July–August 2006

The China Business Review

USCBC
THE MAGAZINE OF
THE US-CHINA BUSINESS COUNCIL

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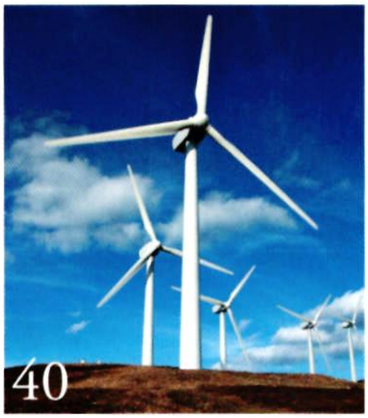
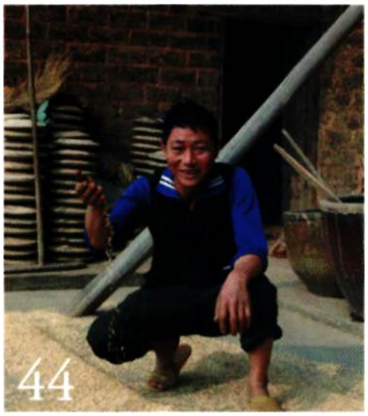
July–August 2006 Volume 33 Number 4

The China Business Review

THE MAGAZINE OF
THE US-CHINA BUSINESS COUNCIL

Focus: Distribution and Logistics





Features

Departments

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All Quiet on the Potomac?

Erin Ennis

It has seemed oddly quiet in recent weeks for those of us working on China issues in Washington, DC. This time last year, we faced a series of challenges. First, legislation by Senators Charles Schumer (D-NY) and Lindsey Graham (R-SC) appeared to be on the fast track to imposing a 27.5 percent tariff on all Chinese imports to the United States, unless China revalued its currency by a similar amount. Then came the bid of China National Offshore Oil Corp. (CNOOC) for Unocal Corp., which sparked a contentious debate on Chinese investment in the United States.

Fast forward a year. Schumer and Graham not only have postponed votes on their bill multiple times, but have traveled to China to see first hand the economic and financial reforms that are under way. The legislative momentum has slowed for now, though the Schumer-Graham legislation is still pending.

But in other quarters, China can still be a four-letter word. The American Federation of Labor-Congress of Industrial Organizations (AFL-CIO) has filed a petition that requests the Office of the US Trade Representative (USTR) to investigate whether China's labor practices give it an unfair trade advantage. A similar AFL-CIO Section 301 petition filed in 2004 was rejected by the Bush administration.

In addition, the nexus of security and trade clearly remains a potential flashpoint, as shown by the uproar over CNOOC's attempt to buy Unocal last year, the proposed takeover of several US ports by Dubai-based DP World this year, and the State Department's recent decision not to use newly purchased Lenovo computers on its classified network. The State Department is reportedly considering changes to its government procurement policies in light of the issues raised by the purchase.

The message for all interested in China is clear: our work is never done.

Still, we would like to think that the quiet so far this year on the legislative front is due, at least in part, to USCBC efforts to introduce a more balanced approach on China trade issues in Washington. During the frenzy of 2005, USCBC and its member companies spent a great deal of time in congressional offices explaining the value of trade with China to the United States and to US companies. Basic education on the issues, even in an age of 24-hour news and unparalleled access to information and data, continues to be the best way to advance a reasoned, rational agenda.

This hard work has been matched by that of many members of Congress and their staffs. Notably, Senators Charles Grassley (R-IA) and Max Baucus (D-MT), the top Republican and Democrat on the Senate Finance Committee, respectively, introduced a broad trade bill in March that would alter the US Treasury Department's reporting requirements on international exchange rates. Currently, Treasury must issue a report every six months that names "currency manipulators"—a term that is difficult to define with any degree of precision. Once it names a country as a "currency manipulator," Treasury must enter into negotiations with that country.

In China's case, this requirement is superfluous, as Treasury already engages in dialogue with its PRC counterpart. As a result, the senators argue that the current currency reporting requirement has outlived its usefulness. Our own observation is that the current row over naming currency manipulators may be causing unnecessary irritation in US-China commercial relations twice a year.

The staffs of both Grassley and Baucus have indicated that they intend to seek a vote on their bill during this session, though they will likely wait until they have additional cosponsors. They could also wait until September when momentum to move the bill may pick up as the October release date for the next Treasury currency report and the September 29 deadline for the Schumer-Graham vote draw near. Several other trade measures will also consume Congress's time for the next few months, including permanent normal trade relations for Vietnam and free-trade agreements with Peru and Oman.

As a consequence, we will likely have a busy fall on China issues in Washington. That does not mean, of course, that we will be resting until then. We are continuing our education effort on Capitol Hill, spreading the facts about the value of our trade relationship with China. These direct contacts with members and their staffs are the most effective means to address misperceptions about trade with China. We are also actively engaged with USTR and the departments of Commerce and Treasury on their interactions with the PRC government on commercial issues. Our offices in China also address the trade and investment barriers in China through direct contact with PRC authorities.

So enjoy the quiet for now. It may not last for long.

Erin Ennis *is vice president of the US-China Business Council in Washington, DC.*

Intellectual Property Rights

In early June, a Beijing court reversed the decision of the PRC State Intellectual Property Office (SIPO) to invalidate Pfizer Inc.'s patent for sildenafil citrate, the active ingredient in the impotence drug Viagra. In July 2004, SIPO overturned Pfizer's patent after several Chinese drugmakers filed a patent challenge.

China's software piracy rate dropped four percentage points to 86 percent in 2005, said the Business Software Alliance (BSA) in late May. Losses from software piracy in China amounted to $3.9 billion in 2005. Though the United States had the lowest piracy rate among the countries that BSA studied—at 21 percent—it incurred the highest losses—$6.9 billion.

To help counter the use of illegitimate software, three leading personal computer (PC) manufacturers in China agreed in April to pre-install Microsoft Corp. software in the PCs they produce. Lenovo Group said it intends to acquire licenses for Microsoft software worth $1.2 billion within the next 12 months, while Tsinghua Tongfang Co. Ltd. and TCL Corp. said they plan to purchase Microsoft licenses worth $120 million and $60 million, respectively, over the next three years.

Regional News

The PRC State Council approved Tianjin's plans to set up the Binhai New Area development zone. Covering roughly 2,300 km^2, the zone is expected to help spur the development of not only Tianjin, but also nearby Beijing and Hebei. The State Council indicated that the zone will be a major hub for manufacturing, research and development, and shipping and logistics. It will also serve as the venue for pilot reforms on tax, foreign exchange, venture capital, and other policies.

The Beijing Municipal People's Congress in mid-June formally dismissed Liu Zhihua as vice mayor of Beijing citing "his corrupt and degenerate ways." Liu previously headed the Beijing municipal government's commission on Olympics-related construction.

US-China Relations

PRC President Hu Jintao made his much-anticipated visit to the United States in late April. Though his discussions with US President George W. Bush resulted in no immediate policy breakthroughs, both sides reaffirmed the importance of the bilateral relationship and renewed their commitment to further dialogues and exchanges. The US-China Business Council (publisher of the *CBR*) co-hosted a dinner in Washington, DC, in honor of the PRC president (see p.14).

Following Hu's visit, the Bush administration released reports on worldwide intellectual property rights (IPR) protection and international exchange rates policies. For the second year in a row, China made it onto the Priority Watch List of countries whose IPR violations warrant close monitoring. Meanwhile, the US Department of the Treasury criticized China's exchange rate policy but refrained once again from citing China as a "currency manipulator."

The US Department of Defense issued its annual report on China's military in late May. The report notes that PRC leaders have not clearly explained the intentions behind their military modernization efforts and that this lack of transparency will inevitably lead other countries to hedge against China. Echoing a September 2005 speech by former US Deputy Secretary of State Robert Zoellick, the report urged China to participate in the global community as a "responsible international stakeholder."

Environmental Protection

The PRC State Council in early June issued China's second white paper on environmental protection. Though the 45-page document argues that government efforts over the past decade have slowed the pace of environmental pollution, it also notes that the central leadership is "fully aware of the grave situation."

In late May, General Electric Co. (GE) signed a memorandum of understanding with the PRC National Development and Reform Commission (NDRC) under which GE will provide cleaner-coal and wind-energy-optimization technologies to China. GE also plans to invest up to $50 million in environment-related research and development over the next five years.

Legal Issues

The PRC State Administration of Industry and Commerce (SAIC) released in May an opinion confirming that it is no longer issuing new licenses or renewing current licenses for the liaison offices of foreign-invested enterprises. Although SAIC subsequently clarified that liaison offices may operate after they are deregistered as long as they do not engage in "business activities," it did not define "business activities."

As the *CBR* went to press, the PRC State Council approved a draft of the Antimonopoly Law, which has been in the works since 1994. Some observers have suggested that Beijing could use the law to curb the expansion of multinational companies in China.

Culture & Society

Huachen Auction Co. canceled in early June the planned auction of a historic portrait of Mao Zedong, which had served as a model for the large painting of Mao overlooking Tiananmen Square. The owner of the portrait, who is Chinese-American, reportedly withdrew it from the planned auction after the government intervened, ironically, because of concerns that the portrait might be bought by a foreigner.

Media, Publishing & Entertainment

In a surprising move, China Central Television (CCTV) in early June replaced the staid, middle-aged anchors that have long defined its 7 pm evening news. The new anchors' youthful smiles and trendy hairstyles and clothes contrasted sharply with the dull appearance and monotone delivery of the previous anchors. Observers note that CCTV likely switched the anchors to boost the popularity of its news broadcast but that other changes are also needed to lure viewers back to CCTV news over the long term. In a Sina.com.cn online poll, about 11,000 respondents said that they prefer the new anchors, while only about 550 favor the old ones.

The PRC government pulled the Hollywood movie "The Da Vinci Code" from theaters after a two-week run that earned ¥104 million ($13.0 million). Observers speculate that the religious controversy surrounding the movie and the government's desire to promote domestic films led to the decision. An official at the State Administration of Radio, Television, and Film declined to specify the reasons for the ban, however.

Banking & Finance

In May, the China Securities Regulatory Commission (CSRC) lifted the ban on initial public offerings (IPOs). The ban was adopted in 2005 as listed companies were converting their nontradable state-owned shares. Under CSRC regulations, firms seeking to sell shares publicly must have earned net profits of at least ¥30 million ($3.8 million) on revenue of at least ¥300 million ($37.5 million) over a period of three consecutive years.

The Bank of China's (BOC) IPO, the world's largest IPO in six years, raised more than $9.7 billion, and BOC shares rose 15 percent on their first day of trading on the Hong Kong Stock Exchange in early June. As the *CBR* went to press, BOC, the second of China's Big Four state-owned banks to have gone public, had also won approval to list on the Shanghai Stock Exchange.

The four leading international accounting firms expect to expand their China staffs significantly in the near future. According to press reports, PricewaterhouseCoopers International Ltd. plans to add 2,050–2,250 employees to its current roster of 6,450 in Hong Kong and China by the middle of next year. Deloitte Touche Tohmatsu plans to hire 1,000 new staff this year, with the eventual goal of doubling its headcount by 2009 to 6,400. KPMG International and Ernst & Young International expect to add 1,300 and 800 new hires, respectively, to their China and Hong Kong operations this year.

Citing its survey of 10 large Chinese cities, the People's Bank of China warned in early June that Chinese homebuyers' debts are approaching dangerous levels. According to the survey, borrowers spend an average of 35 percent of their income on mortgage payments and 38 percent on all liabilities, including home mortgages, car loans, and other debts. On average, Shanghai and Beijing homebuyers spend 45 and 42 percent of their income, respectively, on their mortgages.

Energy

China completed the construction of the mains structure of the Three Gorges Dam in late May and demolished the last cofferdam used during the construction in early June with more than 191 tons of explosives. The dam is now serving flood control purposes two years ahead of schedule. Designed to produce an average of 85 billion kilowatt-hours of electricity annually, the dam is scheduled to begin generating power in 2008 and will be fully operational in 2009.

In early June, Beijing approved the construction of the Baihetan hydroelectric project on the Jinsha River in southwest China. The China Three Gorges Project Corp. will construct China's third-largest hydroelectric facility, which is expected to have an average annual output of 56 billion kilowatt-hours.

NDRC raised the prices of gasoline, diesel, and aviation fuel by ¥500 ($62.5) per ton in late May—the ninth and the steepest hikes since July 2003. Low retail prices for refined oil products, along with rising crude oil prices in the global market, have inflicted significant losses on Chinese refineries. Last summer, key coastal areas including Shanghai and Guangdong experienced oil shortages as refineries stopped production, reportedly to avoid further losses.

China Conference Calendar

China-related events near you

July–August 2006

Please confirm dates and venues with the organizer prior to attending events. To suggest an event for our next issue, send your event announcements to Jesse Marth (jmarth@uschina.org). You can also post your events on the *China Business Review*'s website at www.chinabusinessreview.com/conference-calendar.php

The 10th Shenzhen International Automobile Exhibition

The Seventh China International Machine Tool Exhibition

JULY 14–17

This exhibition will bring together the leading international machine and tool companies to discuss business opportunities and the rapidly expanding Chinese market.
Location: Guangzhou International Convention and Exhibition Center
Organizers: Business Media China AG, Messe Stuttgart International, BMC Zhenwei International Exhibition Co., Ltd.
Contact: Diamond Zhu
Tel: 86-20-3882-4086
E-mail: zw-zmy@china-zhenwei.com.cn
www.gimt.com.cn

Shanghai International Paper Industrial Expo 2006

JULY 19–22

This event will cover the industrial paper manufacturing industry and give visiting companies a chance to explore options with Chinese businesses in the industry.
Location: Shanghai Exhibition Center
Organizer: Shanghai Modern Exhibition Co. Ltd.
Tel: 86-21-6328-8899
E-mail: mie@chinamie.com
www.chinamie.com

LNG Terminals China 2006

JULY 20–21

This director-level conference will examine key issues behind the development of China's liquefied natural gas (LNG) industry. Topics include LNG supply, pricing, and terminal development in China.
Location: Beijing Marriott Hotel West
Organizer: International Quality & Productivity Center
Tel: 86-21-5063-4538
E-mail: info@iqpc.com.cn
www.iqpc.com

Online Gaming China 2006

JULY 25–26

Online Gaming China 2006 will examine strategies and tactics in China's fast paced game development sector.
Location: Shanghai International Exhibition Center
Organizer: International Quality & Productivity Center
Tel: 86-21-5063-4538
E-mail: info@iqpc.com.cn
www.iqpc.com

Tourism and the New Asia

AUGUST 9–12

Tourism and the New Asia serves as a forum for researchers, policymakers, and industry practitioners to discuss the shifting dynamics of global tourism.
Location: Beijing University
Organizer: Beijing University's Center for Recreation and Tourism Research
Contact: William Feighery
Tel: 86-10-6275-7971
E-mail: tnaic2006@gmail.com
www.pkutourism.com

The 10th Shenzhen International Automobile Exhibition

AUGUST 9–13

This exhibition showcases the latest from China's automobile industry.
Location: Shenzhen Convention & Exhibition Center
Organizers: China National Automotive Industry International Corp., China Automotive Industry International Corp., Shenzhen Sinoexpo Exhibition Co. Ltd., Adsale Exhibition Services Ltd.
Tel: 852-2811-8897
E-mail: publicity@adsale.com.hk
www.adsale.com.hk

Broadband Asia 2006

AUGUST 21–23

Broadband operators and industry experts will highlight their key practices and successes at this conference.
Location: Renaissance Shanghai Pudong Hotel
Organizer: Marcus Evans Ltd.
Tel: 86-21-5385-5240
E-mail: janez@marcusevanssh.com
www.marcusevans.com

China International Trade Fair for Home Textiles and Accessories

AUGUST 28–30

This trade fair is an important marketing event for home textile suppliers wishing to tap the Chinese market.
Location: Shanghai New International Expo Center
Organizers: Messe Frankfurt; China Council for the Promotion of International Trade (CCPIT), Sub-Council of Textile Industry; China Home Textile Association
Contact: Lily Li
Tel: 852-2802-7728
E-mail: textile@hongkong.messefrankfurt.com
www.messefrankfurt.com

The 15th China Urumqi Foreign Economic Relations and Trade Fair

SEPTEMBER 1–5

The Urumqi fair will display the latest in the region's imports and exports while hosting international leaders in their respective markets.
Location: Urumuqi, Xinjiang: International Exhibition Center
Organizers: Xinjiang Department of Foreign Trade and Economic Cooperation, Municipal People's Government of Urumqi
Tel: 86-991-285-0497
E-mail: service@urumqifair.com
www.urumqifair.com/en

China Power 2006

SEPTEMBER 5–7

Combined with Powergen Asia 2006, this exhibition and conference covers the growth opportunities in China's power equipment imports and the latest industry technology.
Location: Hong Kong: Asia World Expo
Organizer: PennWell Conferences & Exhibitions
Tel: 44-19-9265-6600
E-mail: exhibitchina@pennwell.com
http://chp06.events.pennnet.com

The 10th China International Fair for Investment and Trade

SEPTEMBER 8–11

This high-profile event features comprehensive seminars on China's trade and investment climate.
Location: Xiamen, Fujian: International Conference and Exhibition Center
Organizers: Provincial Government of Fujian; Municipal Government of Xiamen; PRC Ministry of Commerce (MOFCOM), Investment Promotion Agency
Tel: 86-592-266-9828
E-mail: ciipc5@chinafair.org.cn
www.chinafair.org.cn

Jiangsu International Agriexpo

SEPTEMBER 22–24

In its eighth year, this investment and trade promotion event showcases the province's opportunities for agribusiness modernization.
Location: Lianyungang, Jiangsu: International Exhibition Center
Organizers: Jiangsu Department of Agriculture and Forestry; Jiangsu Department of Foreign Trade and Economic Cooperation; Lianyungang Municipal People's Government; CCPIT, Jiangsu Sub-Council
Contact: Mr. Dai
Tel: 86-25-8622-6887
E-mail: agriexpo@jsagri.gov.cn
www.jsagriexpo.com

The 100th Chinese Export Commodities Fair

OCTOBER 15–20 AND OCTOBER 25–30

The 100th session of the Canton Fair will focus on industrial products, textiles and garments, consumer goods, and more.
Location: Guangzhou, Guangdong: Pazhou and Liuhua Complexes
Organizers: MOFCOM, People's Government of Guangdong, China Foreign Trade Center
Tel: 86-20-2608-9999
E-mail: info@cantonfair.org.cn
www.cantonfair.org.cn

China Eco Expo

NOVEMBER 28–30

This conference and trade show will introduce international expertise and technologies in environmental solutions to the Chinese market. World leaders, including Al Gore and Mikhail Gorbachev, are scheduled to speak.
Location: Beijing International Convention Center
Organizer: Global Eco Expo
Tel: 818-906-2700
E-mail: info@ecoexpo.com
www.ecoexpo.com

Event Wrap-Up

WASHINGTON

May

Issues Luncheon:
The Hu Visit and Prospects for US-China Relations
Featured Dennis Wilder, acting senior director for East Asian Affairs, National Security Council

June

US-China Trade Debriefing
Featured Assistant US Trade Representative (USTR) for China Tim Stratford and Deputy Assistant Secretary of Commerce for Asia Hank Levine, who provided an update from their recent trip to China

33rd Annual Membership Meeting
Featured a luncheon keynote address by Lt. Gen. (Ret.) Brent Scowcroft and presentations on China's economy, currency policy, and financial sector reforms; congressional trade politics and China; top operating issues in China; and corporate case studies of Lenovo Group and UPS.

Evening Reception for the Incoming US-China Business Council (USCBC) Chair
Featured new USCBC Chair W. James (Jim) McNerney Jr., chairman, president, and CEO of the Boeing Co. and other new USCBC board members.

Introduction to the PRC Ministry of Commerce's (MOFCOM) New Department of Trade in Services
Featured Hu Jingyan, director general of MOFCOM's Department of Trade in Services

Roundtable: China's RoHS
Department of Commerce (DOC) specialists Dorothea Blouin, senior industry analyst, International Trade Administration (ITA); Jon Boyens, standards coordinator for Manufacturing Industries, ITA; and Jenny May, international trade specialist for the Office of the Chinese Economic Area, Market Access and Compliance, ITA, discussed the PRC Administrative Measures for the Prevention of Pollution Caused by Electronic Information Products (China's RoHS).

Roundtable: Update on Mergers and Acquisitions
Featured Ken Davies, senior economist, Investment Division, the Organization for Economic Cooperation and Development

Issues Luncheon:
Status of Security Issues in the US-China Relationship and Their Commercial Impact
Featured James Mulvenon, deputy director, Advanced Analysis, at Defense Group, Inc.'s Center for Intelligence Research and Analysis

CHICAGO

May

Roundtable: Business Trends in China and US-China Trade Politics in Washington, DC
Featured USCBC Beijing-based Vice President Bob Poole and Washington, DC-based Vice President Erin Ennis

USCBC Co-Hosts Dinner in Honor of PRC President Hu Jintao

The US-China Business Council (USCBC), National Committee on US-China Relations (NCUSCR), US Chamber of Commerce, and other organizations jointly hosted a reception and dinner in honor of PRC President Hu Jintao and the PRC ministerial delegation in Washington, DC, on April 20. Michael L. Eskew, USCBC chair and UPS chairman and CEO, welcomed Hu and led the toast. Thomas J. Donohue, president and CEO of the US Chamber of Commerce, introduced US Secretary of Labor Elaine L. Chao, who greeted Hu on behalf of the US government. Henry A. Kissinger, chair of the America-China Forum and chair of Kissinger Associates, Inc., introduced the PRC president. After Hu delivered an address on bilateral relations, Carla A. Hills, chair and CEO of Hills & Co. and chair of NCUSCR, moderated a question-and-answer session. More than 900 members of the business, academic, and civic communities attended the dinner.

