reimbursed under national insurance. The list, which currently includes 2,127 drugs, was last revised in November 2009 and is set to be updated every two years. Provincial authorities then draft local RDLs, which adjust the national list based on local conditions to determine reimbursement levels for the region. Twenty-three recently released provincial RDLs include all drugs on the national RDL along with various additional drugs (see the *CBR*, January–February 2010, p.22).

Pharmaceutical companies that want to penetrate the China market should take into account national and pro-

> Selling a product that cannot be reimbursed increases risks because most Chinese cannot afford these drugs out of pocket.

China's Immediate Healthcare Reform Goals

China outlined five major programs to achieve healthcare reform in its 2009–11 implementation plan:

1. Broaden basic healthcare coverage;
2. Establish a national essential drug system;
3. Expand infrastructure for grassroots medical networks;
4. Provide equal access to basic public healthcare services; and
5. Implement pilot reform of public hospitals.

—Christine Kahler

Table 1: Designated Government Agencies for China's Healthcare Reform Implementation

Agency	Responsibilities
Ministry of Health	Healthcare services delivery, public hospital reform, rural cooperatives, drug and medical device lists, policy planning
National Development and Reform Commission	Pricing rules and regulations, grassroots healthcare services, personnel education, National Reimbursement Drug List
Ministry of Human Resources and Social Security	Government-funded health insurance
Ministry of Finance	Healthcare investment
State Food and Drug Administration	Health-related product safety
State Intellectual Property Office	Health-related patent laws and applications
China Insurance Regulatory Commission	Commercial health insurance

Source: US-China Business Council

vincial RDLs. Selling a product that cannot be reimbursed increases risks because most Chinese cannot afford these drugs out of pocket. The process for placing a product on a provincial RDL varies depending on the product type and targeted province, so companies should decide in advance the provinces in which they will apply for listing and familiarize themselves with local regulatory requirements.

Under NEDS, China is also updating the system for procuring and distributing essential drugs (see the *CBR*, January–February 2010, p.26). Provincial governments conduct centralized, public, and online procurement for national essential drugs and coordinate distribution and allocation to government-run healthcare institutions, which can purchase only pharmaceuticals that win their bids. To clarify processes, The PRC State Food and Drug Administration in June 2009 and the Ministry of Commerce in February 2010 released opinions on pharmaceuticals procurement and a circular on drug distribution, respectively. These regulations increased management and supervision over the procurement process, including by controlling when pharmaceutical companies and sellers can raise prices in the bidding process. In December 2010, the State Council announced plans to develop provincial-level platforms to standardize essential drug purchases at government-funded grassroots hospitals and clinics. According to the official notice, provincial health departments will manage the centralized procurement process. Procurement agents must purchase commonly used essential drugs from pharmaceutical companies directly and may buy less commonly used drugs from wholesalers.

Table 2: Cities under China's Public Hospital Reform

Anshan, Liaoning
Baoji, Shaanxi
Ezhou, Hubei
Kunming, Yunnan
Luoyang, Henan
Ma'anshan, Anhui
Qitaihe, Heilongjiang
Shanghai
Shenzhen, Guangdong
Weifang, Shandong
Wuhu, Anhui
Xiamen, Fujian
Xining, Qinghai
Zhenjiang, Jiangsu
Zhuzhou, Hunan
Zunyi, Guizhou

Source: PRC Ministry of Commerce

Though the general NEDS is set in theory, the system is still developing. In addition to long-standing concerns such as weak intellectual property rights enforcement and restrictive clinical trial requirements, US companies entering China's pharmaceutical market are worried about the system's exclusive focus on cost and the effect new pricing policies will have on sales. Though manufacturers still determine the prices of pharmaceuticals not under the NEDL and must notify provincial authorities about pricing changes, recent government statements have indicated that this may change in the future. In November 2010, NDRC stated that it would take "persistent efforts to bring down the prices of some relatively expensive drugs," many of which may be produced by private or foreign manufacturers that previously held independent pricing power.

NEDS has driven pharmaceutical bidding to focus on low costs, and will likely polarize China's pharmaceutical industry—with a basic medical market determined by the NEDL and a high-end medical market of drugs not on the reimbursement list. As demand for NEDL drugs increases with fuller implementation of healthcare reform, manufacturers that can meet government price requirements may see more business. Whether companies can make up in volume what they lose in price reductions remains unclear, however.

