July–August 2008

The China Business Review

USCBC
THE MAGAZINE OF
THE US-CHINA BUSINESS COUNCIL

Human Resources

What to Do When New Hires Aim High

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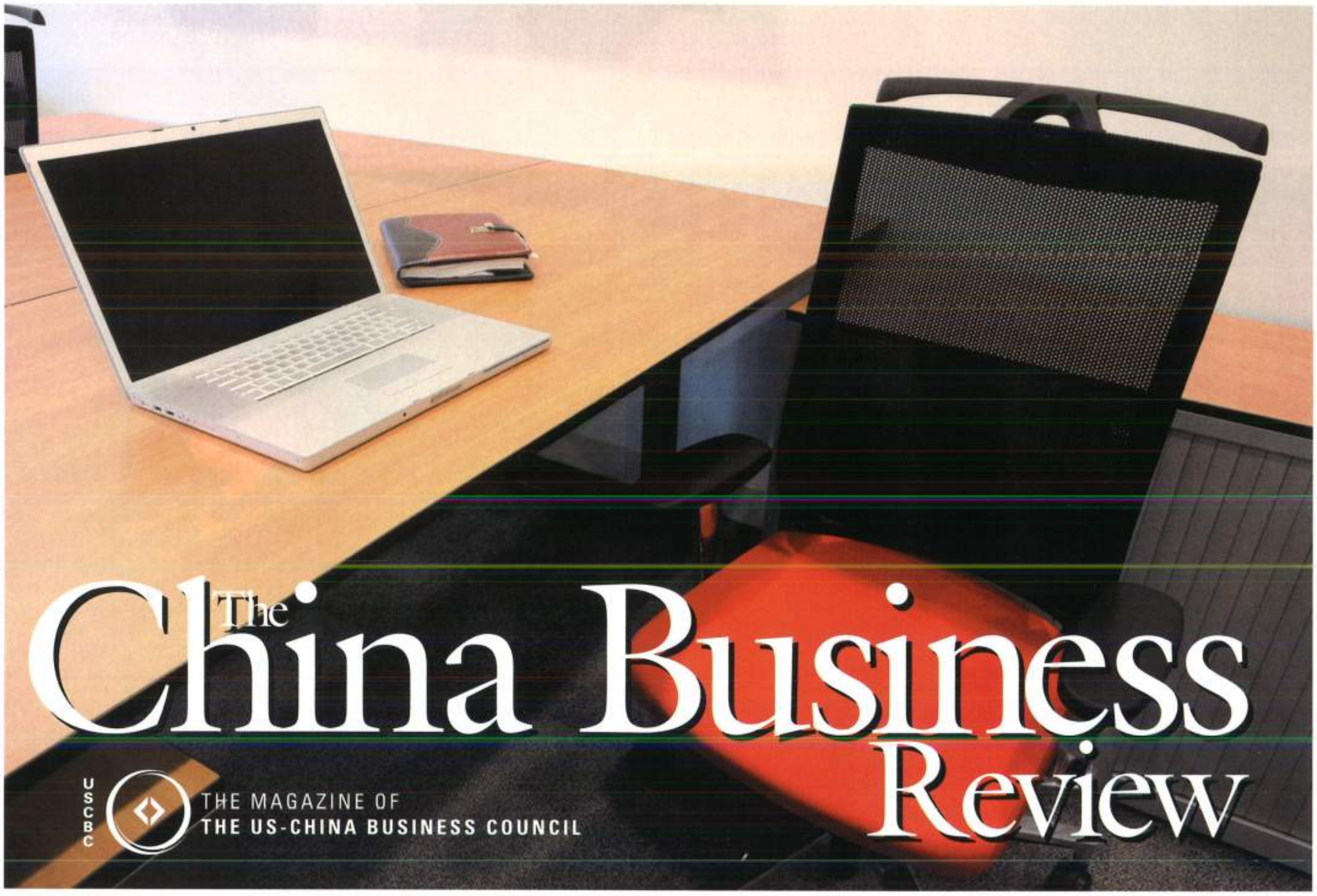

Focus: Human Resources

Special Commentary: Olympics


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Features

Departments

Online Exclusive

Gallup: A new, entrepreneurial generation is shaping China's future

Cover design by Jesse Marth

Correction: In the May–June 2008 issue, Emerson's Asia Pacific revenue should have been stated as $3.61 billion and the name of the Rosemount division was incorrectly spelled. We regret the errors.

Message from the Editor

The earthquake that shook Sichuan and surrounding provinces on May 12 brought tragedy to millions of Chinese. Close to 70,000 people lost their lives, a quarter of a million were injured, and about 5 million are now homeless, according to the American Red Cross. The scale of the disaster provoked an unprecedented response. The PRC government was quick to organize relief and rescue efforts and did so in an unexpectedly open manner. Many individual Chinese citizens loaded up their own cars with supplies and drove into affected areas to help. And the international business community also pitched in, donating millions of dollars in cash and in-kind assistance.

The earthquake has also shifted the Chinese and international communities' attitude toward the Beijing Olympic Games. Relief efforts have brought people closer together, and the international outpouring of sympathy, offers of help, and praise for the PRC government's handling of the disaster have eased earlier tensions. Nevertheless, with the country in a more somber mood, the Olympics may not be the much-anticipated "coming-out" party China had planned.

At the *CBR*, our hearts go out to the victims of the earthquake and our thoughts are with them as they try to rebuild their lives. We also wish Beijing, and all of China, all the best for a successful Olympics.

—Virginia Hulme

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Short Takes

Earthquake

An 8.0 earthquake rocked the southwestern province of Sichuan on May 12, resulting in more than 69,000 deaths, according to Xinhua News Agency. The PRC government's speedy disaster response, which was better coordinated and more open than the Myanmar government's response to a cyclone that struck that country a week earlier, earned praise from the international media. China is now occupied with rebuilding devastated villages and cities and dealing with the aftereffects of the quake, including catastrophic flooding.

Ding Jie/China Foto Press

The extent of the devastation sparked an extraordinary domestic and international relief effort that attracted thousands of volunteers and many generous donations of money and emergency equipment. In an unprecedented surge of volunteerism in China, thousands of private individuals packed their cars with supplies and drove to hard hit areas to help survivors. For their part, US-China Business Council (USCBC) member companies had donated at least $85 million in cash and in-kind donations as of early June. For more information on how to help, see www.uschina.org.

Legal Issues

China on May 6 released for comment the long-awaited draft Implementing Regulations for the Labor Contract Law. (The law was passed in July 2007 and took effect in January 2008.)

Some key issues covered in the implementing regulations include payment requirements during employees' probationary periods, the grounds for dissolution and termination of labor contracts, and penalties for employers that do not sign written contracts with employees.

USCBC has collected members' comments on three sets of draft regulations and submitted them to the PRC State Council Legislative Affairs Office: the Labor Contract Law draft implementing regulations; draft regulations on commercial outlets; and draft revisions to the Patent Law. The USCBC comments are publicly available at www.uschina.org.

China Foto Press

Telecom

China began restructuring its telecom industry in late May after a notice jointly issued by the PRC Ministry of Industry and Information, National Development and Reform Commission, and Ministry of Finance encouraged domestic telecom companies to merge into three large groups. The goal of the restructuring is to increase competition in the telecom sector.

The notice did not give a timetable for completion, but the telecom companies have already begun talks and mergers. Post-restructuring third-generation licensing may lead to foreign investment opportunities in the historically restricted sector.

Ma Jian/China Foto Press

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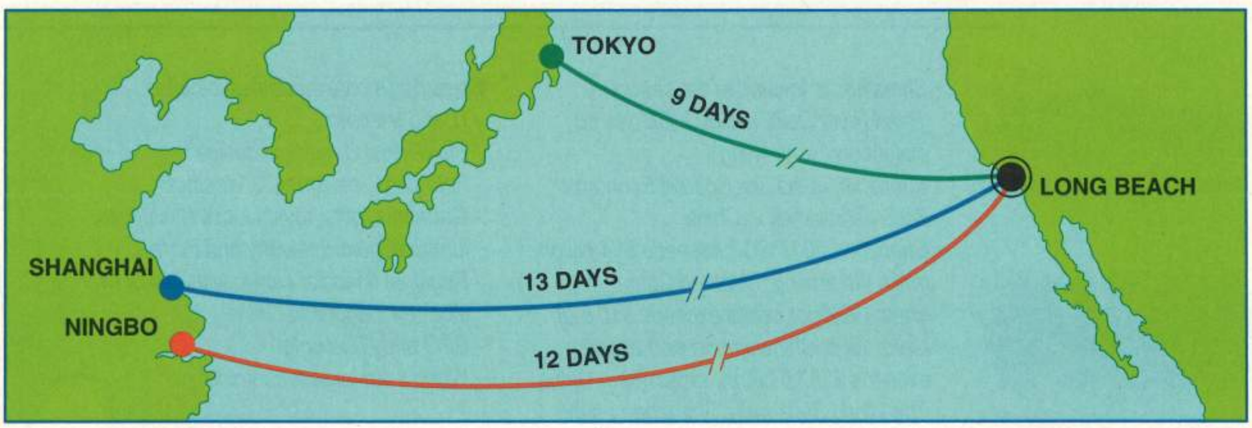

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Strategic Economic Dialogue

The fourth Strategic Economic Dialogue (SED), held on June 17–18 at the US Naval Academy in Annapolis, Maryland, brought together high-level US and PRC officials to discuss energy and the environment, financial services, bilateral investment, product quality and food safety, transparency, transportation, and other topics. The meetings ended with several agreements, including the launch of bilateral investment treaty negotiations. The fifth round of SED meetings is scheduled to take place in December in Beijing.

China Foto Press

Energy and the environment took center stage, with the agreement of a framework to put establish the Ten-Year Plan on Energy and the Environment signed at the last SED in Beijing in December 2007.

The two sides selected five broad areas for which each side will draft action plans detailing specific areas of cooperation. The areas are clean and efficient electricity production, clean and efficient transportation, clean water, clean air, and conservation of forests and wetlands ecosystems. Earlier, US officials had hoped they would be able to present action plans at these SED meetings, but these plans will now be formulated over the next few months and presented at the next SED.

USCBC, the US Chamber of Commerce, and the National Committee on US-China Relations on June 18 co-hosted a dinner and reception for PRC Vice Premier Wang Qishan and other PRC SED-delegation officials in Washington, DC. More than 600 guests from industry, government, and think-tank communities attended the event, which was sold out.

China Conference Calendar

China-related events near you

September–November 2008

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

Construction Machinery: Nov. 25-28

China International Fair for Investment & Trade (CIFIT)

SEPTEMBER 8–11

Location: Fujian: Xiamen International Conference and Exhibition Center
Organizers: Fujian Provincial Government; Xiamen Municipal Government; Ministry of Commerce (MOFCOM), Investment Promotion Agency
Contact: CIFIT Organizing Committee
Tel: 86-592-266-9825
ciipc5@chinafair.org.cn

Cityscape USA: Bridging US & Emerging Real Estate Markets

SEPTEMBER 9–11

Location: New York: The Javits Center
Organizers: Informa
Contact: Faye Black
Tel: 971-4-336-5161 x 320
faye.black@iirme.com
www.cityscape-usa.com/cbrconf

Drug Development China: Strategies for Launching Discovery & Development Activities

SEPTEMBER 16–18

Location: San Francisco, CA: The Fairmont
Organizer: Cambridge Healthtech Institute
Contact: James Prudhomme
Tel: 1-781-972-5400
jprudhomme@healthtech.com
www.healthtech.com/pcc/overview.aspx

International Exhibition & Conference for Pulp, Paper Making & Paper Products Industries in China

SEPTEMBER 17–19

Location: Shanghai INTEX
Organizers: E.J. Krause & Associates, Inc.; China Paper Industry Development Corp.
Contact: Carol Chen
Tel: 86-10-8451-1832
ejkchinapaper@163.com
www.chinapaperexpo.cn

The International Exhibition on Fluid, Air & Gas Handling Systems

OCTOBER 9–10

Location: Guangzhou, Guangdong: Jinhan Exhibition Center
Organizer: IIR Exhibitions Pte Ltd.
Contact: Jasmine Chen
Tel: 65-6517-3018
jasmine.chen@iirx.com.sg
www.psseries.com/china

China Hi-Tech Fair

OCTOBER 12–17

Location: Guangdong: Shenzhen Convention and Exhibition Center
Organizers: MOFCOM; Ministry of Science and Technology; Ministry of Information Industry; National Development and Reform Commission; Ministry of Education
Contact: Lisa Chen
Tel: 86-755-8284-8652
lisa@chtf.com
www.chtf.com/english

China Import & Export Fair

OCTOBER 15–NOVEMBER 6

Location: Guangzhou, Guangdong: Pazhou Complex; Phase I (Oct. 15–19), Phase II (Oct. 24–28), Phase III (Nov. 2–6)
Organizers: MOFCOM; China Foreign Trade Center
Tel: 86-20-2608-8888
webmaster@cantonfair.org.cn
www.cantonfair.org.cn

Contract Risk Management & Dispute Resolution with Chinese Entities

OCTOBER 20–22

Location: New York: Venue TBD
Organizer: American Conference Institute
Contact: Virna DiPalma
Tel: 1-212-352-3220 x480
v.dipalma@americanconference.com
www.americanconference.com

US Chongqing Logistics Fact-Finding Mission

OCTOBER 20–23

Location: Chongqing: Various transportation facilities in the Three Gorges, Wanzhou, and Chongqing
Organizer: Yangtze Business Services Ltd. on behalf of the Chongqing Municipal Government
Contact: Zhang Tingting
Tel: 44-20-8874-3217
ztt@yangtzebusinessservices.com
www.yangtzebusinessservices.com

China Shoes & China Shoetec

OCTOBER 30–NOVEMBER 1

Location: Dongguan: Guangdong Modern International Exhibition Center
Organizer: Messe Düsseldorf China Ltd.
Contact: Elaine Chen
Tel: 86-21-5027-8128
shoes@mdc.com.cn
www.chinashoesexpo.com

International Conference & Exhibition on Electronic Packaging & Assembly Technologies

NOVEMBER 4–6

Location: Intex Shanghai
Organizer: Business Media China AG
Contact: Isaac Meng
Tel: 86-21-5169-3230 x106
isaac.meng@chinasmtforum.com
www.chinasmtforum.com

72nd China Electronics Fair

NOVEMBER 12–15

Location: Shanghai New International Exhibition Center
Organizer: China Electronic Exhibition & Information Communication Co., Ltd.
Contact: Elaine Hao
Tel: 86-10-5166-2329 x56
cef@ceac.com.cn
www.icef.com.cn

International Trade Fair for Construction Machinery, Building Material Machines, Construction Vehicles & Equipment

NOVEMBER 25–28

Location: Shanghai New International Expo Center
Organizer: Messe München International
Contact: Ronald Unterburger
Tel: 852-2511-5199
mmi_hk@mmiasia.com.sg
www.bauma-china.com

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

Event Wrap Up

WASHINGTON, DC

May

Issues Luncheon on PRC Standards
Featured Elise Owen, representative for China Affairs, American National Standards Institute.

June

35th Annual Membership Meeting
(See p.17)

Reception for Incoming US-China Business Council (USCBC) Board Chair and New Directors
(See p.17)

Dinner Honoring PRC Vice Premier Wang Qishan and the PRC Delegation to the Strategic Economic Dialogue (SED)
Co-hosted by USCBC, the US Chamber of Commerce, and the National Committee on US-China Relations.

BEIJING

May

Workshop on Talent Retention
Featured Jim Leininger, general manager, Watson Wyatt Worldwide, Beijing, and a panel of human resources specialists.

Luncheon with US Department of Commerce Secretary Carlos Gutierrez
Co-hosted by USCBC and the American Chamber of Commerce (AmCham)-China.

China Operations Conference 2008
(See below)

SED Breakfast
Featured Ambassador Alan F. Holmer, the US Department of the Treasury's special envoy for China and the SED. Co-hosted by USCBC and AmCham-China.

June

Workshop on Employee Benefits Best Practices
Featured Jeffrey Fan, China business leader for Health and Benefits, Mercer Human Resources Consulting.

Workshop on the PRC Labor Contract Law
Featured Andreas Lauffs, partner, Baker & McKenzie LLP.

PHILADELPHIA, PA

May

Luncheon on China's Economy and Real Estate Market
Featured Jeffrey Tertel, senior associate for Transaction Services, Office Group, Grubb & Ellis Co.; and Julie Walton, director, and Evan Thorpe, manager, Business Advisory Services, USCBC. Special thanks to hosts Grubb & Ellis Co. and Meyer Design, Inc.

MINNEAPOLIS, MN

May

Luncheon on Evolving Business Issues in the US-China Trade Relationship
Featured USCBC President John Frisbie. Special thanks to host Faegre & Benson LLP.

SHANGHAI

May

Reception on Executive Leadership in Government Relations
Featured Steve Bertamini, chair and CEO-Northeast Asia, the General Electric Co. Co-hosted by USCBC and the Georgia State University Center for Global Business Leadership.

Luncheon on Financial Sector Reforms
Featured David Dali Liu, partner, Junhe Law Firm.

Roundtable on Workforce Localization
Featured Jill Malila, Client Management director, Mercer Human Resources Consulting.

USCBC Hosts China Operations Conference in Beijing

The US-China Business Council (USCBC) held its Beijing China Operations 2008 conference on May 21. The morning session began with a discussion on China's economy, led by Wang Tao, senior China economist for UBS AG. Qiu Lixin, deputy director of the PRC Ministry of Commerce's (MOFCOM) Foreign Investment Department, updated members on the ministry's foreign investment and development plans. Next, Audie Wong, president of Amway China, provided insights into how companies can structure their government affairs departments in China to cope with a changing regulatory environment.


PR Photo
MOFCOM Deputy Director General of Foreign Investment Qiu Lixin and USCBC Vice President Robert Poole

US Ambassador to China Clark T. Randt, Jr. kicked off the afternoon session with a luncheon address on the past and future of US-China business relations as a tribute to USCBC's 35th anniversary. Albert Xie, general manager of the General Electric Co.'s (GE) Ecomagination team, shared some of GE's corporate social responsibility plans and strategies in China. USCBC Vice President Erin Ennis offered a view of China in US politics.

In a panel on the challenges of expansion in China, Roger Ng, director of PriceWaterhouse-Coopers' Human Resource Advisory Practice, spoke on the latest hiring trends in China, and Jack Gross, vice president and general manager of Schneider Logistics International, discussed of the logistical challenges firms face as they expand into China's interior.

In a panel on corporate structure and financial planning for US companies in China, Godfrey Firth, USCBC's chief representative in Shanghai, spoke about the complexity of corporate structures in industrial companies under China's various commercial and tax regimes. Albany International's Controller Xu Weiqing discussed sources of finance and the management of large capital investments in China. In addition, Murray Covello, Asia president for Praxair, outlined Praxair's extensive regime of systems and controls for compliance, finance, and sustainability across its 24 entities in China.


Ambassador Clark T. Randt, Jr.

In the final panel of the day, Mure Dickie, Beijing correspondent for the *Financial Times*, and Eugene Tang, bureau chief for *Bloomberg News*, shared their views on the media's coverage of China and the growing global interest in businesses operating in China.

USCBC Holds 35th Annual Membership Meeting in Washington, DC

USCBC President John Frisbie kicked off the organization's 35th Annual Membership Meeting on June 3 by announcing the election of its board of directors. The formal agenda began with a presentation by Edward Epstein, managing partner, Troutman Sanders LLP, who discussed the complexities of trade and investment developments in China. USCBC Director of Business Advisory Services Julie Walton presented the findings of the second phase of USCBC's survey on government affairs best practices in China. Next, three recently China-based executives—William W. Beddow, director, Emerging Markets Government Affairs, Caterpillar Inc.; James Gresh, vice president-Asia Strategy, the Timken Co.; and Leonard McMullen, director, Global Manufacturing Operations and Sourcing, Agricultural Products Group, FMC Corp.—discussed the latest trends in China's operating environment. Wrapping up the morning session, outgoing Deputy Assistant Secretary of State for East Asian and Pacific Affairs Thomas Christensen provided an assessment of US-China relations and his views on key issues for a new administration to prioritize.

An off-the-record luncheon panel picked up on that theme and closed the conference. Representatives from each of the three presidential campaigns—Gary Gensler, senior Clinton advisor; Douglas Holtz-Eakin, McCain economic advisor; and Jeffrey Bader, Obama China advisor—spoke on how the presidential candidates view China and China trade issues.

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Julie Walton, USCBC director of Business Advisory Services

Thomas Christensen, deputy assistant secretary of State for East Asian and Pacific Affairs

USCBC Welcomes New USCBC Chair, Board Members

USCBC held a reception to welcome its new chair, Andrew Liveris, chairman & CEO of the Dow Chemical Co., and new directors on June 4 at the Smithsonian Institution's Freer Gallery of Art in Washington, DC. About 125 guests attended the event, including PRC Ambassador to the United States Zhou Wenzhong and other PRC government officials, US government officials and members of Congress, USCBC board members and member companies, think tank representatives, and other special guests. The full list of USCBC's officers and directors can be viewed at www.uschina.org/board_of_directors.html.

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USCBC Chair and Chairman & CEO of Dow Chemical Co. Andrew Liveris, Ambassador Zhou Wenzhong, and USCBC President John Frisbie

David W. Raisbeck, vice chairman, Cargill, Inc.; and Janet A. Howard, vice president, International Affairs, the Coca-Cola Co.

Carolyn L. Brehm, vice president, Global Government Relations, Procter & Gamble Co.; Pieter Bottelier, visiting associate professor of China Studies, Johns Hopkins University; Charles W. Freeman, III, Freeman Chair in China Studies, Center for Strategic and International Studies

Strategic Economic Dialogue

The fourth session of the Strategic Economic Dialogue (SED) between China and the United States convened in mid-June in Annapolis, Maryland. PRC Vice Premier Wang Qishan led the PRC delegation, while Treasury Secretary Henry M. Paulson, Jr. led the US side. The wide-ranging talks resulted in agreements in several areas. Much of the focus, however, was on cooperation on energy and the environment and on financial services.

Energy and the environment

Energy and the environment took center stage at the meetings. The two sides signed a framework agreement to establish the Ten-Year Plan on Energy and the Environment, which was signed in Beijing last December, and selected five broad areas—listed as goals—for which each side will draft action plans detailing specific areas of cooperation. These plans will be formulated over the next few months and presented at the next SED in December in Beijing.