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Hosts and guests welcome PRC President Hu Jintao in Washington, DC, on April 20

Upcoming Events

WASHINGTON

Issues Luncheons, 2006
July 20
September 21
October 19
November 16
December 14

Forecast 2007
Reception and Conference
February 7–8, 2007

NEW YORK

June

Roundtable: China's Financial Services Sector and US-China Trade Politics
Featured USCBC President John Frisbie and Beijing-based Vice President Bob Poole

BEIJING

May

Export Controls Luncheon
Featured Undersecretary of Commerce for Industry and Security David H. McCormick

SHANGHAI

June

Roundtable: Multinational Corporation Account Payable Issues
Featured experts from Intel Corp.'s Account Payable Global Shared Service Center

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Chair of the America-China Forum and Kissinger Associates, Inc. Henry A. Kissinger; Hu; then-USCBC Chair and Chairman and CEO of UPS Michael Eskew; Chao; PRC National Development and Reform Commission Minister Ma Kai

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Former US Secretaries of State Colin Powell and Alexander Haig; PRC Ministry of Foreign Affairs Director General of Protocol Luo Linquan (center)

USCBC Hosts China Operations Conference in Beijing

USCBC's Beijing China Operations 2006 conference, held on April 26, began with a morning discussion on China's economy led by Huang Yiping, managing director and head of Asia-Pacific Economic and Market Analysis, Citigroup Inc. Ted Kassinger, partner, O'Melveny & Myers LLP (OMM), and former deputy secretary of Commerce, and Patrick Norton, partner, OMM, and former managing partner of OMM's Beijing office, spoke on US-China trade policy developments. Steve Maloy, general counsel, General Electric Asia-Pacific, discussed China's new Company Law. Lu Yun, deputy director general of International Taxation, State Administration of Taxation, spoke on the outlook for tax reform in China. Wang Xin, director of Policy Research, State Administration of Foreign Exchange, delivered the luncheon address on China's financial system.

In the afternoon, Anthea Wong, partner, China Tax and Business Advisory Service, PricewaterhouseCoopers, discussed the implementation of distribution rights in China. A panel on the draft PRC Antimonopoly Law, draft Labor Contract Law, and intellectual property rights in China featured Lester Ross, partner, Wilmer Cutler Pickering Hale and Dorr LLP; Hugh Scogin, partner, Coudert Brothers LLP; and Joe Simone, partner, Baker & McKenzie LLP. Patrick Horgan, managing director, APCO China, moderated the panel. A panel on managing government relations in China featured Chris Watkins, managing director, MRI Worldwide China Group; Steve Okun, vice president for Public Affairs, UPS; and She Duanzhi, director, Government Relations, United Technologies Corp. Bill Beddow, director, Government Relations and Corporate Affairs, Caterpillar Inc., moderated the second panel.

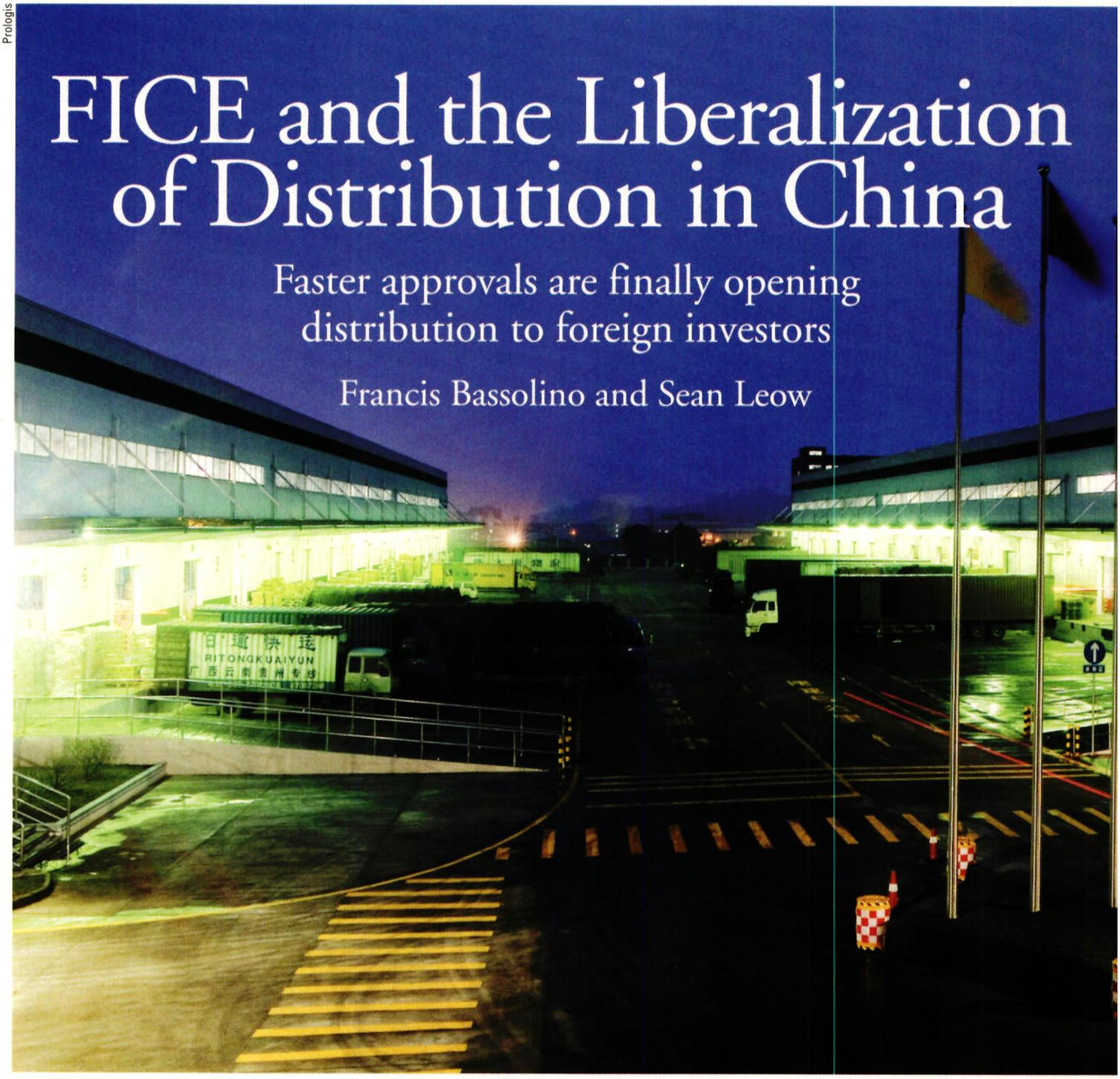
Zhang Jusheng

China Operations conference speakers Ted Kassinger of O'Melveny & Myers LLP (OMM), Bill Beddow of Caterpillar Inc., and Patrick Norton of OMM

FICE and the Liberalization of Distribution in China

Faster approvals are finally opening distribution to foreign investors

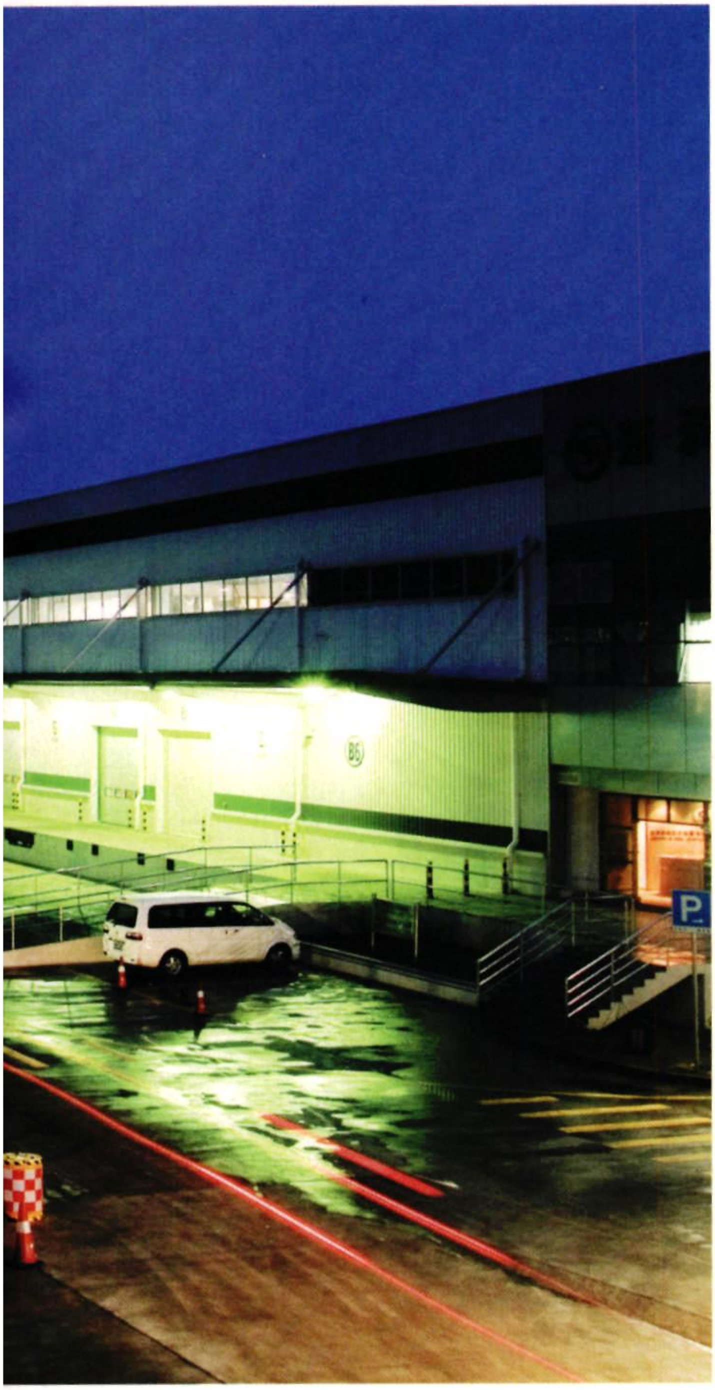
Francis Bassolino and Sean Leow



Prologis

China's long-awaited liberalization of the distribution industry has finally become a reality in recent months. Indeed, China's regulatory environment has shifted to accommodate much broader business scopes and more efficient operating structures for wholesalers, resellers, distributors, and other companies by removing layers of bureaucracy. As a result, companies operating across various industries in China will face new opportunities and uncertainties.

Driving this loosened business environment is the regulation that recently delegated the foreign-invested commercial enterprise (FICE) license approval process to local authorities and lowered registered capital requirements. Many foreign-invested companies are now receiving approvals to use FICEs for retail, wholesale, franchising, and commission-based agency services. Using this new operating structure, firms will be able to trim the fat from current distribution channels, reorganize the existing scope of business, and provide better products and services to customers.



Many companies already use FICEs to make their operations more efficient. For instance, companies that both source and sell in China use FICEs as operational centers to coordinate local and overseas suppliers, customers, and manufacturers (see Figure 1). By integrating a FICE into existing operations, companies will be better able to manage the buying and selling of goods that are either sourced locally or manufactured elsewhere in the world (see Figure 2).

Though the FICE structure can certainly bring benefits, companies would do well to consider potential drawbacks. These may include higher taxes as a result of losing preferential tax status when converting from a manufacturing enterprise to a FICE and higher costs as a result of setting up a new entity.

The long road to liberalization

Under China's World Trade Organization (WTO) commitments, wholly foreign-owned distribution and retail businesses should have received business licenses that allow unfettered access to its distribution sector by December 11, 2004. Despite April 2004 rules that ostensibly opened the sector, officials at the PRC Ministry of Commerce (MOFCOM) did not begin publicly espousing a "speed-up" in the approval process of foreign-invested distribution businesses until April 2005 (see Table).

In March 2006, MOFCOM took the important step of giving provincial-level governments and national-level economic and technological development zones the authority to approve FICE licenses, except when the proposed FICE is involved in a restricted industry or in the distribution of strategic raw materials. This change has allowed most wholesale and retail FICEs to obtain direct approval from local authorities, circumventing the bureaucracy in Beijing.

China has also drastically lowered minimum capital requirements for establishing a FICE, from the pre-2004 requirements of ¥80 million ($10 million) for a wholesale license and ¥50 million ($6.25 million) for a retail license. In line with the new PRC Company Law that took effect on January 1, 2006, the minimum capital requirement for setting up a FICE is now ¥30,000 ($3,750), 20 percent of which must be paid within three months and the rest within two years. The current requirement—a boon for small and medium-sized distributors that want to enter China's logistics and distribution industries—is so low that even individuals are obtaining approvals for FICE licenses. Requirements for minimum assets ($300 million for wholesalers and $200 million for retailers) and annual business revenues ($2.5 billion for wholesalers and $2 billion for retailers) were eliminated in June 2004.

As local governments compete against each other for new FICE applicants and their tax revenues, they have an incentive to promote an efficient and painless approval process. For instance, in the two months after local governments gained the authority to approve most FICE applications, the Shanghai Foreign Investment Commission approved more than 110 FICE licenses, the majority of which were for wholesalers. More applications and approvals are expected as small and medium-sized enterprises flood into the China market (see p.19).

Recent changes will have far-reaching implications for the competitive landscape of retailers, manufacturers, and

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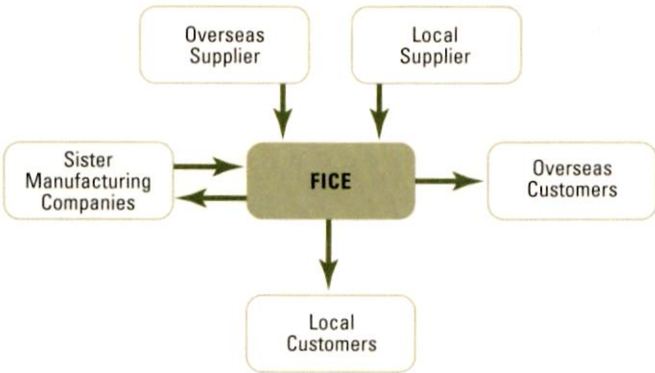
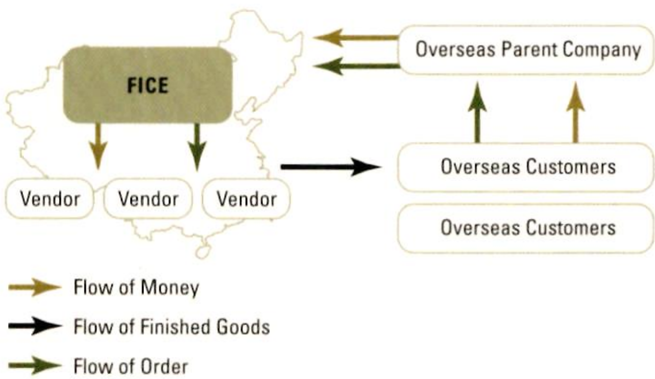
Figure 1: Multi-Role Operational Center



Source: Shanghai Foreign Economic Relation and Trade Commission (SMERT)

Figure 2: Organizer FICE



Source: SMERT

industrial goods distributors. Though the supply chain dynamics will play out differently in the consumer and industrial goods sectors, ultimately the FICE structure will help improve China's inefficient distribution industry and provide new opportunities for value-added distributors.

A maturing industry

Between the start of economic reforms in 1978 and China's WTO entry in 2001, the Chinese distribution system was crude and inefficient. Damage to goods, pilferage, overstocked warehouses, and delays were common, and an inventory management system was nonexistent. Chinese distributors provided only basic transportation and warehousing services, and because state-designated distributors monopolized the distribution and logistics industries, foreign distributors on the mainland had to use fragmented, tiered, and rigid top-down state distribution networks. As the central government gradually delegated more approval power to regional authorities, local protectionism emerged and is still a major barrier to the efficient flow of goods.

In recent years, however, China's distribution industry has matured rapidly. WTO-mandated openings have sparked fierce competition among foreign, state-owned, and private Chinese firms, which have had to provide better services to survive. Improvements in China's infrastructure, especially roads and highways, are also making it easier for manufacturers to provide direct wholesaling and for retailers to set up direct sourcing. From 2003 to 2005, 630,000 km of roads were paved in rural areas, twice as much as the total length built between 1949 and 2002. State investments in these enormous projects are beginning to provide the necessary infrastructure for companies to access untapped second- and third-tier urban markets (see p.20).

The squeeze on distributors

As a result of globalization and advances in supply chain management, distributors are being squeezed from both sides. Manufacturers and customers are expanding their

Regulations Governing the FICE Approval Process

Regulation	Content	Issued by	Effective date
Regulations on Management of Foreign Investment in the Commercial Sector	Opened up distribution rights and eliminated or lowered entry barriers for foreign-invested commercial enterprises (FICE).	Ministry of Commerce (MOFCOM)	June 1, 2004
Notice on Relevant Issues Concerning Expanding Distribution Business Scope of Foreign-Invested Noncommercial Enterprises	Clarified various fiscal and procedural issues for noncommercial enterprises and investment companies to expand their business scopes to include trading and/or distribution rights.	MOFCOM	April 2, 2005
Notice on Certain Issues Regarding Trade Management in Bonded Zones and Bonded Logistics Parks	Clarified distribution regulations for foreign-invested enterprises (FIEs) that only have operations in bonded zones or bonded logistics parks, granted them trading rights, and allowed them to apply for distribution rights.	MOFCOM, General Administration of Customs	July 13, 2005
Notice Regarding the Delegation of Approval Authority for FICEs to Local Authorities	Transferred approval authority to provincial-level commerce authorities and national-level economic and technological development zones and allowed existing manufacturing FIEs, free-trade zone FIEs, and investment companies to expand business scopes.	MOFCOM	March 1, 2006

Source: Francis Bassolino and Sean Leow

business scopes to integrate along parts of the supply chain and eliminate costly distribution layers (see Figure 3).

In China, where homogeneous products and production overcapacity have led manufacturers and retailers to compete by cutting prices, eliminating one distribution tier can lower costs by 3 to 8 percent. In addition, in the absence of true value-added distributors, many local buyers view domestic distributors as parasites—firms that add no value, just cost.

The FICE license allows retailers to expand their business scopes to include wholesale and agency distribution, in addition to importing from abroad, which many retail business scopes already include. Similarly, manufacturers can expand their business scopes to provide direct wholesaling to retailers. In fact, many manufacturers already operate as virtual distributors as a result of China's regulatory environment and the lack of qualified value-added distributors. These manufacturers—which traditionally offered only direct sales or manufacturing services—have developed such efficient and profitable distribution networks that many are now considering expanding their distribution services to other regions of the world.

Competition resulting from the expected wave of new FICE licenses will catalyze the drive to increase efficiency in distribution channels, particularly in the consumer goods sector, which is renowned for excess layers. For instance, FICE structures will likely create platforms that can offer more complete product offerings (in part, because companies will be able to sell goods they do not manufacture), which will in turn push them to incorporate robust platforms that permit more direct control over critical supply chain functions such as sourcing, warehousing, point-of-sale data, and logistics. Consolidation of these functions will lower costs, improve productivity, and provide better products to the market because sellers will have more access to real-time data about the characteristics of demand.

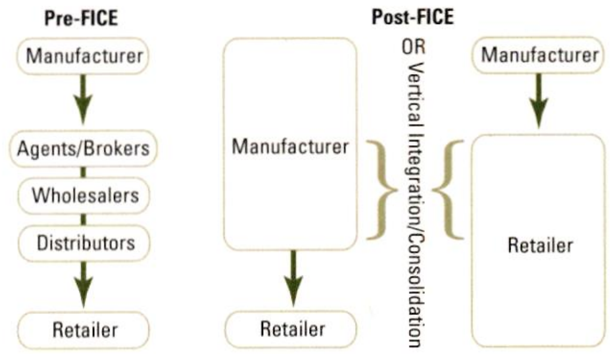
To thrive, distributors in the middle must strive to reduce transaction costs for suppliers and customers and offer value-added services such as systems engineering, component integration, sophisticated inventory management, just-in-time (JIT) and just-in-sequence delivery, after-sales service, and reverse logistics. In China's hyper-competitive environment, product lifecycles are short, making rapid delivery and after-sales service critical advantages, especially in resolving supply shortages and equipment breakdowns. For example, when a breakdown occurs and a specific part is unavailable, the opportunity cost of downtime can, and often does, dwarf the component price.