Medical devices

China is steadily expanding its regulatory regime for the medical device sector—causing foreign companies to worry

Companies should track changes in China's healthcare reform and medical system going forward and take measures to understand how their products will fit in the market.

that tighter regulation will make business operations more challenging. For example, the 2009–11 National Class II Large-Scale Medical Device Allocation Plan aims to regulate the number of medical devices each province can purchase in the procurement process. China has been shifting toward a centralized procurement process that requires hospitals to go through MOH or a provincial or municipal procurement center, depending on the device's price.

MOH in May 2009 released a list of essential medical equipment that community centers and rural clinics must carry, similar to the NEDL. Essential equipment on provincial government medical device insurance lists are reimbursable. More often, the devices are reimbursed as an expense of a medical procedure, making cheaper devices more attractive. Imported products, on the other hand, usually require some out-of-pocket expenses as they often are not reimbursed through medical procedures.

China also aims to improve medical devices' safety and quality, including by issuing a series of trial regulations on medical device good manufacturing practices in December 2009 and a draft of revised Administrative Regulations for Medical Devices in September 2010 that govern safety standards and product registration. Though when China will release the final medical device regulations remains unclear, the rules will be critical for understanding new

Health Information Technology

China's health information technology (HIT) sector is undergoing significant changes because of healthcare reform. China first established HIT systems in the mid-1990s, but the systems were simplistic and, without unified software systems, the industry developed unevenly across regions. The PRC government in 2003 released a National Information Development Plan (2003–10) to implement electronic health records and regional information networks (RHINs) across the country. Despite the plan, most healthcare institutions in China still do not have HIT systems, and most pre-existing HIT systems need upgrades. The national healthcare reform plan aims to establish an all-encompassing, integrated, and advanced HIT system to connect healthcare institutions nationwide.

China's current HIT system is comprised of RHINs and two HIT technical frameworks (electronic medical records and electronic health records). Using data centers and telecom networks, RHINs provide institutions with health industry data that is collected, transmitted, stored, and processed in digital form to enhance medical care services, public health, and health administration. RHINs are designed to share data and clinical services across different regions in China. Electronic medical records are data standards for formatting patient medical history information; electronic health records are standards for transmitting and operating medical data systems between medical facilities and insurers, pharmacies, and doctors who use patient medical histories. Under healthcare reform, the PRC Ministry of Health has released documents to guide the mutual development of electronic health records and RHINs.

Healthcare reform aims to strengthen information systems for new elements being added to China's healthcare system, including an information system connected to medical institutions for social insurance plans; a three-tier (state, province, and municipality) information network of drug regulation, drug testing, and drug adverse reaction surveillance; and a system that provides information on essential medicine supply and demand. China has also launched an "all-in-one" card that can be used in designated hospitals and drug stores. The card stores a user's name, gender, payments, and consumption patterns, and an employer can allocate money to the user's health insurance card through its bank.

HIT-related goals in the healthcare reform plan are creating an unprecedented demand for software, hardware, and information technology services to outfit new and updated medical facilities, particularly in rural areas. A recent Springboard Research study estimated that HIT spending in China will increase from $2 billion in 2009 to $3.8 billion in 2012.

Opportunities in China's HIT market will be most obvious in areas where the country is facing challenges. China's HIT market lacks the software necessary to accompany its complex system of hospitals and healthcare facilities. The country suffers from a shortage of skilled workers with HIT experience and management expertise to make a smooth transition to new HIT systems. In addition, underdeveloped industry standards and rural infrastructure add to the challenge of installing a unified, standard HIT system. These issues present significant investment opportunities for private and foreign companies, which can offer more high-tech products and services.

—Christine Kahler

product monitoring requirements, product recall mechanisms, registration processes, medical devices advertising rules, and safety requirements. Foreign companies are particularly interested in whether the regulations will follow through on China's promise to adopt a risk-based approach that uses results from clinical trials conducted outside of China, rather than automatically requiring in-country clinical trials for all medical devices.

More healthcare updates in the upcoming FYP

Companies should track changes in China's healthcare reform and medical system going forward and take measures to understand how their products will fit in the market, such as by determining whether their products are included on pharmaceutical and medical device reimbursement lists. China plans to release more details on the direction of the healthcare sector in its upcoming 12th Five-Year Plan (FYP, 2011–15). One of the 12th FYP's major policy goals will be to improve basic public services, including social insurance and healthcare services, and the plan will likely include new targets for healthcare spending and more funding for grassroots medical facilities and traditional Chinese medicines. The PRC Ministry of Science and Technology in July 2010 announced priorities for health science and technology under the 12th FYP, which include improving drug safety surveillance, promoting innovation, creating internationally competitive pharmaceutical companies, and developing technologies for disease prevention and treatment.