The five goals are

- **Clean, efficient, and secure electricity production and transmission** Both counties hope to discuss electricity supply and demand, and diversification of energy resources that supply electricity.
- **Clean and efficient transportation** Potential areas of collaboration include cellulosic biofuel, improvements to existing transportation infrastructure, and clean vehicle technologies.
- **Clean water** Prevention and control of pollution from agriculture and rural areas, evaluation and analysis of clean water policies, assessment and promotion of the transfer of clean water technologies, and the provision of safe drinking water are initial areas of cooperation that the proposed action plan will cover.
- **Clean air** Last December, the two sides agreed to implement a sulfur dioxide trading system for China's power sector. This project will likely be a significant component of the clean air goal.
- **Conservation of forest and wetlands ecosystems** Both countries will focus on enhancing cooperation on wetlands conservation and management and on the establishment and management of protected areas.

On the US side, the departments of the Treasury, State, Commerce, and Energy and the Environmental Protection Agency will coordinate to draft the action plans. On the PRC side, the National Development and Reform Commission, State Forestry Administration, State Energy Commission, and the ministries of Finance, Environmental Protection, Science and Technology, and Foreign Affairs will draft action plans.

Financial services

The head of each major PRC financial regulator attended the negotiations and made a number of gestures that indicate a willingness to cooperate with foreign participants across multiple financial services sectors.

In insurance, PRC financial regulators agreed to consider concerns raised by US stakeholders about proposed regulations restricting foreign investment in domestic insurance companies. Regulators reportedly plan to consult with and consider comments submitted by interested parties before producing a subsequent draft of the regulations. In addition, China noted that its recent regulations on overseas investment of insurance funds will allow China-based insurance companies to invest funds outside of China's borders.

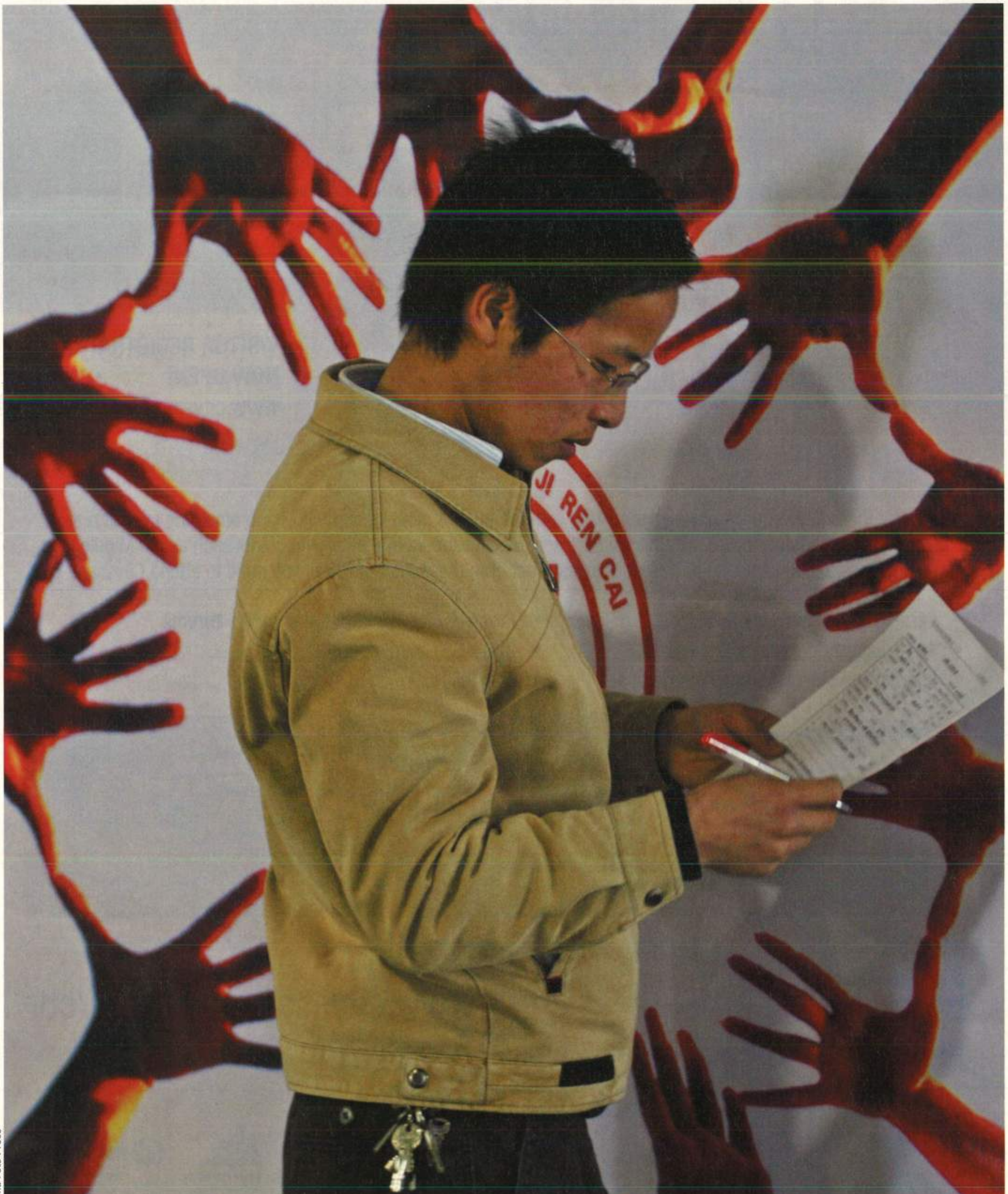
On the banking front, China confirmed that by the end of the year it will complete its assessment of allowing greater foreign participation in China's banking sector and announced that securities and capital market regulators would complete a similar study for the domestic securities, futures, and fund management sectors, by the same deadline. The results of these assessments will be recommendations on changes to foreign participation in the respective domestic markets, including adjustments to foreign equity share caps.

Other financial-related developments include

- China will reduce the requisite "lockup period" for certain qualified foreign institutional investor quota holders such as US-based funds and money managers.
- Chinese financial regulators said that they would permit joint venture credit rating agencies to apply for securities-related credit rating business licenses that would permit them to rate corporate bonds without having to reduce the size of the foreign partner's existing equity stake.
- PRC regulators have agreed to allow foreign non-deposit-taking financial institutions to provide consumer finance on a pilot project basis.
- The US Department of Agriculture said that it would explore further cooperation with China in developing agricultural insurance, including providing training for PRC officials and industry representatives who want to develop policies for insuring crops and livestock.
- China agreed that it would reduce qualifications for foreign banks seeking to issue renminbi-denominated bonds to raise capital. Regulators also agreed to permit certain foreign companies to list on their exchanges through share or depository receipt issuance. 完

This article is adapted from a report that first appeared in China Market Intelligence, *the US-China Business Council's (USCBC) weekly members-only newsletter. To find out more about USCBC member company benefits, see www.uschina.org/benefits.html.*

Hiring and Compensation Trends



China Foto Press

To remain competitive in China's tight labor market, companies must prioritize talent management—and track compensation trends

Tony Dickel and Chris Watkins

Over the last three years, the war for top talent in China has intensified. Multinational corporations (MNCs) in China have become increasingly concerned about and challenged by the compensation demands of desired candidates. Foreign companies have had to make significant adjustments to their compensation bands to avoid losing staff to firms with more flexible compensation packages. Furthermore, over the last year, new trends began contributing to China's talent market paradox—that companies in a country with more than 1.3 billion people suffer staff shortages.

Hiring and retention get tougher

Recent MRI China Group research shows the following human resources (HR) trends in China (see p.22):

■ **Employees are leaving established companies for new entrants** Thousands of new companies enter China monthly and create additional demand for already scarce talent. Consequently, many employees are leaving their current companies for ones that have more flexible compensation-banding structures and thus can offer better packages.

■ **More companies are localizing talent** MNCs are increasingly focused on hiring high-performing PRC nationals for vice president, director, and manager positions in China. A high percentage of localization has already occurred at the director level in most MNCs, but the majority of vice president and higher positions are still held by regional or Western expatriates.

■ **With more than one offer, candidates can negotiate** As many established companies expand in China, they want to attract top-level talent to replace existing expatriates, who carry large compensation packages. As a result, top candidates can receive several offers during the recruitment cycle, which allows them to compare opportunities and leverage them against each other.

■ **Hiring cycles last longer** Most companies' hiring cycles have lengthened, sometimes taking 8 to 12 weeks to complete, or roughly two to four weeks longer than four years ago. The longer time to make a decision often means missed opportunities.

Quick Glance

■ Compensation packages have risen sharply in China over the last few years.

■ Companies must make strategic decisions about how stringent their job requirements are and the level of compensation they are prepared to pay.

■ Agreement within the company on the requirements for the position and the interview process will shorten the recruitment time.

■ **Candidates are growing more sophisticated** Candidates are becoming more sophisticated in their approach to job changes and have a better idea of where they fit in the marketplace. Candidates believe that they have a clearer idea of their worth in the talent market because they have read formal market research or conducted their own informal research among their rapidly expanding personal and professional networks in the last three to four years. The results of their salary research may be unreliable, however, if their friends and colleagues exaggerate their salaries.

■ **Companies are boosting the salaries of top performers** In the last two years, many MNCs have been aggressively reviewing top performers and giving them significant pay increases to reduce the risk of losing them. Such raises are particularly common when an individual receives an offer from another firm, and the employee's current company makes an aggressive counteroffer. This practice, however, increases overall costs for both the new and existing employers.

■ **Companies are demanding strong leadership and language skills** Many companies are unwilling to lower their expectations for language skills, technical skills, and managerial and leadership competencies when interviewing and selecting candidates for key positions. If a company is unwilling to compromise, it will likely pay at the higher end of the position's compensation range.

What companies can do

Businesses can take several steps to improve their hiring and retention practices.

Make talent management a strategic priority

Many business leaders do not regard talent management as a strategic business priority, even though it is one of their main concerns. CEOs should treat talent management as an instrumental part of their business plans and take an active role in the hiring process to ensure that it is handled strategically and tactically. CEOs or managing directors should make a director or vice president responsible and accountable for the planning and implementation of staffing policies. This will help companies focus on talent management and make attraction, recruitment, and retention campaigns more streamlined and effective to gain a higher recruiting and retention success rate. At the same time, companies should link line managers' performance to the goals of the company's talent acquisition strategy. This will create a more cohesive strategy in which the line managers and the HR head work together more closely.

Develop a strong corporate vision and employer branding

When recruiting talent in China, each company needs a well-developed vision of its growth, the position being filled, and the potential hire's career path. Whether the company has a strong brand and whether the candidate would have a clear career path are among the top considerations for candidates thinking about a job change. It is also critical for all those involved in the hiring process to deliver a consistent message. Candidates have many options and often choose to move to the company with the strongest employer branding and corporate vision.

Clarify job scope

Before launching a candidate search, companies should explain the position's requirements and scope to all parties involved. When all relevant parties in a company agree on these points, the interview process will proceed more smoothly. Many positions in China have a matrix reporting structure, however, and the relevant parties often disagree on the job specifications. As a result, candidates may become confused and concerned by the inconsistent requirements, which may cause them to lose interest in the opportunity and withdraw from the application process.

For certain positions, companies need to decide how flexible they can be on language and leadership requirements. Candidates with strong language and leadership skills will be in demand across all functional and industry-specific positions and command high salaries. If a company has a tight compensation band, it will have great difficulty hiring someone with both of these skills. All parties need to agree on the company's flexibility on these two requirements, or they run the risk of wasting time in the recruitment cycle by interviewing candidates whom they can not afford to hire.

Keep the selection process short

Every company should define the steps required before making an offer to a candidate. The steps should include the various levels of interviews and who conducts them at each level, an interview timeline, and the procedure followed after the completion of each step. With proper preparation, a firm can shorten its interview and hiring process to 30–40 business days, giving it a distinct competitive advantage over firms with much longer recruitment cycles. A shorter recruit-

Survey Shows Compensation Hits Record High

This spring, MRI China Group released its most recent Annual Compensation Package Report in China. The report's data was compiled from more than 300 individuals in mid- to senior-level positions who changed jobs from one multinational corporation (MNC) to another, from January 2007 through January 2008. MRI collected data from more than 115 US or European MNCs across industries in mainland China. Nearly 90 percent of those surveyed were Chinese nationals; 10 percent were foreign nationals.

The report reveals that compensation packages for mid- to senior-level staff at MNCs during the period grew to record levels, despite slower economic growth and appreciation in the value of the renminbi. During the period, base compensation rates jumped 38 percent and total compensation jumped 34 percent within the top talent pool. In addition, PRC nationals made up more than 90 percent of sought-after talent.

More than 95 percent of candidates surveyed accepted total compensation that was worth more than their previous package. Of these, 49 percent of candidates received a more than 30 percent increase over their previous total package. Most compensation package increases were in the base salary component, with candidates becoming more focused on guaranteed income than on the total package.

The banking sector reported the highest compensation increases compared to other sectors, likely because of the rapid expansion and opening of the banking industry in China (see Table). Human resources and finance functional positions remained in high demand, with increases of 35 percent and 26 percent, respectively.

—Tony Dickel and Chris Watkins

Average Total Package Increase by Industry and Function, January 2007–January 2008

Industry	Average total package increase (%)
Banking	53
Industrial/manufacturing	40
Life sciences	37
Chemicals	35
Retail	31
Consumer products	26
Information technology/technology	24
Supply chain/logistics	16
Function	
Human resources positions	35
Finance positions	26

Source: MRI China Group

ment cycle will also boost the employer brand, as candidates tend to perceive quick decisionmaking as positive. To shorten the process, each hiring manager and HR director needs to agree to execute the process in a timely manner; adherence to the schedule can be part of the hiring manager's key performance indicators.

CEOs should treat talent management as an instrumental part of their business plans and take an active role in the hiring process.

Manage candidates' salary expectations

Candidates, especially in China, nearly always want more money than employers are willing to pay. Candidates have rapidly grown more sophisticated in the last few years, and they are much more likely to consult with people in similar positions to discover how much more they should be paid in the new position. Candidates also gather as much information as possible to strengthen their position in the interview process. If they have not changed jobs in the last four years, candidates may expect an even larger percentage increase. In recent years, many employees in China could get a raise of more than 30 percent simply by changing jobs. This expectation is further exacerbated by the "face" issue that can strongly influence an applicant's decision. If candidates believe that they will lose face by taking a lower percentage increase than they originally requested, then they are likely to turn down an offer even if it is 30 to 40 percent more than their current package. Hence, companies should manage candidates' expectations early in the process so candidates will be more realistic when the offer is made.

Know the market

Companies should determine the compensation they can afford for a position at the beginning of the talent acquisition process. Many companies are unaware of how much salaries have increased in China in the last three years and have compensation band structures that prevent them from attracting the best talent in the market. To obtain a more accurate picture of appropriate salary levels, HR directors should conduct annual market research to determine appropriate salary levels for all positions. The company can then make an offer that is in line with market rates.

Use a third party to negotiate or research

A company may find it beneficial to use a third party to negotiate on its behalf and to better assess the real bottom line of a candidate. The third party can be an internal recruitment team or an executive search firm. These professionals can also help keep the process moving quickly, keep the company in the loop on other opportunities that the candidate is considering, and quickly identify problems in the recruiting process—such as a noncompete agreement or the requirement of a lengthy notice period in the candidate's past contract.

Solidify the connection

In China, most candidates will reject or accept offers based on a comparison of their current and potential managers. Candidates must see greater value in going to work for the new line manager than in working for their current manager. Though the employer brand and compensation package are important, the candidate must also see significant benefits in the new relationship, such as acquiring a new mentor and being exposed to new "higher ups" and training opportunities.

In addition, once a candidate has accepted an offer, it is critical for the new line manager and HR director to solidify an emotional connection with the candidate to combat any counteroffers or emotional manipulation (in cases where the current employer pressures the employee to stay at the job) that can occur at this stage of the process. The new hiring manager should maintain consistent communication with the candidate during the resignation and notice period, or the candidate will likely accept a counteroffer. Frequent follow-up phone calls from different staff in the new organization will create a sense of belonging to the new company and decrease the likelihood that the candidate will accept a counteroffer.

Stay focused

During the remainder of 2008, rising inflation, appreciation of the renminbi, and the dynamics of the global economy could all affect compensation trends in China. Depending on the magnitude of each of these factors, compensation could rise further or level off. To remain competitive when attracting talent, companies must stay focused on their recruiting practices. When companies implement their talent acquisition strategy with focus and flexibility, they will gain a significant advantage in the war for talent in China. 完

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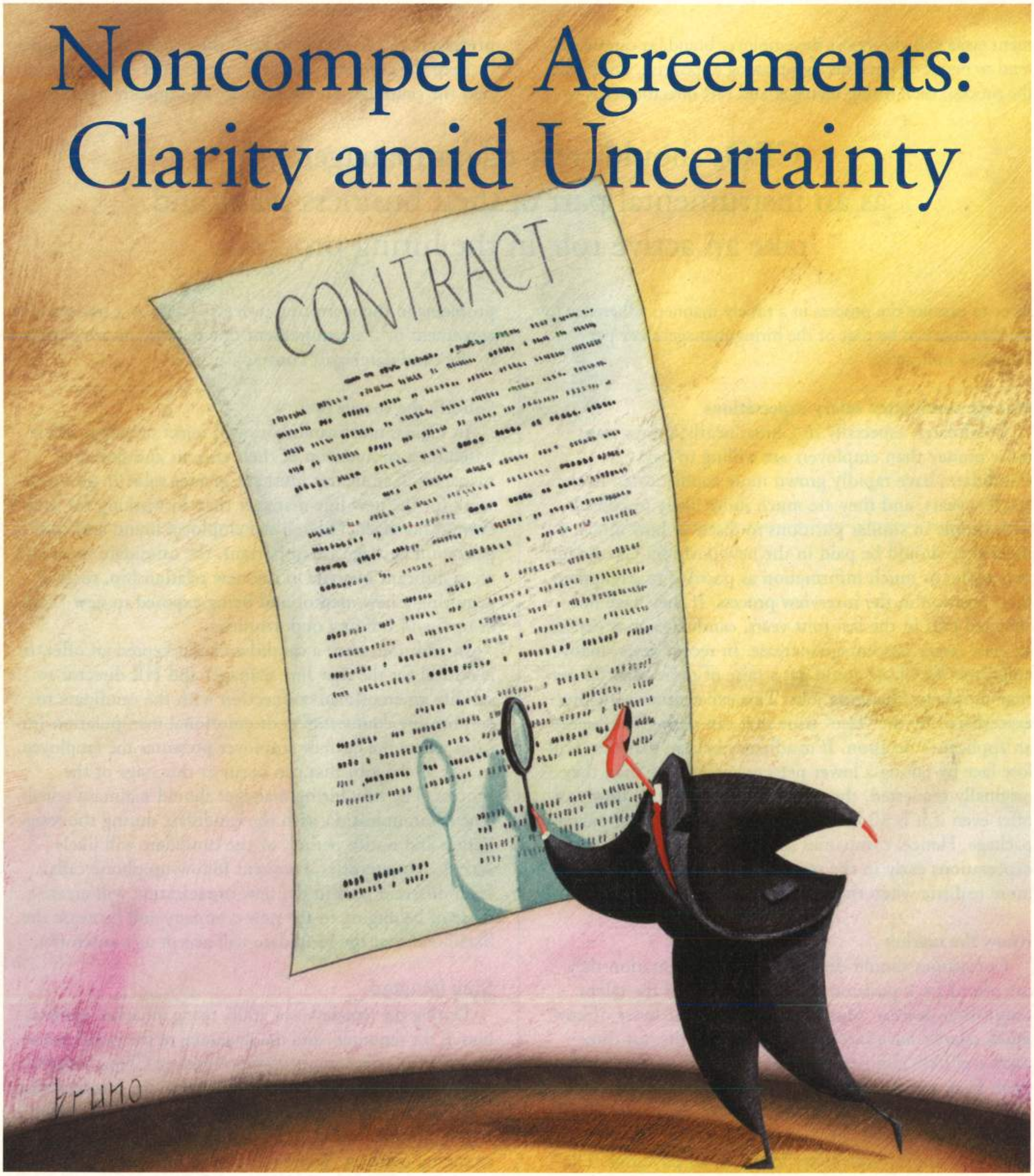
Noncompete Agreements: Clarity amid Uncertainty



New regulations could help companies protect their interests, but employers must structure agreements strategically

K. Lesli Ligorner

Noncompete agreements, or noncompetes, between an employer and employee generally aim to prevent a former employee from working in an area in direct competition with the former employer for a certain period of time. Though noncompetes vary in their applicability in different jurisdictions in China, when drafted properly, they are enforceable and protect employers under PRC employment laws. In the increasingly complex PRC labor market, where employee retention and intellectual property protection are constant concerns, noncompetes have become important tools for China-based employers, who must consider several strategic issues when drafting noncompetes to protect their business interests.

Unlike common law jurisdictions, in which an employer might use court decisions as a first reference when drafting an enforceable noncompete, the PRC has a hybrid socialist and civil law system, and employers must begin with an understanding of the statutes—both national and local. The PRC Labor Contract Law (LCL), which took effect January 1, 2008, imposes limits on the duration of noncompetes, restricts noncompete obligations, and includes parameters for mandatory financial consideration—compensation to induce the employee not to breach the noncompete. Because the enforceability of noncompetes depends greatly on local regulations, companies must also familiarize themselves with the rules of the city or province in which they are located. Finally, though PRC court decisions do not establish binding legal precedent, they provide helpful guidance for understanding judicial interpretations of national laws and local regulations, as well as related enforcement issues.

Perhaps no area of PRC law reflects the country's transformation over the last several decades as much as employment law. Over the last 30 years, the PRC employment model has been transformed from one of immobility and lifetime employment to an increasingly mobile and diversifying labor market. China's transition from a planned economy to a market economy and the entry of foreign investors and multinational corporations (MNCs) have shaped evolving employment practices and encouraged the movement of employees from one company to another. This rapid change in the field of employment law, coupled with the modernization of the legal system itself, has made it essential for employers to consider whether and how to manage the behavior of their former employees to protect strategic business interests.

Quick Glance

- The new PRC Labor Contract Law outlines restrictions and obligations for enforceable noncompete agreements.
- Employers should pay particular attention to national and local regulations on compensation during noncompete periods and to the definitions of competing business, time and geographic scope, and damages to ensure enforceability.