Specialized industrial goods distribution

Because many manufacturers and retailers can now handle their own logistics and distribution, FICE liberalization

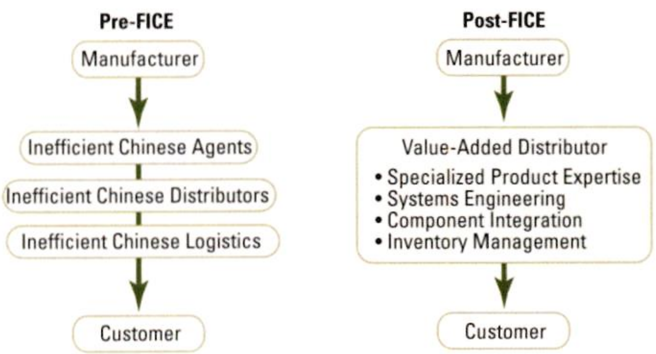
Continued on page 30

Figure 3: Corporate Consolidation Distribution Structures



Source: Francis Bassolino and Sean Leow

Figure 4: Highly Specialized, Value-Adding Distribution Channel Structures



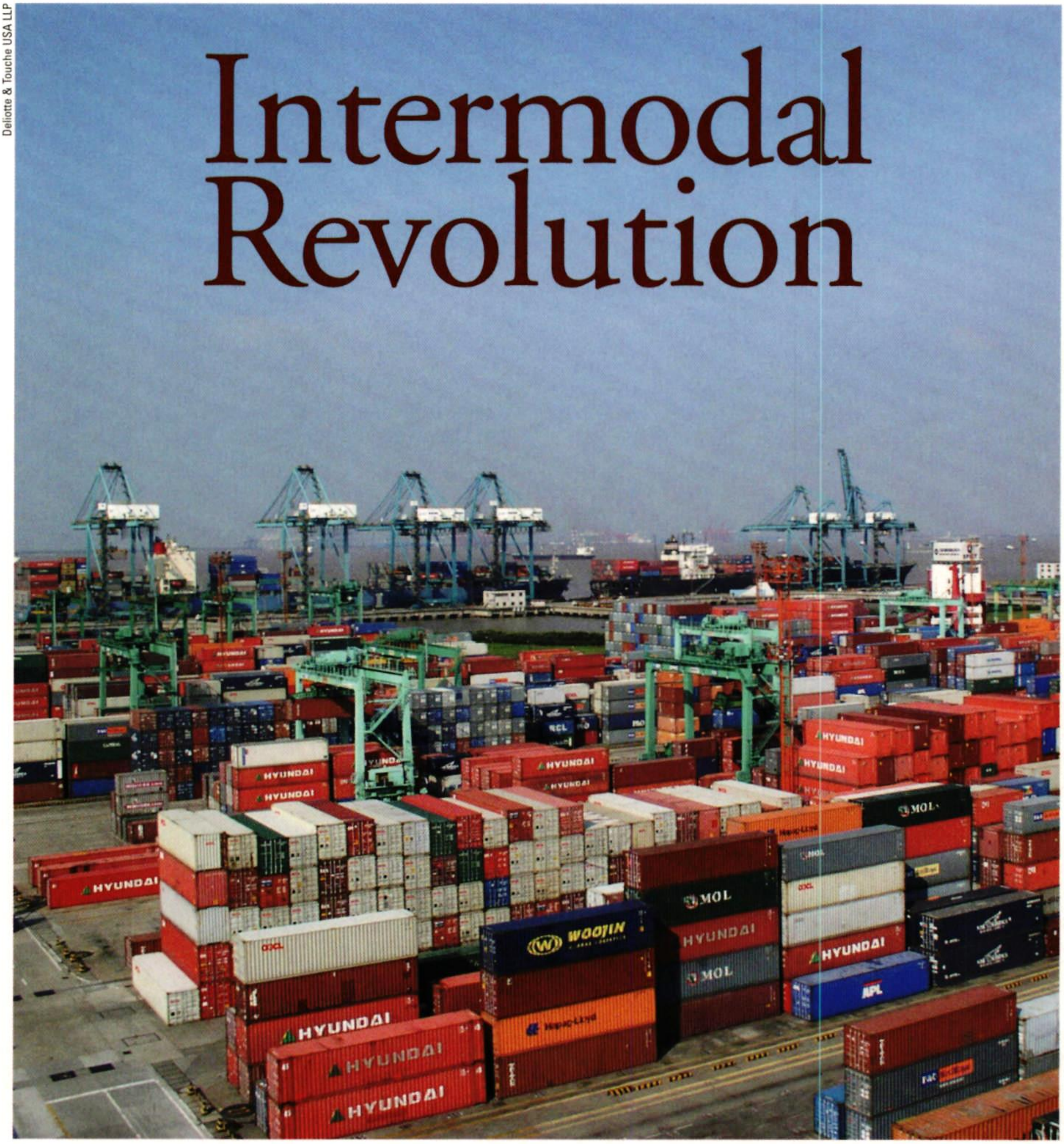
Source: Francis Bassolino and Sean Leow

Shanghai Leads the Way

A total of 22 foreign-invested commercial enterprise (FICE) licenses were approved for the Shanghai municipality in 2004, the first year of FICE implementation. Most licenses were given to Hong Kong-based companies, which had a head start on other World Trade Organization members under the Closer Economic Partnership Arrangement. In 2005, Shanghai authorities approved 431 licenses. Of these, 92 were retail licenses, and 339 were wholesale or mixed wholesale/retail licenses. In addition, more than 100 Shanghai FICE licenses issued in 2005 were for noncommercial foreign-invested enterprises that expanded their business scopes to include trading and/or distribution rights. Between March 1, 2006, when the circular that delegated approval authority to local governments took effect, and early May, Shanghai authorities alone approved more than 110 FICE licenses. The speed and efficiency of the approval process in Shanghai—which takes only about 10 working days—are even more remarkable considering that only one person is processing all the applications.

—Francis Bassolino and Sean Leow

Intermodal Revolution



Deliotte & Touche USA LLP

Investments in the Yangzi River transport corridor will make access to China's interior easier

Clarence Kwan and Kris Knutsen

Of the world's great rivers, the Yangzi has the greatest potential for commercial development. Winding its way 5,920 km from eastern Tibet to the East China Sea at Shanghai, the river's navigable half flows through some of the world's most populous and productive regions. More than 400 million Chinese live within its basin, and the seven provinces along its banks account for 40 percent of China's GDP. To integrate China's interior more closely with the global economy, the PRC government has spent billions of dollars in recent years to facilitate intensified use of the river. For foreign investors looking to expand operations away from the maturing markets of the coast and lower production costs, the transformation of the Yangzi River into a modern intermodal transport corridor may prove to be one of the most significant developments of 21st century China.

Go west

The creation of a comprehensive transportation system that incorporates river, road, and rail links in the Yangzi River valley is necessary to surmount the daunting logistics challenges China's geography presents—namely, the mountain chains that divide the prosperous coast from the less well-off interior. In 2000, the PRC government launched the Great Western Development Strategy, which boosts public spending on infrastructure and offers private investment incentives to encourage industry to migrate inland. As part of the campaign, China spent $123 billion between 2001 and 2005 to add about 25,000 km to its national expressway system, a network that will eventually surpass that of the United States in length. Virtually all of the completed and scheduled expressway construction projects are in China's interior. China is also making its western region a focus of its campaign to modernize and expand its massive but strained rail system. Huge upstream industrial hubs such as Chongqing and Wuhan, Hubei, which serve as major markets and distribution centers, are now poised to benefit as this new infrastructure is completed.

Containerizing the inland economy

To integrate with the global economy, China must containerize its inland economy. Since their introduction in 1956, containers have transformed international trade by allowing a remarkable variety of goods to travel over huge distances and be transferred from rail to truck to ship with maximum efficiency and minimal risk in terms of theft or damage. From advanced tracking and tracing technologies to emerging port security initiatives, containerized transit has recently played a key role in bringing the fruits of the global communications revolution to the shipping industry. These advances have pushed global transportation costs down sharply, with the average cost of maritime shipping as a percentage of the total retail cost of manufactured goods falling 80 percent in the last 20 years.

Lower transport costs have also greatly facilitated China's rise in the global economy. In 2005 alone, Chinese coastal ports handled 75 million 20-foot equivalent units (TEU), up 20 percent over 2004. The PRC government now projects that these ports will handle more than 140 million TEU by 2010. Three of the world's top five container ports (Hong Kong, Shanghai, and Shenzhen) serve China, and containers leaving or arriving at China's shores now constitute 27 percent of the world's total containerized cargo. The problem for China is that few of these containers travel far from the main coastal ports, and foreign investors hesitate to extend their supply chains further inland until both the physical infrastructure and advanced logistics providers are in place to serve them.

Global 3PL companies enter the fray

With logistics costs representing 21 percent of its GDP—more than double that of the United States, Japan, and most European countries—China is already shifting its attention from physical infrastructure (hardware) to developing a modern intermodal system (software) capable of achieving its development goals. To this end, China will benefit from foreign participation in its logistics sector. In line with its World Trade Organization commitments, China lifted all foreign ownership restrictions on freight forwarding, road transport, and warehousing and storage services by December 2005 (though it must still lift its restrictions on courier services). Foreign players are now free to compete with China's flood of new market entrants looking to cash in on increased trade and low start-up costs.

Currently, about 15,000 third-party logistics (3PL) companies operate in China, though the quality and type of services they offer vary widely. Growth has been strongest in the coastal areas where the influence of the global industry has been strongest; inland domestic companies are among the least competitive in terms of equipment, information technology (IT), and management practices. The PRC government is seeking to consolidate the sector by clamping down on unregistered businesses and, in late 2005, announced a plan to bring more than 300 industry standards into line with global norms.

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This article has been adapted from Deloitte & Touche USA LLP's forthcoming report The Yangtze River Transport Corridor.

At present, three forces dominate China's 3PL landscape: the old state-owned enterprises, advanced global 3PL providers, and efficient domestic companies from China's increasingly robust private sector. Though China's 3PL market is still small compared to those of in the United States, Europe, and Japan, it has been growing 25 to 30 percent annually in recent years and is viewed as highly strategic by the global 3PLs. Most are now busy extricating themselves from sub-optimal partnerships, either by buying out their joint venture partners or forging new relationships with domestic players on a stronger footing. Drastic industry consolidation seems inevitable, and as new services and technologies now common on the coast are introduced to the interior, greater efficiency will translate into lower costs.

Because of its speed and flexibility, trucking has emerged as the most viable, but expensive, way to move most goods over long distances in China.

Road transport

Because of its speed and flexibility, trucking has emerged as the most viable, but expensive, way to move most goods over long distances in China. About 75 percent of the freight value moved in China today is shipped by truck, although little of this traffic is containerized. Over the past five years, new expressways have greatly improved inter-city travel; new routes often cut the transit time between Chinese cities in half.

Yet the future of long-distance trucking in China is by no means assured. Moving all but the most valuable or time-sensitive goods by road may soon make even less sense given China's priorities to reduce urban congestion and environmental degradation and to become less dependent on imported fuel. Moreover, construction of the expressway system has already led to steep toll rates—often as high as ¥1.50 ($0.19) per km for the three- to five-ton trucks that form the backbone of China's trucking fleet. The rising cost of fuel—the retail price of diesel fuel rose 11 percent in late May alone—and the possibility of a 20 to 30 percent fuel tax in the near future pose further obstacles. (Trucks are the least fuel-efficient way to transport goods over long distances. According to US government estimates, one gallon of diesel will carry one ton of goods 96 km by truck, 325 km by rail, and 828 km by barge.) As Chinese take to the highways in greater numbers every year, congestion and pollution will also grow. Though trucks will always play an integral role in any intermodal system, if only to move goods from railheads and port facilities to warehouses and factory loading docks, the PRC government will likely encourage other transportation modes to shoulder more of the burden.

As the trucking sector—a fragmented industry even by Chinese standards—opens to foreign investment this year,

Comparing Freight Transport Costs, 2005

Chongqing-Shanghai	Distance (km)	Transit Time (Days)	Cost
Road	2,150	3–4 (40 hours)	$2,150 ($0.10 per 10-ton/km)*
Rail	2,600	7–10	$770/TEU†
Barge	2,400	8 (11 upriver)	$395/TEU
Chongqing-Wuhan			
Road	700	3	$700 ($0.10 per 10-ton/km)
Rail	1,000	6	$545/TEU
Barge	1,280	4 (6 upriver)	$340/TEU

*Fierce competition among trucking firms on busy coastal routes can bring rates down to $0.06 per ton/km.
†TEU = 20-foot equivalent units
Source: Chang'an Minsheng Logistics

Yangzi River's Top 10 Container-Handling Ports, 2005

Port	Throughput (1,000 TEU)	Growth over 2004 (%)
Nanjing, Jiangsu	587.7	20
Zhangjiagang, Jiangsu	377.1	15
Nantong, Jiangsu	301.2	20
Taicang, Jiangsu	250.9	156
Wuhan, Hubei	178.0	27
Chongqing	170.1	15
Yangzhou, Jiangsu	157.0	20
Changshu, Jiangsu	110.0	51
Zhenjiang, Jiangsu	98.4	29
Chenglingji, Hunan	68.0	55

Source: *Yangtze River Ports 2006*, Alain Charles Publishing these cost pressures will weigh heavily on China's estimated 2.5 million trucking companies. Because they can afford to use the latest technologies, foreign trucking companies just entering the market are most likely to benefit from government incentives to use fuel-efficient vehicles. Inland trucking firms—many of which are still small-scale operations, undercapitalized and deploying few, if any, IT technologies—will be most vulnerable. Many inland markets have already witnessed the arrival of more advanced private companies from the coast, some deploying global positioning systems (GPS), online billing, and other international best practices. As the road transport sector opens fully to foreign investment in 2006, fierce competition should improve conditions for investors in the region at the expense of many of the smaller domestic transport companies.

Rail is the natural alternative to road in a country the size of China. But unlike trucking, rail has a reputation for slow and unpredictable service.

Rail transport

Rail is the natural alternative to road in a country the size of China. But unlike trucking, rail has a reputation for slow and unpredictable service—especially away from China's main north-south corridors and for low-volume shippers. China's 75,000 km rail system accounts for one-sixth of the total global track length, but it already contends with one-quarter of the world's total transport volume. As a consequence, freight demand has outstripped supply on virtually every major route in the last 20 years. For the foreseeable future, priority of movement on China's single-track lines—still 70 percent of the total network—will go to passengers and bulk cargo, especially coal. Containerized freight accounted for just 3 percent of total freight volume in 2005, and most freight is still shipped in local containers that are considerably smaller than the international standard. These trains must also traverse some of the world's most challenging geography by means of bridges and tunnels. Clearance for most of China's 5,400 rail tunnels is low by modern standards, and electrification is achieved by low-hanging catenary wire. These factors have complicated the introduction of double-stack container trains, a common cost-saver on European and US rail routes, although China's Ministry of Railways (MOR) is working to remedy this situation.

To accelerate containerization of the rail system, MOR formed the China Railway Container Transport Co. (CRCTC) in late 2003. As the country's sole intermodal rail operator, CRCTC has since embarked on a wide range of initiatives designed to improve intermodal transport throughout the country. The company has assembled its own fleet of container-ready flat cars and a variety of containers and has also introduced tracking for intermodal shipments.

CRCTC's most important legacy will be the establishment of China's first dedicated container-handling rail stations. In December 2005, the company inaugurated in Shanghai the first of what will become a nationwide system of 18 major intermodal rail hubs and 40 mid-size stations strategically located at ports and inland economic centers (see the *CBR* July–August 2005, p.8). The network is designed to rationalize container traffic at more than 600 mixed-use facilities currently used by CRCTC. A second hub, in Kunming, Yunnan, will open in mid-2006, with other major hubs planned at Chongqing and Wuhan. Each facility will be among the largest rail freight stations in Asia, covering 6 to 12 km^2 and with the capacity to move 200,000 to 300,000 containers a year.

Double-stack container service will eventually link all facilities, and the system will greatly benefit from MOR's plans to segregate passenger rail routes from freight lines. This network is at the heart of MOR's ambitious plans to invest $243 billion (including private capital) to upgrade and expand the entire rail system to 100,000 km by 2020. Most of these improvements will not become fully operational until after 2010.

River transport

With challenges ahead for the long-haul trucking industry and rail not yet ready to meet growing demand, improving the Yangzi River's shipping capacity is clearly crucial to better transport to China's interior. To improve navigation, officials have implemented a series of low-cost, high-impact measures on the Yangzi over the past five years, including demolishing underwater reefs, dredging, installing riverbank navigational aids, and requiring all river barges to use GPS. Still, the central government reports that shippers are currently using just 15 percent of the Yangzi's total capacity.

Efforts to expand container-on-barge service along the Yangzi will also become more important. Barges have served as the most reliable and cost effective means of

moving commodities along the river for centuries, and significant barge capacity has recently shifted to carrying containers. In early 2006, about 35 major barge companies provided container service to 24 Yangzi ports that extend 2,400 km upstream from Shanghai. Of these, the top five companies controlled about 50 percent of capacity. China, like many other countries, does not permit foreign-owned vessels to move freight on its inland waterways, but more than 20 international shipping companies have established close ties to the major Chinese operators and now offer a range of services complementary to international container transport. Since 2001, several have arranged dedicated barge service for their international customers heading inland.

As barge operators take advantage of improved navigation on the river and shift capacity from bulk to container, central and local governments have made massive investments to construct or upgrade container ports on the river. Until five years ago, facilities upriver from the major transshipment port of Nanjing, Jiangsu, ranged from large but capital-starved operations at Wuhan and Chongqing to little more than seasonal truck landings. Even at the more advanced middle and upstream terminals, harbor cranes, yard tractors, and other standard container-handling equipment were largely absent before 2000. For an operation as information-intensive as a modern port complex, the lack of modern IT systems was also a serious handicap.

New investment has changed this picture dramatically. About 24 container-capable ports are now operational as far upstream as Sichuan, and container traffic along the river has more than quadrupled since 2000. In the short term, the Yangzi's expanding container capacity will plug critical gaps in the existing road and rail networks and link huge areas of central and southwest China to the coast at relatively low cost. Over the longer term, viable container-on-barge service will serve as a useful check on costs throughout the region's intermodal system.

Port developments

Two major developments along the Yangzi river are serving as catalysts for containerization of the river: the completion of the Three Gorges Dam and the opening of the Yangshan Port Complex off Shanghai in December 2005.

Three Gorges Dam

Located 1,000 km west of Shanghai, the Three Gorges Dam will profoundly affect the development of waterborne traffic on the river by the time it becomes fully operational in 2009. A two-way, five-stage shiplock, the world's largest, opened in mid-2004 and permits loaded barges of up to 10,000 deadweight tons (DWT) to pass within three hours; a smaller shiplift that can raise 3,000-ton vessels in less than 45 minutes is scheduled to go into service in 2009. Barges moving inland through the region will soon sail a reservoir that extends 660 km behind the dam from Yichang, Hubei, to the new container berths at Chongqing. Mid-way across the reservoir, a new container port with planned capacity of 400,000 TEU is under construction at Wanzhou (formerly Wanxian), Chongqing, an area already well-connected to points north and west of the river. Deeper, wider, more regulated flows of water will permit the introduction of much larger container barges on the upper Yangzi. Barges capable of moving 250 TEU will reach more than 2,400 km inland to Chongqing, compared to the 64–144 TEU capacity barges currently in use. As conditions on the river improve, China will eventually introduce barges capable of moving 300–400 TEU—equivalent to 150–200 heavy trucks.

Yangshan port complex

The second major stimulus to Yangzi container shipping is the massive increase in container port facilities in Shanghai. The $12 billion Yangshan container port opened its first facility in December 2005, adding 2.2 million TEU of container-handling capacity to what was already the world's third-largest container port. Located 32 km off the southeast coast of Shanghai, the facility completes a decade-long migration of Shanghai's port facilities from the clogged banks of the Huangpu River to the southern bank of the Yangzi at Pudong and now to open waters just 80 nautical miles from international shipping lanes. When fully completed in 2020, Yangshan will add 15–20 million TEU to Shanghai's total container-handling capacity—roughly the combined throughput of the top three US ports in 2005. With an average depth of 15 m at its 50 planned berths, the complex should easily handle the next generation of 8,000–10,000 TEU container ships that are taking to the world's seas in 2006–07.

At this stage, however, the only surface link to the port is a six-lane causeway with a capacity of just 5 million TEU per year. Also, trucks are charged tolls of up to ¥45 ($5.60) for the 30-minute trip in each direction. Rail service may eventually be introduced, but until then, shippers will need barge service to fill the gap. The causeway incorporates three arches to facilitate barge traffic to the complex, including one span for 10,000 DWT ships. Barges currently transport 15–20 percent of cargo to and from Waigaoqiao Free-Trade Zone (trucks haul more than 80 percent, rail just 1 percent), but port planners expect their share to rise well above 30 percent as Yangshan becomes fully operational. Yangzi barge companies have already begun experimenting with sea-going barges, the first of which began serving Yangshan directly from Nanjing in December 2005. These deeper draft, more powerful ships, capable of moving 250–300 TEU at a time, will significantly cut transit times on the entire river and open the possibility of direct container barge service from deep up the Yangzi to ports as far as South Korea and Japan.

Container traffic on the Yangzi has already increased rapidly as a result of these projects and other large-scale public and private investments in the basin. In 2005, barges moved more than 2.6 million TEU on the Yangzi, a 44 percent increase over 2004 and up from just 604,000 TEU in 2000. For 2006, the Wuhan-based Yangzi River Administration of Navigation Affairs estimates that container traffic will reach 3.1 million TEU. Central and local governments are now making investments that will raise capacity to 4.5 million TEU by 2010 and 15 million TEU by 2030. Port operators and a wide variety of other businesses whose fortunes are tied to China's booming coastal ports are also investing inland.

Two major developments along the Yangzi river are serving as catalysts for containerization of the river: the completion of the Three Gorges Dam and the opening of the Yangshan Port Complex off Shanghai.

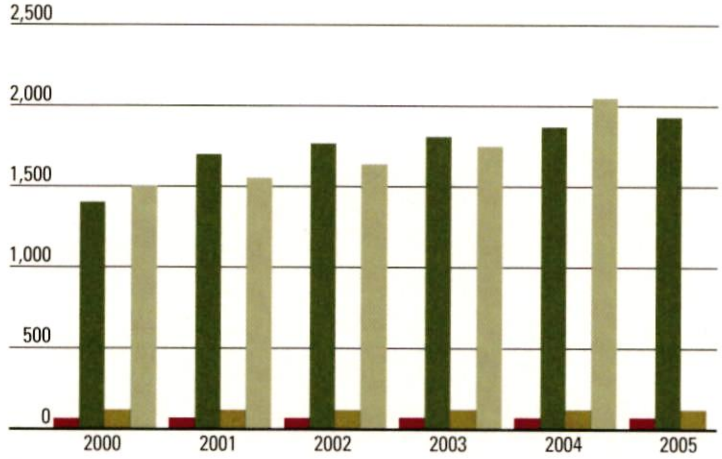
A new westward migration?

Foreign companies must consider several factors before extending segments of their global supply chains to China's interior. Indeed, for certain products and business models, it may never make sense to shift production westward. Conducting business with local officials, zone authorities, suppliers, and other business partners will likely remain more complex in the interior than on the coast for some time. And though labor costs are lower in the interior, competition for technical and managerial talent will remain intense.

But options for shipping containers along a well-integrated network of road, rail, and river transport are proliferating, to say nothing of China's efforts to link interior cities by expanded air cargo service. As in other segments of its economy, China will also have the benefit of being able to "leapfrog" the outdated technologies and infrastructure that weigh down more developed countries. Rapid application of new technologies, such as radio-frequency identification tags, will figure prominently as China's logistics industry consolidates and the strongest players compete to achieve nationwide scale. Investments in hard and soft infrastructure are setting the stage for an intermodal revolution along the Yangzi over the next 5 to 10 years, a development sure to draw greater numbers of investors westward. 完

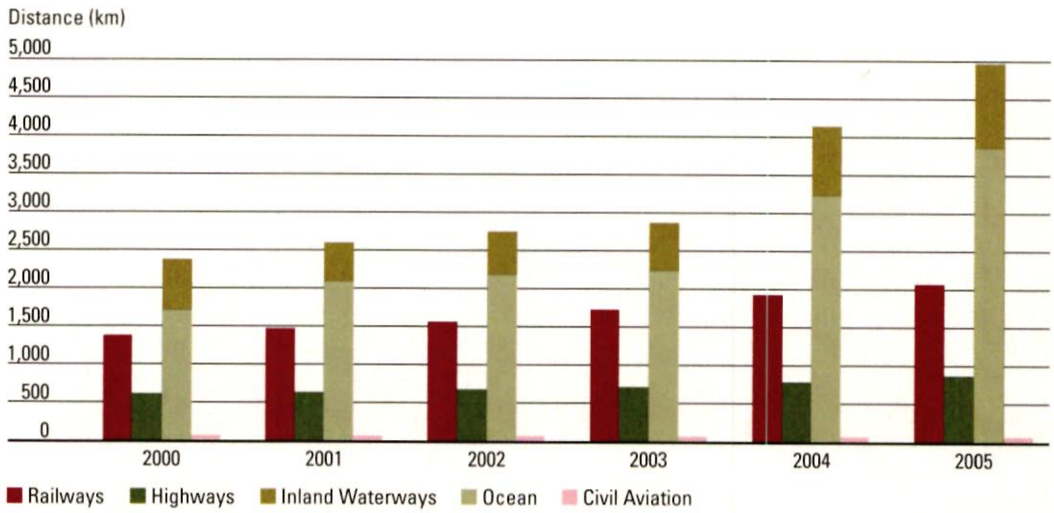
Freight on the Move

Length of Transportation Routes (1,000 km)



Note: 2005 civil aviation data unavailable.