Investment opportunities

China's healthcare reform has emphasized attracting private and foreign investment to healthcare institutions. In December 2010, several PRC government agencies released Opinions on Further Encouraging and Guiding Healthcare Institutions Set Up by Social Capital, and the State Council announced that it would encourage privatizing state-run hospitals and abolish the 70 percent foreign ownership cap to allow wholly foreign-owned hospitals.

Because China's healthcare infrastructure and services have traditionally been concentrated in the country's eastern region and in medium and large urban areas, the central government aims to provide more financial subsidies to central and western provinces and build and upgrade more facilities in those regions. Foreign healthcare investors will likely find more incentives outside the country's already developed eastern areas. To expand their presence in the China market, foreign companies should consider looking to healthcare facilities that are new or being upgraded and need assistance developing information technology systems and stocking medical devices and pharmaceuticals. 完

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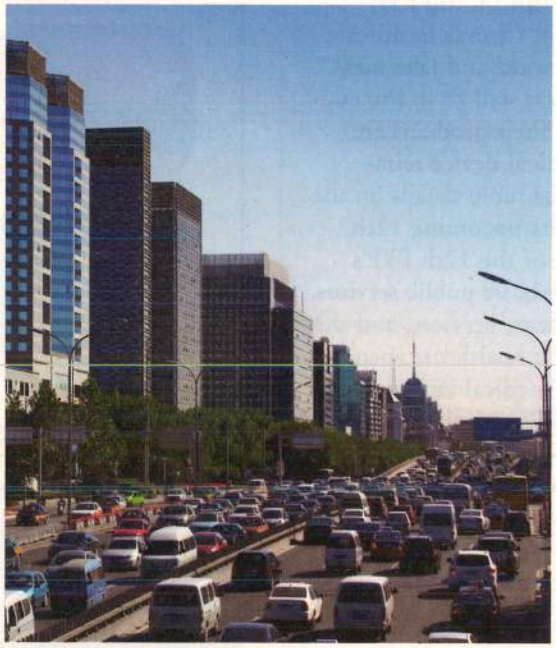
Living in Beijing

Michael Barbalas

"China Business Lifestyles" is a new CBR *department in which foreign business professionals write about their daily experiences living in specific Chinese cities. For information about possible submissions, e-mail publications@uschina.org.*

While on a flight to begin a new job in China's capital I asked the person sitting next to me, "How do you like working in Beijing?" I was transitioning to Beijing after living and working in Suzhou, Jiangsu, and Shanghai for 10 years and was curious about what to expect. The response from my seatmate, who was a Shanghai native, was not encouraging: He gave Beijing a barely passing grade as a place to live and work.

China's two major cities are quite different and have a long rivalry. For example, more Chinese speak English in Shanghai, and more foreigners speak Chinese in Beijing. Shanghai is a commerce and fashion center, while Beijing is the seat of government power and hosts a lively art scene. And while Shanghai can be hit by summer typhoons, Beijing is prone to spring sandstorms. Despite major differences between Beijing and Shanghai, I have learned to love living in both cities.


Traffic is one of Beijing residents' favorite discussion topics.

Beijing basics

With more than 3,000 years of recorded history, Beijing is full of familiar tourist sites such as the Great Wall, Forbidden City, and Temple of Heaven. These sites are interwoven with ultramodern architecture such as the Bird's Nest and Water Cube, built for the 2008 Olympics, and the National Grand Theater, an egg-shaped opera house near Tiananmen Square.

As a center of politics—with numerous government ministries, embassy license plates, and official cars—observers can find signs of power everywhere. Occasionally, traffic stops to allow a visiting dignitary's motorcade to pass. Many high-rises have names of China's large and prospering banks and state-owned enterprises. The city hosts representative offices from all the provinces and major cities. (One of my favorite places to eat is a Sichuan restaurant that is part of the Sichuan Province representative office in Beijing [see Box]. Diners can order authentic, tasty food at amazingly low prices—though they should prepare to wait in line for a table.)

Beijing is also one of China's most important commercial centers. With many Chinese and foreign companies headquartered in the city, I meet many Chinese and American corporate executives at work and at social events. These meetings provide a great opportunity to keep up on the latest business trends in China and abroad. The constant, rapid evolution of China's economy and society forces me to keep learning and adjusting to stay competitive.