Framework for drafting noncompete provisions

The emerging statutory framework of employment law recognizes the validity of noncompetes. The 1995 Labor Law was the first PRC law to address employment issues specifically, but it does not explicitly mention noncompetes and merely declares that the state advocates labor competition. Nonetheless, foreign-invested enterprises regularly include noncompetes in their employment contracts to protect trade secrets.

In contrast, the LCL contains several provisions that regulate these restrictive covenants. First, according to the LCL, only senior managers (meaning company officers, according to the draft implementing regulations released for public comment in May 2008), senior technicians, and other employees who have access to business secrets may be subject to noncompetes. Second, the LCL limits noncompete restrictions to employees engaged in business activities identical to those of the former employer, whether on their own behalf or that of a competitor. Third, the LCL limits the maximum duration of a noncompete to two years, measured from the employee's termination date. Fourth, the LCL leaves the definition of the noncompete's geographical scope to the contracting parties—the employer and the employee—as a matter of negotiation. Fifth, the LCL states that when the employment contract is terminated, the employer must pay financial consideration to the former employee monthly within the non-competition period for the noncompete to remain enforceable. Finally, the LCL states that a former employee who violates the noncompete may be liable to pay the employer a penalty for the breach. These statutory guidelines provide the general framework for drafting an enforceable noncompete.

Though the statutes provide the nuts and bolts for drafting noncompetes, a review of court decisions from 1998 to 2007 in jurisdictions with the most developed markets, including Beijing, Guangdong, and Shanghai, shows that the enforcement of noncompetes across the country varies considerably. Thus, to develop an iron-clad noncompete, employers must consider local regulations and practices and think strategically about the components of noncompetes, including the definitions of consideration, competing business, time and geographical scope, and damages.

Providing consideration

The threshold issue for PRC courts is whether the noncompete includes financial consideration. Though the LCL lacks guidance on the minimum amount of consideration that is legally sufficient to make a noncompete enforceable, it states that an employer must pay monetary compensation to the departed employee in monthly installments.

Most PRC courts approach the issue of consideration by asking three questions: One, is consideration stipulated in the employment contract? Two, is the amount reasonable given the interests of the employee? Three, did the employee receive separate financial compensation? Most courts will likely enforce the noncompete if the employee and employer agreed in a written employment contract to a specified amount of consideration. Thus, it is important to include the amount of consideration in the noncompete. On the key issue of reasonableness, because the LCL does not impose any minimum consideration for noncompetes, the courts must decide what constitutes a reasonable amount of financial consideration based on local regulations or practice. Court cases generally reveal that an employer must follow a local regulation if it exists (see Table). In reported Jiangsu cases, for example, the court followed and enforced the local regulation, which requires consideration of at least one-third of the employee's total annual income, including bonuses, allowances, and commissions, and held that consideration of less than this amount is insufficient.

In locations where the noncompete consideration is subject to mutual agreement, employers face the difficult question of determining how much consideration to provide. In the absence of a local regulation that specifies the minimum consideration, courts in Shanghai, for example, tend to consider the cost of living, local average income level, and the salary of the employee. Thus, when drafting a template provision on "reasonable" consideration, companies should consider the specific regulations or guidance applicable to the jurisdiction(s) in which the employee is working and the employer is located. (The PRC Labor Dispute Mediation and Arbitration Law, which took effect May 1, 2008, states that jurisdiction may be based on the employer's location or the location in which the employment contract is executed.) Not doing so may render the noncompete unenforceable based on the lack of legally sufficient consideration.

Courts also consider whether the employer paid separate noncompete consideration to the employee. Even if the employment contract specifies consideration for the noncompete and the consideration is reasonable by local standards, if the employer fails to pay the noncompete compensation upon the termination of the employment relationship, the courts usually invalidate the noncompete. Thus, it is not enough for employers to agree to reasonable consideration in the noncompete; employers must also pay the noncompete consideration according to terms of the employment contract.

As noted above, the LCL requires the employer to pay compensation monthly after the employment relationship

Local Regulations on Noncompete Clauses

Minimum noncompete consideration (each year)	District	Relevant Regulations	Date Issued
No less than half of the employee's annual income for the year preceding termination of the employment relationship	Beijing Zhongguancun Scientific and Technological Park	Regulations of Zhongguancun Science and Technology Park, Article (Art.) 44	12/08/2000
No less than half of the employee's monthly income	Tianjin Municipality	Notice of Tianjin Labor and Social Security Bureau on the Agreement of Keeping Business Secrets, Payment of Liquidated Damages, Employment Subsidies, and Several Other Issues with Respect to Labor Contracts, Art. 2	09/05/2005
Subject to mutual agreement	Shanghai Municipality	Shanghai Municipality's Regulations on Labor Contracts, Art. 16	11/15/2001
	Anhui Province	Anhui Province's Regulations on Labor Contracts, Art. 14	02/20/2004
	Jiangsu Nanchang New- and High-Technology Industrial Development Zone	Nanchang New- and High-Technology Industrial Development Zone's Regulations, Art. 39	10/10/2002
	Guangdong Province	Guangdong Province's Regulations on the Protection of Technical Secrets, Art. 13	03/07/1999
Subject to mutual agreement. In absence of an agreement, no less than two-thirds of the employee's annual income for the year preceding termination of the employment relationship	Zhejiang Province	Zhejiang Province's Regulations on the Protection of Technical Secrets, Art. 15	09/30/2005
Subject to mutual agreement. In absence of an agreement, no less than half of the employee's annual income for the year preceding termination of the employment relationship	Zhuhai Municipality	Zhuhai Municipality's Regulations on the Protection of Enterprise's Technical Secrets, Art. 22	07/10/1997
No less than one-third of the employee's annual income for the year preceding termination of the employment relationship	Jiangsu Province	Jiangsu Regulations on Employment Contracts, Art. 17	10/25/2003

Source: K. Lesli Ligorner

ends for the duration of the noncompete period. Based on the administrative burden that this presents to employers, it appears that employers may "prepay" the compensation payments quarterly or otherwise, although making more frequent payments creates incentives against breach. For example, making payments more frequently would protect an employer from making a payment that covers four months, only to discover a few days or weeks after wiring the funds that the former employee has taken the money and breached the noncompete agreement. Another consideration in structuring noncompetes is whether to provide equal monthly installments. It is unclear whether an employer may pay higher sums in the middle and at the end of the noncompete period to provide greater incentives against breach.

Further, the LCL clarifies that the compensation must be paid in currency. As a result, noncompete provisions tied to equity awards or other non-cash benefits will likely be unenforceable in China. In sum, as consideration is the threshold question for the enforceability of noncompetes, the employer should draft this aspect of the noncompete carefully and in consultation with its relevant business units so that they understand the costs and benefits of enforcing a noncompete.

Definition of competing business

As mentioned above, the LCL restricts noncompetes to employees engaged in business activities identical to those of the former employer, whether on their own behalf or that of a competitor. Based on these restrictions, employers must carefully consider how they define the restricted activities and the employee's activities. The definition should not be too narrow, as definitions with greater scope provide more coverage; nor should the definition be too broad, as courts are apt to invalidate any business interest that is so broad as to impair the livelihood of the employee. Some employers find that noncompetes whose definition of a competing business encompasses the operations of the business but does not address the employee's specific responsibilities do not help restrict a former employee's activities. For instance, a noncompete that references the automotive manufacturing industry but does not mention theft prevention technology development will likely be ineffective. Therefore, it is in the employer's interest to draft this description strategically to cover the activities of the business and the job duties of the employee.

Time and geographic scope

Time and geographic scope also require strategic deliberation because the LCL does not provide comprehensive guidance. The LCL sets a noncompete's maximum duration at two years from the termination of the employee's employment. Some employers automatically make the noncompete two years without considering the value of enforcing or the need to enforce the noncompete for two entire years, thus committing themselves—perhaps unnecessarily—to paying two full years of consideration. In some cases, it may be beneficial to describe the time period specified in the contract as a ceiling and allow the employer the discretion to end payments at any point prior to the end of the noncompete period, which would then render the departed employee free from the noncompete's restrictions.

Under the LCL, employers and employees must agree on the noncompete's geographic scope. Nonetheless, as PRC courts have not yet fully addressed the issue of enforceability outside of mainland China, it is unclear whether an employee may be forbidden to engage in specific activities outside of mainland China. It is therefore essential to define the geographic scope in the noncompete, especially whether the noncompete applies to areas outside mainland China, such as Hong Kong, Macao, or Taiwan. Companies that do not define the geographic reach of the noncompete leave the door open to uncertainty and expose this aspect of enforceability to the discretion of the courts.

Damages

The LCL gives employers the right to claim liquidated damages for an employee's breach of a noncompete. Nonetheless, PRC law is silent about how to calculate or evaluate liquidated damages in this context. An earlier draft of the LCL, however, stated that an employee may be liable to pay liquidated damages of up to three times the amount of consideration paid by the employer. Indeed, that formula reflects the current PRC practice of setting liquidated damages at three times the amount of the noncompete compensation.

Continued on page 30

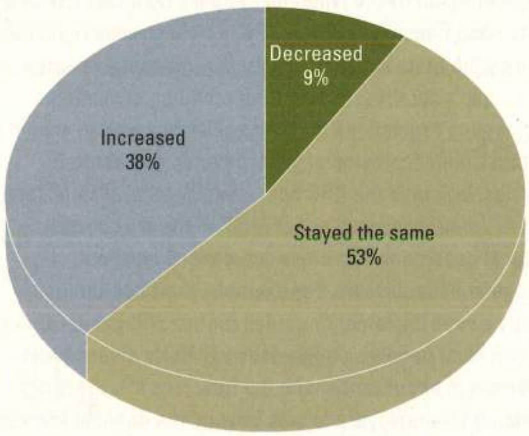
PRC Legal Hierarchy

Drafting enforceable noncompetes requires a basic understanding of the hierarchy of PRC laws. Under PRC laws, the constitution is the highest law in the country, followed by statutes enacted by the National People's Congress (NPC) or the Standing Committee of the NPC, administrative regulations issued by the State Council, and local regulations enacted by local people's congresses and their standing committees. Implementing regulations for national laws are often issued by the State Council, provincial governments, and central ministries. Because the PRC has a unitary legal system, local people's congresses may enact regulations in accordance with local conditions, but those regulations must not contravene national laws. For example, the State Council recently issued implementing rules for the PRC Labor Contract Law, and local people's congresses will likely amend local regulations in accordance with the new law. It is therefore paramount for employers to look beyond the national laws and familiarize themselves with local rules and regulations.

—*K. Lesli Ligorner*

Turnover a

Employee Turnover in the Past 12–18 Months



Note: Responses of human resources professionals

Perspectives on Why Employees Leave

Turnover Reason	Employees	HR Professionals
Lack of growth/development opportunities	Primary	Primary
Better career opportunity elsewhere	Primary	Primary
Insufficient compensation	Primary	Primary
Did not find the work interesting	Primary	Secondary
Insufficient rewards/recognition	Primary	Primary
Insufficient benefits	Primary	Secondary
Did not feel efforts were appreciated	Primary	Primary
Job was not what was expected	Primary	Primary
Poor fit with the organizational culture	Primary	Primary
External factors	Secondary	Primary
Job left too little time for personal life	Secondary	Secondary
The organization changed	Secondary	Secondary
Skills/abilities not a good match for the job	Secondary	Secondary
Felt unfairly treated/discriminated against	Secondary	Secondary
Job changed focus or scope over time	Secondary	Secondary
Poor relationship with the manager	Secondary	Primary
The economy changed, making a move possible	Secondary	Secondary
Poor relationship with co-workers	Secondary	Secondary

Note: Reasons listed in rank order of how often cited by employees.
HR = human resources

Value and Use of Retention Methods

Retention Method	Value	Use
Link pay & performance	High	High
Succession management program	High	High
Career-planning services	High	Low
Employee retention as a corporate objective	High	Low
Organization's vision/mission	High	High
Training & development opportunities	High	High
Improving compensation	High	High
Specialized retention plans	High	Low
New-hire orientation	High	High
Monetary rewards	High	High
Employment brand	High	Medium
Openness of communication	Medium	High
Performance management system	Medium	High
Mentors/coaches for new hires	Medium	Medium
Selection practices	Medium	Medium
Internal studies	Medium	Medium
Increased manager's accountability for retention	Medium	Medium
Educate managers on how to retain employees	Medium	Low
Tracking the impact of retention	Medium	Low
Benefits packages	Medium	Medium
Team-building activities	Medium	High
Nonmonetary rewards	Low	High
Benchmarking	Low	Medium
Stock options	Low	Low
Rotational assignments	Low	Medium
Exit interviews	Low	Medium
Employee involvement in decisionmaking	Low	Medium
Flexible work schedules	Low	Low
Virtual office/telecommuting	Low	Low
Special employee services	Low	Low
Relaxed dress code	Low	Low
Job sharing	Low	Low

Note: Methods listed in rank order of percentage of human resources professionals rating "very valuable."

Retention

Perspectives on Why Employees Stay

Tangibles	Culture	Nature of Work	Growth	Leadership	Work Characteristics	Employees	HR Professionals
				X	A good manager/boss	Primary	Primary
		X			Opportunity for accomplishment	Primary	Secondary
				X	Recognition for individual contributions	Primary	Primary
				X	Great company leadership	Primary	Primary
	X				A creative or fun workplace culture	Primary	Primary
	X				A compatible work group/team	Primary	Primary
			X		Opportunities to learn and grow	Primary	Primary
	X				An organization you feel proud to work for	Primary	Primary
		X			Interesting work	Primary	Secondary
			X		Opportunities for advancement	Primary	Primary
X					Benefits	Secondary	Primary
				X	Employee autonomy (freedom to direct work)	Secondary	Secondary
	X				Balance between work and personal life	Secondary	Secondary
X					Compensation	Secondary	Primary
	X				Promise of stability/job security	Secondary	Secondary
X					Employee lifestyle support	Secondary	Secondary
		X			Variety in the work	Secondary	Secondary
	X				Flexible work conditions	Secondary	Secondary
			X		Opportunity for epatriate assignments	Secondary	Secondary
X					Amount of vacation/annual leave	Secondary	Secondary

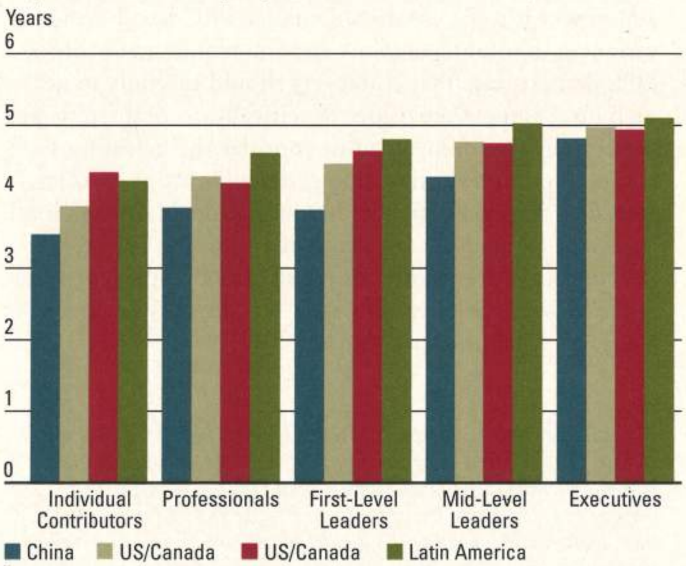
Note: Work characteristics listed in rank order of importance to employees as retention drivers.

About the Survey

Development Dimensions International, Inc. and the Society for Human Resource Management, supported by BMR magazine and China HR.com, surveyed 215 human resources professionals and 862 employees in China. More than 80 percent of responding organizations were multinational corporations.

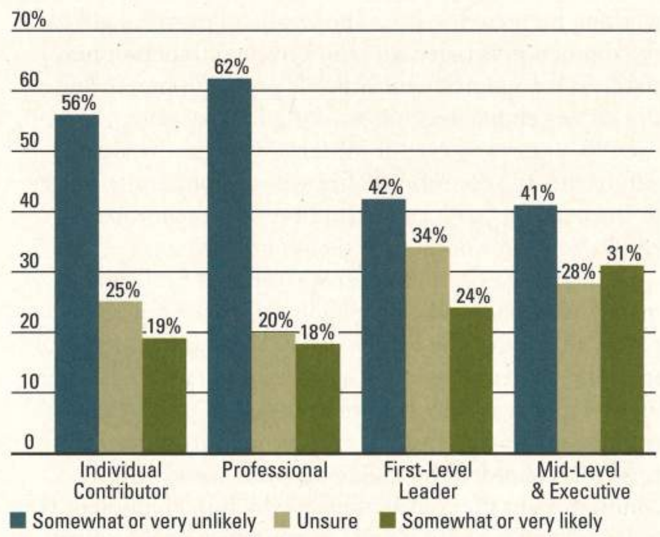
The survey targeted new employees to gain information on turnover; more than 60 percent of the employees surveyed had been with their organizations for less than one year. Roughly two-thirds of respondents were aged 21–30; another 29 percent were 31–40 years old. When asked to describe their job level, 28 percent said they were "individual contributors" (administrative, support, service, technicians, machine operators, etc.), 36 percent were "professional" (engineers, lawyers, physicians, consultants, etc.), 18 percent were first-level leaders (supervisor, group leader, foreman, etc.), and another 18 percent were mid-level leaders (managers of other managers) or executives (people in policymaking positions).

Expected New Employee Tenure



Note: Responses of human resources professionals

Likelihood of Leaving within the Next Year



Note: Employee responses

From "Employee Retention in China 2007: The Flight of Human Talent," conducted by Development Dimensions International, Inc. (DDI) and the Society for Human Resource Management.

Noncompete Agreements: Clarity amid Uncertainty

Continued from page 27

Though the employer must provide evidence of harm to enforce the liquidated damages provision, courts sometimes accept the employer's calculation in the employment contract. Nonetheless, as the stakes rise with higher salaries, higher amounts of noncompete consideration, and new employers funding the litigation over disputes concerning noncompetes, it remains unclear whether courts will enforce liquidated damages provisions of more than three times the noncompete consideration. To protect a company's assets, however, it is strategically important not to set the figure too low. A low figure allows a competitor to pay the damages on behalf of a coveted employee and thereby "poach" the employee. The final text of the LCL eliminated the formula for liquidated damages, suggesting that no formula binds employers.

Enforcement

Enforcing noncompetes in China presents various challenges. In the United States, for example, an employer wishing to enforce a noncompete against a previous employee may seek monetary damages or an injunction to prevent or discontinue a breach. The most significant difference under PRC law is that courts do not award injunctions in the context of noncompete agreements. Indeed, the LCL is silent on whether an employer can obtain injunctive relief in the context of a noncompete.

The PRC judiciary operates differently from courts in the United States. In some US jurisdictions, if an individual breaches or threatens to breach a restrictive covenant, a court may issue an injunction against the individual working for a competitor. The legal and practical effect of the injunction is that a violation of the injunction may result in law enforcement officials *physically* preventing the former employee from working for that competitor. In the PRC, however, even if injunctive relief is awarded, enforcement is doubtful. Police will not physically report to the competitor's location and prevent the former employee from working for that competitor.

Noncompetes run up against structural problems in mainland China's judiciary. Though a noncompete that covers all areas of the PRC is likely enforceable, practically speaking, the employer will often encounter difficulty trying to enforce a court judgment issued in one area of the country in another area. To enforce a noncompete, the court that awarded the judgment must work with its counterpart in the jurisdiction in which the judgment is to be enforced. Inefficiencies, exacerbated by the courts' sense of territoriality, often hamper horizontal coordination within the bureaucracy of the judiciary. Further, the employee may contest the judgment in the second jurisdiction.

Even with the concerns about enforcement, however, employers with noncompetes often find that employees are willing to abide by the noncompete to prevent damage to their reputations. Moreover, even if the employee moves to a competitor in violation of the noncompete, many MNCs discover that informing the new employer of an employee's noncompete obligations is a viable and effective way of enforcing a noncompete because most MNCs respect the rule of law and will honor an enforceable, properly drafted restrictive covenant. In addition, some companies have successfully sued the employer that has hired the former employee.

The 1993 PRC Anti-Unfair Competition Law provides another potential avenue for noncompete enforcement because it holds managers who unfairly infringe on the business secrets of a competitor personally liable for damages. Employers have brought successful actions under this law particularly when the former employee has established a new company that benefits from the business secrets of the former employer.

Crafting an enforceable noncompete

Noncompete clauses help employers to protect their business interests, trade secrets, and intellectual property in China's rapidly expanding labor market. Employers should not simply "cut and paste" a noncompete provision written for another jurisdiction into an agreement and expect it to be enforceable under PRC law. Further, variances in local regulations and the requirements of the LCL demonstrate that employers should carefully draft each noncompete provision. Specifically, to draft strategic noncompetes, employers must consider the definitions of competing business, time and geographic scope, financial consideration, and damages, under national laws *and* local rules and regulations. In accordance with the applicable laws and regulations of their jurisdiction, employers must tailor each noncompete provision for the individual employee it is meant to bind. 完

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A modern metropolis: With a population of over 20 million, Shanghai is one of the largest urban areas in the world.

Cargill is in agribusiness and food production all around the world. In China, it's also in the education business. During its 20 years of operations here, Cargill—a producer of animal feeds, fertilizer and a processor of soybean oil, texturizers, and flavors, to name just a few of its products—has trained more than two million Chinese farmers on effective animal husbandry and crop-growing practices. The results: improvements in meat production, increases in crop yield and quality, plus strong relationships with its Chinese partners and customers.

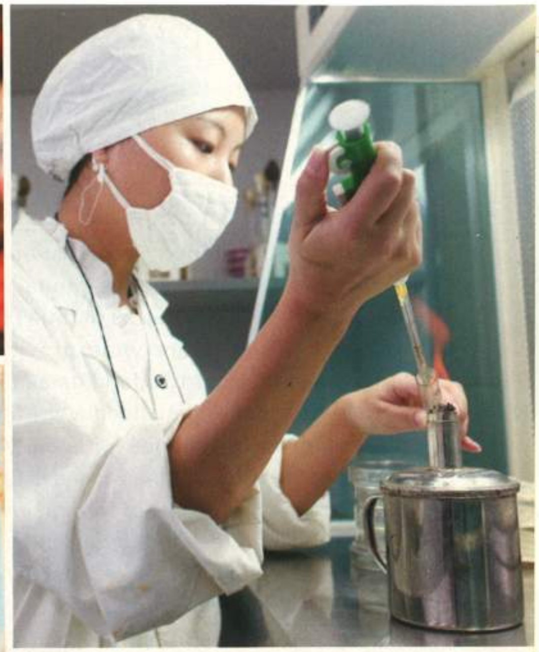
Cargill, which derives $5 billion of its $88 billion in global revenues from China, is investing about a million dollars in building schools in this Asian nation. Some are in small, interior communities in Sichuan and Jilin provinces, where per-capita income is a fraction of that of the prosperous coastal provinces. The company is also very active in the rapidly evolving food industry, working with both Chinese and multinational customers to create new products and improve food quality for the China market.