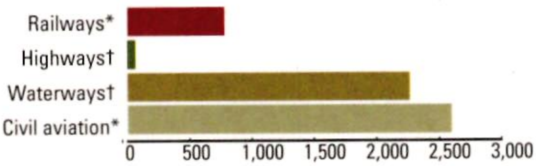
Freight Transported (billion ton-km)



Technical Indicators of Railway Freight Transportation

	2000	2001	2002	2003	2004	% change
Average daily ton-kilometers (1,000 ton-km)	994.0	999.0	1,022.0	1,058.0	1,087.0	9.4
Average total tonnage of locomotives (ton)	2,676.0	2,760.0	2,789.0	2,829.0	2,934.0	9.6
Daily distance per locomotive (km)	443.0	437.0	445.0	450.0	455.0	2.7
Punctuality rate of trains at departure (%)	97.2	97.2	97.3	96.9	96.5	-0.7
Punctuality rate of trains in running (%)	96.8	96.8	96.7	96.5	96.2	-0.6
Running speed of trains (km/hr)	31.8	39.5	32.4	32.8	32.2	1.3
Density of transport (million ton-km/km)	22.7	24.1	25.3	27.3	30.0	32.2
Turnaround time of cars (day)	5.4	5.1	5.1	5.1	4.9	-8.3
Handling time of freight (hour)	23.1	22.0	21.2	20.9	17.2	-25.5
Static load of cars (standard gauge) (tons)	57.9	58.1	58.2	58.3	59.3	2.4
Capacity used (%)	97.1	97.3	96.7	96.5	98.0	0.9

Average Transportation Distance of Freight (km)



Note: *2004, †2005

Length of Highways, 2005

	1,000 km
Expressways and class I-IV highways	1,591.8
Expressways	41.0
First-class highways	38.4
Second-class highways	246.4
Other highways	338.8
Total	**1,930.5**

Container Traffic via Road and Water

	Million TEU			Million tons		
	2004	**2005**	**% change**	**2004**	**2005**	**% change**
Road	20.9	24.7	18.1	236.5	270.6	14.1
Water	16.1	19.4	20.9	159.4	220.0	38.0

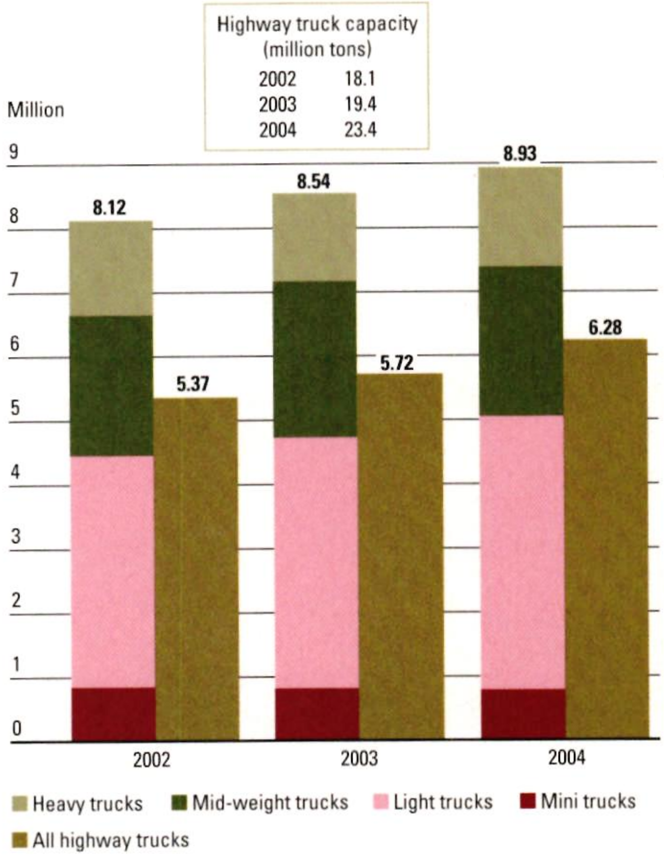
Containers Handled at Ports (million TEU)

	2004	2005	% change
Coastal ports	56.6	70.0	23.7
Inland ports	5.0	5.6	12.9
Total	**61.6**	**75.6**	**22.8**

Top 10 Railway Routes for Freight, 2004

Route	Million ton-km	Million tons
Beijing-Guangzhou	143,011	72.6
Lianyungang-Lanzhou	114,753	69.4
Tianjin-Shanghai	103,255	55.0
Datong-Qinhuangdao	87,120	6.1
Beijing-Shenyang	87,073	18.9
Harbin-Dalian	78,526	37.1
Lanzhou-Urumqi	75,861	35.7
Taiyuan-Jiaozuo-Liuzhou	72,307	89.6
Beijing-Kowloon	66,796	38.8
Beijing-Baotou	58,649	48.7

Freight Trucks in China



China's Top Ports and Airports

Freight Handled on Major Waterways, 2005

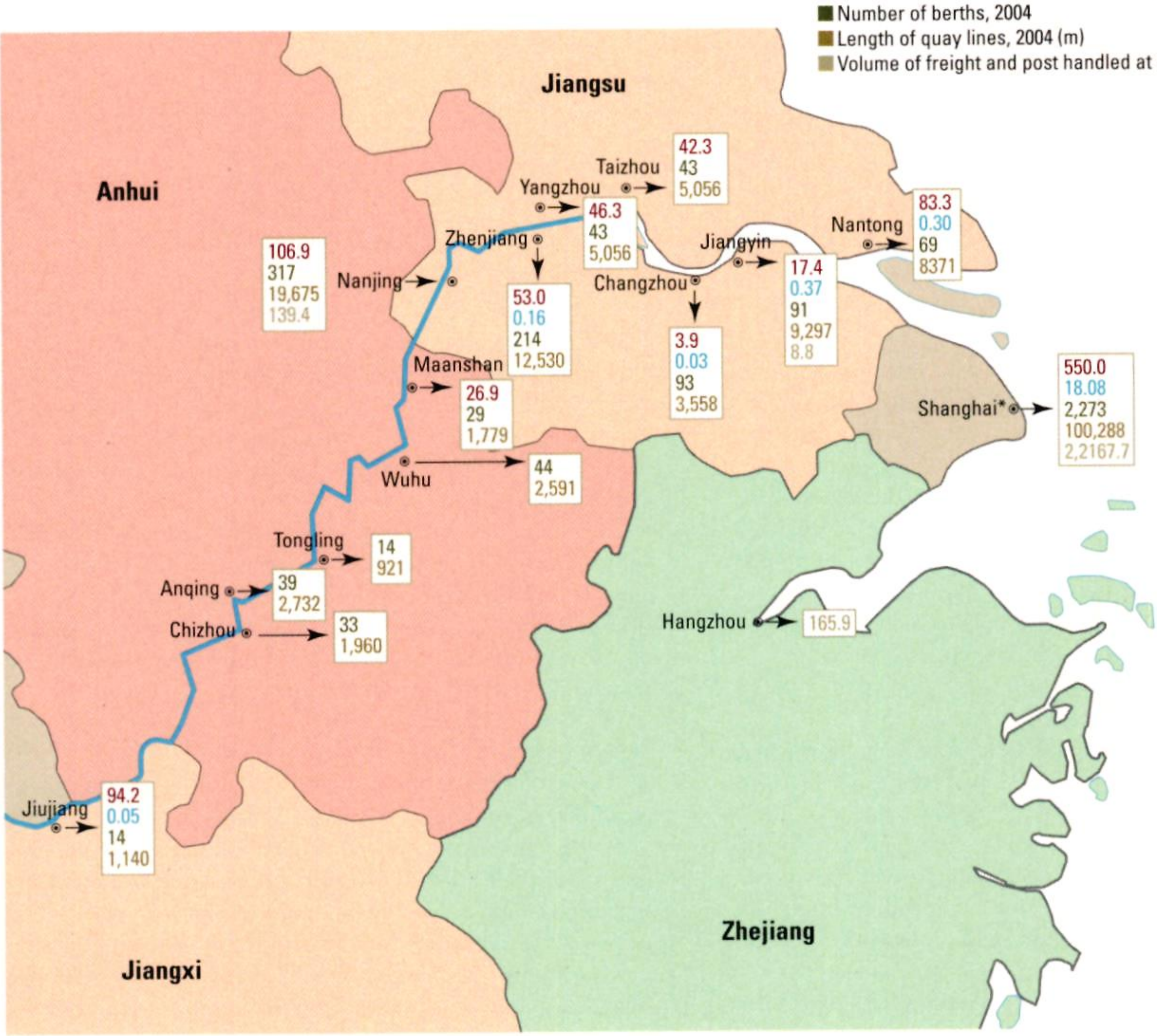
	Million tons	As % of water-borne freight	Billion ton-km	As % of water-borne freight
Yangzi River	421	39.9	148.5	56.5
Beijing-Hangzhou Canal	219	20.7	50.2	19.1
Pearl River	147	13.9	24.4	9.3
Heilong River	13	1.2	1.0	0.4

Air Freight Traffic

	2000	2003	2004	% change
1,000 tons	**1,967**	**2,190**	**2,767**	**40.7**
International	492	514	705	43.2
Domestic	1,475	1,676	2,062	39.8
Regional	135	107	168	24.4
Million ton-km	**5,027**	**5,790**	**7,180**	**42.8**
International	2,916	3,358	4,188	43.6
Domestic	2,111	2,432	2,992	41.7
Regional	195	165	260	33.5

Major Ports Along the Yangzi

- Volume of freight handled at port, 2005 (million tons)
- Containers handled at port, 2005 (million TEU)
- Number of berths, 2004
- Length of quay lines, 2004 (m)
- Volume of freight and post handled at airport, 2005 (1,000 tons)



* Combines data for the city's coastal and inland river ports and for its two airports.

Sources: *China Statistical Yearbook 2005*; PRC Ministry of Railways; PRC Ministry of Communications; PRC National Bureau of Statistics; Civil Aviation Administration of China; municipal governments of Changzhou, Jiangsu; Chongqing; Fuzhou, Fujian; Haikou, Hainan; Jiangyin, Jiangsu; Jiujiang, Anhui; Lianyungang, Jiangsu; Ma'anshan, Anhui; Nanjing, Jiangsu; Nantong, Jiangsu; Rizhao, Shandong; Sanya, Hainan; Shantou, Guangdong; Taizhou, Jiangsu; Yangzhou, Jiangsu; Yantai, Shandong; Xiamen, Fujian; and Zhenjiang, Jiangsu.

FICE and the Liberalization of Distribution in China

Continued from page 19

will foster direct product sourcing. In the highly engineered and highly specialized goods markets, especially industrial goods markets, however, the new rules will give rise to another trend: the emergence of specialized distributors.

Far from being eliminated, specialized industrial goods distributors are using the FICE license in China to insert themselves into the supply chain and roll out value-added services and business models that have been effective in more open markets (see Figure 4). While this trend is not as prevalent as the corporate consolidation described above, it is steadily gaining steam and will undoubtedly play a prominent role in the future.

The FICE structure allows industrial goods distributors to create organizations that can source, design, assemble, invoice in domestic currency, and provide after-sales support. Previously, foreign distributors in China, with the exception of the largest companies, which use convoluted structures, were unable to supply these services. In more developed markets, increasing specialization in the supply chain and use of distributors as a conduit of information for a specialized good improve efficiency and add value. Over the next few years, industrial goods suppliers and other specialized distributors will increasingly apply this global business model to China.

There are several reasons why specialized goods distributors may thrive under the new FICE structure. First, specialized, value-added distributors provide "one-stop" or "shopping list" sourcing services for many industrial consumers. By allowing customers to purchase different components or brands in a single transaction, distributors reduce their clients' transaction costs. In addition, after-sales service and parts are often big concerns for customers. For example, China's construction machinery industry often requires the sourcing of components through specialized distributors because low-volume, customized equipment orders are common and after-sales service is crucial.

Second, industrial distributors shorten the cash-flow cycle for manufacturers that specialize in product innovation and development. By bearing the financial risk of owning and managing the manufacturers' inventory, distributors bridge the time gap between the manufacturers' production and the customers' purchase of the products.

Third, industrial distributors cater to geographic and industry-specific segments of the market. In China, where markets and customers are often highly fragmented and widely dispersed, geographically oriented distributors can provide valuable services such as design collaboration, JIT delivery, and after-sales service that manufacturers are either unwilling or unable to provide because of geographic constraints. When industry expertise and technical guidance are needed, specialized industrial goods distributors can design, engineer, and procure the best product at the lowest cost for an enduser.

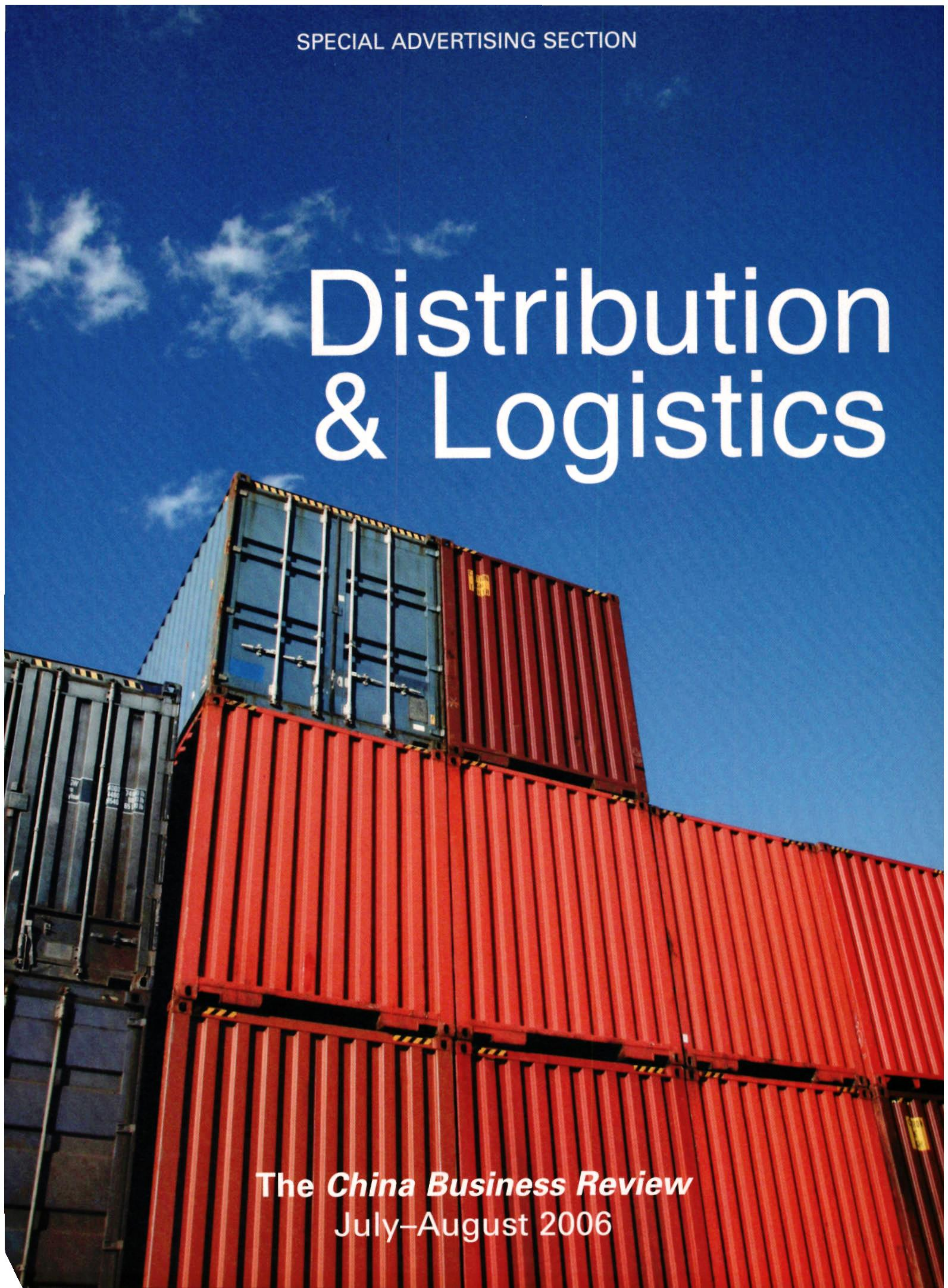
When industry expertise and technical guidance are needed, specialized industrial goods distributors can design, engineer, and procure the best product at the lowest cost for an enduser.

For highly engineered products, industrial goods distributors allow each segment in the supply chain to focus on its competitive advantage and, ultimately, on product improvement. These are huge improvements over traditional Chinese distributors, who offered only the most basic warehousing and transportation services.

Room to grow

The evolution of China's distribution industry will likely be similar to that of other markets, though it will move faster because companies will implement the proven models that value-added distributors use in developed markets, particularly in industrial goods distribution, over the next one to two years. Because China's distribution sector is entering a period of intense competition, the firms that forge strong bonds with their customers, offer quality value-added services at reasonable prices, and build a complete and competitive supply chain will emerge as winners. 完

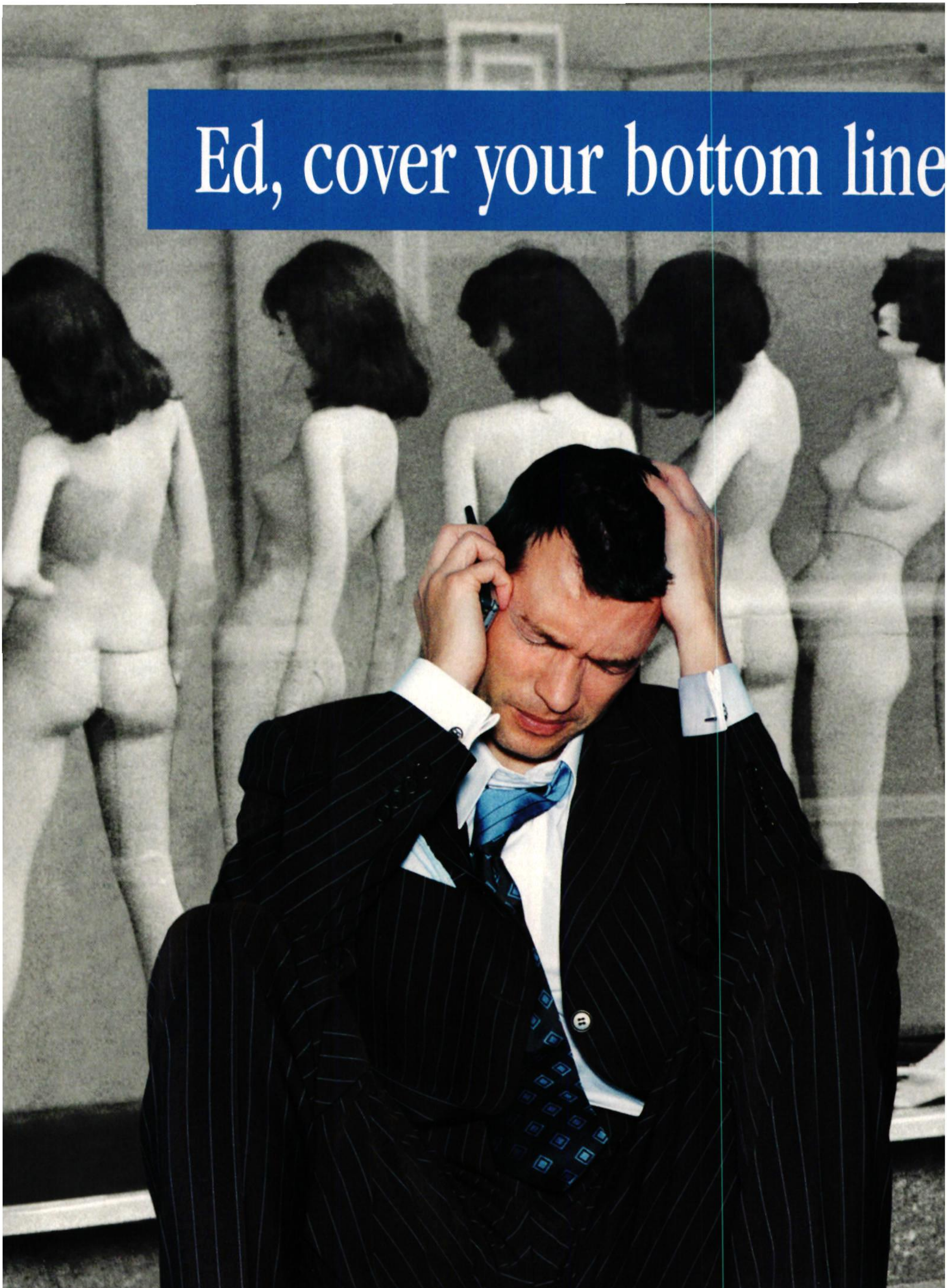
SPECIAL ADVERTISING SECTION



Distribution & Logistics

The *China Business Review*
July–August 2006

Ed, cover your bottom line




BNSF
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SHOPPING CENTER

MSC Stays the Course in Global Shipping

One thing that makes Geneva-based Mediterranean Shipping Company unique among steamship lines serving Asia-US trades today is that the company is privately held by owner and founder Gianluigi Aponte and the Aponte family. Another is its hallmark of growing its business one service at a time, one trade lane at a time, and, using hub ports and relay services, MSC has been able to create an ever expanding network of international connections that is second to none.

The MSC Pamela is one of the company's new 9,200 TEU World-Class vessels.