Beijing aspires to be a global city like New York or London. Foreigners now make up about 1 percent of Beijing's more than 17 million residents and were included in the recently completed national census. Beijing hosts diverse cultural events from around China and around the world. Sometimes I find a bit of home in Beijing—such as when friends e-mailed that their sons were traveling with the Philadelphia Boys Choir, and my family was able to hear them perform in Beijing. Also, when my son volunteered as a ball boy for the China Open tennis tournament, I enjoyed watching world-class players compete in the tournament—while also keeping an eye on the ball kids.

Daily life

My family lives in Beijing's northeastern suburbs, near the airport, where my younger son attends an international school. When we first moved to Beijing in January 2007, we were surrounded by villages, farms, herds of sheep, and fish ponds. In the last three years, however, we have seen almost non-stop construction. The fields are rapidly disappearing and turning into convention centers, hotels, and new residential developments. Our Chinese friends in a nearby village were relocated after their entire village was razed. The "village" is now being rebuilt as China continues to urbanize its rural population. This year, a new subway line will run into town.

Transportation issues

During my daily commute into the city's Central Business District, I experience the impact of the 2,000 new cars that are added to Beijing's roads each day. One of the favorite topics among Beijing residents—local and foreign—is new drivers and traffic. Some friends are bothered by drivers who do not check their mirrors and expect other drivers to stay out of their way. I am more concerned about drivers backing up on highways after making a wrong turn.

Beijing is a huge city, and foreign residents tend to cluster in certain areas and develop sub-communities because of the time it takes to get to the other side of town. A visiting friend once asked why I got a Chinese driver's license. I explained that as one gets older it is important to keep one's mind active and challenged. I don't know a more challenging driving environment than the average Beijing street or intersection—swarming with people, bicycles, scooters, cars, and many other types of moving vehicles. With the right attitude, driving in Beijing can keep a person young. With the wrong attitude, it can give a person high blood pressure.

Though I enjoy the challenge of driving in Beijing, I am a big fan of the city's expanding subway and rail system. The 2008 Olympics gave Beijing's subway system a big boost. I often use my time in the subway system to do market research and gauge what Chinese consumers are buying, wearing, and using in their daily lives. On one subway ride I evaluated how many people were using iPhone and Blackberry smartphones. Walking through the subway station, I also saw the newest ski outfits offered by US sportswear companies for the winter season.

Air quality

Many foreign residents' attitudes toward Beijing seem to rise and fall with the air quality. We have some great days where mountains to the north and west make beautiful backdrops to Beijing's high-rise buildings. On other days, school children cannot play outside during recess because of the bad pollution. A couple of handy tools make monitoring the problem easier: The US Embassy has linked their air monitoring station to Twitter, and an iPhone application gives air quality readings. In addition, families buy room air purifiers to provide a clean-air environment at home. I often check online or judge the visibility outside before playing a hard game of tennis or going for a run. We appreciate blue sky days when we get them.

Friends have asked how long I will stay in Beijing. My son is quick to jump into this conversation and say that we cannot leave until he finishes high school. After four years, I still feel I am just beginning to get to know this great city. I still have a lot more to explore and learn. 完

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Author's Favorite Places in Beijing

Favorite...

Café	Biteapitta 201 Tongli Studio, 43 Sanlitun Beilu Chaoyang Qu T: 86-10-6467-2961; E-mail: ilovepitta@biteapitta.com
Department store	Ito Yokado 9 Wangjing Jie Xincheng Chaoyang Qu T: 86-10-5920-3636
Movie theater	MegaBox Cinema-The Village 19 Sanlitun Lu Chaoyang Qu T: 86-10-6417-6118; E-mail: imegabox_slt@126.com www.imegabox.com
Museum	Beijing Urban Planning Exhibition Hall 20 Qianmendong Dajie Chongwen Qu T: 86-10-6701-7074; E-mail: scb@bjghzl.com.cn www.bjghzl.com.cn
Outdoor/ covered market	Sanyuanli Market 8 Zuojiazhuang Xijie Chaoyang Qu T: 86-10-8342-8214
Restaurant	Chuan Ban (Sichuan Provincial office restaurant) 5 Gongyuan Toutiao, Jianguomennei Dajie Dongcheng Qu T: 86-10-6512-2277 x6101
Tourist attraction	Great Wall at Mutianyu 90 km northeast of Beijing, Huairou County

Best place...