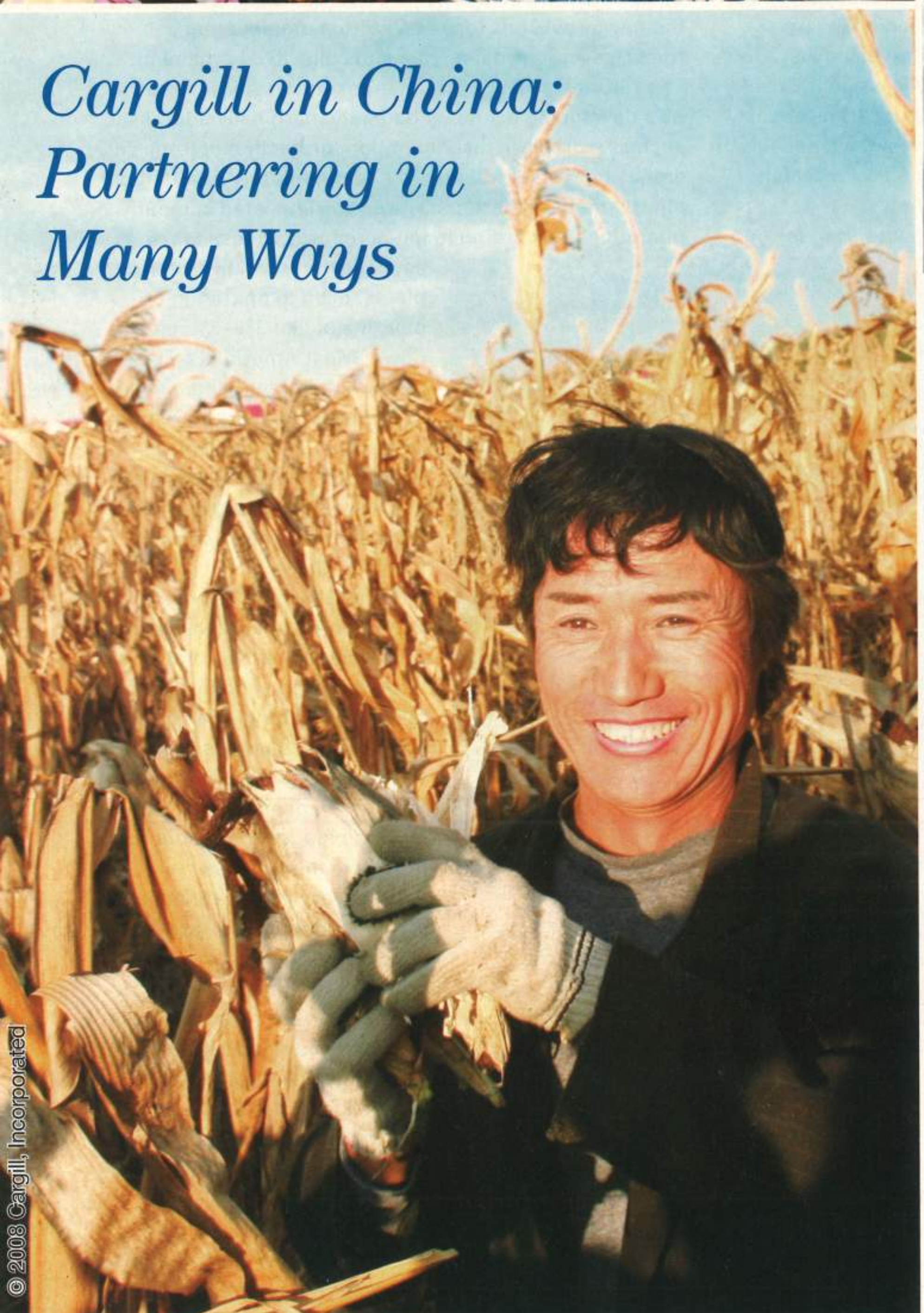
Fertile Markets

It's easy to understand China's appeal. Over the past several decades, this complex nation has evolved from a socialist economy into one that embraces privatization and entrepreneurship. The pace quickened when China joined the World Trade Organization in 2001 and began the process of opening its markets to foreign investors. Today, U.S.-based companies are finding fertile markets here.

Although overall population growth has slowed, China's growing prosperity makes it an attractive market. Its 1.3 billion citizens are divided roughly between 400 million in cities and 900 million in the countryside. In the industrialized cities, where per-capita income is nearly $2,000, three times that of the countryside, annual GDP growth has been about 10%. Overall, GDP, which last year reached $3.051 trillion, is projected to grow 8%–10% in

Jeremy Woodhouse (above); Pete McArthur (previous)





2008. Boston Consulting Group estimates that 25–30 million Chinese households have annual incomes of $4,300 to $8,700, which it defines as middle class. Glittering malls are opening far and wide, providing many places for this new middle class to spend its expanding income.

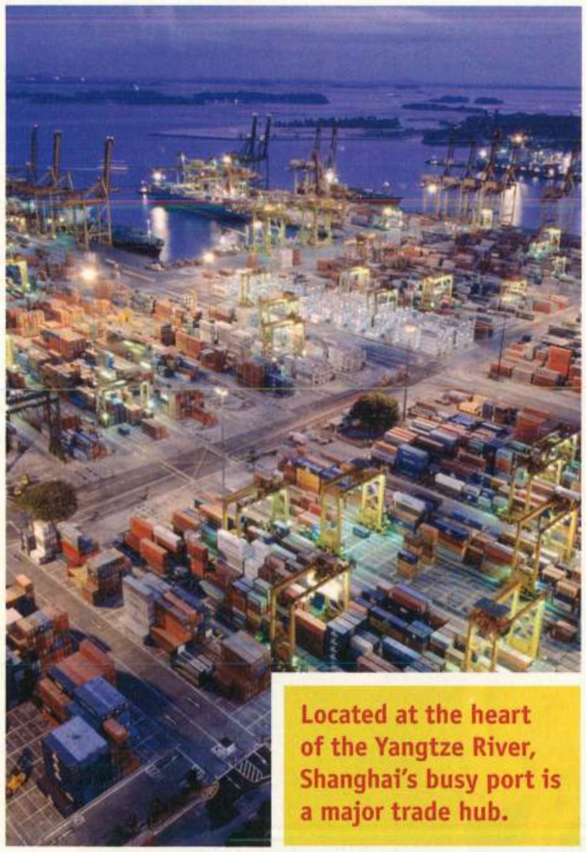
"China is transforming itself away from being just a lowest-cost processor of goods for export," says John Frisbie, president of the U.S.–China Business Council. The country is interested in new forms of foreign investment, and it is incentivizing high-tech industries and medical research firms to locate and invest here, Frisbie notes.

The Chinese government reports that utilized foreign direct investment in China reached $82.66 billion in 2007, a 19% increase over the $69.47 billion invested in 2006. About three-quarters came from wholly foreign-owned enterprises, which have been the main form of investment for many years, according to the U.S.–China Business Council.

For many U.S. companies, China is no longer viewed simply as a factory and port. "Ninety-six percent of our member companies are there to access the emerging middle class of China," says Frisbie. "Most of them say they are profitable and optimistic, and they consider China a top priority." China is now the third-largest export market for the U.S.; in 2007, exports came to $65.2 billion, or $85.4 billion when exports to Hong Kong are included.

At the same time, companies that expect to succeed in China must achieve a balance between their business practices and objectives and those of China. They also must learn to deal with factors beyond their control: Over the past three years, the yuan has gained 15% against the dollar, helping U.S. exports but making sourcing from China more expensive.

Another market factor that must be considered is the steep increase in the cost of raw materials and energy, a trend seen globally. Labor costs also are rising, especially in developed coastal cities such as Shanghai, Hangzhou, and Shenzhen. China is experiencing a labor shortage, most notably in trained middle management.



Located at the heart of the Yangtze River, Shanghai's busy port is a major trade hub.

Alex Mares-Manton

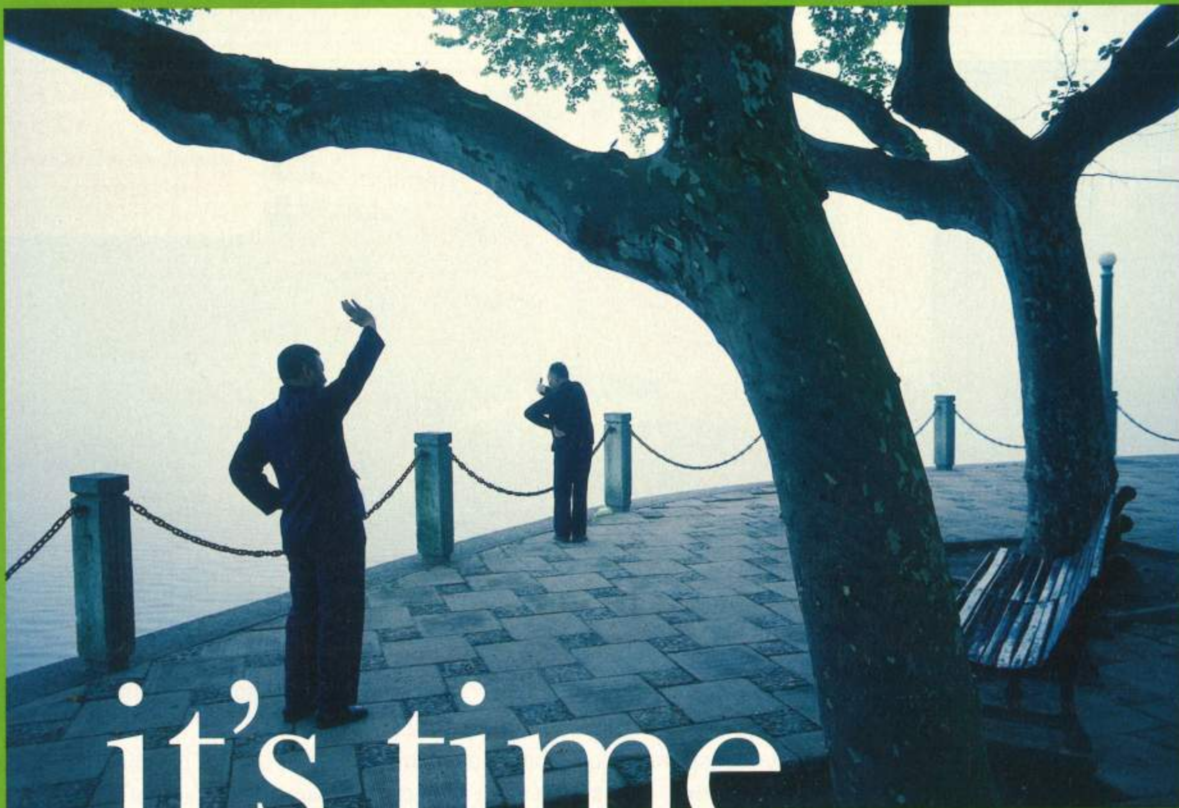
New Rules and Regulations

In January, China enacted a new set of labor and safety reforms aimed at strengthening the country's patchwork of labor rules. Since workers often do not have contracts, the new provisions focus on written employment contracts, severance payments, and collective bargaining. The reforms also cover human resource topics that China's developing economy had only marginally addressed, such as workplace discrimination, protection of trade secrets, and worker training. While not entirely new, stricter enforcement of these measures has impacted company operations. According to initial reports, thousands of small, low-cost manufacturing plants, used to operating on margins of just 3%–5%, closed down. Most American companies, on the other hand, already complied with China's existing labor laws. This latest piece of legislation has raised costs but has not deterred larger investors from their long-term commitments to China.

Establishing a business in China can also be slowed by a complicated approval and licensing system, and by official attitudes that range from protectionist to pro-business. China's central leadership has pressed for more transparency in licensing and pledged to root out corruption in this process.

"It is very important to have an independent legal counsel when you enter into a deal in China," says Elaine Y.M. Lo, senior partner at Mayer Brown JSM and chairman of the Asia Board, based in Hong Kong. "You need someone who knows local market conditions as well as the laws. What the law permits cannot always be done. Similarly, there often exist exceptions to legally prohibited investments or activities." The law firm has its Asian headquarters in Hong Kong and maintains three offices in China. It has a total of 240 attorneys in China (including Hong Kong), many specializing in foreign direct investments, cross-border acquisitions, joint ventures, technology transfers, and licensing and regulatory issues.

Lo illustrates her point by citing a U.S. company that Mayer Brown was assisting in the acquisition of an electronics components business. The Chinese company



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A highly skilled talent pool: an assembly line at an electronics manufacturer.

Alain Le Garsmeur

"looked like a perfect target," she says, with a widespread sales and distribution network. However, the law firm's due diligence revealed licensing, sales, and employment arrangements that fell short of ethical standards required of the U.S. company. In particular, laws requiring that mandatory social security insurances be purchased for each employee are often not strictly followed, with non-compliance okayed by local authorities. "Our client was uncomfortable with this and walked away," Lo says.

In interior provinces, Lo adds, it is not uncommon for a village committee to lease collectively owned agricultural land to foreign investors for building factories without the approval of the PRC Land and Resources Bureau. Local governments of small counties in poor provinces may grant approval for projects that exceed their authority. Although plants are built and large numbers of workers are employed, future enforcement of penalties for infringements looms as a possibility. A U.S. company doing business or partnering with a Chinese enterprise, says Lo, must be comfortable with a "degree of risk."

A Burgeoning Marketplace

Despite these and other challenges, more and more companies are finding that they like what they see in China. "There is an enormous appetite for quality home goods in China," says Mei Xu, founder of Pacific Trade International, based in

The U.S.–China Connection

Facts and figures on bilateral trade and the economies of both superpowers.

Top U.S. Export Markets in 2007 ($Bil)

The Boom in Exports to China ($Bil)

GDP At a Glance ($Bil)

Sources: U.S. Dept. of Commerce, U.S. Dept. of the Treasury, U.S. International Trade Commission, IMF, PRC National Bureau of Statistics, Xinhua News Agency

Shenzhen: China's Window to the World

A view of a city that has become a symbol of national success.

Deng Xiaoping–China's architect of economic reform–always kept a close eye on the progress of Shenzhen. He designated Shenzhen as the first Special Economic Zone (SEZ) of China in 1980 to encourage foreign investment and trade.

Since China's paramount leader put his stamp of approval on the Shenzhen economic "experiment," the city has grown into one of the most prosperous and important economic, trade, and finance centers on the mainland. Bordering Hong Kong in southern Guangdong Province (known as the "factory of the world"), this bustling urban center of 8.5 million epitomizes the success of the Chinese economy.

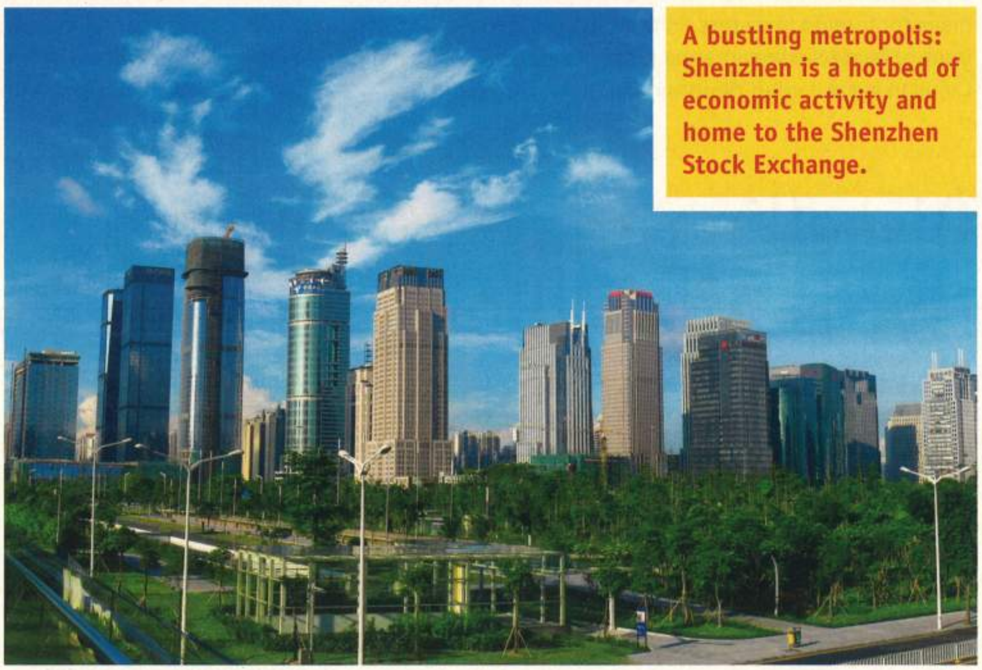
With a population of only 30,000 when the city was designated an SEZ, the rise of this economic dynamo is remarkable. With GDP approaching $80 billion, Shenzhen has ranked as the top mainland exporter every year since 1993, with the world's fourth-largest container port generating imports and exports of nearly $240 billion in 2006. Shenzhen hosts 145 *Fortune* 500 companies and has acted as an incubation center for many domestic enterprises.

"Shenzhen will continue its expansion, and part of this initiative is the ability to go global," notes Shenzhen Mayor Xu Zongheng. "We want to be one of China's premier international cities. To achieve this we must reach less-developed countries in South America, Africa, and Eastern Europe while creating bilateral trade and investment ties with developed nations. A particular focus of this mission is the U.S."

Home of one of the two national stock exchanges (the Shenzhen Stock Exchange has a market capitalization of over $120 billion) and a leading domestic fund-management center, the city is well positioned to handle investment as well as rapidly developing capital outflows from cash-rich enterprises eager to globalize. To support the U.S. bilateral trade and investment initiative, a representative office was launched in Los Angeles in 2001, and another opened in New York City this year. (For info: shenzhenoffice.org)

Shenzhen believes that a key strategy in its drive to become an international trade and investment center is to evolve from an export-led manufacturing powerhouse into a producer of global high-tech products. Companies like Huawei, ZTE, Tencent, Sibiono, Netac, and Chipscreen are among those that have put Shenzhen on the global tech map with a strong service culture and R&D prowess.

One hallmark of this effort is the creation of the Shenzhen Virtual University Park in 2003. The park attracts researchers and academics from 48 universities, such as Lyon Central Polytechnic of France, the University of Alberta, Peking University, and Tsinghua University. It is this growing high-tech base that is expected to generate 35% of Shenzhen's projected $120 billion GDP by 2010.



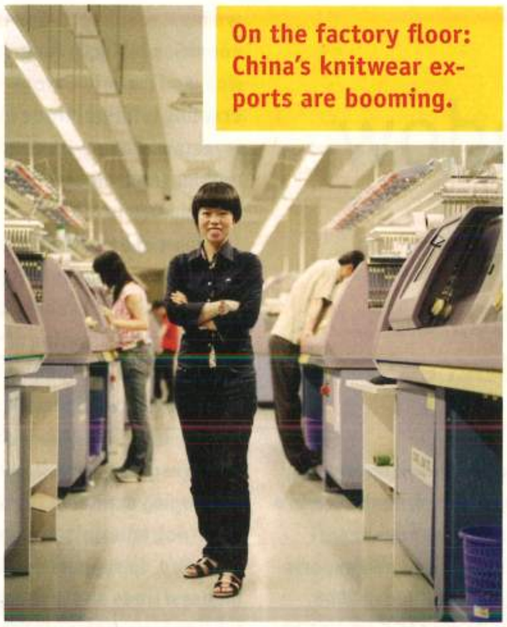
A bustling metropolis: Shenzhen is a hotbed of economic activity and home to the Shenzhen Stock Exchange.

Backed by a strong economic foundation and a desire to push its success story to even greater heights, and home to innovative companies that are among the world's best performers, Shenzhen provides a vibrant and competitive landscape to foreign enterprises eager to play a part in the next wave of expansion. ●

Leading change: Shenzhen Mayor Xu Zongheng

Rockville, Md. The company built a manufacturing plant in Hangzhou, an hour south of Shanghai, to produce products for the domestic Chinese market as well as for export. The company has 30 retail outlets in China. Ten are company-owned and follow the traditional boutique-within-a-department-store model in the leading cities of Beijing, Shanghai, and Hangzhou.

The Chinese government is slowly easing the once-daunting task of distribution, transforming a glacial state-run system into a pro-business arrangement that allows companies to distribute and sell their full line of goods. The government is also easing regulation of restricted segments, among them banking, insurance, and real estate, creating new opportunities for foreign investors. In May, the Hong Kong–based Bank of East Asia became the first bank outside Mainland China to issue a yuan-denominated debit card for China.



On the factory floor: China's knitwear exports are booming.

Insurance is another area of new opportunity. CIGNA entered the China market five years ago and established a rapidly expanding and successful business in life, accident, and supplemental health insurance. CIGNA's insurance products are direct-marketed to consumers through telemarketing and at select banking locations, as part of a joint marketing program.

Access to insurance differs from the U.S., where employer-based health-care coverage is common; instead, the Chinese rely on state-based health-care programs that leave gaps in coverage. To meet a market need, CIGNA offers consumers in China, as well as other Asian-Pacific countries, tailored products that range from cash for hospital stays to personal accident and life insurance.

"Setting up our operation in China has been an exciting experience, not just with the success that the company

Dispelling the Myths About Doing Business in China

According to the U.S.–China Business Council, Americans have a lot of misconceptions about the fastest-growing market in Asia. Here are the myths and the facts that provide a reality check.

1 **U.S. companies invest in China to shift jobs abroad and export products back to the U.S.** In a 2007 poll, 96% of U.S.–China Business Council (USCBC) member companies responding said their Chinese operations were primarily designed to access or serve the China market.

2 **China is causing the decline of U.S. manufacturing.** Except for brief declines during the 1991–1992 and 2000–2001 recessions, real value-added manufacturing output in the United States has risen every year since 1987.

3 **China's market is closed to U.S. companies.** On a combined basis, China and Hong Kong comprise the third-largest export market for the U.S., at $85.4 billion, and many companies sell directly to Chinese consumers.

4 **China's entry to WTO was a bad deal for the U.S.** U.S. exports to China have grown by 300% since China joined the World Trade Organization in 2001. U.S. companies are also gaining access to service sectors in China.