Another trait is that MSC continues to "stay the course" once it enters a new trade. Unlike some carriers that may offer service solely to capitalize on peak periods, MSC commits to each trade lane it enters. The company does extensive research before committing its resources and equipment to serve a particular region, and remains steadfast to its customers once its service is established.

MSC's container shipping services to and from Asia are no exception.

MSC first began service in Asia in 1996 via a joint service that linked Northern Europe with the Mid East and Asia. A year later, MSC extended its Australia/Asia service to Tianjin and commenced its own service between Europe and Asia.

Intent on expanding its global reach, MSC commenced weekly, independent transpacific container service linking the U.S. ports of Los Angeles and Oakland with ports in the Far East in April of 1999. Initiated in Hong Kong, the service featured six dedicated vessels with capacities of 2,500 to 3000-TEUs each. Asian ports of call included Yokohama, Busan, Hong Kong, Chiwan and Shanghai.

In 2002 the company restructured its TRANSPAC service to create a Pendulum Service connecting Asia not only to the U.S. West Coast, but to the East Coast of the United States as well. This new service commenced in Shanghai and was comprised of weekly sailings using eight container vessels. Port calls at that time included Shanghai; Chiwan; Hong Kong; Busan; Tokyo; Los Angeles; Manzanillo, Mexico; Panama; Freeport Bahamas; Savannah; and New York.

Today, MSC offers a transpacific Pendulum Service that calls at Busan, Chiwan, Hong Kong, Ningbo, Tokyo and Yantian. Its Pearl River service calls at Chiwan, Hong Kong, Xiamen and Yantian with links to Long Beach and Oakland, CA on the U.S. West Coast.

In addition, the company upgraded its Orient Service at the start of this year from the Far East to the U.S. West Coast, offering direct express weekly service using five vessels of 6,750-TEU capacity each. The port rotation for this upgraded service is: Tantian— Shanghai— Ningbo — Tokyo— Long Beach, CA— Busan— Qingdao—Yantian.

The upgraded Orient Service gives shippers superior transit times from Central and Northern China to the United States. For example, from Shanghai to Long Beach, CA the transit time is only 13 days; Ningbo to Long Beach, 12 days; and Tokyo to Long Beach a speedy 9-days.

Fleet Expansion Underway

MSC's service expansions have been accompanied by a dramatic build-up of vessels. MSC has added a series of 5,000-TEU ships (the largest size able to transit the Panama Canal); a series of new post-Panamax vessels with capacities of up to 6,700-TEUs, and, most recently, MSC has begun taking delivery of newly built 9,200-TEU ships that are among the largest containerships at sea today.

These developments underscore the company's commitment to further expansion and service enhancements to come. They also help to assure MSC's position as one of the top three ocean carriers serving global commerce today.

CIFIT

THE 10TH CHINA INTERNATIONAL FAIR FOR INVESTMENT & TRADE

Xiamen · China 2006.9.8–11

The 10th China International Fair for Investment and Trade (CIFIT for short) is sponsored by China's Ministry of Commerce (MOFCOM) , and co-sponsored by United Nations Conference on Trade and Development (UNCTAD), United Nations Industrial Development Organization (UNIDO), Organization for Economic Cooperation & Development (OECD) , International Finance Corporation (IFC) and World Association of Investment Promotion Agencies (WAIPA). Held in Xiamen during September 8-11, 2006, CIFIT is the sole nation-wide international investment promotion event focusing on FDI.

In April 2005, CIFIT was approved by UFI (the Global Association of the Exhibition Industry). With its themes of "Introducing FDI" and "Going Global", CIFIT is unique in combining investment with trade, exhibition with talks, project promotion with policy consultation, and policy seminar with information release, thus furnishing participants with comprehensive services and further making CIFIT the premier event for emphasizing bilateral and diversified investment and cooperation. The "International Investment Forum" and the series of seminars on hot investment issues held during CIFIT provide unparalleled insights into the trend of world capital flow, as well as the latest investment policies and investment environments in and beyond China.

CIFIT not only comprehensively showcases and introduces China and its provinces and municipalities, investment environments, investment policies, business invitation projects, and products, but also attracts investment promotion institutions from dozens of foreign countries and regions to conduct investment briefings and promotional Symposia. CIFIT offers optimum opportunity for businessmen at home and abroad to overview investment environments of China and other countries with the least effort during the shortest time, to obtain the latest investment policies and information through direct channels, and to select the widest range of investment projects and business partners.

We cordially welcome you to the 10th China International Fair for Investment & Trade (CIFIT).

The Organizing Committee of CIFIT

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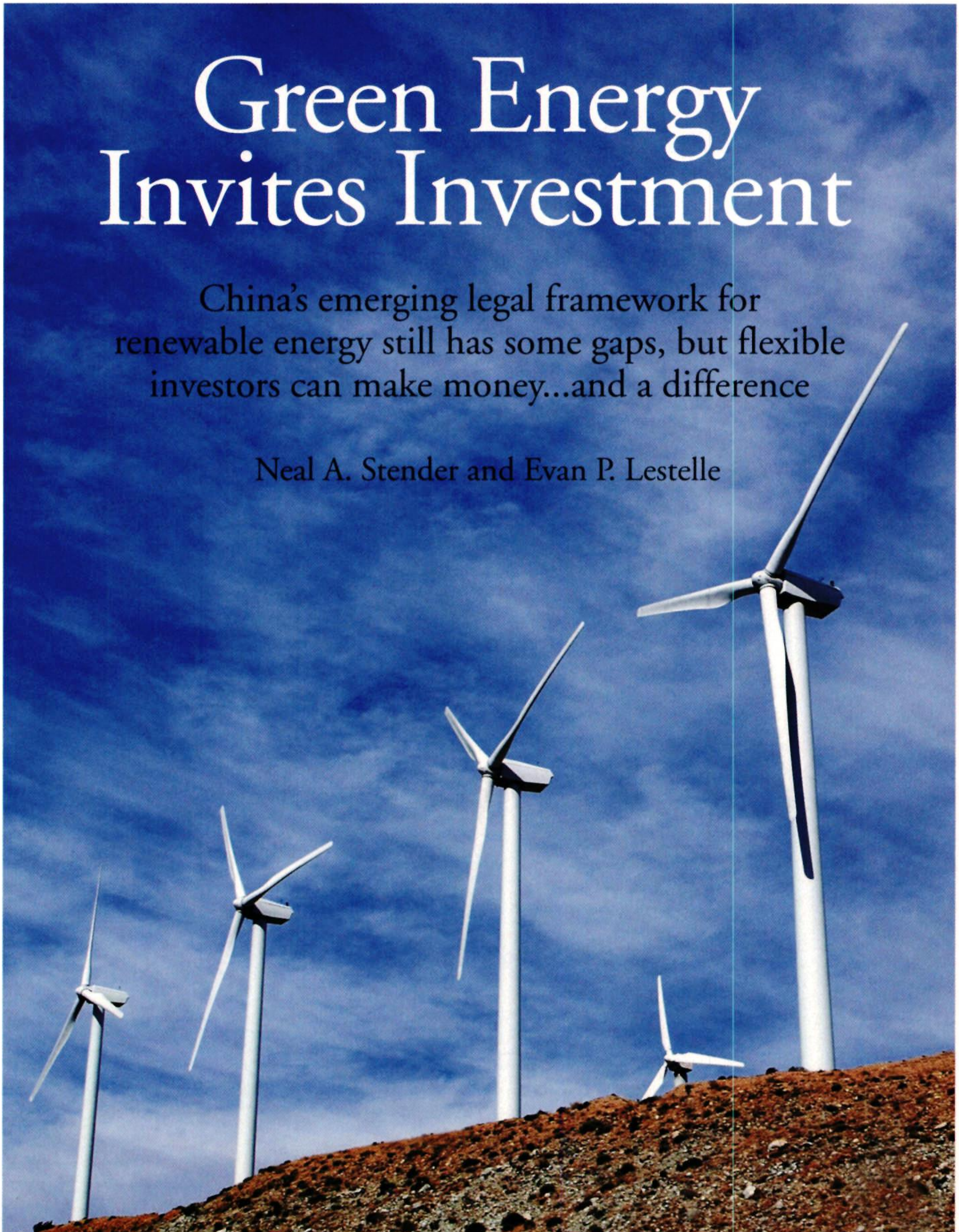
Green Energy Invites Investment

China's emerging legal framework for renewable energy still has some gaps, but flexible investors can make money...and a difference

Neal A. Stender and Evan P. Lestelle



Investment in China's renewable energy sector totaled over $6 billion in 2004—more than that of any other country according to a report by the Worldwatch Institute and the Renewable Energy Policy Network for the 21st Century. In 2005, the figure rose to $7 billion, matched only by Germany, according to the forthcoming 2006 edition of the same report. China's renewable energy use will continue to grow in coming years, reducing the country's oil imports, pressure on global energy markets, and air pollution.

The types of renewable energy investments in China are changing. To date, most investments have been in small hydropower generators and solar water heaters, which mainly benefit rural areas that have little or no access to electricity. In the next few years, observers expect investment to increase rapidly in facilities that supply energy to urban areas through electricity grids and other channels, with wind power likely to attract the most investment.

Soon, small investors will be able to invest in a wider variety of China's renewable-energy-equipment manufacturers that will be listed on US stock exchanges, while large investors will increase their direct investments in these and other companies. In the long term, China's emerging legal regime for renewable energy and green-energy policies should foster attractive investment opportunities in a diverse mix of renewable energy facilities. Foreign manufacturers of renewable energy equipment, however, will need to increase the role of technology licensing and services in their business strategies to reap much benefit.

Green rules

Since the mid-1990s, most renewable energy activities in China have been supported primarily by nongovernmental organizations (NGOs), multilateral financial institutions, and foreign governments, rather than by private investors. Such ventures were governed mainly by project-specific tender invitations, concession agreements with tender winners, and other agreements with foreign governments and NGOs.

In 2005, China increased its efforts to attract private capital and accelerate development in the renewable energy sector by releasing its first comprehensive green-energy law, the PRC Renewable Energy Law, which took effect on January 1, 2006 (see Table). The law creates a legal framework to support China's ambitious renewable energy targets. Meanwhile, rising international oil prices, PRC oil imports, and air pollution from coal-fired power stations—as well as the expected benefits of renewable energy for public health, agriculture, and global climate change—have highlighted the economic and political advantages of investment in renewable energy.

The PRC government underlined the political importance of renewable energy in November 2005 when it hosted the high-profile Beijing International Renewable Energy Conference, which produced the *Beijing Declaration on Renewable Energy for Sustainable Development*, signed by ministers and government representatives from 78 countries. The signers reaffirmed their commitment "to substantially increase... the global share of renewable energy in the total energy supply."

In early 2006, investors' optimism in the sector took a dive when the law's electricity-pricing implementing regulation (the Interim Measures on the Management of Renewable Energy Electricity Generation Pricing and Cost Sharing) failed to include an expected generous price formula for windpower sales to distribution grids (see p.43). Instead, the price formula applies only to biomass-generated power. Windpower prices will be determined by competitive bids for windfarm projects. In another letdown for investors, the measures omit an expected statement that investment returns on renewable energy power projects should be higher than the average return on nonrenewable power projects.

The Renewable Energy Law does, however, increase investment opportunities by promising extensive financial support for renewable energy, defined broadly to include wind, solar, water, biomass, geothermal, ocean energy, and other nonfossil energies (see p.42). (The law excludes clean-burning fossil fuels such as coal bed methane and gasified coal, which are also targeted for expansion.) Activities eligible for this support include the design, manufacture, and operation of renewable energy-related systems, software, equipment, components, and materials. Promised financial support includes tax preferences, targeted loan subsidies, and funding from a planned special project development fund. (As the *CBR* went to press, the State Council was reviewing draft implementing rules for the fund.)

Perhaps most important for long-term investment, the law clearly requires distributors to purchase all available renewably produced electricity, gas, heat, and liquid fuels. According to the law, a distributor that breaches this requirement must compensate the supplier for resulting losses and may also face fines of up to the same amount as the compensation.

Also important for long-term investment, especially in light of distributors' previous resistance to purchasing renewable energy, are the measures' provisions that require higher costs of renewably generated electricity to be spread widely among electricity users. Grid operators purchasing renewable (other than hydro-generated) electricity must initially pay additional connection costs and higher prices—compared to regional benchmark prices for electricity generated by de-sulfurizing coal-burning equipment. The grid operators then must pass on the price difference through surcharges to electricity users nationwide, except agricultural producers, users in Tibet, and those using electricity from self-supplied local

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grids. It is still unclear whether these electricity cost-spreading arrangements will be sufficient to secure the full cooperation of grid operators. Distributors of gas, heat, and liquid fuels must also purchase renewably generated supplies of these products, although pricing and cost-spreading measures are not yet in place.

Renewable Energy Defined

The PRC Renewable Energy Law and the Catalogue Guiding Renewable Energy Industry Development list China's renewable energy types and scopes as follows:

■ **Wind energy**, including onshore and offshore generation of grid-connected or off-grid electricity;

■ **Solar energy**, including generation of grid-connected or off-grid electricity and utilization systems for water heating and space heating and cooling that can be either integrated into building design and construction or retro-fitted;

■ **Biomass energy**, defined as energy from natural plants, excrement, and urban and rural organic waste; includes gas production and direct burning, except burning in low-efficiency furnaces;

■ **Water energy**, although not formally defined, appears to include only hydroelectricity, which is regarded as "already commercialized" and will not automatically benefit from the law's incentives. But certain hydroelectric equipment categorized as "being researched and developed or improved" is eligible for incentives.

■ **Ocean energy**, including electricity generation from tides, waves, temperature differences, and currents;

■ **Geothermal energy**, including heat from soil, groundwater, rivers, lakes, seawater, and sewage, as well as geothermal storage of heat from other sources;

■ **Liquid biofuel**, including methanol, ethanol, biodiesel, and other liquid fuels derived from biomass resources;

■ **Energy crops**, including "herbaceous or ligneous [woody] plants specially planted for use as raw materials for energy";

■ **Other nonfossil energy** This category leaves room for technologies that may be developed in the future.

—Neal A. Stender and Zhihua (David) Tang

Easy financing

Assured sales of output will make renewable energy companies more attractive to investors and lenders. Financing for renewable energy projects may also be supported by internationally traded carbon credits. Though the details are unclear, the renewable energy special project development fund is to support the activities—of both Chinese or foreign companies—listed below:

■ Scientific technological research, the establishment of standards, and demonstration projects for the development and use of renewable energy;

■ Projects for domestic renewable energy use in rural and pasture areas;

■ Construction of independent renewable energy power systems in remote areas and islands;

■ Renewable energy resource surveys, assessments, and construction of relevant information systems; and

■ Promotion of domestically made equipment for the development and use of renewable energy.

Opportunities for renewable energy technology suppliers will likely increase in the short term, though they may decline in the windpower equipment sector as PRC companies expand their efforts to develop locally designed equipment. "High-technology" status is readily available for renewable energy technology companies, making them eligible for special tax incentives. Because China plans to develop technical standards for renewable energy technology and products, opportunities for suppliers of "nonstandard" technologies may decrease in the long term.

Benefits for all

China's Renewable Energy Law and related regulations appear to create a solid base for the continued acceleration and diversification of the country's renewable energy sector. Once regulators flesh out and implement all cost-spreading mechanisms, China will be well-positioned to benefit from competition among different types of energy sources and from new technologies. Many of these technologies may be developed in China, but opportunities will also arise for agile foreign players. Though it is difficult to predict the big financial winners, China's move to de-link pollution and resource depletion from its energy consumption and economic growth should help China—and the world—breathe easier. 完

Renewable Energy Legislation

Issuer	Legislation	Date Effective
National People's Congress	PRC Renewable Energy Law	January 1, 2006
National Development and Reform Commission (NDRC)	Catalogue Guiding Renewable Energy Industry Development	November 29, 2005
NDRC	Relevant Provisions for the Administration of Renewable Energy Resource Electricity Generation	January 5, 2006
NDRC	Interim Measures on the Management of Renewable Energy Electricity Generation Pricing and Cost Sharing	January 1, 2006
NDRC	Circular on the Administrative Requirements of Wind Power Construction	July 4, 2005

Sources: PRC State Council; NDRC

Windpower Pricing and Tendering

Industry observers expected the Interim Measures on the Management of Renewable Energy Electricity Generation Pricing and Cost Sharing to contain a price formula for windpower. The price formula was omitted, however, perhaps because of conflicting government goals. PRC government concerns about inflation, economic growth, and social stability prevent all power prices from being raised to reflect input costs and other market forces. The same factors likely underlie the PRC government's preference to obtain the lowest possible prices from windpower projects, even at the expense of operator profitability and investor enthusiasm. Even the expected but omitted price formula for windpower would have been based on coal-generated power prices that are already below market rates and, despite recent reforms, are still determined primarily by political rather than economic calculations.

Project bids that offer loss-making power prices—tendered mainly by domestic utility companies and other state-owned enterprises (SOEs)—have driven windpower prices down. Industry insiders have criticized the bidding process for opaqueness, unpredictability, and unfairness. To date, the lack of successful project bids by foreign or private domestic companies may be due, in part, to the fact that SOEs finance these projects with profits from traditional power projects or other business activities, or from easily obtained bank credit—even for financially questionable projects. Moreover, by rapidly increasing their involvement in major green projects, SOEs improve their chances of winning large coal-burning power projects that often generate larger profits. Winning bidders can also get a head start in complying with future legislation that may require traditional power producers to develop a portfolio of projects that includes a minimum ratio of renewable energy. At present, only windpower projects are large enough to substantially rebalance a portfolio that contains large, traditional power projects.

The price-focused tender system is justifiable in some ways. For example, prime windfarm sites are a finite resource, and their numbers are further constrained because China forbids agricultural activities where a windfarm is installed. China could boost the number of available windfarm sites—positioning them closer to users and to distribution capacity—by adopting a dual-use approach. Though generators block a small percentage of average sunlight, windfarms can coexist with agricultural activities, including livestock grazing and crop growing. Compensating agricultural operators for using a portion of their land and blocking some of their sunlight should be cheaper and less contentious than relocating farmers.

The Circular on the Administrative Requirements of Wind Power Construction requires windfarm project tenders in China to have at least 70 percent domestic content, a figure that China has raised gradually from 50 percent in 2003. (Although China committed in its World Trade Organization accession agreement to eliminate local content requirements from its laws and regulations, many countries apply domestic content requirements in the windfarm sector, with little outside criticism). A number of foreign companies have established domestic wind-turbine manufacturing subsidiaries, which are eligible for incentives under the Renewable Energy Law, but establishing a dedicated subsidiary is not necessary to win a project. For instance, none of the numerous PRC subsidiaries of General Electric Co. (GE) are dedicated to wind-turbine manufacturing or assembly, yet the company recently won substantial wind turbine orders from the domestically owned companies handling projects in Hebei, Inner Mongolia, Shanghai, and Xinjiang. Foreign turbine suppliers will, however, need local subsidiaries to provide cost-effective after-sales maintenance and servicing, which are important elements of tenders, revenues, and profitability in any market.

Most large windfarms in China use foreign-designed wind turbine generators because of their large capacity. In 2005, GE joined Denmark's Vestas Wind Systems A/S, Spain's Gamesa Corporación Tecnológica SA, and Germany's Nordex AG as windpower market leaders in China. India's Suzlon Energy Ltd. has also increased its sales and investment in China. Domestic suppliers have not yet perfected the large capacity, variable-speed and -pitch models that can achieve the highest cost efficiency. They have recently increased their efforts to catch up, but state-of-the-art wind-turbine technology is a fast-moving target. According to media reports, the leading PRC manufacturer, Goldwind Science and Technology Co. Ltd., which recently expanded its activities from licensed assembly through technology adaptation to independently financed development of its own technology, plans to raise money by launching an initial public offering in the United States or Hong Kong later this year.

—Neal A. Stender, Evan P. Lestelle, and Qingsong (Kevin) Wang

Rural Development Institute

From Land Rights to Economic Boom

A 17-province survey reveals that more secure land rights can boost the incomes and consumption power of China's 850 million rural residents

Zhu Keliang and Roy Prosterman

New survey data collected and analyzed by a team of US- and China-based researchers paint a stark picture of rural land reform in China. Over the past decade, the number of land takings by local governments has ballooned. Meanwhile, despite the 1998 revisions to the Land Management Law (LML) and the 2002 Rural Land Contract Law (RLCL), which mandate written documentation of land rights, few farmers have received official documentation that conforms to the law.

Although Chinese farmers have enjoyed steady income growth and rising living standards since the early 1980s, the rapid economic growth of the last 20 years has been concentrated in China's coastal cities, significantly deepening the rural-urban income gap. Now, as farmland continues to give way to development, both Chinese and foreign observers have noted the increasing frequency of rural unrest incidents, including violent conflicts between government officials and farmers. In January 2006, PRC Premier Wen Jiabao said that efforts to narrow the rural-urban wealth gap were falling short and that land seizures by officials were provoking mass rural unrest that could threaten China's national security and economic growth. According to Ministry of Public Security statistics, China witnessed 87,000 social unrest incidents in 2005, up 6 percent from 2004 and 50 percent from 2003.

Unleashing a giant consumer market

Secure property rights for Chinese farmers could not only reduce the number of rural unrest incidents, but also unleash unprecedented spending from the largest potential consumer market in the world. Without secure land rights, local officials can unpredictably and arbitrarily reallocate, or even deal to a developer, a farmer's piece of land without his or her consent. More than once, a farmer has arrived at his or her plot of land only to discover heavy equipment tearing into the field and found little recourse to prevent the loss. It is thus easy to understand why Chinese farmers rarely undertake long-term investments, such as installing irrigation and drainage infrastructure, planting trees, and constructing greenhouses, all of which are essential for rural prosperity.

One needs to look no farther than across the Taiwan Strait to see the beneficial results of secure land tenure. Annual rice yields jumped 60 percent on average in the decade following Taiwan's successful "land to the tiller" program of 1949–53. During the same period, the average farm household income, amplified by diversification into higher value-added crops, rose 150 percent. These higher incomes almost immediately translated into substantial increases in the consumption of basic consumer goods, such as clothing, furniture, and bicycles. Over the long term, Taiwan's secure and marketable land rights provided the capital that enabled farmers to transform themselves into entrepreneurs and consumers. Fieldwork conducted by the Rural Development Institute (RDI) in 2000 found that the vast majority of Taiwan's farmers not only own cars, computers, and cell phones, but have also bought stocks and have traveled overseas. South Korea and Japan enjoyed similar successes in their countrysides after World War II.