For a foot massage	Oriental Taipan Massage and Spa Lido Place, 2F Block 9 2 Fangyuan Xilu Chaoyang Qu T: 86-10-6437-6299; E-mail: taipan@taipan.com.cn www.taipan.com.cn
For the view	Capital Club (on a clear day) Capital Mansion, 50th floor 6 Xinyuan Nanlu Chaoyang Qu T: 86-10-8486-2225; E-mail: member@thecapitalclub.com www.thecapitalclub.com/english/home/index.php
To drive	Highways headed north and west into the mountains outside Beijing
To hike	Unrestored Great Wall (start from the Mutianyu section) Miyun Qu
To play tennis	Chaoyang Park Tennis Courts 1 Chaoyang Gongyuan Dongmennei Chaoyang Gongyuan Nanlu Chaoyang Qu
To ride a bike	Wenyu River levee west of the Airport Expressway through to the Jingcheng Expressway Shunyi Qu
To ski	Beijing Nanshan Ski Village Henan Zhaizhen Shengshui Toucun Miyun Qu (about 80 km from downtown Beijing) T: 86-10-8909-1909 www.nanshanski.com/index-en.asp

—Michael Barbalas

China Deals

Sales and Investment

November 2010

The following listings contain information from recent press reports of business contracts and negotiations exclusive of those listed in previous issues. For the most part, the accuracy of these reports is not independently confirmed by the *CBR*. *CBR* subscribers with online access and members of the US-China Business Council can access complete China Deal Database listings from 2000 to present at www.chinabusinessreview.com.

Compiled by Joseph Luk

Architecture, Construction & Engineering

CHINA'S EXPORTS

China Harbour Engineering Co. Ltd. (Beijing), a subsidiary of China Communications Construction (Beijing)
Won contract from South Africa-based Transnet Ltd. to carry out the Ngqura Port dredging project in South Africa. $19.2 million.

INVESTMENTS IN CHINA

Walt Disney Co. (US)/Shanghai Shengdi Group Co. Ltd.
Signed deal to develop Disney's Shanghai theme park project. $3.6 billion.

Automotive

INVESTMENTS IN CHINA

Dürr AG (Germany)/GAC Fiat, a JV between Fiat and Guangzhou Automobile Group (Guangdong)
Dürr will build and equip a paint shop in Changsha, Hunan, for GAC Fiat.

General Motors Co. (GM, US)
Agreed to acquire 10% stake in SAIC-GM-Wuling, a JV between GM, Shanghai-based SAIC Motor Corp., Ltd., and Guangxi-based Liuzhou Wuling Motors United Development Co., Ltd. $51 million.

Mitsubishi Motors Corp. (Japan)/Guangzhou Automobile Group Co., Ltd. (GAC, Guangdong)
Signed MOU to convert GAC Changfeng into a new JV. (PRC:50%-Japan:50%).

Navistar International Corp., Caterpillar Inc. (US)/Anhui Jianghuai Automobile Co., Ltd.
Signed agreement to jointly manufacture medium-heavy trucks and engines.

OTHER

General Motors Co. (US)/SAIC Motor Corp., Ltd. (Shanghai)
Signed MOU to boost cooperation to develop new-energy vehicles.

Aviation/Aerospace

CHINA'S IMPORTS

CFM International, a JV between General Electric Co. (US) and Snecma SA (France)
Signed contract to sell aircraft engines to Hainan-based HNA Group. $2.1 billion.

China Aviation Supplies Holding Co. (Beijing)
Signed agreement to buy 102 aircraft from France-based Airbus SAS. $14 billion.

China Eastern Airlines Corp. Ltd. (Shanghai)
Will purchase aircraft engines from UK-based Rolls-Royce Plc. $1.2 billion.

OTHER

Changi Airport Group (Singapore)/Henan Civil Aviation Development and Construction Committee
Signed MOU to develop air routes between Singapore and Henan.

Hamilton Sundstrand Corp. (US)/AVIC Electromechanical Systems Co. Ltd., a subsidiary of Aviation Industry Corp. of China (Beijing)
Signed JV framework contract to jointly develop and manufacture electrical systems for the C-919 commercial jet.

Thales SA (France)/China Electronics Technology Corp. (Shanghai)
Signed agreement to discuss a JV to set up Thales's in-flight entertainment systems for C-919 commercial jets.

Banking & Finance

OTHER

American Express Co. (US)/China UnionPay Co. Ltd. (Shanghai)
Signed MOU to explore new areas of cooperation in and outside China.

Banco Comercial Português SA (Portugal)/ICBC (Beijing)
Signed MOU to strengthen financial cooperation, including support for cross-border mergers and acquisitions, equity and debt financing, and financial consulting.

Bank of Beijing
Signed MOU to provide $750 million credit to Taiwan Business Bank customers in China.

OTP Bank Plc (Hungary)/China UnionPay Co. Ltd. (Shanghai)
Signed agreement to allow Chinese bank card holders to withdraw cash at OTP automated teller machines and make purchases at OTP point-of-sale connections.