5 **China doesn't allow U.S. companies to operate profitably.** More than 80% of USCBC companies surveyed in 2007 said their China operations are profitable—and most say their profitability is increasing.

6 **China's undervalued currency creates a large U.S. trade deficit and prevents U.S. companies from selling more to China.** China's currency has appreciated against the dollar more than 15% since China revalued the yuan in 2005, but more currency flexibility is needed.

7 **China forces U.S. companies into joint ventures.** Nearly 75% of foreign investment in China goes into 100% foreign-owned enterprises.

SOURCE: The U.S.-China Business Council, a nonprofit that helps U.S. companies do business in China. For information, visit www.uschina.org or call 202-429-0340.

EIGHTFISH

has achieved but also having the opportunity to witness up close and personal the changes taking place in this amazing country," says Mike Elliott, CEO of CIGNA & CMC Life Insurance Co., China. "It has truly been a privilege."

CIGNA is a $17.6-billion company that does business in 27 countries, and international growth, including expansion in China, is very much the company's focus, says Mike Ross, chief marketing officer for CIGNA International. This division reported $1.8 billion in premiums and fees in 2007 and saw a 25% rise in profits from 2005 to 2007, when earnings reached $176 million.

For U.S. companies doing business in China, achieving success means sharing—and meeting—common objectives. In the case of Cargill, the company's objective is to serve a largely agrarian countryside—the very area where Chinese leaders welcome investment in hopes of raising living standards as part of its plan for a more balanced and "harmonious" China.

"Cargill's global expertise in working with farmers will help China increase its food supply and increase farmers' income," notes Cargill CEO Greg Page. The company, which has 4,500 employees in China, has established an extensive network of small, independent distributors who have personal relationships with the myriad of farmers they serve.

In many communities, the company sponsors Cargill Cares Councils that are empowered to identify, design, and fund schools and health-care facilities in rural areas. Company employees volunteer as teachers, which helps strengthen the bonds between the company and the communities. Cargill contributed more than $1 million to relief efforts to help those ravaged by the earthquake in Sichuan Province in May, and its employees provide funds to Red Cross societies and other organizations for near-term relief and long-term reconstruction. Company volunteers will continue to aid relief efforts by participating in school rebuilding projects once reconstruction begins.

As a free-spending, brand-conscious middle class continues to expand opportunities for U.S.-based companies, understanding Chinese culture—and in particular the importance of the relationship with a Chinese partner—is critical. "Before you partner with a Chinese company, go to China and see people face to face," advises Xu, who was born in China and came to the U.S. for graduate school and stayed. "The Chinese value the personal relationship and personal pride more than we can imagine." ●

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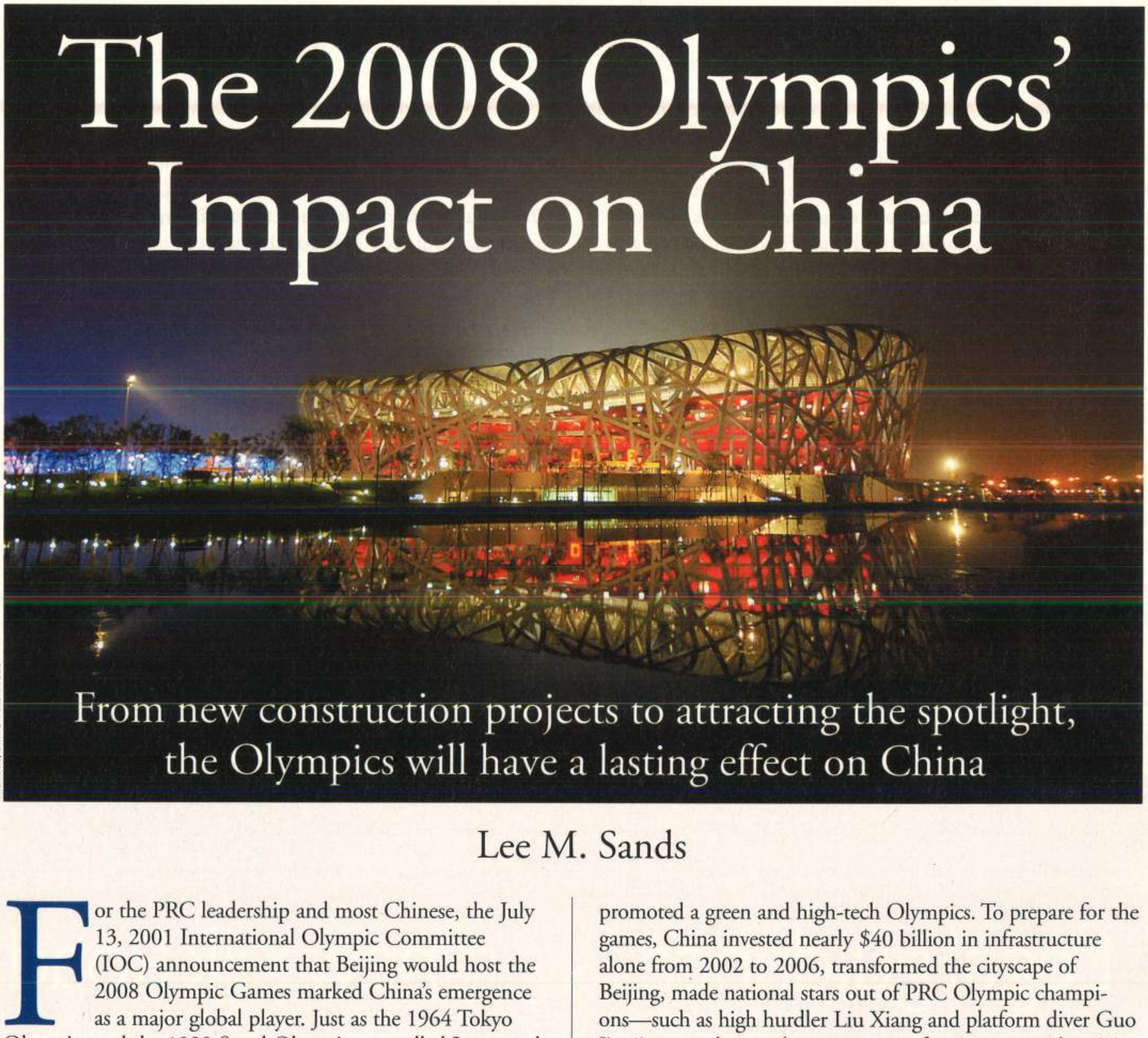
The 2008 Olympics' Impact on China



Wei Yao/China Foto Press

From new construction projects to attracting the spotlight, the Olympics will have a lasting effect on China

Lee M. Sands

For the PRC leadership and most Chinese, the July 13, 2001 International Olympic Committee (IOC) announcement that Beijing would host the 2008 Olympic Games marked China's emergence as a major global player. Just as the 1964 Tokyo Olympics and the 1988 Seoul Olympics propelled Japan and South Korea onto the global stage, the 2008 Beijing Olympic Games will be China's "coming out" party—an event that showcases China's maturation into a great economic and, to a lesser extent, political power. As PRC Premier Wen Jiabao noted on April 24 this year, the Beijing Olympics present an opportunity for China to show the world how "democratic, open, civilized, friendly, and harmonious" it is.

The 2008 Olympics will be among the most expansive ever held, with 16 days of competition from August 8 to 24 in 28 sports inside 37 arenas for 302 gold medals. In addition to Beijing, six other cities will host Olympic events—Hong Kong; Qingdao, Shandong; Qinhuangdao, Hebei; Shanghai; Shenyang, Liaoning; and Tianjin—making the Olympics a national event.

China has embraced the basic ideals of the Olympics with its own slogan, "One World, One Dream," and has widely promoted a green and high-tech Olympics. To prepare for the games, China invested nearly $40 billion in infrastructure alone from 2002 to 2006, transformed the cityscape of Beijing, made national stars out of PRC Olympic champions—such as high hurdler Liu Xiang and platform diver Guo Jingjing—and created a great sense of excitement and anticipation among the public.

Furthermore, the Olympics have had a significant influence on Beijing's economic development, environment, and the growth of the country's advertising, television, Internet, mobile phone, clean energy, and sports sectors. Building on 30 years of economic reform and opening and on the substantial economic impact of China's 2001 World Trade Organization (WTO) entry, the excitement surrounding the games is pulling many of these sectors onto the international cutting edge.

Building a new Beijing

After winning the bid to host the 2008 Olympics, China began a massive seven-year effort to meet IOC's demanding conditions for the games. Having researched earlier Olympic games, in particular the Sydney and Atlanta games, the Beijing Organizing Committee for the Games of the XXIX

Olympiad (BOCOG) began the enormous task of creating an infrastructure that could support such a massive sporting event. To integrate the activities of key central government ministries, the Beijing Municipal Government, and BOCOG, the PRC government created a high-level working group directed by then-Executive Vice Premier Li Lanqing and, since March 2008, by Xi Jinping, PRC vice president and number six in the Politburo Standing Committee.

As Michael Payne, who served as IOC's top marketer for more than 20 years, wrote in *Olympic Turnaround*, China recognized that a critical factor in creating a successful Olympics would be careful coordination among IOC, BOCOG, and the host city. China studied the example of the Atlanta games, where coordination between the operating committee and the city government was poor, according to Payne. To ensure better coordination, BOCOG was staffed primarily with Beijing Municipal Government officials and General Administration of Sports experts, and was led by Beijing Party Secretary Liu Qi and then-Mayor (now Vice Premier) Wang Qishan.

Quick Glance

- After winning its 2001 bid to host the Olympic Games, China launched a massive seven-year effort to prepare for the event.
- The huge inflows of investment to support the Olympics and recreate Beijing have had an important ripple effect on economic growth.
- Though China has experienced some significant hardships this spring, the games will probably be even more important to the country than initially expected.

The Beijing Olympics Action Plan, announced by BOCOG President Liu Qi in March 2002, mandated not only sweeping plans to build stadiums and facilities for the Olympics, but a makeover of Beijing itself. In implementing the plan, Beijing made every effort to abide by international tendering standards and to avoid favoritism. It also imposed the template of IOC's global Olympic programs onto the Beijing Olympic program. Some of the projects in which China has invested to prepare for the games include the following:

Sports facilities

China planned (in some cases, with foreign architects) and built the Olympic Park and the 37 stadiums and venues that will host Olympic events. These include 32 buildings in Beijing—19 new and 13 refurbished—and venues in five other Chinese cities—a sailing center in Qingdao and soccer stadiums in Tianjin, Qinhuangdao, Shenyang, and Shanghai. China also constructed 59 training centers and infrastructure projects for the Paralympic Games, to be held in Beijing in September 2008 following the Olympics. Beijing's stadiums, in particular the National Stadium (or "Bird's Nest"), are state of the art and well designed, and they will be available for use long after the games are over.

Transportation and infrastructure

According to Liu Zhi, deputy director of the Beijing Municipal Development and Reform Commission, from 2002 through the beginning of the games, Beijing will spend \$1.1 billion on transportation improvements, such as building and extending Beijing's subway system, completing the city's light rail system, and constructing and refurbishing more than 318 km of city streets—including 23 roads in and around the Olympics sites, two new ring roads around the city, and high-tech traffic control systems. The city has also built an enormous new airport terminal at the Beijing Capital International Airport and extended the toll road to the airport.

Urban renewal

According to Beijing's 11th Five-Year Plan (2006–10), Beijing will spend more than \$200 million to demolish dilapidated housing and urban buildings; refurbish 25 historic areas, including many of the city's landmarks, old streets, and beautiful, four-corner residences that date from the imperial period; and restore Beijing's many historic places, including the Forbidden City.

High technology

China's capital has budgeted \$3.6 billion to transform Beijing into a "digital" city by 2008, with widespread use of digital and broadband telecommunications, wireless transmission and networking technologies, and "intelligent technologies," including smart cards.

An Olympic lift

Beijing's hosting of the Olympic games has already had a knock-on effect, spurring faster growth or change in several areas.

Tourism

The number of tourists in Beijing has risen rapidly, a result of the increased visibility that the Olympics bring to the host country. Though estimates of the number of people who will visit China during the Olympics—or even the number of people who will visit China this year—vary significantly, it is clear that the games are a magnet for tourists. Chen Jian, president of the Beijing Olympic Economic Research Association, estimated in the spring that Beijing will receive roughly 600,000 foreign visitors and 2.5 million domestic Chinese tourists during the Olympic games and that the number of foreign tourists in Beijing will grow 8 to 9 percent annually in the decade following the games because of the games themselves. (According to the China National Tourism Administration, Beijing had 3.8 million foreign visitor arrivals in 2007, up 11.8 percent over 2006, and China had 42.4 million foreign visitor arrivals last year, up 20.8 percent over 2006.)

The number of hotels in Beijing has also jumped in recent years. Since China entered the WTO and won its Olympic bid, the country has reduced hotel ownership restrictions. Starting in 2002, foreign investors could own a majority stake in hotels, and in 2006, wholly foreign-owned hotels were permitted. These moves cleared the way for an extensive expansion of foreign-owned hotels and other tourism facilities.

Environmental improvements

Every Beijing resident is keenly aware of the city's environmental challenges. Air quality, particularly in the summer, can be less than optimal, with particulate matter at alarmingly high levels. Though Beijing has taken steps to improve air quality, such as ordering coal-burning power plants to reduce emissions, construction projects to halt during the period around the Olympic games, and 200 heavily polluting factories to move out of the city, air quality will remain a worry for the athletes who participate in the games.

Under the Beijing Sustainable Development Plan, China launched 20 projects to improve the quality of Beijing's environment, with an overall investment of $12.2 billion. The city has established new wastewater treatment plants, solid-waste processing facilities, and green belts and built a fleet of clean buses for the games. Beijing has phased out ozone-depleting substances ahead of schedule, made use of water- or air-source heat pump systems to save energy in Olympic stadiums, replaced 47,000 old taxis and 7,000 diesel buses, and began requiring vehicles to meet EU emissions standards. In addition, natural gas (use of which is up tenfold), geothermal, and wind power are gradually replacing coal. Much of Beijing is now covered by trees, bushes, and lawns—a radical departure from the past—and Beijing has set up 20 natural reserves to protect forests, wild plants, animals, wetlands, and geological formations, according to the United Nations Environmental Program's (UNEP) October 2007 report on Beijing's environmental record. The 2008 Olympics will be one of the most environmentally friendly ever, according to the UNEP report, despite concerns about Beijing's air pollution.

Economic development

The huge inflows of investment to support the Olympics and recreate Beijing have had an important ripple effect on economic growth, not simply in Beijing but in areas surrounding the capital. The Beijing Statistical Bureau estimates that spending on the Olympics has added 2.5 percent annually to Beijing's overall economic growth since 2002.

Furthermore, the recruitment of Beijing Olympic partners, sponsors, suppliers, and many other companies that want to take advantage of the Olympic "buzz" in Beijing has helped to boost advertising spending sharply. Advertising spending in China, 42.5 percent of which is focused on television, will likely rise from $14.7 billion in 2007 to roughly $18.4 billion this year, and spending on Internet advertising may rise by as much as 30 percent, according to an October 2007 ZenithOptimedia World Advertising Expenditure Forecast.

Similarly, China's sports industry, immature in 2001, is growing rapidly. The Hong Kong Trade Development Council (HKTDC) estimates that China's sports industry, though tiny now, has a market potential of $250 billion. Per capita sports consumption in Europe and the United States, according to HKTDC, is $300–$500 annually, but in China it is only about $12. Driven by major international sporting events held in China, such as the Beijing 2008 Olympic Games, the Fédération Internationale de Football Association's (FIFA) Women's World Cup 2007, and the Guangzhou Asian Games in 2010, China's sports industry will soon grow by 20 percent a year, particularly in Beijing, Guangdong, Liaoning, and Zhejiang.

Not all is rosy

Though preparations for the Beijing Olympics have gone well, 2008 has been a difficult year for China so far, tarnishing the games in some instances and making the environment in which they will be held much more challenging. The snow crisis in late winter, which revealed weaknesses in China's infrastructure, especially in its electricity grids; the torch relay protests that occurred outside of China; and the massive earthquake in Sichuan and surrounding provinces have turned the focus of the Chinese, and the world, away from the games. What was to be a global celebration of China's achievements has now been tinged with anger and tragedy. Heavily critical foreign media coverage of the game preparations, including coverage of air pollution and tainted food, has also removed some of the shine from the image of the games.

Foreign protests

Though the modern Olympic movement—symbolized by the Olympic rings, torch relay, and cardinal Olympic principles of hope, dreams and inspiration, joy in effort, friendship, and fair play—promotes the idealistic and internationalist nature of the games, this spring's torch relay became highly political. The relay, meant to symbolize China's embrace of Olympic ideals, was marred by protests in Greece, Great Britain, France, the United States, and elsewhere against China's policies in Tibet and the Sudanese region of Darfur and China's human rights and environmental policies in general.

Early this spring, harsh media coverage of China, a characterization of PRC leaders as "goons and thugs" on a US news program, and threats by major Western leaders to boycott the August 8 opening ceremonies sparked dismay and anger in China—particularly among young people, who generally admire the West most. Though Western nongovernmental organizations and protestors may have targeted PRC government policies, the Chinese public perceived these protests as aimed at the country and its citizens. Few Chinese supported the positions of the demonstrators, and most Chinese were deeply offended by images of protestors disrupting the torch relay and the celebration of the Beijing Olympics. Furthermore, the prospect of demonstrations during the games has prompted the PRC government to tighten the enforcement of visa application requirements and shorten the duration of some visas, which could hurt foreign businesses in the short term.

Earthquake response

The tragedy of China's May 12 earthquake and its aftershocks may have altered both the way the Chinese view the Beijing Olympics and the way foreigners perceive China. Compared to the Myanmar government's response to the typhoon in Myanmar, or the US government's response to some natural disasters in the United States, the PRC government's response was swift, transparent, and to an unprecedented extent, driven by public concern for the victims of the quake. The Internet and text messages spread word of the quake within minutes, well before the government was able to respond to it. In addition to government aid workers, nearly 1 million young Chinese volunteered within days to rush to Sichuan and help with the rescue effort, and as many as 200,000 may have actually gone. Domestic media prominently broadcast news of foreign earthquake relief efforts, perhaps an attempt to soften the earlier harsh domestic reactions against France and other countries where there were demonstrations and protests against the torch relay. Western media coverage has been more sympathetic to China since the earthquake hit.

Though the games may still evolve into China's coming-out party, they will be tinged with sadness because of the devastation wrought by the earthquake. At the same time, the earthquake has created a strong feeling of community, particularly among average Chinese who sympathize with the quake victims. The sense of unity and emotion will likely infuse the Beijing Olympics and create a strong sense of national pride and determination to succeed.

Lingering effects

Though the expected economic downturn following the Beijing Olympics in August and the Paralympics in September will likely occur—particularly in the advertising sector—it will be minor and short-lived. China's economy is only beginning to feel the positive impact of many projects associated with the Olympics. For example, investment in the environment has been key to the games. It will continue through 2015, as set in the Beijing Sustainable Development Plan and perhaps beyond, given recent central government attention to the environment. In addition, China's strong economic growth overall will continue to support growth in Beijing itself, and the city's devotion to infrastructure investment—especially in information technology, banking, and the services sector—is unlikely to wane. China's sports sector can only grow more rapidly, and demand for exciting sporting events will surge. Following the Beijing Olympics, the Shanghai 2010 Expo may drive economic and social change to some extent.

The residual benefits of the games are even greater. A successful Olympics will accelerate China's opening to foreign investment, foreign ideas, and internationalization. Though it is difficult to measure human rights and human freedom, China is unquestionably more open and accessible than ever before in its history. By February 2008, 221 million Chinese had regular Internet access and a direct connection to the rest of the world. Information travels at astonishing rates, and the transparent manner in which the earthquake and the games were handled will probably only accelerate this trend.

As long as the strong Western criticism of China this spring does not recur, a successful Olympics will also boost the self-confidence of Chinese citizens, particularly in rapidly developing areas along China's coast. Like South Korean and Japanese companies after their home countries hosted the Olympics, China's great companies—including its Beijing 2008 partners and sponsors—will likely penetrate foreign markets and establish a multinational presence in the next few years. Lenovo Group Ltd., China's premier computer manufacturer, is the first China-based multinational corporation to have joined the ranks of IOC's global top sponsors. Fourteen other Chinese companies contributed up to $60 million to become Beijing 2008 partners and sponsors. Greater national self-confidence, and the sense of community generated by the earthquake, will also make it more likely that China will tolerate, and perhaps welcome, a broader range of ideas.

On the other hand, if Chinese believe that the Olympics "failed" or were badly tarnished because of foreign actions—whether demonstrations or media coverage—China's reaction will be sharply negative. Chinese, particularly those born in 1980 or later, are intensely proud of China's accomplishments but also intensely desirous of global recognition. If that recognition is denied, or if the dominant perception is that the West is happy to exploit China's resources but unwilling to treat China as an equal, then sharp, negative reactions will likely ensue. Reinforced by protectionist or aggressive actions on the part of the United States or the European Union, China's reaction may turn hostile—to the great detriment of the West and to the Chinese people themselves. The earthquake, and the reaction to it, make it much less likely that the Beijing Olympics will be anything other than a positive, uplifting event—though perhaps in a different way than expected. 完

Lee M. Sands *is managing director of Sierra Asia Partners in Beijing.*

Huang Bo/China Foto Press

An Expat View of the Olympics

As Beijing unrolls a red carpet to welcome the world, Olympic preparations are affecting all residents of China's capital

Adam Steinberg

In the run up to the Beijing Olympics, China has endured a series of events widely covered in the domestic and international media, culminating with the devastating earthquake on May 12. Although China toned down the celebratory nature of the torch relay in the weeks after the earthquake, for instance, by observing a moment of silence in several legs of the relay, the general consensus in China seems to be that the best way to honor the victims of the earthquake and boost national morale is to have the Olympics go on as planned.

Innumerable reporters and insiders have called the upcoming games "China's coming-out party" to the world. This now-hackneyed phrase accurately describes how the games will help China showcase its remarkable economic development and role as a world power. But equally telling is what the phrase does not articulate: That the masses of ple coming *into* Beijing—according to estimates made this spring, roughly 600,000 foreign tourists and 2.5 million domestic Chinese tourists, including official Olympic and government delegations, media, corporate sponsors, and heads of state—will have a dramatic effect on life in Beijing.