More secure land rights thus can help broaden China's consumer base and boost consumer demand at many levels, from low- to high-end consumer products. This happened on a smaller scale in the early 1980s when China adopted the household responsibility system (HRS), breaking up the collective farms and giving Chinese farmers limited individual land rights. In 1982, less than a year into the reform, China embarked on its first rural

Timeline: Land Rights in China

Pre-1949	Most farmers toil as tenants, paying high rents to landlords. Farmers' grievances help fuel revolution.
1950–54	New government adopts Land Reform Law, giving former tenant farmers full private ownership of land. Nearly half of China's arable land is distributed to households. Agricultural productivity spikes.
1954–61	Private ownership is abandoned with the push for large-scale collective farming. Productivity collapses, contributing to 15–30 million deaths from famine between 1959 and 1961.
1978–84	Household responsibility system established. Farm productivity jumps 50 percent in four years.
1987–88	Initial Rural Development Institute interviews with farmers show that when land is frequently readjusted, farmers rarely invest in their land.
1990–97	Insecure land rights constrain rural development.
1998	The Land Management Law gives farm households 30-year land rights backed by written contracts.
1999	Nationwide surveys find that only 40 percent of farm families have contracts for 30-year land rights.
2002	The Rural Land Contracting Law strengthens farmers' 30-year land rights and provides a foundation for a land transfer market. *Business Week* estimates the potential value of farmers' land-use rights to be $500–$600 billion.

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consumption boom as televisions and bicycles made their way into tens of millions of rural homes.

Land represents the single asset of greatest significance to the rural population in China. If the vast majority of Chinese farmers enjoy secure, long-term, and marketable land rights, the consumption power of China's 190 million farm households will easily dwarf the nationwide boom of the early 1980s. If Chinese farmers are issued, as the law requires, compliant written contracts and certificates, their investments in land will increase substantially, the volume and value of their agricultural production will rise, and their increased wealth and consumption power will narrow China's rural-urban income gap.

The evolution of rural land rights in China

In the late 1970s, various localities in China began to experiment with dismantling the collective farms and giving individual farmers limited freedom to farm independently. Under the new HRS, which the Chinese Communist Party initially endorsed in 1979 and is still in effect nationwide today, the collective villages allocate and "contract" land to individual households.

The HRS unleashed the energy and resources of millions of rural families and jumpstarted China's agricultural growth. Between 1979 and 1984, the average net income of rural residents rose by 11 percent annually, outpacing the 8.7 percent average annual growth of urban residents' income. This resulted in the narrowest rural-urban income gap of the past few decades. The HRS was so successful in lifting the living standards of hundreds of millions of rural families in China that it was the central driving force behind the single greatest global poverty-reduction achievement of the past three decades. The World Bank estimates that the number of Chinese individuals living below the international poverty line ($1 per day) fell by 167 million during the 1980s.

Today, village collectives still own virtually all rural land in China, though they must contract the land to individual households for a term of 30 years. Under such an arrangement, Chinese farmers receive "30-year rights"

What Foreign Investors Should Do

Before inking a deal with their Chinese partners, foreign investors usually ask their lawyers, accountants, appraisers, and other professionals to conduct due diligence. Such an investigation typically covers the financial information of local enterprises, repatriation of investment and earnings, tax liabilities, and government relations.

If the business venture involves land that recently has been or will be converted from rural land or urban residential land, foreign investors should ensure that the due diligence investigation assesses how the land has been or will be obtained and converted. If the land was or still is rural land or urban residential land, land taking by the local government is necessary to convert it for commercial purposes. In such a case, the due diligence investigation should consist of two parts.

First, foreign investors should request information and materials from their Chinese partners that will answer the following questions:

- How many people did the land taking affect? Among them, how many were farmers?
- How was the compensation for the land, houses or structures, and standing crops determined? Were the affected people consulted? Were independent appraisals conducted? How much were the official compensation for each *mu* of land, each square meter of house or structure, and each kilogram of standing crop? How much was actually paid? Was the promised compensation fully delivered to all recipients?
- Have any affected people relocated? If so, how many people, and how was resettlement assistance arranged? Where did they resettle?
- When were the affected people first notified of the land taking, and when were they required to give up the land?
- Did the affected people sign any written agreements indicating their acceptance of the compensation? If so, request a copy of several agreements.
- Were there any disputes about the adequacy of compensation or resettlement assistance? How were the disputes resolved?

Second, foreign investors should verify the information obtained. The most effective way to verify the collected information is to retain one or two Chinese lawyers, paralegals, or social workers to conduct sample interviews of the affected people. To ensure their neutrality and reliability, the interviews must be done randomly and without the presence of local officials or the Chinese partners. If these interview protocols are observed, a small number of interviews can reveal a great deal of information.

Chinese partners often initially resist or are surprised at such due diligence requests. Explaining the process and offering reciprocal investigation opportunities to the Chinese partners can help defuse their concern. A foreign investor can, for example, explain that it does not want its new factory to be surrounded by bitter farmers complaining about unfair land compensation, which would tarnish the factory's image and jeopardize the business venture. Potential foreign investors often have the leverage to influence local policies and practices on land takings and would do well to conduct thorough due diligence on the land they want to develop.

—Zhu Keliang

to their contracted land, supposedly free from administrative interference or disturbance.

Land rights under threat

RDI conducted nationwide surveys in 1999, 2001, and 2005 in cooperation with Renmin University and Michigan State University. The 2005 survey interviewed 1,962 rural households in 17 major agricultural provinces that account for 83 percent of China's rural population. All interviewed households were selected randomly, and the interviews were conducted without the presence of any local officials, a method different from most survey projects in China. The results hold true for the 17 provinces' rural populace with a margin of error of ±2.2 percent.

Findings from the 2005 survey confirm that the land rights of Chinese farmers are still under threat. Thirty percent of the village collectives that claim to have given 30-year land rights to farmers have illegally readjusted or reallocated farmers' contracted land. Moreover, over the past decade, the frequency of governmental taking of farmers' land for nonagricultural use has grown by more than 15 times. In only 22 percent of all land takings were farmers actually consulted about their compensation. Almost two-thirds of respondents said their amount of compensation was inadequate, a top rural grievance in today's China. In addition, in about one-third of cases where cash compensation was promised, the compensation never came through.

Thus, the land rights of most farmers in China remain insecure, and land takings make it difficult for a meaningful market of multi-year leases or outright transfers to develop, even though the law now permits both. Deprived of reliable value, much of China's land remains "dead capital"—assets that cannot be held securely and used to their fullest. Without secure, long-term land rights, most farmers have little incentive to make mid- to long-term investments on their land because they have no guarantee that they will be able to recoup the value of their investments and make a profit. It is thus difficult for them to diversify crop production, create land wealth, reduce poverty, or compete on an equal footing with foreign agricultural producers who, in most countries, can confidently invest in improving their land.

Land titling is key

Formal documentation of land rights, such as obtaining a legal title to a piece of property, is crucial to breathing life into dead capital. For the most part, when documented and confirmed by the government, land rights become more secure and provide a foundation for mid- to long-term investments in land and land transactions. Investments in land, such as the use of organic fertilizers, the construction of irrigation facilities, and the leveling of land, may help improve soil condition and productivity. Farmers may also employ advanced farming technology or diversify into value-added crops. All of these can lead to substantial increases in the volume, diversity, and value of agricultural production. As a result, land titling appears to be the most promising way to mobilize Chinese farmers to undertake investments that will ensure long-term rural income and consumption growth.

Since 1997, the PRC government has required that written documentation be issued to farmers to confirm their 30-year land rights. This written documentation must take one of two forms, which are equally valid. Contracts, the format of which varies from village to village, are signed by the village collective and individual farm household. Certificates, designed by the provincial government and universal in content and format, are sealed by the county government and do not require signatures from individual farmers. (Farmers may receive both forms of documentation.) A critical question thus is: How much progress has China made in providing formal documentation of land rights?

RDI's 2005 survey found that almost seven years after the 1998 passage of key revisions to the LML, only about 63 percent of households had received some form of documentation (a contract, a certificate, or both). The majority of both contracts and certificates were issued between 1998 and 2000, when China made great efforts to publicize and implement the LML, which mandates 30-year land rights backed by written contracts. The rate of issuance declined substantially after 2000, as the government no longer considered it a high priority.

Not all documentation meets official requirements. For example, contracts and certificates often lack the proper signatures and seals and fail to specify the start and end

Secure property rights for Chinese farmers could not only reduce the number of rural unrest incidents, but also unleash unprecedented spending from the largest potential consumer market in the world.

dates of an allocation or the size and location of each land parcel. The survey shows that only one out of 10 farmers has at least one compliant form of documentation. More than half of respondents received noncompliant documentation; the rest had no documentation.

The crucial link

The survey asked farmers whether they had made one or more of six specific mid- to long-term investments on their land, such as planting orchards, branching out into animal husbandry, and setting up fish ponds, trellises, and greenhouses. The survey shows that these investments were sporadic before 1998, but made a huge jump for a sustained period of four years from 1999 to 2002, before dropping to the pre-1998 level.

As shown strikingly in the figure, the peak years of investments closely follow—with roughly a two-year time lag—the peak years of contract and certificate issuance. Investment may have dropped after 2002 because farm households had satisfied pent-up investment desire or because of the growing time lag since the government's publicity efforts and the issuance of land rights documentation. Households may also have chosen to not invest because they became increasingly aware of cases of poorly compensated land takings and the growing frequency of illegal readjustments.

Further data analysis supports the notion that documented land rights have had a significant and positive effect in promoting farmers' investments in their land, though publicity and education campaigns surrounding the 1998 LML revisions also contributed to the increase in investments. The survey shows that among those who held only contracts, 16 percent made an investment in or after 1998, while the corresponding percentage among those who held no documentation is 12.5 percent. Similarly, among those who held only certificates, 12.6 percent made an investment in or after 1998. The investment rate in or after 1998 is highest among those with both forms of documentation: 24.1 percent (see Table).

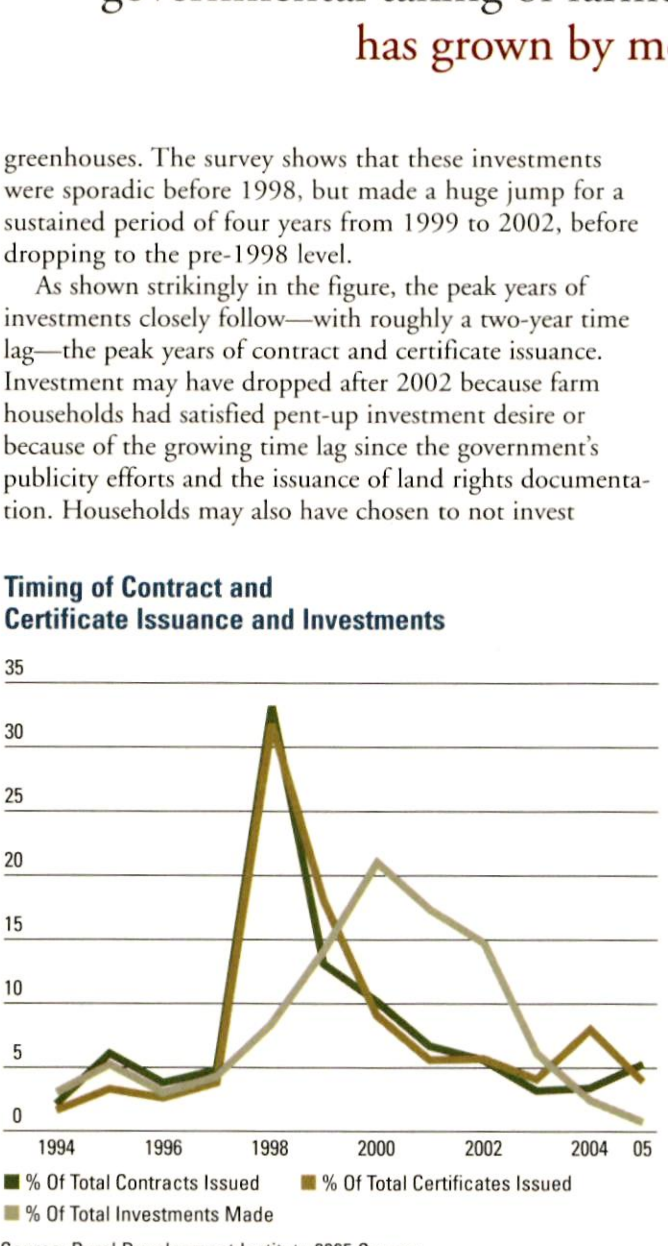
Furthermore, for households whose contract is in a highly compliant form and includes start and end dates, maps or sketch descriptions of their land, and signatures or seals, the investment rate was even higher: 28.8 percent. In contrast, only 20.2 percent of those who held noncompliant documentation and 12.0 percent of those who had no documentation made an investment.

Thus, as the data suggests, certificates are more effective than no documentation; contracts are more effective than certificates (possibly because contracts, unlike certificates, carry the signatures of the village collective and the farmers and are thus seen as more credible); both are more effective than either alone; and compliant certificates or contracts are more effective than noncompliant ones.

RDI's separate and extensive rapid rural appraisal (RRA) interviews of more than 1,000 Chinese farmers over 19 years confirm these findings. (In RRA interviews, farmers do not respond to a questionnaire. Instead, field researchers use a checklist of issues as a basis for questions, allowing the farmers to detail issues of greatest importance to them.) In these interviews, farmers noted that they chose to invest when they were confident that their land was unlikely to be readjusted or expropriated or when they expected full compensation for the investment if their land was subsequently readjusted or seized.

Over the past decade, the frequency of governmental taking of farmers' land for nonagricultural use has grown by more than 15 times.

Timing of Contract and Certificate Issuance and Investments



Source: Rural Development Institute 2005 Survey

Fundamental reforms

As China's urban-rural divide continues to widen, the rural land question is more important than ever. Land expropriations have grown, and the competition from foreign agricultural producers has intensified as barriers to agricultural imports have dropped with China's entry into the World Trade Organization. Powerful evidence supports the view that any solution to these issues must include, as a central element, greater land tenure security for farmers. This requires significant legal and policy reforms, and their concrete implementation at the grassroots level.

Percentage of Households Investing in Land

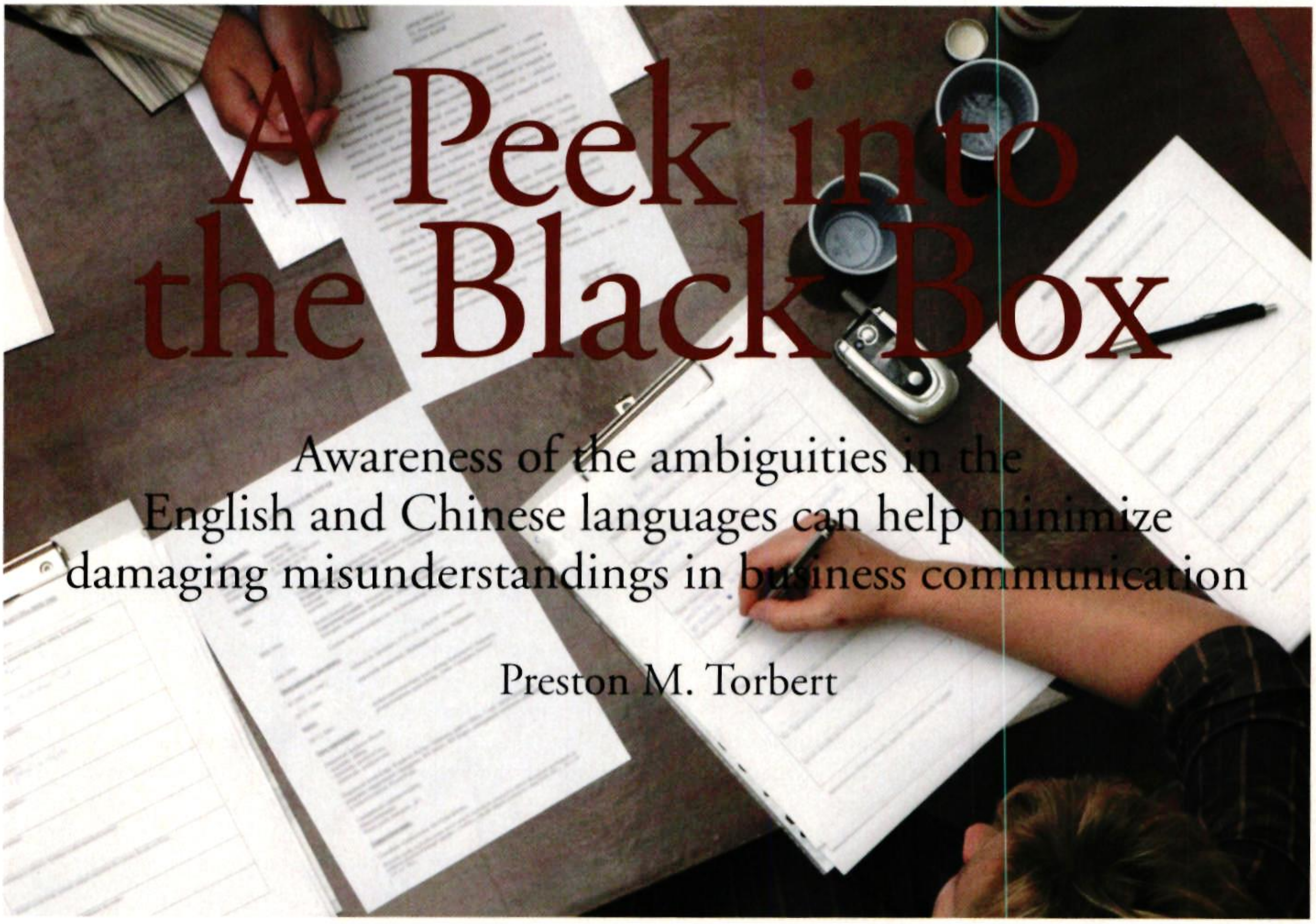
	No investment	Investment(s) before 1998	Investment(s) in or after 1998	Investment(s) before 1998 and in or after 1998
Neither contract nor certificate issued	78.7%	7.6%	12.5%	1.2%
Only contract issued	68.8%	11.8%	16.0%	3.5%
Only certificate issued	82.1%	4.0%	12.6%	1.3%
Both contract and certificate issued	63.5%	7.0%	24.1%	5.4%

Source: Rural Development Institute Survey 2005

The PRC leadership has taken some positive steps in this regard. The 11th Five-Year Plan (2006–10) includes general policy statements on strengthening farmers' land rights under the HRS and on reforming land takings law to provide reasonable compensation to affected farmers. In addition, the draft Property Rights Law includes a chapter on rural land rights. Though it is in many respects identical to the RLCL, the draft contains two new points. First, the law would treat farmers' right to their contracted land as usufruct right (that is, the right to use and enjoy the profits and advantages of the land as long as it is not damaged or altered), a legally stronger and clearer right than the current contractual right. Second, the draft law would allow the mortgage of rural land rights, which would increase the marketability and market value of rural land rights.

Above all, the issuance of compliant documentation for rural land rights must remain a central component of China's rural reforms—as RDI's survey results show. The issuance of compliant contracts and certificates to all farmers in China would encourage rural households to invest in their land, raise living standards, help narrow the rural-urban income gap, and spark China's next rural consumption boom. 完

Rural Development Institute



A Peek into the Black Box

Awareness of the ambiguities in the English and Chinese languages can help minimize damaging misunderstandings in business communication

Preston M. Torbert

The vast differences between China and the West in history, culture, and language make accurate communication difficult. For most Westerners, mastering the Chinese language requires many years of sustained effort, and few businesspeople have the time or energy to learn a language as difficult as Chinese outside of work. Meanwhile, Chinese face challenges in learning English too, even though the language has been taught in Chinese schools and universities for decades. As a result, miscommunication often occurs.

For businesspeople who do not understand Chinese, English documents to be translated into Chinese seem to go into a mysterious black box and emerge in Chinese. Though the Chinese and English versions should be equivalent, they often are not. Peering into the black box, one sees that successful communication depends in large part on Chinese translators' knowledge of the English language, their ability to pay attention to detail, and their background knowledge and reasoning skills. Ambiguities in both languages, however, also play a large role in miscommunication.

Problems arise mainly from two types of ambiguities: ambiguities in the original Chinese-language document to be translated into English (the Chinese source-language document) and ambiguities in the original English-language document to be translated into Chinese (the English source-language document). Ambiguity can also occur in the target-language document (the translation), but that occurs less frequently.

Ambiguities require translators to make choices in deciphering the meaning of the text. If translators of an English source-language document are unable to reproduce the ambiguity in the Chinese target-language document, they may choose to convey only one of several possible meanings, and the range of choices remains unknown to the reader of that translation. Even if translators can convey the ambiguity in the Chinese target-language document, a Chinese reader may interpret the ambiguity differently from the reader of the English source-language document. As a result, ambiguities can lead to serious misunderstandings.

A single instance of ambiguity can cause significant problems, but the cumulative effect of dealing with many ambiguities causes the most damage. If a communication, because of an ambiguity, seems inconsistent with prior communications, the receiving party may question the sincerity of the other party. When such inconsistencies accumulate, trust between the parties may erode, and the relationship may wither. Thus, some basic knowledge of common ambiguities can help businesspeople who do not know Chinese understand the challenges that translators face and take steps to reduce miscommunication.

Chinese source-language ambiguities

Ambiguities in Chinese can arise because the Chinese language does not have verb tenses, uses no articles, and does not generally distinguish between the singular and the plural. In almost all cases, the ambiguity is latent. The context often clarifies whether a noun is singular or plural and whether an action has occurred in the past, present, or future. Sometimes, however, multiple meanings can appear to be equally valid.

Singular or plural

If the Chinese party to a joint venture sends a message in Chinese stating that it will contribute "the factory building" as its capital contribution to the joint venture, it may mean one building or more. The translator thus would have to decide whether the term in the Chinese source-language document is singular or plural. In many cases, he or she may have insufficient background knowledge to make an informed decision. If the English-speaking party gains the impression from the translation that there is only one factory building, but earlier communications had indicated that the Chinese party planned to contribute more than one building, the English-speaking side may suspect that the Chinese side is trying to limit its contribution to the joint venture in violation of an earlier commitment.