Abbreviations used throughout text: 3G: third generation; ABC: Agricultural Bank of China; ADB: Asian Development Bank; ASEAN: Association of Southeast Asian Nations; ATM: automated teller machine; AVIC I and II: China Aviation Industry Corp. I and II; BOC: Bank of China; CAAC: Civil Aviation Administration of China; CATV: cable television; CBRC: China Banking Regulatory Commision; CCB: China Construction Bank; CCTV: China Central Television; CDB: China Development Bank; CDMA: code division multiple access; CEIEC: China National Electronics Import and Export Corp.; China Mobile: China Mobile Communications Corp.; China Netcom: China Netcom Corp. Ltd.; China Railcom: China Railway Communications Co., Ltd.; China Telecom: China Telecommunications Group Corp.; China Unicom: China United Telecommunications Corp.; CIRC: China Insurance Regulatory Commission; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CNOOC: China National Offshore Oil Corp.; CNPC: China National Petroleum Corp.; COFCO: China National Cereals, Oils, and Foodstuffs Import and Export Corp.; COSCO: China Ocean Shipping Co.; CSRC: China Securities Regulatory Commission; DSL: digital subscriber line; ETDZ: economic and technological development zone; GSM: global system for mobile communication; GPS: global positioning system: ICBC: Industrial and Commercial Bank of China; IP: Internet protocol; IT: information technology; JV: joint venture; LCD: liquid crystal display; LNG: liquefied natural gas; LOI: Letter of intent; MIIT: Ministry of Industry and Information Technology; MOFCOM: Ministry of Commerce; MOU: memorandum of understanding; NA: not available; NDRC: National Development and Reform Commission; NORINCO: China North Industries Corp.; PV: photovoltaic; PAS: personal access system; PBOC: People's Bank of China; PetroChina: PetroChina Co., Ltd.; RMB: renminbi; R&D: research and development; SARFT: State Administration of Radio, Film, and Television; SASAC: State Assets Supervision and Administration Commission; SEZ: special economic zone; Sinopec: China Petroleum & Chemical Corp.; SINOTRANS: China National Foreign Trade Transportation Corp.; UNDP: United Nations Development Program; SME: small and medium-sized enterprise; Wi-Fi: wireless fidelity; WFOE: wholly foreign-owned enterprise.

Sberbank (Russia)/Export-Import Bank of China (Beijing)
Agreed to open a $2 billion credit line to finance major joint economic projects.

Chemicals, Petrochemicals & Related Equipment

CHINA'S INVESTMENTS ABROAD

Mitsubishi Heavy Industries Ltd., Sojitz Corp. (Japan), Ammony (Russia)/China National Chemical Engineering Group Corp. (Beijing)
Signed agreement to build a fertilizer plant in Russia. $1 billion.

INVESTMENTS IN CHINA

Nanotech Industries International Inc., a wholly owned subsidiary of EPOD Solar Inc. (Canada)/Shunfa Co. (Zhejiang)
Signed MOU to manufacture and distribute green polyurethane technology in China and southeast Asia.

Total SA (France)/China Power Investment Corp. (Beijing)
Signed LOI to develop a petrochemical production plant in Inner Mongolia.

Energy & Electric Power

CHINA'S IMPORTS

China Guangdong Nuclear Power Corp.
Signed 10-year contract to buy 20,000 metric tons of uranium from France-based Areva SA.

Kazatomprom JSC (Kazakhstan)
Signed contract to supply China Guangdong Nuclear Power Co. with 24,000 tons of uranium until 2020.

CHINA'S INVESTMENTS ABROAD

China Guangdong Nuclear Power Group
Acquired Hong Kong-based Meiya Power Co. Ltd. from Standard Chartered Private Equity Ltd. and Noonday Asset Management LLP.

Government of Punjab (Pakistan)/China International Water and Electric Corp. (Beijing)
Signed MOU to cooperate on energy and infrastructure sector development in Pakistan.

INVESTMENTS IN CHINA

Areva SA (France)/China National Nuclear Corp. (Beijing)
Signed agreement for Areva to build a used nuclear fuel treatment plant in China.

AtomStroyExport (Russia)/Jiangsu Nuclear Power Corp.
Signed contract to build third and fourth units of the Tianwan Nuclear Power Plant in Jiangsu.

OTHER

Energias de Portugal SA/China Power International Holding (Hong Kong), a subsidiary of China Power Investment Corp. (Beijing)
Signed MOU on a possible partnership for business opportunities in Asian energy markets.