Quality of life improvements

Many changes made for the Olympic games have improved life in Beijing. For example, the city has tried to reduce pollution, improve transport and logistics through infrastructure projects such as new subway lines and roads, and construct more modern buildings, which has improved the overall quality of housing and entertainment facilities.

Pollution and traffic control

Two issues joined at the hip—air pollution and transportation—are chief among the problems that Beijing has been working to solve. To help curb pollution during the months surrounding the Olympics, Beijing has ordered coal-burning power plants to reduce emissions, heavily polluting enterprises to shut down or reduce production, and construction projects to stop. To control pollution and traffic during the games, Beijing will also restrict the city's 3.3 million autos. Although the details remained unclear as the *CBR* went to press, Beijing Vice Mayor Ji Lin stated in the spring that autos—excluding taxis, buses, and emergency vehicles—will likely be required to stay off certain roads every other day; autos with license plates that end in odd numbers will rotate days with autos with even-numbered license plates. Beijing launched a four-day test of the odd-even license plate number scheme during the China-Africa Summit in 2006, removing 1.3 million cars from the road. To help lighten the demand for taxis, buses and subway trains will likely run 24 hours a day to help move the millions of foreign and local tourists to sporting venues and popular sights.

New infrastructure

Most visitors to the games will arrive at the Beijing Capital International Airport's new Terminal 3, which, at 1.8 miles from end to end, is the world's largest airport terminal. Next, visitors will likely be whisked away in taxis that comply with Euro III emission standards and run on liquefied petroleum gas past the new National Grand Theatre, designed by French architect Paul Andreu, and on to one of Beijing's gleaming new hotels. Beijing's Central Business District is also being redefined by architectural landmarks such as the China Central Television Tower, designed by Dutch architect Rem Koolhaas. The construction of Tower 3, which will be 74 floors and 330 meters tall, will give the China World Trade Center mini-city Beijing's tallest skyscraper.

New subway and light rail lines will also open just before the games. Subway Line 8 will transport passengers from the northern section of the Fourth Ring Road through the entire stretch of the Olympic Green (the Olympic park in Beijing). Line 1 will shuttle passengers from Dongzhimen, along the East Second Ring Road to the airport's Terminal 3. Also, much to the delight of Beijing's expats, the new Line 10 will link the Central Business District to the Sanlitun nightlife area, along the East Third Ring Road in Chaoyang District, and continue all the way to the university district in northwestern Beijing's Haidian District.

Hotel and restaurant boom

Equally impressive is the boom in hotel properties in Beijing. The finishing touches are being added to Beijing's latest crop of luxury hotels just in time for the Olympics. The Grand Millennium Beijing opened its doors in May. As the *CBR* went to press, the Westin Beijing Chaoyang was poised to open in the beginning of July, and the ultra-deluxe Park Hyatt Beijing was slated to open July 14. In addition, Aman Resorts International will open its first China resort in the imperial retreat, the Summer Palace, in July.

In another development, Beijing is experiencing an haute cuisine renaissance. Hot on the heels of Shanghai's acclaimed dining scene, Beijing now boasts several world-class restaurants, including Blu Lobster at the Shangri-La Beijing Hotel; Maison Boulud in the Legation Quarter (a new project of Handel Lee, who established Three on the Bund in Shanghai); designer Philippe Starck's Lan Club; Tian Di Yi Jia adjacent to the Forbidden City; Aria at the China World Hotel; and Capital M—the Beijing iteration of Shanghai's famed M on the Bund. Expect these restaurants to host well-heeled Olympic fans during the games.

Practical issues

Not all Olympic-related changes have been smooth, however. Everyone in Beijing and other Olympic cities will have to fight for tickets, battle crowds of tourists, and adjust to price hikes and stringent security procedures. Other issues, such as tightened visa rules and the arrival of CEOs from overseas headquarters, affect foreigners in particular.

Tough to get tickets

Near the top of the list of practical Olympics issues has been securing tickets to the games. Because the demand for tickets has exceeded the number of tickets for sale—at least for certain events—the process has transformed many expats into ticket brokers fielding requests for coveted Olympic tickets from distant friends in every corner of the globe.

Though the Beijing Organizing Committee for the Games of the XXIX Olympiad (BOCOG) issued about 9 million tickets for the 2008 Olympics, only about 7 million tickets were allocated for sale to the general public; the remaining tickets were set aside for the international and national Olympic committees, visiting heads of state and their delegations, various national sporting federations, media, and other global VIPs. Of the 7 million tickets for sale, roughly 75 percent were allocated to residents of China and roughly 25 percent were allocated to overseas residents. The overseas tickets were distributed to more than 200 countries and sold to spectators through official ticket brokers or national Olympic committees.

As the *CBR* went to press, it looked as though Beijing could become the first Olympic games ever to sell out of tickets.

As the *CBR* went to press, it looked as though Beijing could become the first Olympic games ever to sell out of tickets; by mid-June fans had already snapped up more than 85 percent of tickets available for purchase. That is quite a contrast to the 2004 Athens Olympics, in which only two-thirds of the 5.3 million tickets issued sold. Even the Sydney games, which broke ticket sale records at the time, sold only 87 percent of tickets. Low ticket prices (BOCOG kept prices low enough that many Chinese citizens could afford to attend the games), unusually high levels of interest among China's population, and more media coverage than in previous games contributed to high ticket sales.

Because of especially high worldwide demand, many Olympic fans experienced frustrating and fruitless searches for tickets. Great Britain was allocated only 30,000 tickets for its general public—a paltry sum compared to the 120,000 tickets it received for the 2004 Olympics. In another extreme example, the Philippines received only 20 tickets for the opening and closing ceremonies. (The number of tickets allotted was based on the expected size of the country's delegation to the games.)

CoSport, a New Jersey-based tour operator, was selected as the official Beijing Olympic Games ticket agent in the United States. As a result of high demand, many US fans have been unable to purchase tickets through the standard channels (CoSport was unable to confirm to the *CBR* how many tickets had been allotted to the United States). Consequently, ticket resellers have marked up ticket prices considerably—against BOCOG regulations that prohibit the resale of tickets for profit. Though official ticket prices for the opening ceremony ranged from ¥200 to ¥5,000 ($29–$721) and closing ceremony tickets ranged from ¥150 to ¥3,000 ($22–$433), as the *CBR* went to press, some online ticket resellers were selling opening tickets for $4,000–$5,700 and closing tickets for $2,450.

It was not much easier for residents of China to reserve tickets through the three ticket reservation phases. During Phase One (April 15–June 30, 2007), fans reserved nearly 1.6 million tickets through a ticket lottery system. Phase Two, which was scheduled to be a first-come, first-served ticket reservation system from October 30, 2007 to late January 2008, had to be suspended within hours after its launch, because the computer system crashed after receiving eight times the requests it could handle. The second phase resumed in December on a lottery basis. Phase Three, which was scheduled to be a first-come, first-served reservation system from May 5–June 9, sold out of most events within two days. (Domestic reservations for events in Beijing and Hong Kong sold out, except for handicapped seating. Otherwise, only reservations for Olympic soccer games in Qinhuangdao, Hebei; Shanghai; Shenyang, Liaoning; and Tianjin remained during Phase Three.)

Adding another hurdle to the process, those living in China who were lucky enough to reserve tickets to the opening or closing ceremonies had to submit to BOCOG an additional registration form with personal details and a photo.

Visa restrictions

To tighten immigration controls before the Olympics, the PRC government in the spring tightened its enforcement of existing visa application document requirements and shortened visa durations for "F" (business) and "L" (tourist) visas. Both F- and L-visa applicants must now provide proof of hotel accommodations in China and a roundtrip air ticket when applying for a visa. Travel agencies, hotel operators, and businesspeople have all expressed concern that the visa restrictions could reduce the number of tourists to China this summer.

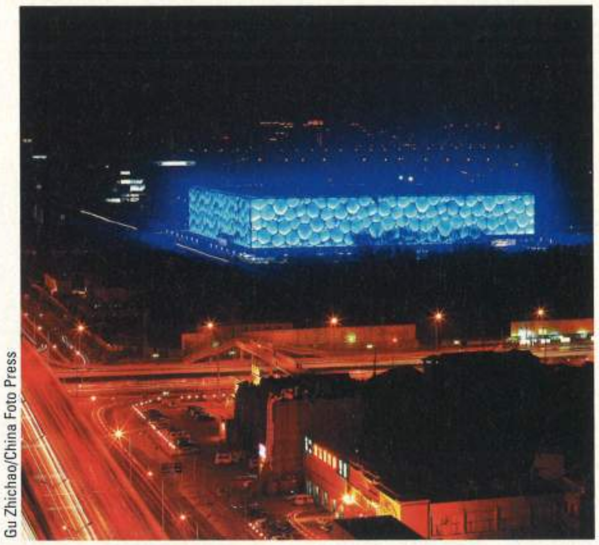
Fully booked?

Beijing has more than 800 star-rated hotels—with around 130,000 rooms and 220,000 beds. BOCOG signed hotel lodging agreements with more than 110 three- to five-star hotels but allocated many of these hotels to IOC sponsors, media, and Olympic and government delegations—leaving only a sliver of rooms available for other Olympic attendees.

Despite Beijing's hotel boom, most five-star hotel rooms sold out months in advance. Beijing offices tasked with handling company reservations may find it difficult to find rooms if they have not already booked them, though as *CBR* went to press, most four-star hotels reportedly had plenty of rooms available during the games. This means that expats, accustomed to having family and friends stay at nearby hotels, will now have limited access to hotels in their own backyard.

Food and hospitality

The nerve center of most of the world's most powerful multinational corporations (MNCs) will be in Beijing during the games. Local Beijing staff have been tasked with obtaining tickets to the opening ceremony and orchestrating complex dining and nightlife logistics for waves of corporate guests. Many senior MNC staff will rotate through Beijing for as little as two days, with an average stay of four days. Such schedules will likely translate into four gala banquets at the same restaurant for the same company over the entire 17 days of the games.



Gu Zhichao/China Foto Press

Luckily, the Beijing offices of many MNCs will not need to handle the vast array of logistical requirements on their own when the MNC's senior leadership comes to town. Most of the large corporate delegations that swarm into Beijing in August will rely on a small clique of professional corporate hospitality firms. These behind-the-scenes maestros will help coordinate details and develop hospitality programs, including ticket distribution, VIP credentialing, completing and submitting necessary paperwork, coordinating gala dinners, and organizing ground transportation, local staff support, and translation. Leading the pack are New Jersey-based Jet Set Sports (a sponsor of the US Olympic Team and the sister company of CoSport), California-based SportsMark Management Group, Ltd., and the UK firm Iluka Ltd. SportsMark is training a core squad of local staff to ensure that 15,000 VIP clients from around the world have a flawless Olympic experience. The company will also manage hospitality programs for companies such as Visa Inc., Adidas AG, Bank of America Corp., the Coca-Cola Co., and Qualcomm Inc.

Wining and dining will take on epic proportions during the games, with hotel ballrooms serving as feeding stations for entire corporate delegations. Bag lunches will be packed for thousands as crowds leave hotels to view athletic events at the Olympic Green. Most of Beijing's top dining and nightlife establishments will be booked solid by delegations, while other restaurants will welcome tour-package crowds rotated over a cycle of four, four-day visits. Other top restaurants, holding out to the bitter end for games-time rental to the highest bidder, will realize too late that their asking price was exorbitant and will subsequently have empty restaurants during the games. After all, many tourists will likely eat at fast-food restaurants, such as McDonalds, during the day and eat in their hotel at night. Beijing expats, much to their surprise, will likely be able to dine at many of their favorite haunts during the games with little or no hassle.

A renewed focus

Though the May 12 earthquake created a somber mood in Beijing, the earthquake may also have made the Olympics even more important to the Chinese people. While attention previously centered on the cartoon-style "Fuwa" Beijing Olympic mascots and other lighter aspects of the games, Chinese and expats alike are now refocused, ready for the main event, and ready for a more serious Olympic games. 完

Gold-Medal-Worthy Hobnobbing

The most luxurious, yet least likely, way to get to the games is as part of one of the more than 90 expected state delegations to Beijing. These delegations will include heads of state, dignitaries, and royalty and will undoubtedly mean unprecedented security at Beijing's top hotels. US President George W. Bush—who has made clear that he believes the Olympics are about sports, not politics—plans to support Team USA in person in Beijing.

Joining the throng of political dignitaries will be scores of elite CEOs and top-brass corporate delegations. The heads of all 12 worldwide Olympic sponsors, including the Coca-Cola Co., Visa Inc., Eastman Kodak Co., and Omega SA, are expected to attend the games. Several of these companies could bring an entourage of more than 2,000 people to Beijing—renting out four or even five hotels for just one corporation.

The Team USA delegation will feature 600 athletes and several hundred support staff. America's best athletes will be feted at the USA House Business and Hospitality Center located in the Worker's Stadium area of Beijing. Next door, Bank of America will help feed families and friends of US athletes at the Hometown Hopefuls Family Center.

—Adam Steinberg

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Guo Guoquan/ChinaFotoPress

China's Changing Culture and Etiquette

Face, guanxi, *and other cultural norms are changing in China, but acquiring a basic level of cultural competence is still important for doing business there*

Suzanne Fox

For neophytes beginning to approach China, the long list of cultural dos and don'ts understandably brings some jitters. Those new to China are told that they must understand the complex web that makes up a *guanxi* network, appreciate the nuances in the Chinese concept of "face," and be briefed on the subtlety of Chinese communication styles. Even seasoned China hands, who likely understand the need to develop cross-cultural awareness and skills for doing business in China, find it difficult to determine how to develop those skills and which ones are the most essential.

Understanding several key cultural concepts is useful in personal and business dealings. First, having some basic knowledge of Chinese history and the political, economic, and social challenges that the country faces is helpful before entering China. Second, it is important to understand cultural differences—particularly verbal and nonverbal communication styles—because so much misunderstanding stems from misreading cues and gestures. Third, face and *guanxi* are still vital concepts, but their importance varies slightly across generations. Finally, knowing the ins and outs of Chinese etiquette, from proper banquet behavior to gift-giving and business card exchange, can only help to enhance business relations and avoid embarrassing faux pas.

Face

The Asian concept of face is similar to the Western concept of face, but it is far more important in most Asian countries. Face is associated with honor, dignity, and a deep sense of pride. Causing someone to lose face, even if the offense was unintentional, could cause serious damage to a relationship.

The collective nature of most Asian societies means that the loss of face affects not only the individual but also his or her family, village, or even country. If one member of a group loses face, the whole group loses face. The notion of face is also present in national sporting events, where losing a game or event can be considered shameful. Chinese athletes have been known to apologize to the Chinese people for not winning a particular game, as this is perceived as damaging not only to the athlete's or team's sense of face, but to the national sense of face. Face is also manifest in the case of the Olympics, an event that involves national pride and holds face-gaining and face-losing potential for China.

In addition, the concept of face is important in the business world. In China, where rank and hierarchy are more important than they are in most Western societies, sending someone of lower status to receive a high-ranking guest could cause the guest to lose face. Similarly, seating someone of high rank inappropriately at a banquet, where guests are seated according to rank, could damage that person's sense of honor and dignity. If the guest attends an event planned in his or her honor—and later reciprocates with a similarly impressive display—both sides can gain face, the host because he or she had the means to put on such an impressive event, and the guest because he or she warranted the event. The absence of the guest of honor from an event that was especially planned could damage the host's face.

Guanxi

Guanxi combines aspects of face, obligation, reciprocity, and hierarchy. Simply put, it is a network of relationships that carries a certain expectation of mutual benefit. A *guanxi* network is made up of people one can count on and trust, who can pull strings and arrange for extra help. First and foremost, these people are family, then perhaps classmates or colleagues. In granting a favor or help, there is the unspoken expectation of reciprocity, and the receiver is somewhat in debt until the favor is returned.

Quick Glance

- Foreign businesspeople going to China should take the time to learn about Chinese culture and history.
- Knowing even a little about concepts such as face and *guanxi* goes a long way with Chinese hosts and can save one from inadvertently causing offense.

Generation gap

Guanxi and face are interconnected and are both critically important in understanding Chinese business practices, particularly with people over age 35. A generational and geographical gap in the importance of these cultural concepts is emerging in China today, however.

Until economic reform and the shift toward the rule of law accelerated in the 1990s, having and maintaining good *guanxi* was essential to getting anything done. People raised during the Cultural Revolution or before China opened in the late 1970s were shaped by a system that relied on a robust network of relationships to get anything done. From buying train tickets to transferring to a different work unit, *guanxi* was essential. In the early days of reform and opening, when much of China's economy was still run by the state, having the right *guanxi* connection was crucial to landing a decent job. In fact, it was often more important than having the necessary skills and training.

China's "Generation Y," or people age 35 and under, particularly in urban centers, spent their formative years in a vastly different society, one in which the focus has shifted from the group to the individual. These young urbanites are more likely to put their own careers and nuclear families before their extended families or communities. As a result of the one-child policy, most members of this generation are only children, raised without siblings but with incredible pressure to succeed and become rich. Many young urbanites in their twenties and thirties have been exposed to Western business practices by attending MBA programs or working in foreign companies. Instead of obtaining their positions through a complex web of *guanxi*, they tend to rely on their own credentials, helped by professional headhunters. They tend to be more savvy and determined than their elders, more inclined to speak directly, and less likely to be concerned about losing or saving face. They are more likely to have read books on business success by Warren Buffet or Donald Trump than the collective works of Mao Zedong or Confucius's *Analects*. For them, getting ahead and making money are often more important than group dynamics or worries about offending colleagues.

Thus, though it is essential for foreign businesspeople to have a deep understanding of face, *guanxi*, and the more subtle aspects of Chinese culture when meeting with older Chinese colleagues, those concepts are slightly less important when interacting with younger urbanites. The rising importance of sound business principles and credentials makes it easier to accomplish things without relying exclusively on *guanxi* connections in contemporary China. Also, China's shift toward the rule of law is weakening the need for *guanxi*. *Guanxi* is certainly still relevant—it is a simple fact of life that having the right connections helps anywhere—but it is no longer the golden ticket to obtaining good jobs and accomplishing business objectives in China.

Cultural competence: Understanding prevailing practices

China is a complex society with a long history that is relevant today. Chinese hosts and business partners are often pleased and enthusiastic when a foreigner shows he or she has taken the time to learn even a little about their country's history and customs. It is also helpful to understand certain precepts in Chinese communication, etiquette, and cultural practices.

History

Although memorizing every Sui Dynasty emperor is unnecessary to succeed in business today, an understanding of the "Century of Humiliation"—the period when colonial powers controlled parts of China—and the sensitivities surrounding Sino-Japanese relations is beneficial. Chinese are still extremely sensitive about these episodes, and it is easy for a foreigner to unwittingly cause offense.

The art of subtle communication

Comprehending the differences between American and Chinese communication styles is crucial for business success. Americans tend to use a direct communication style in which "yes" means "yes" and "no" means "no." In China, however, a direct "no" would cause the person whose proposal is being rejected to lose face, so an indirect style of communication prevails. Thus, a nod of the head could mean either "yes" or "I hear you, but I disagree," and silence does not necessarily imply consent.

Knowing how to interpret indirect cues and nonverbal gestures is particularly important when working across cultures. As more direct communicators, many foreigners need to learn to distinguish the subtle ways of saying "no" in Chinese. For instance, "We will think this over again" (*women kaolu, kaolu*), "That is an interesting idea" (*you yisi*), or "It's not very convenient" (*bu tai fangbian*) are actually indirect ways of saying "no," and the Western businessperson should learn to recognize them and what they really mean. Learning how to maneuver through this language takes time and attention to indirect nonverbal cues. The Chinese complex character "listen" is comprised of the ear, eye, and heart radicals, implying that listening uses not only ears but also the heart and eyes. This is important for foreigners to keep in mind at a business meeting. Much can be missed in a meeting if the foreigner fails to notice these subtle gestures.

The Chinese banquet: What to expect

A formal Chinese banquet is something that most businesspeople in China will experience. Because the banquet is not a casual, sit-where-you-please kind of meal, the seating arrangement is paramount. A guest should always wait for the host to seat him or her, because seating arrangements are based on rank or importance.

Beginning with cold dishes, followed by at least 10 to 15 hot dishes, and concluding with fruit, a typical banquet lasts roughly two hours. In contrast to the West, where children are taught to "clean their plates" and leftovers could signal to the host that the meal was unpalatable, in China, an empty plate signals unsatisfied hunger and indicates that the host did not prepare enough food. Moreover, Chinese hosts will keep filling guests' empty plates until the guest leaves some food on the plate.

Chopsticks, when not in use, should be put on the chopstick rests on the table, not upright in the rice bowl. The image of chopsticks in rice evokes incense sticks that protrude from altars honoring the dead and is thus considered unlucky.

When toasting, a general rule of thumb is to wait until the host offers the first toast and then reciprocate, but one should be prepared for a night of drinking, as it is considered rude to toast only one person and neglect others. Alternatively, toasting with soda is considered appropriate for those who do not drink alcohol. Those unaccustomed to drinking may wish to declare at the outset of a banquet that they do not drink, as drinking too much can cause one to lose face.

Tips to Save Face

- Treat your elders and those who outrank you with respect.
- Try not to show anger, and try to avoid confrontations.
- Try to convey a negative answer in an indirect, gentle manner.
- Do not criticize someone in public or single anyone out in a group situation. If criticism is necessary, pull the person aside and speak privately.
- When reciprocating an invitation, be sure it equals the prior engagement in value.

—*Suzanne Fox*

Tips to Build and Manage a *Guanxi* Network

- The best way to strengthen a *guanxi* network is to stay connected.
- Send small gifts or ask for small favors to keep a relationship active.
- Host an occasional get-together.
- Remember the major Chinese holidays and send greetings.
- Get to know your colleagues' outside interests and find ways to support them, like getting tickets to a sporting event or concert.

—*Suzanne Fox*

Humility

Young people in China today may not have a clear understanding of Confucius's *Analects* or of his influence on Chinese and other East Asian civilizations, yet aspects of Confucian principles still pervade China today. Despite the current emphasis on making money, concepts like manners and humility are arguably as important today as they were during the Han Dynasty.

It is considered impolite to boast or brag, so a common response to a compliment or praise is to be self-deprecating. Complimented on an exquisite home-cooked meal, a Chinese host would be more likely to make a self-deprecating response about the evening than accept a compliment about the food. Accepting compliments straight out is considered impolite.