A similar type of ambiguity occurs with possessive pronouns. For instance, the Chinese possessive pronoun *qi* can be translated as "his," "her," "its," or "their." A widely distributed English translation of a 2003 regulation on foreign investment states, "If a foreign investor carries out an asset acquisition, the domestic enterprise which sold the assets shall bear its existing claims and debts." In the original Chinese version, the Chinese term *qi* modified the phrase "existing claims and debts," and as the translation shows, the translator decided that the phrase "existing claims and debts" refers to those of the domestic enterprise. *Qi* should have been translated as "their," however, to refer to the assets that are sold and to reflect the regulation's intended meaning—that the domestic enterprise selling the assets remains liable for the claims and debts linked to the assets prior to their sale.

Verb tense

Though Chinese sentences often include a time element, such as "already," "now," and "in the future," it is not always clear whether the English translation should use the past, present, or future tense. For example, Article 9 of the Regulations on the Management of International Computer Information Networks states that *xinjian* networks must apply to the administrative departments for approval. It is unclear whether *xinjian* means "to be newly established" or "newly established."

Inclusion or exclusion in numbers and dates

In Chinese, it is often unclear whether the expressions "more" and "less" are meant to include or exclude the numbers to which they refer. For example, the Regulations on the Implementation of the PRC Law on Sino-Foreign Equity Joint Ventures sets the quorum for a board meeting at two-thirds *yishang* of the number of directors. According to China's General Principles of the Civil Law, the term *yishang* includes the number to which it refers, so the correct English translation should be "two-thirds or more." But many people are unaware of this and believe that *yishang* does not include the number to which it refers. In fact, two of the three most widely used English translations of the implementing regulations translate this phrase as "more than two-thirds." According to the second and inaccurate translation, a foreign investor that holds four of six seats on a joint venture's board must forfeit the power to hold a board meeting.

Misunderstandings also occur with the Chinese preposition *yiqian*. Although it is generally translated as "before," China's General Principles of the Civil Law state that *yiqian* means "on or before." Thus, if a Chinese party commits to fulfill an obligation by July 1, and the contract uses the term *yiqian*, it can perform its obligation on July 1 without violating its commitment. If *yiqian* is incorrectly translated as "before," however, the English-speaking side may believe that fulfillment of the obligation on July 1 is too late.

Conjunctions

The pause mark in Chinese, like the comma in English, separates items in an enumeration. Unlike the comma in English, however, the pause mark is often used without any corresponding word expressing conjunction. In such a case, it is often unclear whether conjunction or disjunction is expressed. A good example of this ambiguity appeared in a circular issued by the PRC State Administration of Taxation (SAT), which indicated that royalties paid to the foreign licensee under certain technology transfers could be exempt from tax withholding. The key phrase of the circular stated that the technology transfer could enjoy the exemption if the "technology was advanced, the terms were favorable." In this case, the pause mark could have meant "and" or "or." SAT subsequently reissued this circular and inserted "and" to clarify its intent.

Abbreviations

In modern Chinese, most words consist of two characters, and often, two two-character words are abbreviated into a single two-character word, the meaning of which can be unclear. For example, the term *shenpi*, generally translated as "approval," is considered an abbreviation of *shencha pizhun* ("examination and approval"), but it can also be an abbreviation for *shencha pishi* ("examination and com-

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ment"). Receiving "approval" from government officials is obviously quite different from receiving "comments."

English source-language ambiguities

Miscommunication occurs also because of ambiguities in English source-language documents. Eliminating such ambiguities as much as possible can help Chinese translators accurately transmit the intent of the English text into Chinese.

Nouns and pronouns

Misunderstanding can arise when an English noun or pronoun is ambiguous and the Chinese language has no corresponding word with the same ambiguity. For example, the term "partner" in English can refer to a "partner" in a joint venture or in a partnership. Chinese, however, uses different words for these relationships. Similarly, English uses the word "chair" to describe both the chair of a board and the chair of a meeting, but Chinese uses different terms to describe these two roles. The context in which these terms appear generally clarifies the intended meaning, but English speakers should not be surprised if a Chinese partner asks why their new proposal talks about a "partnership" relationship when all prior discussions were about a joint venture.

Prepositions

The English preposition "as of" can be ambiguous. In most cases, it means "deemed to be" or "on," but it can also mean "starting." Many Chinese have difficulty determining the correct meaning. In a sentence such as "If an employee begins work after July 1 of the year, he or she will be eligible for 10 days of paid vacation as of January 1 of the following calendar year," taking "as of" to mean "starting" is not necessarily wrong. But the phrase "the amount of principal and interest outstanding as of January 1, 2005" refers to the amount calculated on that date, not the amount outstanding from that date until the present.

In some cases, the preposition's scope in English may cause ambiguity. For example, in the sentence "this contract may not be modified or amended except in a written document signed by the duly authorized representative of the Company and the Employee," it is unclear whether the scope of the last "of" includes "Employee." The sense of the sentence tells us it probably does not—the employee himself or herself must sign. But this phrasing presents a potential miscue. The English writer should have included an extra "by" before the word "Employee" to clarify that the employee's signature would also be necessary.

Conjunctions

Conjunctions in English can be ambiguous. One example is the use of the word "as" to introduce a clause. Many Chinese writers of English use this word as a substitute for "because," but "as" can have other meanings. In the sentence "As they were traveling to Hangzhou yesterday, we sent them a detailed outline describing the global transaction structure based on my memo," the word "as" could mean either "while" or "because."

Another ambiguity in English concerns the conjunction "and." When "and" connects two or more nouns or verbs, it is often unclear whether the nouns or verbs are cumulative or are separate items. For example, does the sentence "Party A holds a 25 percent equity interest in Newco Beijing and Newco Shanghai" mean that Party A holds a total of 25 percent distributed between Newco Beijing and Newco Shanghai or that it holds 25 percent in each?

Synonymous adjectives

English synonymous adjectives can be challenging because they may express one concept or two. For example, is there any difference in meaning between the two adjectives in the expression "null and void"? Probably not. But what about "indemnify and hold harmless"? Most

Big Numbers, Big Problems

Several issues in the expression of numbers do not concern ambiguity, but so often pose difficulties for translators that they deserve mention. The first concerns numbers from 1,000 to 10,000 in English. Many English speakers say "fifteen hundred" instead of "one thousand five hundred," which may confuse Chinese translators unfamiliar with this form of expression. English speakers should either avoid using these expressions or check to ensure that their Chinese counterpart understands them.

In Chinese, problems can occur with numbers starting from 10,000 and up to 100,000,000, which are counted in units of ten thousand. Though round numbers such as "100,000," which is expressed as "ten ten-thousand," are not too difficult, other figures are much more challenging. When Chinese translators hear or read the number "12,536,000," they must first translate the number into units of ten thousand ("one thousand two hundred fifty three ten-thousands, six thousand") and then translate that expression into Chinese. This process is difficult, and despite taking more time to translate such numbers, interpreters in oral presentations often get it wrong on the first try.

Another common error occurs because the placement of the decimal point or comma in a large number differs in English and Chinese. Because the Chinese numerical system takes ten thousand as the unit, the number "140.0000" in a Chinese document is 1,400,000. This number, however, is sometimes wrongly translated as "140."

Translating large numbers can thus be tricky, and businesspeople should appreciate the high-wire acts of numerical legerdemain and mental acrobatics that their translators perform.

—*Preston M. Torbert*

lawyers would say that there is a difference. When Chinese translators receive an English document with such phrases, they must decide whether the adjectives are true synonyms (in which case the translator can use only one Chinese term to express them) or different concepts (in which case the translator should use multiple Chinese terms to express the different meanings).

Adjective and adverbial phrase modification

Adjective phrases that modify several nouns can be ambiguous. The classic example is "every factory and every workshop subject to this Act." It is unclear whether the phrase "subject to this Act" modifies both nouns or only the last.

Because Chinese uses pre-modification in such cases, translators cannot carry this ambiguity into the Chinese target-language document. They must choose between the two possible Chinese translations: "every subject-to-this-Act factory and workshop" and "every factory and every subject-to-this-Act workshop." The phrase "subject-to-this-Act" modifies both "factory" and "workshop" in the first translation, but only "workshop" in the second translation.

A similar type of ambiguity applies to adverbial phrases in English. It is often unclear whether an adverbial phrase at the end of a phrase or sentence applies to the last verb or to a preceding verb. For example, in the sentence "Party A is authorized to perform the activities listed in Schedule A in accordance with the provisions of the Joint Venture Agreement," the phrase "in accordance with..." could modify either "perform" or "authorized."

Negation

Ambiguity also appears when negation precedes a clause starting with "because." In such a case, it is unclear whether the scope of the negation applies only to the verb it precedes or whether it also includes the "because" clause. For example, the sentence "Pursuant to a tax ruling, your company would not be taxable for the sale of equipment in China because it has a representative office in China" could be understood in two different ways: "Because your company has a representative office, it is not taxable" or "taxable, but not for the reason that your company has a representative office." Again, translators with incomplete understanding of the background may make the wrong choice.

English target-language ambiguity

Ambiguity in the English target-language text appears less frequently, but can also cause misunderstandings.

Unfamiliar terms

Ambiguity can occur when Chinese use English terms in a way that native English speakers normally do not. For example, Chinese often use the term "foreign investment enterprise" to describe an enterprise with investment from a foreign party. Most English speakers with no China experience, however, would understand this term to mean an enterprise that invests overseas. Similarly, the term "foreign trading company" denotes a Chinese company that engages in foreign trade. Again, English speakers with no China experience may assume that it refers to a trading company organized in a foreign jurisdiction.

Post-modification

Post-modification can be ambiguous in English target- and source-language documents. For example, in the English translation of the Catalogue Guiding Foreign Investment in Industry, an entry in the "encouraged" category states "apparatus, instruments, and machines for cultural and office use manufacturing industry." The ambiguity is whether the phrase "for cultural and office use" modifies only "machines" or "apparatus, instruments, and machines." In the original Chinese text, the phrase precedes "machines," so it clearly modifies only "machines."

Preventing errors

A peek into the black box of communication reveals that ambiguities in the Chinese and English languages abound and that they impose difficult choices on translators who lack sufficient background understanding to decipher the original text's intended meaning.

With this knowledge, English speakers who do not know Chinese can take steps to reduce miscommunication. For example, they can review more carefully the English target-language documents they receive from their Chinese counterparts. In particular, they can request a mark-up of an English target-language document by a second translator to evaluate the quality of the original translation.

For English-to-Chinese translations, English speakers can ask their translator to provide a cover memo that points out important ambiguities in the English source-language text and that asks for clarifications to resolve those ambiguities. Second, they can ask another Chinese translator to do a back translation of the Chinese target-language document without consulting the original English text or the original translator. The English speaker can compare the two English texts, the original English text and the back translation, to determine the accuracy of the original translation. Third, English speakers can put an original English text and its Chinese translation side-by-side and compare the length of each paragraph in the English text with the length of the corresponding paragraph in the Chinese translation. Generally, the Chinese text will be about three-fourths the length of the English text, depending on the font size. A shorter Chinese paragraph may indicate that the translator has omitted a phrase or sentence. Finally, English speakers can help their translators by writing precise and unambiguous English. These extra steps can be time-consuming, but they can save foreign businesspeople from spending even more time and money dealing with the serious consequences of unintended misunderstandings. 完

News of China-related educational, cultural, and charitable projects

American companies participate in a broad range of programs that bring benefit to the people of China and strengthen the bonds of US-China friendship beyond the commercial realm. *Opportunities* introduces significant charitable, cultural, and educational projects that seek American business support and aims to help companies identify programs that merit their assistance. The materials contained in *Opportunities* are condensed; our goal is to provide contact information and only a brief description of each organization's interests. For more detailed information, interested companies should contact the programs directly. (Note: Neither the US-China Business Council nor the *CBR* is a sponsor of any project listed in *Opportunities* and makes no recommendation with regard to corporate assistance to any specific project.)

US Institution: International Children's Heart Foundation
PRC Institution: Provincial-level health bureaus
Project: To provide cardiac care to Chinese children

The International Children's Heart Foundation (ICHF) is a nonprofit charity organization based in Memphis, TN, that provides heart surgeries to needy children around the world, including in China. Founded by William Novick, the primary surgeon, ICHF began its first mission in Croatia in 1993 and began visiting China in 1998. Its first China trip was to Shanghai, where Novick operated on 17 children. Since then, ICHF has visited Beijing; Wuhan, Hubei; and Nanjing, Jiangsu, and has so far operated on 174 Chinese children.

ICHF hopes to continue its two-week China trips to operate on children with complex defects who would die without treatment; teach Chinese colleagues how to care for children with heart defects and newborns with heart diseases that require immediate surgery; bring new techniques and medicines to Chinese hospitals; and help Chinese colleagues establish research programs. To contribute or provide other assistance, visit the ICHF website.

Contact Information

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www.babyheart.org

US Institution: CURE Childhood Cancer in China
PRC Institution: China Welfare Institute, a branch of the Soong Ching Ling Foundation (SCLF)
Project: To develop a national cancer treatment program for children in China

The International Consortium for CURE of Childhood Cancer (CURE) is a nonprofit organization based in Columbus, OH, that specializes in working with Chinese medical professionals and policymakers to improve cancer treatment and to reach optimal cure rates for Chinese children.

About 40,000 Chinese children develop cancer each year, and more than half of the cases are left undetected or receive inadequate treatment, leading to a 95 percent mortality rate among those afflicted. CURE, working with leaders of the China Welfare Institute, hopes to develop a cancer treatment plan in China by establishing 135 programs across the entire country. Each program will have a Center of Excellence, which will provide and supervise patient care. In addition, each center will be affiliated with 10 regional hospitals to train Chinese doctors in providing adequate diagnosis, treatment, and follow-up care for childhood cancer patients. To help or contribute to the project, contact CURE or SCLF.

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US Institution: Meridian International Center
PRC Institution: National Art Museum
Project: "Wide Skies: Recent Art of the American West" art exhibit to be held in Beijing in early 2007

Meridian International, a nonprofit institute in Washington, DC, that promotes cultural understanding through ideas and the arts, is taking the "Wide Skies: Recent Art of the American West" contemporary art exhibition on a China tour in 2007. Meridian has worked closely with the PRC Ministry of Culture on this project and has received the endorsement of Vice Minister of Culture Meng Xiaosi.

The exhibition is part of an exchange with the China International Exhibition Agency, whose contemporary art exhibition "Ancient Threads, Newly Woven" is currently touring the United States. The Meridian exhibition will also be part of the cultural displays inaugurating the 2008 Olympics in Beijing.

The art show will debut in late fall at Meridian's gallery in Washington. The first China show will be held in early 2007 at the National Art Museum in Beijing and will then move to Shanghai; Xi'an, Shaanxi; and Urumqi, Xinjiang. Meridian is also taking suggestions on other possible venues in China.

Contact Information

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US Institution: US National Arboretum
PRC Institution: PRC State Forestry Administration
Project: Establishment of a Chinese garden in the National Arboretum

The PRC State Forestry Administration is cooperating with the US National Arboretum (USNA), part of the US Department of Agriculture (USDA), to build a 12-acre Chinese garden in the National Arboretum in Washington, DC. The Chinese design team, headed by Professor Peng Zhenhua of the Chinese Academy of Sciences, is working with USNA Director Thomas S. Elias in developing a concept for the garden.

Recently, USDA, the Chinese Academy of Forestry, and the PRC Embassy in Washington, DC, signed a memorandum of understanding to move forward with the construction of the garden. USNA is seeking corporate donations, as well as other help, to complete this project.

Contact Information

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Sales and Investment

March 16–May 15, 2006

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*. Firms whose sales and other business arrangements with China do not normally appear in press reports may have them published in the *CBR* by sending the information to the attention of the editor.

Compiled by Andrew Bagnell

Agriculture

INVESTMENTS IN CHINA

ACM, SA (Spain)
Launched hothouse component production WFOE in Jiangsu. 04/06.

Architecture, Construction & Engineering

CHINA'S INVESTMENTS ABROAD

Emirates Building Systems LLC (UAE)/Jingye Construction Engineering Contract Co. (Beijing)
Will form joint venture to construct high-rise buildings, stadiums, and aircraft hangers in the Middle East and North Africa. 04/06.

OTHER

SembCorp Marine Ltd. (Singapore)
Will subcontract offshore rig building work to COSCO Dalian Shipyard Co. Ltd. $31 million. 04/06.

Automotive

CHINA'S EXPORTS

King Long United Automotive Industry Co. Ltd. (Jiangsu)
Will sell more than 500 HIGER-brand buses to Transnational Automotive Group, Inc. 03/06.

Zhongxing Automobile Co. (Hebei)
Will sell 5,000 pickup trucks to Al-Ahyab (Iraq). 03/06.

INVESTMENTS IN CHINA

Mazda Motor Corp. (Japan)
Took 15% stake in Changan Ford Mazda Automobile Co., a joint venture with Changan Automobile Group Co. Ltd. and Ford Motor Co. (US:35%-Japan:15%-China:50%). 04/06.

Mitsubishi Motors Corp. (Japan)
Will acquire 25% stake in South East Motor Co., a joint venture between Fujian Motor Industrial Corp. and Taiwan-based China Motor Corp. 04/06.

Sime Darby Berhad (Malaysia)
Bought Shenzhen Bow Chuang Vehicle Trading Co. Ltd. $1.25 million. 04/06.

BorgWarner Inc. (US)
Set up WFOE BorgWarner Automotive Components (Ningbo) Co., Ltd. in Zhejiang. $30 million. 03/06.

Key Safety Systems Inc. (US)/Yanfeng Visteon Automotive Trim Systems Co., Ltd. (Shanghai)
Formed joint venture in Shanghai to produce auto safety equipment. $30 million. 03/06.

OTHER

AVL List GmbH (Austria), Bosch Rexroth AG (Germany)/Beiqi Foton Motor Co., Ltd. (Beijing), Weichai Power Co., Ltd. (Shandong)
Formed partnership under which Beiqi Foton and Weichai Power will cooperate to produce components for Foton trucks with technological and financial support from Bosch and AVL. 05/06.

Key Safety Systems Inc. (US)/Chery Automobile Co. (Anhui)
Signed MOU to establish strategic partnership for the development of auto safety systems for Chery vehicles. 04/06.

NSK-Warner Inc. (Japan)
Opened facility in Shanghai to manufacture friction products, one-way clutches, and clutch modules. 03/06.

Aviation/Aerospace

CHINA'S IMPORTS

The Boeing Co. (US)
Will sell 15 737 aircraft to Air China Ltd. $982.8 million. 04/06.

Rolls-Royce International Ltd. (UK)
Will provide and maintain Trent 700 engines for China Southern Airlines Co. Ltd. 03/06.

OTHER

Virgin Atlantic Airways Ltd. (UK)/Air China Ltd. (Beijing)
Signed code-share agreement to expand direct service between London and Shanghai. 04/06.

United Airlines, Inc. (US)/Shanghai Airlines Co. Ltd.
Signed code-share agreement to expand service between the United States and China. 03/06.

Banking & Finance

INVESTMENTS IN CHINA

The Royal Bank of Scotland Group plc (UK)/BOC (Beijing)
Will form credit-card joint venture. (UK:49%-China:51%). 05/06.

Cathay General Bancorp (US)
Will acquire 20% stake in First Sino Bank. $52 million. 04/06.

Colonial First State Global Asset Management (Australia)/Cinda Asset Management Corp. (Beijing)
Will form joint venture, First State Cinda Fund Management Co., Ltd., in Shenzhen. $7.7 million. (Australia:46%-China:54%). 04/06.

Moody's Corp. (US)
Will purchase 49% stake in China Cheng Xin International Credit Rating Co. Ltd. 04/06.

The Carlyle Group LLC (US)
Will purchase shares in Credit Orienwise Group (Guangdong). $25 million. 03/06.

OTHER

JP Morgan Chase & Co. (US)
Will replace Merrill Lynch & Co., Inc. as the underwriter of the initial public offering of China Merchants Bank Co., Ltd. 04/06.

Chemicals, Petrochemicals & Related Equipment

CHINA'S INVESTMENTS ABROAD

China National Chemical Corp. (Beijing)
Will acquire Australian ethylene producer Qenos Holding Pty. Ltd. $175 million. 04/06.

INVESTMENTS IN CHINA

Rhodia Engineering Plastics Co. (France)
Gained NDRC approval to form a joint venture with Blue Star (Group) Corp. and Blue Star New Chemical Material Co., Ltd. (France:35%-China:65%). 05/06.

The BOC Group plc (UK)/Shanghai Petrochemical Co. Ltd.
Will form joint venture to supply gas in Jinshan District, Shanghai. $80 million. (UK:50%-China:50%). 04/06.

Hercules Inc. (US)
Will acquire the remaining 40% share of Shanghai Hercules Chemicals Co. Ltd. from its joint venture partner Shanghai Chlor-Alkali Chemical Co. Ltd. 04/06.

Bayer Polyurethane Co., Ltd., a subsidiary of Bayer AG, Linde AG (Germany)/Shanghai Coking & Chemical Corp.
Signed 15-year contract to con-

struct and operate a hydrogen and carbon monoxide supply facility in Shanghai. $77 million. 03/06.

OTHER

Bayer AG (Germany)
Will construct a 350,000-metric-ton-per-year methylene diphenyl diisocyanate facility at its Caojing chemicals complex in Shanghai. 03/06.

Distribution, Logistics & Related Services

INVESTMENTS IN CHINA

Trans Asia Logistics Co. Ltd. (Thailand)/Nuctech Co. Ltd. (Beijing)
Will form joint venture to set up four integrated logistics centers. $80 billion. (Thailand:51%-China:49%). 04/06.

Singapore Airport Terminal Services Ltd./China Aviation Qingdao Liuting Airport (Shandong)
Will form joint venture, Qingdao Airport Cargo Service Co., to provide cargo handling services. $9.8 million. (Singapore:49%-China:51%). 03/06.

OTHER

DHL Worldwide Network SA/NV (Belgium)/Sinotrans Group (Beijing)
Will open Beijing headquarters for their joint venture, DHL-Sinotrans International Air Courier Ltd. $24 million. 04/06.

Caterpillar Logistics Services Inc., a subsidiary of Caterpillar Inc. (US)
Opened a parts distribution center in Shanghai. 03/06.