Food & Food Processing

OTHER

Government of the UK/Government of the PRC
Signed agreement to ensure that only whisky produced in Scotland can be sold as Scotch in China.

Infrastructure

OTHER

Botswana Power Corp., Golden Concord Holdings Ltd. (Hong Kong)/CDB (Beijing)
Signed MOU to cooperate on infrastructure and energy development.

Insurance

CHINA'S INVESTMENTS ABROAD

ICBC
Will buy 60% stake in France-based AXA-Minmetals Assurance Co., an insurance JV between AXA and China Minmetals Corp. $179.6 million.

Internet/E-Commerce

INVESTMENTS IN CHINA

IDG Capital Partners (US)/NetDragon Websoft Inc. (Fujian)
Will set up fund to invest in China's mobile Internet industry. $50 million.

Metals, Minerals & Mining

CHINA'S INVESTMENTS ABROAD

La Rioja Energy Mining Co. (Argentina)/Shandong Gold Group International Mining Ltd., Bei Dike Energy Investment (Hong Kong)
Will form JV to explore gold mines in Argentina. (PRC:51%-Argentina:12%-Hong Kong:32%).

Metropol Group of Cos. (Russia)/China Metallurgical Group Corp. (Beijing)
Signed agreement to help construct the Ozerny GOK plant in the Republic of Buryatia and buy the plant's lead and zinc concentrates.

Reed Resources (Australia)/China Nonferrous Metal Industry Foreign Engineering and Construction Co., Ltd. (Beijing)
Signed MOU for China Nonferrous Metals to undertake engineering procurement and construction contract for the Barrambie vanadium project in western Australia.

OTHER

United Co. RUSAL (Russia)
Will purchase 33% stake in Shenzhen North Investments Corp. Ltd.

United Co. RUSAL (Russia)/Shenzhen North Investments Corp. Ltd. (Guangdong)
Will establish a JV to produce aluminum alloys.

Misc.

OTHER

Ministry of Public Security (Laos)/PRC Ministry of Public Security (Beijing)
Signed agreement to promote exchanges between law enforcement officials, enhance communication, and crack down on cross-border crime.

Petroleum, Natural Gas & Related Equipment

CHINA'S IMPORTS

Aker Solutions ASA (Norway)
Will supply a subsea production system for Beijing-based CNOOC's Yacheng 13-4 gas field. $20 million.

OTHER

PetroChina Co. Ltd. (Beijing)/Royal Dutch Shell Plc (the Netherlands)
Signed agreement to cooperate on an oil and gas project in Canada and evaluate the Daning coal-bed methane block in Inner Mongolia's Ordos basin.

Rail

OTHER

General Electric Co. (US)/Chongqing Bosen Electric Equipment Group Co., Ltd.
Signed MOU to set up a JV to produce electrical equipment for rail transportation.

Research & Development

INVESTMENTS IN CHINA

LS Cable Co. Ltd. (South Korea)/ Wuhan Foreign Investment Management Office (Hubei)
Signed MOU to establish an R&D center in Wuhan to develop customized cable products.

OTHER

Astri (Hong Kong)/Shenzhen Institutes of Advanced Technology (Guangdong), Chinese Academy of Sciences (Beijing)
Signed MOU to conduct joint R&D in cloud and high-performance computing.

Australian Technology Network of Universities, International Strategic Technology Alliance (Hong Kong)
Signed MOU to establish the Australia-China Joint Laboratory on Nanoscience.

Telecommunications

CHINA'S IMPORTS

Alcatel-Lucent (France)
Will provide Beijing-based China Mobile with wireless networking solutions, transmission equipment, IP routers, and professional services. $699 million.

Alcatel-Lucent (France)
Will provide Beijing-based China Telecom with wireless networking solutions, high-capacity fiber-based and DSL access platforms, IP routers, transmission equipment, and applications. $452 million.

Alcatel-Lucent (France)
Will provide Beijing-based China Unicom with wireless networking solutions, high-capacity fiber-based access platforms, IP routers, transmission equipment, and other services. $402 million.

CHINA'S INVESTMENTS ABROAD

ZJF Group (Guangdong)
Acquired Ireland-based transcievers manufacturer Firecomms International Ltd. and commited to R&D investment of $6.6 million.