Yet a distinction must be made between *humility* and *humbleness*, for though it is considered polite to show humility in one's actions, the tendency for China's nouveaux riches to flaunt their wealth is anything but humble. A Chinese millionaire, living in a gated community and driving a Porsche is certainly not humble, yet when asked about business, he or she will likely claim not to be doing that well, in an attempt to show humility.

Giving gifts

The concepts of humility and face are also connected to Chinese gift-giving etiquette. For instance, although it is completely appropriate in the United States to open a gift in front of the gift-giver, such an action is generally considered impolite in China. What if, for example, a guest opened a gift that was much less valuable than expected in front of the host? This could cause embarrassment, discomfort, and the possible loss of face for both the recipient and the giver. It is better to accept the gift with two hands, thank the person, and place it off to the side. In this way, no feelings are hurt and no face is lost.

Knowing in advance what to give and what not to give is also helpful. A clock, for example, tops the list of inappropriate gifts because it symbolizes impending death. Other inappropriate gifts include green hats, which have negative sexual connotations; yellow robes, which are reserved for burial; and white flowers, as white is the color of mourning in China. On the other hand, company gear with logos, and local specialty foods or products, are appropriate gifts.

Numerology

An understanding of numerology will yield insights into why certain days and numbers are considered auspicious and what should be avoided or sought. For example, according to Chinese numerology, the number "8" (*ba*) brings luck because it sounds like part of "to get rich" (*fa cai*) in Chinese, which is why the opening ceremony of the Beijing Olympics will begin on August 8, 2008 at 8 pm. On the other hand, the numbers "4" and "14," which sound like "death" and "want death" in Chinese, should be avoided if possible, as they are considered unlucky. In the United States, many buildings skip the thirteenth floor. In China, many buildings skip the fourth and fourteenth floors. In another example, a US company in Hong Kong was dumbfounded when it received very few calls after its grand opening. That was explained by its phone number, 414-1414, which in Chinese sounded like "death, want death, want death, want death," and few Chinese would dare dial those numbers.

When in Rome...

Entering China with even a rudimentary understanding of Chinese culture and business etiquette can help business interactions go more smoothly. Because China is a complex country to navigate, particularly for the newcomer, knowing how to behave at a banquet or what gift to give your Chinese host help prepare a Westerner for doing business in China. Understanding the larger, more pervasive aspects of Chinese culture provides a much deeper appreciation of the country and yields insights into the cross-cultural issues that may affect business. These aspects include Chinese communication styles and values, such as outward humility and a sense of community. Keep in mind, however, that the rules may vary slightly with the age of the person with whom you are conducting business and that the emerging generational gap in China will likely determine the importance a person attaches to face and *guanxi*. 完

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Case Study: The Importance of Relationship Building

A few years ago, a US businessman went to China for a three-day business trip. He went specifically to attend a series of meetings with the ultimate goal of signing a contract, and he had a tight schedule. For the first two days, the Chinese hosts took him out to play golf. This was his first trip to China, and he thought that golf was a complete waste of time.

Like most Americans, he wanted to accomplish specific goals and tasks. He did not understand that from the Chinese perspective, there can be no business deal until there is trust and a relationship, and there can be no relationship until the parties get to know one another. Thus, to the Chinese, the days of golf were essential to get to know their potential business associate. The Chinese wanted to know this person's character and whether he could be trusted. After the second day of golf, the group shared a Chinese banquet. On the third day, the business deal was negotiated.

—*Suzanne Fox*

Advance Notice: PRC Merger Notification Rules

New pre-concentration notification rules clarify some Antimonopoly Law requirements but leave other questions unanswered

Jun Wei

China's Antimonopoly Law (AML), which takes effect August 1, 2008, requires business operators to notify the antimonopoly enforcement authority before forming a concentration that reaches a prescribed threshold. China needs clear rules related to the type of transactions that must be reported to the reviewing authority, but some important provisions of the current draft Regulations on Enterprise Concentrations, released for comment on March 27 by the State Council Legislative Affairs Office (SCLAO), are ambiguous, and observers hope that SCLAO will make changes to clarify these points before releasing the final rules.

Although the PRC government has not yet specified which authorities will enforce the AML, it is widely expected that the Ministry of Commerce (MOFCOM), National Development and Reform Commission (NDRC), and State Administration of Industry and Commerce (SAIC) will be jointly responsible for enforcement. MOFCOM will likely serve as the primary reviewing authority.

Highlights of the draft

The draft defines key terms, specifies the thresholds that may trigger the notification requirement, and introduces certain procedures for filing notifications. It also stresses the government's responsibility to maintain the confidentiality of applicants' information. The draft mainly addresses the following points:

Definition of "control" and "decisive influence"

The draft clarifies what constitutes "control" and "decisive influence," key terms not defined in the AML. According to the draft, "controlling other business operators" refers to any of the following situations:

- Acquiring 50 percent or more of the voting shares or assets of any other business operator (a term that the AML defines as an individual, company, or other entity that engages in the production or operation of commodities or the provision of services);
- Becoming the largest shareholder of the voting shares or assets of any other business operator;
- Effectively controlling the majority voting rights of any other business operator;
- Deciding the appointment of half or more of any other business operator's board of directors; or
- Any other circumstances described by the authority that reviews the concentration of business operators.

The draft defines the "ability to decisively influence other business operators" as the "ability to decisively influence the production and/or operation decisions of any other business operator."

Notification thresholds

According to the draft, if a proposed concentration meets any of the following criteria, it will not be approved until after the parties submit pre-concentration notification to the reviewing authorities:

- During the previous fiscal year, the total global turnover of all the business operators participating in the concentration exceeded ¥9 billion, and at least two of the participating business operators each had a turnover of more than ¥300 million within China;
- During the previous fiscal year, the total turnover within China of all the participating business operators was more than ¥1.7 billion, and at least two of the participating business operators each had a turnover of more than ¥300 million within China; or
- The concentration will give the participating business operators more than 25 percent of an industry's market share in China.

Notably, the draft establishes the reviewing authority's right to require pre-concentration notifications on a case-by-case basis at its discretion and on its own initiative. In addition, the draft stipulates that even if a concentration does not fulfill any of the above criteria, the reviewing authority may require a pre-concentration notification if it determines that the concentration could eliminate or restrict competition.

Notifying party

The draft differentiates notifying parties according to the three situations listed in the AML that could lead to concentration. A concentration of business operators refers to any of the following situations: a merger of business operators; obtaining control of any other business operator through acquisition of equities or assets; or obtaining control or decisive influence over any other business operator through contracts or other means. The third situation covers all the means of obtaining control or decisive influence over any other business operator other than acquisition of equities or assets.

Review procedures

The draft introduces a set of procedures for the review of a concentration. If the documents or materials submitted by a notifying party are incomplete, the reviewing authority must notify the filing party in a timely manner of the supplemental documents or materials necessary to complete the filing. The draft does not provide any timeframe for notifying the filing party.

The draft adopts the concept of an "expedited preliminary review mechanism." When it is evident during a preliminary review that a concentration will not eliminate or restrict competition, the reviewing authority should promptly decide not to review the matter further and must give the operators written notification of such a decision in a timely manner. Again, no timeframe is given.

Confidentiality

The draft states that the reviewing authority and its staff must maintain the confidentiality of trade secrets learned through a pre-concentration notification, as well as of information that a business operator identifies as confidential.

The draft stipulates that if, in a business operator's opinion, the leak of its submitted documents or materials would cause substantial adverse effects, it may request the reviewing authority to treat the documents or materials as confidential. If the reviewing authority acknowledges that the business operator's request is valid, it will treat the submitted documents and material as confidential and may also require the business operator to provide non-confidential summaries of the documents and materials. The draft also requires the reviewing authority to establish strict internal rules regarding confidentiality. According to the AML and the draft, if the reviewing authority's staff members abuse their power, neglect their duties, engage in favoritism, engage in fraudulent practices, or disclose trade secrets or confidential information, and if such an act constitutes a criminal offense, they will be punished under the criminal law. If the act does not constitute a criminal offense, they will receive administrative sanctions in accordance with the law.

Quick Glance

- The draft pre-merger notification rules aim to clarify requirements in the PRC Antimonopoly Law by defining key terms, such as "control," "decisive influence," and "notifying party."
- The rules outline review procedures and impose strict confidentiality requirements on reviewing authorities.
- The rules introduce some burdensome documentation requirements, vaguely define some terms, and lack clear timeframes.

Ambiguity abounds

The draft has introduced substantive requirements with regard to the definition of concentration, notification thresholds, and procedural considerations that will apply to the antimonopoly review of concentration transactions. These provisions present positive developments and reflect international best practices and will therefore be familiar to antimonopoly practitioners with international experience.

In particular, SCLAO's adoption of a turnover standard that incorporates the "local nexus" requirement is a positive development (see p.54). Since turnover can objectively reflect the relationship between business operators and the market, as well as the business operators' competitive strength, competition authorities around the world accept this criterion for notification. The draft also provides the local nexus requirement by addressing situations in which at least two of the participating business operators each had a minimum turnover within China during the previous fiscal year. This differs from the current rules, in which the pre-concentration notification thresholds can be triggered by only one of the business operators (especially the acquiring party). The adoption of the turnover standard with the incorporation of the local nexus requirement ensures that the review process will consider the foreseeable effects on both competition in the Chinese market and the conditions of the business operators to be concentrated.

Despite these welcome developments, many provisions remain ambiguous and introduce an element of uncertainty. Parties to a concentration should pay particular attention to the following provisions.

Definition of "concentration"

Though the draft provides a list of situations that constitute an "acquisition of control," its jurisdiction over certain situations remains unclear. For example, it is uncertain whether acquiring the same percentage interest as other shareholding business operators of the target business operator should be considered a concentration. In addition, neither the AML nor the draft explicitly states that the creation of a joint venture constitutes a concentration.

Another serious practical difficulty results from the lack of rules for multiple transactions. It is expedient to define concentrations as covering operations that bring about lasting changes in the control of concerned business operators, and therefore in the structure of the market as a whole. It is thus appropriate to treat transactions closely connected through interlinking conditions as a single concentration. Examples of such multiple transactions include the acquisition of an additional percentage of the voting shares or assets of any other business operator after the acquisition of an original percentage, acquisition of a certain percentage of the voting shares or assets of any other business operator as consideration for the sale of its own voting shares or assets, or a series of securities transactions that takes place within a reasonably short time period.

But to improve the efficiency and transparency of the concentration control rules, the definition of "concentration" should exclude certain transactions not aimed at determining the competitive conduct of the acquired business operators. Examples of such a transaction include temporarily holding securities in a business operator with the intention of reselling them or acquiring bankrupt business operators.

Turnover calculation

The draft does not specify the method for calculating the turnover of participating business operators, leaving it to be addressed at a later stage. The 2005 draft of the AML, however, indicated that the calculation applied to affiliated business operators and business operators under the control of business operators participating in a concentration. The previous version of the draft implementing regulations contained a similar provision. These provisions indicate the reviewing authority's preference for a turnover calculation method for all affiliated business operators and business operators under the control of a business operator participating in a concentration.

In practice, business operators often lack access to information on affiliated companies in which they hold minority ownership interests or find it difficult or burdensome to calculate the turnover of all of their affiliated business operators and business operators under their control. Many countries and regions with advanced competition laws include only certain types of affiliated business operators—such as those that directly or indirectly own more than half the capital or business assets or have the power to exercise more than half the voting rights—in the calculation of the participating business operators' turnover.

A related issue is the composition of "turnover." For example, it is unclear whether sales rebates, value-added taxes, and other taxes that are directly related to turnover should be calculated in "turnover." Business operators and the reviewing authority might have different understandings of the composition of turnover, thus rendering it uncertain whether the participating business operators must notify the reviewing authority.

Subjective and opaque notification thresholds

Notification thresholds should be clear and simple—and based exclusively on objectively quantifiable criteria—to permit business operators to easily determine whether they need to notify the authorities about a concentration. The market share standard is determined by the definition of "relevant market." But the definition of "relevant market" can be subjective and difficult to apply in practice, especially in differentiated product markets. Defining the relevant market, measuring and assessing the actual or potential competitive positions of various industry participants, and calculating the specific market shares of the competitors are all difficult, multifaceted issues. The evidence and analysis pertaining to

Notification thresholds should be clear and simple—and based exclusively on objectively quantifiable criteria

Local Nexus Requirements

The "local nexus requirement" is adopted by the International Competition Network's recommended practices, which say that jurisdiction should be asserted only over transactions that have an appropriate nexus with the jurisdiction concerned. Concentration notification thresholds should incorporate appropriate materiality standards regarding the strength of the local nexus required for concentration notification, and a transaction's nexus to a jurisdiction should be determined based on activity within that jurisdiction, measured by referencing the activities of at least two parties to the transaction in the jurisdiction or by referencing the activities of the acquired business there. Notification thresholds should be designed to capture only transactions that are likely to produce real anti-competitive effects within the jurisdiction to the detriment of its consumers.

—Jun Wei

these issues are often complex, and the ultimate assessment is often, to some degree, indeterminate. Moreover, parties usually lack access to precise sales information or do not maintain specific market share data for competitors. Third-party estimates are often unavailable or lack specific market share data for market participants. Market share-based tests may be appropriate for later stages of the concentration control process, such as determining the amount of information required in a notification and the ultimate legality of the transaction, but such tests are inappropriate for determining whether a transaction requires notification. Likewise, it would be unreasonable to require a pre-concentration notification upon the reviewing authority's request because this standard is subjective and non-transparent, and business operators would be unable to anticipate it.

Burdensome documentation requirements

Three issues in the draft are worth flagging for possible adjustment. First, it is unclear which documents should be included in the explanation of a concentration's impact on competition in the relevant market. The notifying parties and reviewing authority could each interpret this provision differently, which would cause ambiguity and inefficiency in the review process.

Second, the burden the required notification materials impose on notifying parties should be reduced. Although the AML and the draft list only a limited amount of information, they also authorize the reviewing authority to require "other documents and information," which allows the reviewing authority to require excessive information.

Third, the AML and the draft require the full text of the concentration agreements and the audited financial reports in Chinese. Most international concentration agreements and audited financial reports are in languages other than Chinese, so producing translations for such supporting materials may be quite burdensome. Though it is appropriate for the draft to require notifications to be submitted in Chinese, the reviewing authority should accept summaries and excerpts translated into Chinese, and other means of reducing the translation burden, in line with the Recommended Practices for Merger Notification Procedures adopted by the International Competition Network (ICN). Although ICN Recommended Practices are not binding, their provisions are widely accepted by competition authorities throughout the world. In addition, China's Guidelines on Antimonopoly Notification for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (which took effect in March 2007) require only Chinese summaries of such materials.

Many other issues still need further interpretation or clarification. For example, the draft lacks specific rules for the timing of the notification. Notifying parties should have an opportunity to meet with the reviewing authority at key points of the investigation, rather than only at the pre-notification stage. The ambiguity of certain key words, such as "a prompt decision" and "in a timely manner," may give officials too much discretion in the expedited preliminary review mechanism.

Notifying parties should have an opportunity to meet with the reviewing authority at key points of the investigation, rather than only at the pre-notification stage.

Further clarification needed

If the State Council finalizes these provisions, they would supersede the antimonopoly notification provisions of the Rules on Mergers with and Acquisitions of Domestic Enterprises by Foreign Investors, which took effect in September 2006. The Guidelines for Antitrust Filing for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors issued by China's Antimonopoly Investigation Office in March 2007 would also be revised to reflect new rules.

The draft leaves some issues unresolved, indicating that the government has been unable to reach a consensus. The draft has also introduced some provisions that may give the government more discretion to regulate the notification requirements and process as it sees fit. The interpretation of these rules may raise some practical difficulties in China during the initial implementation period, given the reviewing authority's lack of experience in more comprehensive and sophisticated notification review procedures. Since many provisions of the current draft are rather general in nature, further changes to the draft before—and to the detailed notification guidelines after—its adoption will be expected. 完

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China Investment Corporation Faces Formidable Challenges

Greater transparency and adherence to international practices would improve the chances of a warmer welcome abroad

Friedrich Wu and Arifin Seah

The sovereign wealth club acquired a new member with the official launch of the China Investment Corp. (CIC) on September 29, 2007. The arrival of CIC has further heated the debate over sovereign wealth funds (SWFs) and their implications for global financial markets. This is because, in making its investments, CIC can tap into China's huge official foreign exchange (forex) reserves, which by the end of March 2008 had surged to $1.68 trillion. The World Bank has projected, rather conservatively, that China's forex reserves, buoyed by consecutive record current-account surpluses and foreign direct investment inflows, will hit nearly $2 trillion by the end of 2008. Already, according to Standard Chartered Global Research, CIC's initial working capital of $200 billion makes it the fifth-largest SWF in the world today, behind those of Abu Dhabi, Norway, Singapore, and Kuwait.

CIC's portfolio allocation and investment strategy

The allocation of CIC's $200 billion in assets was clarified last November by PRC Vice Minister of Finance Li

Yong. One-third of its $200 billion capital has been allocated to buy the Central Huijin Investment Co., an equity-holding giant—previously under the control of the State Administration of Foreign Exchange (SAFE) within the People's Bank of China (PBOC)—that has acquired substantial stakes in some of China's largest state-owned banks, securities firms, and insurance companies. Another third of CIC's assets will be deployed to enhance the capital of the Agricultural Bank of China and China Development Bank, with the latter recently receiving $20 billion from CIC. Li also indicated that CIC will invest the remaining third in world financial markets, albeit gradually and cautiously. In an effort to pre-empt international political backlash, he also made it clear that CIC would avoid investing in strategic sectors overseas such as airlines, telecommunications, or oil. More recently, however, CIC President Gao Xiqing noted that less money would be needed for recapitalizing the two state-owned banks, making more money available for CIC's overseas investments, thus bringing the value of funds allocated for that purpose up to $90 billion, or 45 percent of CIC's total initial working capital.

CIC's investment strategy for its international portfolio of $90 billion consists of three elements: subscribing as a cornerstone investor in initial public offerings (IPOs), outsourcing a portion of its funds to external asset managers, and investing in financial firms that have been hit by the subprime loan crisis.

CIC's maiden IPO investment was an eye-popping purchase of $3 billion of non-voting shares from the Blackstone Group, a US private equity company. After the Blackstone deal, CIC made another IPO subscription of about $100 million of shares in a state-owned construction company, China Railway Group Ltd., which listed in Hong Kong in late 2007. In Visa Inc.'s recent IPO, CIC was reported to have subscribed more than $100 million.

Meanwhile, as *CBR* went to press, CIC was preparing to outsource around $30 billion to foreign fund managers and had so far enlisted external asset managers to manage its portfolio in alternative assets like private equity and hedge funds.

At the same time, CIC is also following more established SWFs and buying into currently distressed Western financial firms. In the US subprime and credit crises, many investment banks and securities companies are writing off significant losses because of subprime mortgage exposure and are in dire need of cash. The Abu Dhabi Investment Authority was the first SWF to invest in these troubled financial companies with a $7.5 billion infusion into Citigroup. This was followed by capital injections into UBS AG of around $9.7 billion by Singapore's Government Investment Corp. and $1.7 billion by an unidentified Saudi investor.

Quick Glance

- China Investment Corp. (CIC) was created to earn a better return on China's massive foreign exchange reserves.
- CIC faces not only a difficult global investment environment but, like many sovereign wealth funds (SWFs), also faces hostility from countries worried about foreign investment in sensitive sectors.
- Strict adherence to international best practices for SWFs would help CIC overcome some of these fears.

CIC joined the fray by investing $5 billion for a roughly 10 percent stake in Morgan Stanley, but without a seat on the board or a management role. Instead, CIC purchased securities that pay annual interest of 9 percent and that will convert to Morgan Stanley shares—an investment structure recommended by CIC's advisor, investment bank Lazard Ltd., to lessen the potential downside of the deal. This structure ensures that CIC will receive a steady annual interest of 9 percent, even during periods of uncertain equity market performance, until the required conversion to common shares on August 17, 2010. The strategy reflects the lesson that CIC learned from its poorly timed investment in Blackstone, which has come under heavy criticism within China. As of the end of May 2008, Blackstone's share price had dropped more than 30 percent from its initial IPO price. Having suffered this loss, CIC structured its investment in Morgan Stanley as convertible securities to help reduce risk. Moreover, the special structuring of this investment also reflects the presence of a more pronounced downside risk in the Morgan Stanley deal, as it was a firm in financial distress, unlike Blackstone's IPO, which was launched prior to the subprime credit crunch and which investors expected to do well.

CIC's latest investment is an injection of roughly $3.2 billion into a $4 billion fund that aims to invest in US financial assets managed by JC Flowers, a US private equity group. By investing indirectly through private equities, instead of taking direct stakes, CIC seeks to alleviate the growing concern of Western governments about SWF investments. This type of investment can also shield CIC from domestic criticism if the investments turn out badly, allowing CIC to blame the private equity firms for any losses.

CIC's near-term challenges

As a trial vehicle established by the PRC government to better manage its gargantuan forex reserves, CIC will face multiple domestic and international challenges in the years ahead. Domestically, CIC has to be accountable to Chinese citizens and the country's top leadership for its investment record, which so far has been in the red. The Blackstone deal has generated a lot of criticism among Chinese citizens, reflecting a yawning gap between public expectation of high performance from the CIC team and the currently difficult global investment environment. Aware of the public backlash, the CIC team is wary of making more high-risk investments. CIC's Deputy General Manager Wang Jianxi said that CIC would refrain from purchasing any more high-risk assets like Blackstone and Morgan Stanley. Even the top Chinese leadership is cautious about injecting more funds into troubled Western financial firms, as shown by the official restraint imposed on China Development Bank's initial intention to purchase a stake in Citibank. Furthermore, the recent collapse of US investment bank Bear Stearns, which halted the cross-investment plan by China's Citic Securities Co., highlighted the benefit of not rushing into deals with distressed Western financial firms. This incident also served as a warning to CIC to carefully weigh the risks involved in its future deals. Following Citic's near-miss, the top leadership in Beijing stipulated that the State Council must approve any major overseas investments by Chinese financial institutions.

Meeting investment return targets

Financially, CIC faces a formidable challenge. According to Council on Foreign Relations (CFR) economist Brad Setser, CIC would need to generate an estimated average annual return of 14 percent to cover the interest payment on the special bonds issued by the PRC Ministry of Finance (MOF) for CIC's initial financing, as well as the costs of rising global inflation and the appreciation of the renminbi (RMB), which rose 7 percent in 2007 and is projected to gain another 9 percent this year against the US dollar. The estimated 14 percent is higher than the average annual return of 11 percent achieved by CIC's counterpart, China's National Social Security Fund (NSSF), since its inception in 2000. By 2007, NSSF was managing $70 billion. If measured against the average annual return of 18 percent achieved by Singapore's Temasek Holdings since its inception in 1974, however, the required return of 14 percent—estimated by CFR's Brad Setser—for CIC to cover its various costs does not appear to be overly ambitious.