Electronics, Hardware & Software

CHINA'S IMPORTS

China Expert Technology Inc. (Hong Kong)
Signed contracts with the local government of Dehua City, Fujian, to construct third and fourth phases of an e-government system. $22 million. 04/06.

Samsung SDS Co. Ltd. (South Korea)
Will provide an IT system for Beijing's subway lines before the Olympics. $26 million. 03/06.

CHINA'S INVESTMENTS ABROAD

Makaranan Co. Ltd., Tiga Co. Ltd., TWZ Corp. (Thailand)/Haier Group Co. (Shandong)
Will form joint venture, Haier Business (Thailand) Co. Ltd., to sell Haier products in Thailand. (Thailand:80%-China:20%). 05/06.

INVESTMENTS IN CHINA

Haansoft, Inc. (South Korea), Miracle Linux Corp. (Japan)/Red Flag Software Co. (Beijing)
Will form joint venture, Asianux Corp., to develop the Linux operating system and open-source software. (Japan:25%-South Korea:25%-China:50%). 04/06.

Philips Electronics China BV, a subsidiary of Philips Electronics NV (the Netherlands)
Agreed to purchase a 5% stake in Guangdong-based TCL Corp. 04/06.

AU Optronics Corp., Forhouse Co. (Taiwan)
Will form joint venture in Xiamen, Fujian, to produce components for flat-panel displays. $30 million. 03/06.

Qualcomm Inc. (US)/China TechFaith Wireless Communication Technology Ltd. (Beijing)
Will establish a Beijing- and Zhejiang-based joint venture, TechFaith Software China Ltd., to develop application software for wireless devices. 03/06.

OTHER

Embedded Software Group Inc. (US)/Beijing Feynman Software Co. Ltd.
Formed strategic partnership to provide Chinese companies with embedded technology and software services. 04/06.

Intel Corp. (US)/Baidu.com Inc. (Beijing)
Signed MOU to jointly develop search applications for Intel platforms. 04/06.

Microsoft Corp. (US)/Lenovo Group Ltd. (Beijing)
Signed agreement to pre-install licensed Microsoft software in Lenovo-branded personal computers. $1.2 billion. 04/06.

Microsoft Corp. (US)/NDRC
Signed MOU under which Microsoft will purchase Chinese hardware and set up partnerships, joint ventures, and software development and service projects with Chinese software companies. $200 million. 04/06.

Microsoft Corp. (US)/TCL Corp. (Guangdong)
Signed agreement to pre-install licensed Microsoft software in TCL-branded personal computers. $60 million. 04/06

Microsoft Corp. (US)/Tsinghua Tongfang Co., Ltd. (Beijing)
Signed agreement to pre-install licensed Microsoft software in Tongfang-branded personal computers. $120 million. 04/06.

Unisys Corp. (US)
Will launch new global sourcing services and technology center in Shanghai. 04/06.

Energy & Electric Power

CHINA'S EXPORTS

China Theban Electric Apparatus Stock Co.
Signed two contracts with Barqi Tojik (Tajikistan) to construct high-voltage power lines in Tajikistan. $340 million. 04/06.

CHINA'S IMPORTS

Hydrogenics Corp. (Canada)
Will supply China Electric Power Energy Group (Beijing) and China National Power Corp. (Beijing) with hydrogen generators. 03/06.

Abbreviations used throughout text: 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: General Administration of Civil Aviation 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 & Gas 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; IT: information technology; LNG: liquified natural gas; MII: Ministry of Information Industry; MOFCOM: Ministry of Commerce; MOU: memorandum of understanding; NA: not available; NDRC: National Development and Reform Commission; NORINCO: China North Industries Corp.; 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; SEZ: special economic zone; SINOPEC: China National Petrochemical Corp.; SINOTRANS: China National Foreign Trade Transportation Corp.; UNDP: United Nations Development Program; SME: small and medium-sized enterprise; WFOE: wholly foreign-owned enterprise

Keppel Seghers, a unit of Keppel Integrated Engineering Ltd. (Singapore)
Secured contract to provide technology and services to China Everbright Group. $8.27 million. 03/06.

INVESTMENTS IN CHINA

Himoinsa, SL (Spain)
Launched WFOE in Changzhou, Jiangsu, to manufacture electric generating sets. $18.5 million. 04/06.

Casil Telecommunications Holdings, Ltd. (Hong Kong)/ Beijing Wan Yuan Industry Co., Longyuan Electric Power Group Co. (Beijing)
Will form a wind-energy joint venture in Liaoning. $28.7 million. (Hong Kong:40%-China:60%). 03/06.

Genting Power China Ltd., a unit of Genting Bhd (Malaysia)
Purchased a 73.8% stake in Meizhou Wan power plant and a 100% stake in its project management company, InterGen Electric Power Maintenance Co. $157 million. 03/06.

OTHER

The Electricity of Vietnam Corp. (Vietnam)
Secured loan from the Export-Import Bank of China for the construction of a new thermal power plant. 04/06.

Environmental Equipment & Technology

INVESTMENTS IN CHINA

CNA Group Ltd. (Singapore)
Will purchase a 51% stake in Beijing Herocan Environmental Engineering Tech Co. Ltd. $7.5 million. 04/06.

SembCorp Environmental Management, a unit of SembCorp Industries, Ltd. (Singapore)/Jiangsu Chunxing Alloy Group Co., Ltd.
Will form lead-recycling joint venture, Jiangsu SembCorp Chunxing Alloy. $50 million. (Singapore:50%-China:50%). 03/06.

Food & Food Processing

INVESTMENTS IN CHINA

Rotary Vortex Ltd., a joint venture of CDH Capital Investment Group LLC and the Goldman Sachs Group, Inc. (US)
Will purchase a 25% stake in Henan Shuanghui Investment & Development Co., Ltd. $70 million. 05/06.

OTHER

PepsiCo Inc. (US)
Will establish research center in Shanghai. 03/06.

Forestry, Timber & Paper

CHINA'S IMPORTS

Metso Corp. (Finland)
Will sell paper machine to Anhui Shanying Paper Industry Co., Ltd. $64 million. 05/06.

INVESTMENTS IN CHINA

The Carlyle Group LLC (US)
Will acquire new shares in Shanghai Anxin Flooring Co., Ltd. $27.5 million. 05/06.

Armstrong World Industries Inc. (US)/Yingbin Wood Industry Co., Ltd. (Guangdong)
Will form joint venture in Jiangsu to produce wood flooring. $17.6 million. (US:50%-China:50%). 04/06.

Stora Enso Oyj (Finland)/Shandong Huatai Paper Industry Co.
Will form joint venture to produce SC paper in Dongying, Shandong. (Finland:60%-China:40%). 04/06.

Human Resources & Labor

INVESTMENTS IN CHINA

Randstad Holding NV (the Netherlands)
Will acquire 47% stake in Talent Shanghai Co., Ltd. 05/06.

Infrastructure

INVESTMENTS IN CHINA

China Water Affairs Group, Ltd. (Hong Kong)/Jingzhou City People's Government (Hubei)
Will form joint venture to supply water to Jingzhou. 04/06.

OTHER

Salcon Bhd (Malaysia)/ Jurong City Construction Bureau (Jiangsu)
Will form joint venture to manage, operate, and maintain Jurong's water supply. 03/06.

Insurance

INVESTMENTS IN CHINA

Mercer Human Resource Consulting LLC (US)
Will form insurance brokerage joint venture, Shanghai Mercer Insurance Brokers Co. Ltd., to offer health care benefits and advisory services to organizations. (US:24.9%-China:75.1%). 04/06.

Light Industry/Manufacturing

INVESTMENTS IN CHINA

The Carlyle Group LLC (US)
Acquired shares in Chongqing Polycomp International Corp. $65 million. 04/06.

Media, Publishing & Entertainment

CHINA'S IMPORTS

BigBand Networks, Inc. (US)
Will provide broadband multimedia-service routers to Luoyang Radio and Television Information Network Co. Ltd., Lanzhou Radio and Television Information Network Co. Ltd, and Wuyang Iron and Steel Co., Ltd.'s digital television project. 03/06.

INVESTMENTS IN CHINA

Global Gaming League, Inc. (US)
Opened its first subsidiary in China, Sichuan Dianjing Tiandi Network Co., Ltd. $10 million. 04/06.

OTHER

Ultimate Pros LLC (US)/21 Communications, Ltd. (Shanghai)
Signed an exclusive agreement for 21 Communications to distribute content related to National Basketball Association athletes. 05/06.

Medical Equipment & Devices

CHINA'S IMPORTS

Laserscope (US)
Will provide medical lasers and advanced fiber-optic delivery devices to Miracle Laser Systems Co., Ltd. $7 million. 03/06.

INVESTMENTS IN CHINA

Elekta AB (Sweden)
Will acquire 80% share of Beijing Medical Equipment Institute. $20 million. 04/06.

Metals, Minerals & Mining

CHINA'S IMPORTS

Ausmelt Ltd. (Australia)
Won contracts to provide technology for copper smelting plants to Chifeng Jinjian Copper Group and Huludao Nonferrous Metals Group. 04/06.

CHINA'S INVESTMENTS ABROAD

Hunan Non-Ferrous Metal Corp., Ltd.
Signed agreement to purchase 12 million shares of Australia's Compass Resources NL's stock and to cooperate on a base metal resource project in Australia. 05/06.

Gindalbie Metals Ltd. (Australia)/Anshan Iron and Steel Group Corp. (Liaoning)
Formed joint venture to develop and finance the Karara Iron Ore Project in Australia. (Australia: 50%-China:50%). 04/06.

Tycoons Group Enterprise Co., Ltd. (Taiwan)/Ji'nan Iron and Steel Co., Ltd. (Shandong)
Will form re-rolling joint venture in Vietnam. (Taiwan:40%-China:60%). 04/06.

INVESTMENTS IN CHINA

Alcoa Inc. (US)/Shanxi Yuncheng Engraving Group
Formed joint venture to produce aluminum brazing sheets in Kunshan, Jiangsu. $95 million. (US:70%-China:30%). 04/06

RusAl Ltd. (Russia)
Purchased cathode plant in Shanxi. 04/06.

OTHER

Uranex NL (Australia)/China National Nuclear Corp. (Beijing)
Signed letter of intent to explore and develop uranium in Australia and Tanzania. 04/06.

Cape Lambert Iron Ore Ltd. (Australia)/Sinosteel Corp. (Beijing)
Signed MOU under which Sinosteel will be an offtake partner for Cape Lambert. 03/06.

JV Global Pty Ltd. (Australia)/BaoChen Steel Construction Co. (Shanghai)
Signed MOU to continue joint venture negotiations. 03/06.

Petroleum, Natural Gas & Related Equipment

CHINA'S INVESTMENTS ABROAD

CNOOC (Beijing)
Will acquire a 25% stake in four gas exploration blocks off the coast of Australia from BHP Billiton and Kerr-McGee Corp. 04/06.

Petróleos de Venezuela SA/PetroChina Co., Ltd. (Beijing)
Will form joint venture, Sino-Venezuela Oriulsion Emulsified Oil Co., to develop two oil/gas blocks in Venezuela. 04/06.

Sinopec (Beijing)
Will purchase up to 50% of Hong Kong's Tsing Yi oil depot from China Resources Petrochems (Group) Co., Ltd. 04/06.

OAO Rosneft Oil Co. (Russia)/CNPC (Beijing)
Will form joint ventures to refine crude oil and sell oil products in Russia. 03/06.

INVESTMENTS IN CHINA

Exxon Mobil Corp. (US), Saudi Arabian Oil Co./Sinopec (Beijing)
Will form marketing joint venture in Fujian. 05/06.

OTHER

Lakes Oil NL (Australia)/China Petrochemical Corp. East China Petroleum Bureau, a subsidiary of Sinopec (Beijing)
Signed MOU to commercialize onshore gas resources in the Gippsland Basin in Australia. 05/06.

OAO Gazprom (Russia)/CNPC (Beijing)
Signed MOU on gas delivery to China. 03/06.

Transneft (Russia)/CNPC (Beijing)
Will conduct joint feasibility study on a spur to China of the East Siberia-Pacific Ocean oil pipeline. 03/06.

Pharmaceuticals

INVESTMENTS IN CHINA

AlphaRx International Holdings Ltd., a subsidiary of AlphaRx Inc. (Canada)
Will form joint venture in Jiangsu to manufacture, market, and distribute pharmaceutical and over-the-counter products in Asia. $31 million. 05/06.

Calypte Biomedical Corp. (US)
Acquired a 51% stake in Beijing Marr Bio-Pharmaceutical Co., Ltd. from Marr Technologies Asia, an affiliate of Marr Technologies BV. 04/06.

Ports & Shipping

CHINA'S EXPORTS

China Shipbuilding Industry Co., China State Shipbuilding Corp. (Beijing)
Will provide 18 oil tankers to Petróleos de Venezuela SA. $1.3 billion. 05/06.

INVESTMENTS IN CHINA

PSA International Pte Ltd. (Singapore)
Signed 50-year agreement with Tianjin Port Group Ltd. to construct and operate six 100,000-ton berths. $822 million. (Singapore:49%-China:51%). 03/06.

OTHER

China Shipping Container Lines Co., Ltd. (Shanghai)
Joined France's CMA CGM SA and Argentina's Maruba SCA on the Antwerp Consortium of Shipping Agents South America trade route. 03/06.

Rail

CHINA'S EXPORTS

Guangdong Xinguang International Group Co., Ltd.
Signed MOU with the government of Nigeria to build three rail systems. $2 billion. 03/06.

INVESTMENTS IN CHINA

Midas Holdings Ltd. (Singapore)/CSR Nanjing Puzhen Rolling Stock Works of China, Nanjing Metro Co., Ltd., Nanjing New and High Tech Development General Co., Pukou State-Owned Capital Operation (Holding) Co. (Jiangsu)
Will form joint venture, Nanjing Puzhen Rail Transport Co., Ltd., to manufacture and sell metro trains and related parts. $18.5 million. (Singapore:32.5%-China:67.5%). 04/06.

MTR Corp., Ltd. (Hong Kong)/ Beijing Capital Group, Beijing Infrastructure Investment Co.
Will form joint venture, Beijing MTR Corp. Ltd., to build and operate a new Beijing subway line. $91.8 million. (Hong Kong:49%-China:51%). 04/06.

Raw Materials

CHINA'S INVESTMENTS ABROAD

Eximbank (Kyrgyzstan)/China CAMC Engineering Co. Ltd., the Export and Import Bank of China (Beijing)
Signed contract to build a cement factory in Kyrgyzstan. $80 million. 04/06.

INVESTMENTS IN CHINA

Lafarge Shui On Cement, a joint venture of the Lafarge Group (France) and Shui On Construction and Materials Ltd. (Hong Kong)
Established a subsidiary, Lafarge Shui On Cement Guizhou Business Unit, in Guiyang, Guizhou. 04/06.

Taiwan Cement Corp./Sinoma International Engineering Co., Ltd. (Beijing)
Signed agreements under which Sinoma will build cement production lines in Guangdong and Guangxi for Taiwan Cement. $247 million. 04/06.

Real Estate & Land

INVESTMENTS IN CHINA

Government of Singapore Investment Corp. Pte Ltd.
Will acquire a 29.12% stake in Super Shine Co. (Guangxi). 05/06.

The Ascott Group Ltd. (Singapore)
Will invest in four new serviced residence projects in China. $50 million. 04/06.

Coastal Corp. (Hong Kong)
Acquired unfinished building in Dalian, Liaoning, to re-plan and re-build it. $75 million. 03/06.

Sun Hung Kai Properties Ltd. (Hong Kong)/China Resources Holdings Co., Ltd. (Beijing)
Will form joint venture to construct a hotel, office buildings, and shopping malls in Jiangsu. (Hong Kong:40%-China:60%). 03/06.

Research & Development

INVESTMENTS IN CHINA

Compagnie de Saint-Gobain (France)
Launched its first R&D center in Shanghai. $25 million. 04/06.

Mitsubishi Motors Corp. (Japan)
Opened R&D WFOE, Mitsubishi Motors Technical Consulting Co. Ltd., in Shanghai. 04/06.

Retail/Wholesale

INVESTMENTS IN CHINA

Best Buy Co., Inc. (US)
Will purchase a 51% stake in Jiangsu Five Star Appliance Co., Ltd. $180 million. 05/06.

BolognaFiere Group (Italy), CMP Asia Ltd. (Hong Kong)/Guangdong Bomei Exhibition Co. Ltd.
Will form joint venture to organize international beauty and cosmetic expositions. 04/06.

Wal-Mart Stores, Inc. (US)
Will open outlet in Haikou, Hainan. 04/06.

Mitsui and Co., Senshukai Co. (Japan)
Formed mail-order WFOE, Shanghai Senshu Merchant and Commerce Co. $6.7 million. 03/06.

Telecommunications

INVESTMENTS IN CHINA

Makro Kiosk Bhd (Malaysia)/VogueZone Beijing Technology Co., Ltd.
Will form joint venture, Macro Kiosk Technologies Co., Ltd, in Beijing. 03/06.

Motorola, Inc. (US)
Will invest in Shanghai NewMargin Growth Fund GP Ltd., Shenzhen Science and Technology Co., Ltd., and Beijing-based Lingxun Technology Co., Ltd. 03/06.

OTHER

Tianjin Create Co., a subsidiary of China Wireless Communications, Inc. (US)
Signed contract with Tianjin Nankai University to provide laptop computer solutions, hardware, maintenance, and technical support. 04/06.

Tianjin Create Co., a subsidiary of China Wireless Communications, Inc. (US)
Signed contract with Tianjin University to provide servers, maintenance, technical support, and software upgrades. 04/06.

Alcatel Shanghai Bell, a subsidiary of Alcatel (France)
Signed contracts with Shanxi Mobile Communication Co., Ltd., a subsidiary of China Mobile, to expand Shanxi Mobile's GSM network and provide GSM/General Packet Radio Service network spares. $29 million. 03/06.

Tianjin Create Co., a subsidiary of China Wireless Communications, Inc. (US)
Signed contract with Bo-hai Securities Co. Ltd. to provide computer hardware, maintenance, and technical support. 03/06.

Tianjin Create Co., a subsidiary of China Wireless Communications, Inc. (US)
Signed contract with Sinotrans Group Overseas Courier Service Co., Ltd. (Beijing) to provide laptop computer solutions, maintenance, and technical support. 03/06.

Tianjin Create Co., a subsidiary of China Wireless Communications, Inc. (US)
Signed contract with Tianjin Polytechnic University to provide network cabling maintenance and support, routers, and back-up data storage. 03/06.

Tourism & Hotels

INVESTMENTS IN CHINA

Hilton Hotels Corp. (US)/Shanghai Li Xing Hotel Co. Ltd.
Signed agreement under which Hilton will manage the Conrad Shanghai. 04/06.

SUPERSAVE PACKAGE

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A First for the Stones—and for China

Stephen Casale

From Keith Richards's opening guitar riff in "Start Me Up" down to the last of two encores, the Rolling Stones finally got their China concert this spring, and Shanghai got to experience—and brag about—a western rock legend first hand.

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The aging but strangely timeless rockers played a sold-out concert at the Shanghai Grand Stage on April 8, and the group's China debut achieved what arena concerts are supposed to do: get everybody all worked up. At 8,000 seats, the venue's relatively intimate scale played to the band's first-rate audio technology and good form. The foursome, aided by back-up musicians and singers, sounded tight and focused. A towering video screen transmitted the Stones in color, sepia, and black and white, complete with an occasional dazzle of computer graphics.

Before the concert, the press, which in the last 15 years has occasionally viewed the Stones as a parody of their earlier selves, focused on the PRC government's attempt to censor the band's play list. But a partly leashed Mick Jagger nonetheless opened the concert by belting out "Start Me Up"—a song with an infamous reference to a dead man that has more shock value than anything in the proscribed "Let's Spend the Night Together" or "Honky Tonk Woman." ("Beast of Burden," "Brown Sugar," and "Rough Justice" were also banned.) And though Jagger may have toned down his flagrant stage antics, the concert was marked late in the evening by the sudden appearance of giant, inflatable honky-tonk dolls on both sides of the stage. Pushing the envelope? Maybe. Unwittingly or not, it was a nod to the fuzzy boundaries of free expression in China.

Their status as parody or musical icons aside, the longevity of the Stones has led many to surmise that they are the only rock-and-roll giants that have become the true bearers of the spirit of their times. In Shanghai, the indefatigable, yoga-taut Jagger rose above his naughty preening and famously fat pout to produce something more nuanced. The Stones transcended whatever jokes were thrown around about them in China, in part because they played as if they still clearly enjoy the show.

The band played a few new tunes and arena standards such as "Wild Horses," sung with Cui Jian, the "Father" of Chinese rock-and-roll and another occasional target of PRC censors, and who, like the Stones, is considered an aging classic. Cui nonetheless seemed star-struck by the Stones, who are reportedly one of his early influences.

In a brilliantly executed "Gimme Shelter," Jagger momentarily let the spotlight shift away from him and onto a backup singer, while classic anthems such as "You Can't Always Get What You Want" and "Sympathy for the Devil" added inflection, allowing the Stones to make good on their long-awaited China appearance. (The Stones were to play Beijing and Shanghai in 2003, but the concerts were canceled because of the SARS outbreak.)

As expected, the audience was largely composed of expatriates. But despite high ticket prices (from ¥300 to ¥1,800 [$37 to $224]) and the fact that the Stones are relatively unknown in China, many Chinese attended—some sitting in expensive seats. At times the concert seemed like a typical China business mixer writ large—just before the Stones took the stage, I overheard a man behind me pointing out my wife's ex-boss to a friend. I turned and introduced myself and my wife to the man, and then we all waved to her ex-boss sitting nearby.

Although the crowd was characterized more by middle-aged girth than unshaven grunge, the presence of fans of all ages reflected the long span of the band's career. Exiting the venue after the concert, I overheard a twenty-something foreign man make a remark to a young Chinese woman about Jagger's impressive bounce: "Dude, that guy is like 50." Uh, try 62.

Though Stones concerts have been a staple of the rock scene for decades in the West, they were part of something new again in China, if only for one night. Keith Richards may have summed it up best when he quipped in his sand-paper rasp: "China. Well, this is a first. It's been a long time since I said that about anything."

Stephen Casale *is based in Shanghai, where he manages regional public affairs and communications for EDAW, Inc., a large US urban planning and design firm. The views expressed in this article belong solely to the author.*

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