OTHER

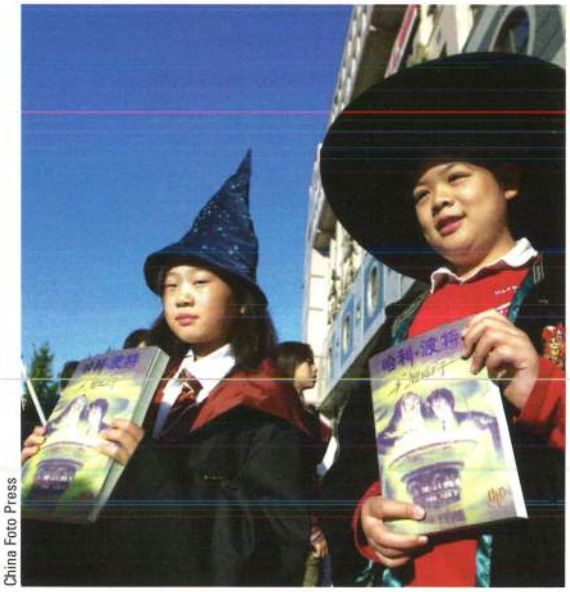
NTT Communications Corp., a subsidiary of Nippon Telegraph and Telephone Corp. (Japan)/ China Telecom (Beijing)
Signed an agreement to allow NTT customers to use China Telecom's wireless local area network for data roaming.

Global Magic

Watching a new Harry Potter film in Shanghai is as exciting as watching it back home.

Bianca Potrykus

Though I can turn into a coach potato after a long day at work, nothing gets me off the sofa and out the door quicker than the promise of a good movie. Wherever I moved in the last few years, be it Austria, the United States, or most recently China, the movie theaters were always the first thing I could point out on the city map of my new town. Upon hearing that *Harry Potter and the Deathly Hollows-Part One* was about to hit Shanghai theaters, I knew I had to see the show.


China Foto Press

Harry Potter fans are everywhere.

Among the many theater options in Shanghai, I chose to see the film at the Stellar Cinema City in Pudong. I expected the viewing experience to be similar to past movie-going experiences in China, which usually involved slightly shabby theaters with a charming mixture of chaos and noise in the audience. But globalization has reached movie theaters in Asia, and entering Stellar Cinema City made me quickly forget I was in China. The theater was modern and sleek with Egyptian themed décor and US food concession stands such as Häagen-Dazs.

Since it was the film's opening day in China, my first challenge was to secure a ticket, which proved no easy feat. Harry Potter is as popular in China as in the rest of the world. And despite the fact that Stellar Cinema City projected the film in a huge IMAX screening room with 400 seats and in a standard screening room with 15 showings a day from 9:55 am to 11:30 pm, the tickets were almost sold out when I arrived. Luckily, I was able to score one of the few remaining tickets for the regular screening hall. The ticket price (¥70 [$10.50]) was shocking, even though it was much cheaper than the IMAX film tickets (¥150 [$22.50]). Such prices make a visit to the movies a luxury, if not an impossibility, for many Chinese.

The food concession stands in the entrance hall were not aimed at the budget conscious either. With Chinese food nowhere in sight, the smallest soft drink and popcorn combo was ¥45 ($6.75) and the cheapest scoop of ice cream at the Häagen-Dazs counter cost an uninviting ¥28 ($4). Despite the hall teaming with excited movie goers, I didn't see anyone buy food from the concessions.

The crowd was diverse—with kids in school uniforms, teenagers, families, middle-aged and older fans, and even a few businessmen with laptop bags strapped across their shoulders. The Shanghai audience proved that Hogwarts has a universal pull that transcends age and gender lines. I was one of the only foreigners at the showing, however.

While settling deep into my plush seat and enjoying the opening minutes of the movie, I was happily reminded of my cultural whereabouts when all around me families and groups of friends opened big plastic bags full of store-bought or home-made goodies—searching the bag contents with small flashlights in the dark, discussing their options, and munching away blissfully.

Though watching a movie is a silent business in most countries, it is a chatty experience in China. All around, people were talking to each other or on their cell phones, with new visitors constantly arriving, even as late as half an hour into the movie. Given all the food, talking, and general coming and going, the screening resembled a giant family picnic in the park.

The film was shown in English with Chinese subtitles, and I was reminded of the fact that I may have been the only foreigner in the theater when the audience inexplicably burst out laughing at odd times, but remained silent or even distracted during scenes I found hilarious or absorbing. A taste for movies might be global, but cultural perception is anything but. Still, Harry Potter captured the audience, and once the stomachs were filled and the cell phones switched off, all eyes were glued to the screen.

After the movie ended and people poured out of the theater, I asked a group of children what they thought of the movie. In broken English, they eagerly told me they loved it, but hated that they now had to wait for the second part. Impatience, like Harry Potter, is a global phenomenon.

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