Nevertheless, in light of the current turmoil in global capital markets, CIC may find meeting the 14 percent return a daunting task. In fact, CIC missed its first interest payment of ¥12.9 billion ($1.8 billion) to MOF on February 29, 2008. (According to MOF, CIC must pay annual interest of 4.3 percent for the special bonds issued for its financing, payable every six months.) CIC missed the deadline largely because it is incurring forex losses, as its capital is denominated in a depreciating US dollar while the interest payment is in a strengthening RMB. CIC is now attempting to renegotiate the terms of its interest payment with MOF.

Bureaucratic turf battles

Besides having to face public scrutiny, internal politicking may also plague the decisionmaking process within CIC, because various factions of China's bureaucracy have a seat on its board, namely, the Ministry of Commerce, National Development and Reform Commission, PBOC, and MOF. Some of these parties may prefer CIC to outsource the management of its funds, while others may want to focus on honing in-house portfolio management skills, or maybe even to use CIC as a funding agency to finance overseas expansion of China's state-owned enterprises. The fact that CIC lacks statutory backing—because it was not established through the National People's Congress with clearly stipulated mandates—makes it even more susceptible to potential administrative interference. CIC also has to contend with bureaucratic rivalry from SAFE, which is unhappy that CIC has wrenched Central Huijin away from its control. SAFE is keen to prove to the central government that there is little need to channel additional capital to CIC to ensure that SAFE can retain control of the bulk of China's forex reserves. In fact, SAFE's subsidiary in Hong Kong, SAFE Investment Co., recently took small equity stakes of less than 1 percent each in three Australian banks: Australia and New Zealand Bank, Commonwealth Bank of Australia, and National Australia Bank. SAFE also purchased a 1.6 percent stake worth $2.8 billion in the French oil giant Total SA and a 1 percent stake worth $2 billion in the British energy firm BP plc. These investments may reflect an attempt by SAFE to show China's top leadership that it too can generate higher returns from China's forex reserves.

Hostility to SWFs

Internationally, CIC faces the intense scrutiny to which most SWFs are now subject and may encounter hostile protectionist measures by host countries. Currently, France, Germany, and the United States are erecting measures to defend their companies from takeover threats by SWFs, while Australia has devised six principles to screen foreign investments. Washington's SWF policy is particularly important to watch, as the United States still holds the power to shape the practices governing the international financial system. Currently, the Committee on Foreign Investment in the United States (CFIUS) vets national-security-sensitive foreign investments. The recent draft CFIUS rules would require all board members and senior executives of the acquiring company and its parent company to disclose their previous military and government ties. The draft rules also stipulate that foreign stakes of less than 10 percent in a US company would not automatically be exempt from vetting. Such stringent amendments have raised concerns among many potential foreign investors, who believe that the new draft rules raise the degree of unpredictability for investments in the United States in part because Congress may politicize the process.

In the United States, two different approaches to handling the issue of SWFs exist. On one hand, there are those who wish to establish stringent national standards for SWFs to ensure the transparency and good behavior of these entities, as well as limit SWFs to passive investments. These advocates are mostly members of the US Congress, such as Senators Evan Bayh (D-IN), Charles Schumer (D-NY), and James Webb (D-VA). The US Congress has established a bipartisan task force, headed by Representatives Jim Moran (D-VA) and Tom Davis (R-VA), to study the issues surrounding SWFs. On the other hand, there are administration officials who prefer to rely on the multilateral effort of drafting a voluntary code of conduct to govern the behavior of SWFs. These include the Department of the Treasury's Undersecretary for International Affairs David McCormick, Deputy Secretary Robert Kimmitt, and former Assistant Secretary for International Affairs Edwin M. Truman. They hold the view that SWFs are stable, long-term, and non-controlling-stake investors and thus should not be discouraged by national barriers. Nevertheless, they also wish to reduce the likelihood that SWFs may in the future exercise undue influence over the decisionmaking processes of firms in which they have invested. One way to do so is to create a set of best practices for SWFs, which would make them more accountable to the citizens and governments of their own, and host, countries.

The current multilateral effort to draft a voluntary code of conduct—spearheaded by the International Monetary Fund (IMF)—is backed by the G-7 and the European Union. The European Commission has suggested that SWFs should be required to make wider disclosure in several areas, namely, their investment positions and asset allocations, exercise of ownership rights, use of leverage and currency composition, size and source of resources, and home country regulations and oversight.

PRC Foreign Affairs Minister Yang Jiechi has argued, however, that all international participants should have a say in the establishment of the rules. This shows that China does not want the rules made by concerned host countries alone, as such rules would most likely be biased against SWF-owner countries. Evidently, China is looking to strike a bargain—if SWFs agree to abide by stricter rules, they should be granted access to stakes in Western companies without protectionist outcry. In early May 2008, China joined the IMF Working Group of SWFs, which comprises 25 member countries (including the United States) and is facilitating the drafting of best practice guidelines for SWFs. This reflects China's willingness to work together with the IMF and other countries to seek a multilateral solution to address concerns about the growing clout of SWFs in the global economy.

To alleviate host countries' potential concerns, CIC Chair Lou Jiwei traveled to London last December to introduce CIC. He was quoted as saying that CIC would adopt long-term and prudent investment principles, as well as a safe and professional portfolio strategy that emphasizes a rational match of returns and risks. In February, Lou also mentioned that CIC would invest in portfolios rather than individual companies and establish ethical guidelines for its investments so that it would not invest in companies that damage the environment, waste energy, or produce tobacco. In April, during a live interview on CBS Television Network's *60 Minutes,* CIC President Gao Xiqing pledged that CIC would publish its annual reports and strive to be a more transparent business organization.

To counter negative perceptions and opposition, CIC needs to enhance its transparency.

The way forward

The PRC government's establishment of CIC is a ground-breaking attempt to manage the country's surging forex reserves more effectively. Fortunately, CIC investments have not yet provoked any negative reaction from global capital markets or host governments. On the contrary, given the recent subprime crisis, its capital injection into Morgan Stanley has been viewed favorably as a stabilizing force. For example, Senator Schumer publicly welcomed CIC's investment in the US investment bank as a measure that would help the city of New York preserve jobs and retain its position as the globe's leading financial center. Nevertheless, to counter negative perception and opposition that may arise in the future, CIC needs to enhance its transparency, perhaps taking a leaf from Norway's SWF, which has been hailed as a possible role model for other SWFs because of its often-praised practices of transparency, ethical investing, and avoidance of strategic stakes.

In general, CIC may well heed the advice and guidelines proposed by US Deputy Treasury Secretary Robert Kimmitt to SWFs—invest commercially, comply with world-class institutional integrity, compete fairly with the private sector, promote international financial stability, and respect host-country rules. In the final analysis, though the rise of CIC reflects China's surging clout in global capital markets, CIC must be extremely cautious in flexing its financial muscle to avoid being labeled as another manifestation of the much-dreaded "China Threat." 完

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Sales and Investment

March 16–May 15, 2008

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 (publications@uschina.org).

Compiled by Yoko Uchida and Arie Eernisse

Advertising, Marketing & Public Relations

INVESTMENTS IN CHINA

Research International, a wholly owned subsidiary of WPP Group plc (UK)
Will acquire majority stake in Guangzhou-based Zdology Marketing Research & Consulting (GZ) Ltd. 03/08.

Agriculture

OTHER

Government of Venezuela/ Government of the PRC
Signed an agreement to strengthen agricultural ties. 05/08.

Architecture, Construction & Engineering

CHINA'S EXPORTS

China CAMC Engineering Co. Ltd. (Beijing)
Won contract to repair and expand an irrigation system in Venezuela. $135 million. 04/08.

China CAMC Engineering Co. Ltd. (Beijing)
Signed agreement with subsidiary of Indonesia-based Salim Group to construct a sugar plant with daily sugar-cane processing capacity of 8,000 tons in Palembang, Sumatera Selatan, Indonesia. $84.3 million. 03/08.

CHINA'S IMPORTS

King Tech International Ltd. (UK)
Signed agreement with the PRC Ministry of Communication's New Paving Material Center to pave 200 km of roads in China. $19.8 million per year. 04/08.

Larsen & Toubro Ltd. (India)
Will supply a coal gasifier and syngas cooler assembly to Henan-based Hebi Coal and Electricity Co. Ltd., a subsidiary of Zhongyuan Coal Chemical Industry Group. $43.7 million. 03/08.

Metso Oyj (Finland)
Will supply coated board-production line to Shandong Bohui Paper Industrial Co. Ltd. $157.6 million. 03/08.

INVESTMENTS IN CHINA

SembCorp Industries Ltd. (Singapore)/Zhongbao Co., Ltd. (Jiangsu)
Formed JV to build and run industrial water recycling facility in Jiangsu. (Singapore:80%-PRC:20%). $16 million. 03/08.

OTHER

S.S. Lootah (UAE)/Tianjin Geological Foundation Engineering Co.
Formed JV to cooperate in the construction and infrastructure industry in UAE and in the Persian Gulf region. 04/08.

Automotive

CHINA'S EXPORTS

China Northern Locomotive & Rolling Stock Industry (Group) Corp. (Bejing)
Signed contract with customers in the Middle East to supply 455 metro vehicles and 160 double-deck coaches to the region. $566.1 million. 03/08.

Aviation/Aerospace

CHINA'S EXPORTS

Airbus SAS (France)
Will purchase aircraft parts annually in China by 2010. $200 million. 04/08.

AVIC I Commercial Aircraft Co. (Shanghai)
Signed MOU with US-based GE Commercial Aviation Services, a unit of General Electric Co., to supply five of China's ARJ21 regional jets. 03/08.

Banking & Finance

CHINA'S INVESTMENTS ABROAD

ICBC (Beijing)
Won approval to set up a subsidiary in Dubai, UAE. 05/08.

China Export & Credit Insurance Corp. (Beijing)
Has offered export guarantee facilities to help fund infrastructure projects in Nigeria for three years. $50 million. 04/08.

INVESTMENTS IN CHINA

Morley Fund Management Ltd. (UK)/COFCO (Beijing), Dongguan Trust and Investment Co. Ltd. (Guangdong)
Formed JV to develop and expand businesses in China. (UK:40%-PRC:60%). 04/08.

CIMB Group, a unit of Bumiputra-Commerce Holdings Berhad (Malaysia)
Acquired 20% stake in Liaoning-based Bank of Yingkou Co., Ltd. $50 million. 03/08.

OTHER

The Carlyle Group (US)/ Shandong Provincial Government
Signed MOU to enhance trade cooperation and increase Carlyle's investment in Shandong. 05/08.

Government of Venezuela/ Government of the PRC
Signed an agreement to strengthen financial ties and inaugurated a joint development fund. (Venezuela:33.3%-PRC:66.6%). $6 billion. 05/08.

BOC (Beijing)
Will transfer funds to the Vietnam-based Southeast Asian Joint Stock Commercial Bank and provide letters of credit and handle orders of payment in US dollars. 03/08.

CIMB Group (Malaysia)
Signed strategic alliance to collaborate in developing technical and management expertise in Liaoning-based Bank of Yingkou Co., Ltd. $2 million. 03/08.

Chemicals, Petrochemicals & Related Equipment

INVESTMENTS IN CHINA

AkzoNobel NV (the Netherlands)
Acquired two organic peroxide lines from Jiangsu Qiangsheng Chemical Co., Ltd. 05/08.

Distribution, Logistics & Related Services

OTHER

Aptech Ltd. (India)
Will form a JV holding company with a Chinese partner. (India:22%-PRC:78%). 03/08.

Aptech Ltd. (India)
Will divest its 50% stake in Aptech Beida Jadebird IT Co. Ltd. 03/08.

Nemesysco Ltd. (Israel)/Beijing Caifu Jiamei Technology
Formed partnership to distribute Nemesysco's voice analysis solutions across China. 03/08.

Electronics, Hardware & Software

INVESTMENTS IN CHINA

Whirlpool Corp. (US)/Hisense Electric Co., Ltd. (Shandong)
Formed JV to produce 2 million high-end washing machines and 1 million refrigerators annually. (US:50%-PRC:50%). $128 million. 04/08.

OTHER

CEC Corecast Corp. Ltd. (Beijing)
Will distribute wireless routing equipment in China for US-based Azalea Networks Inc. 05/08.

Hermes-Epitek Corp. (Taiwan)
Will sell, service, and support mass metrology equipment for UK-based Metryx Ltd. in China, Taiwan, and Singapore. 05/08.

Dell Inc. (US)
Will increase purchases of computer components and other equipment from Chinese suppliers by 27.8%. $23 million. 03/08.

Energy & Electric Power

OTHER

Government of Venezuela/ Government of the PRC
Signed an agreement to strengthen energy ties. 05/08.

Pacific Asia China Energy Inc. (Canada)/United Coalbed Methane Co. (Beijing)
Agreed to terminate their Huangshi coal bed methane project in Hubei. 05/08.

Environmental Equipment & Technology

CHINA'S EXPORTS

ReneSola Ltd. (Zhejiang)
Agreed to supply Taiwan-based Gintech Energy Corp. with 525-MW solar wafers until 2014. 05/08.

Yingli Green Energy Holding Co. Ltd. (Hebei)
Will supply photovoltaic modules to Germany-based IBC Solar AG. 05/08.

Shanxi Taigang Stainless Steel Co., Ltd.
Will supply 1 million tons of carbon dioxide emissions credits to UK-based Camco International Ltd. 04/08.

CHINA'S IMPORTS

DC Chemical Co. Ltd. (South Korea)
Will supply polysilicon to Hebei-based Yingli Green Energy Holding Co. Ltd. $39 million. 05/08.

OTHER

Balama Nviro Ltd., a JV between Balama Prima Engineering Ltd. (Hong Kong) and Vertus Technologies, a subsidiary of Nviro Cleantech plc (UK)/ Shenyang Coal Trade Group (Liaoning)
Signed agreement to build and operate reductive thermal processing units to remove environmental contaminants from Shenyang Coal Trade Group's coal. 05/08.

Food & Food Processing

INVESTMENTS IN CHINA

Asahi Breweries Co., Ltd., ITOCHU Corp. (Japan)
Jointly established a milk-production company, Shandong Asahi Luyuan Dairy Co., Ltd. 05/08.

Guangzhou Asia Pacific Breweries Ltd., a wholly owned subsidiary of Heineken-APB (China) Pte Ltd., a JV of Asia Pacific Breweries and Asia Pacific Investment Pte Ltd., a JV between Heineken Holding NV (the Netherlands) and Fraser & Neave Ltd. (Singapore)
Will build a brewery with a capacity of 2 million hectoliters in Guangdong. $86 million. 05/08.

Roquette (China) Co. Ltd.
Will invest in Nanning Chemical Pharmaceutical to improve its production lines and double its production capacity with two new lines that can handle 8,000 tons of hexahydric alcohol and 3,000 tons of crystal sorbitol annually. $8.6 million. 04/08.

Roquette Frères (France)
Acquired 26.13% stake in Guangxi Nanning Chemical Pharmaceutical Co., Ltd. and will increase its stake to 67% through a capital and stock expansion plan. 03/08.

OTHER

Agrana Beteiligungs AG (Austria)/Yantai North Andre Group (Shandong)
Will form second JV, Yongji Andre Juice Co., to produce apple juice concentrate in Jilin. (Austria:50%-PRC:50%). 03/08.

Infrastructure

CHINA'S EXPORTS

China Railway Engineering Corp. (Beijing)
Will construct highway in Morocco. $257.4 million. 03/08.

CHINA'S IMPORTS

Shandong Changle Salcon Water Co. Ltd., a wholly owned subsidiary of Salcon Bhd (Malaysia)
Signed contract to build water treatment plant in Changle County, Shandong. $14.4 million. 04/08.

INVESTMENTS IN CHINA

Salcon Shandong (HK) Ltd., a wholly owned subsidiary of Salcon Bhd (Malaysia)
Will establish a wholly owned subsidiary to build, operate, and transfer a 30-year, 38-km raw water intake project in Changle County, Shandong. $15.7 million. 04/08.

ALAM Southwest Holdings, an affiliate of Lehman Brothers Holdings, Inc. (US)/China Railway Erju Co., Ltd., a subsidiary of China Railway Erju Group (Sichuan)
Will form JV to construct infrastructure and industrial parks in Sichuan. (US:49%-PRC:51%). $40.5 million. 03/08.

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 Corp.; COFCO: China National Cereals, Oils, and Foodstuffs Import and Export Corp.; COSCO: China Ocean Shipping Co.; CSRC: China Securities Regulatory Commission; DSL: digital subscriber line; ETDZ: economic and technological development zone; GSM: global system for mobile communication; GPS: global positioning system: ICBC: Industrial and Commercial Bank of China; IP: Internet protocol; IT: information technology; JV: joint venture; LNG: liquefied 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; SASAC: State Assets Supervision and Administration Commission; SEZ: special economic zone; Sinopec: China Petroleum & Chemical Corp.; SINOTRANS: China National Foreign Trade Transportation Corp.; UNDP: United Nations Development Program; SME: small and medium-sized enterprise; Wi-Fi: wireless fidelity; WFOE: wholly foreign-owned enterprise

Insurance

OTHER

China Merchants Bank
Acquired a 50% stake in CIGNA & CMC Life Insurance Co., a US-China joint venture in Guangdong. $20 million. 04/08.

Internet/E-Commerce

INVESTMENTS IN CHINA

Barter Xchange Pte. Ltd. (Singapore)
Signed MOU to acquire a 15% stake in China Business Online Co. Ltd., a JV between Hong Kong-based Sino Fibre Communications, Inc. and Beijing-based China Association of Small and Medium Enterprises. $6 million. 05/08.

Machinery & Machine Tools

INVESTMENTS IN CHINA

GF Agie Charmilles Group (Switzerland)
Will establish Changzhou Agie Charmilles Machine Tool Co. Ltd. and build a high-speed machine-tool production base in Changzhou, Jiangsu. $18 million. 03/08.

Media, Publishing & Entertainment

CHINA'S INVESTMENTS ABROAD

The9 Ltd. (Shanghai)
Will invest in South Korea-based G10 Entertainment Corp. $38 million. 04/08.

OTHER

Pyramid Saimira Theatre Ltd. (India)/China Society of Music Research Board, Ministry of Culture (Beijing)
Signed arts and cultural cooperation agreement to promote cultural cooperation between India and China. 03/08.

Pyramid Saimira Theatre Ltd. (India)/Jiangsu Longzhe Group
Formed JV, Jiangsu Pyramid Longzhe Group, to operate theaters and distribute films and engage in other entertainment activities in China. 03/08.

Medical Equipment & Devices

CHINA'S EXPORTS

Zhejiang Medicine Co. Ltd.
Will supply US-based Hospira Inc. with vancomycin. $120 million. 05/08.

INVESTMENTS IN CHINA

Asiapharm Group Ltd. (Singapore)
Signed an agreement to test and develop pharmaceuticals in China for UK-based Glycomar Ltd. and Scottish Biomedical Ltd. 05/08.

TomoTherapy Inc. (US)
Will acquire Chengdu Twin Peak Accelerator Technology Inc. 04/08.

Metals, Minerals & Mining

CHINA'S EXPORTS

Shenhua Coal Trading Co. Ltd. (Beijing)
Will deliver 17 coal shipments of 65,000 metric tons each for three years to the Philippines' National Power Corp. $6.75 billion. 03/08.

CHINA'S IMPORTS

Worldlink Resources Co. (Canada)
Will supply iron ore from Quebec, Canada, to Hubei-based Wuhan Iron and Steel Group. 05/08.

INVESTMENTS IN CHINA

Quay Magnesium Ltd. (Australia)
Will acquire 49% of a Chinese magnesium plant to form a new JV. $18.69 million. 04/08.

UMW Holdings Bhd (Malaysia)/CNPC (Beijing)
Formed JV to build a steel plant to make pipes for China's second east-west petroleum pipeline. (Malaysia:49%-PRC:51%). $171.6 million. 03/08.

Packaging & Labeling

CHINA'S EXPORTS

Shiner International, Inc. (Hainan)
Signed contracts with several Australian and New Zealand-based customers to supply coated films. $3.5 million. 03/08.

OTHER

Impark Films Pty. Ltd. (Australia)
Signed contract with Shiner International, Inc. to distribute its products in Australia and New Zealand. 03/08.

Petroleum, Natural Gas & Related Equipment

CHINA'S IMPORTS

Royal Dutch Shell plc (the Netherlands), Qatargas Operation Co. Ltd. (Qatar)
Will supply 5 million metric tons of liquefied natural gas per year for 25 years to Beijing-based CNPC. 04/08.

Shell Global Solutions, a consultancy and research unit of Royal Dutch Shell plc (the Netherlands)
Won contract to perform the feasibility study for a planned oil refinery from Russian-Chinese Eastern Petrochemical Co., a JV between Rosneft Oil Co. and PetroChina Group. 04/08.

CHINA'S INVESTMENTS ABROAD

Petróleos de Venezuela, SA/CNPC (Beijing)
Will form JV to drill for super-heavy oil at Junin-4 Block in Venezuela's Orinoco heavy oil belt, with an annual target capacity of 20 million tons. (Venezuela:60%-PRC:40%). 05/08.

Ministry of Petroleum & Mineral Resources of Syria/CNPC (Beijing)
Signed agreements to form JV to build refinery with capacity of 5 million tons per year in eastern Syria. 04/08.

INVESTMENTS IN CHINA

Petróleos de Venezuela, SA/CNPC (Beijing)
Will form JV to build a refinery in Guangdong that will process 400,000 barrels a day of Venezuelan crude oil. (Venezuela:40%-PRC:60%). 05/08.

Chevron Corp. (US)/CNPC (Beijing)
Formed JV to cooperate on a project for the development of acid gas in northeastern Sichuan. 04/08.

Saudi Basic Industries Corp. (Saudi Arabia)/Sinopec Corp. (Beijing)
Signed agreement to build ethylene derivatives complex in China. $1.7 billion. 03/08.

OTHER

China Oilfield Services Ltd. (Beijing)
Signed letter of intent for a drilling service contract in Indonesia for three years. 04/08.

Uzbekneftegaz State Holding Co. (Russia)/CNPC (Beijing)
Formed JV, Asia Trans Gas LLC, to design, build, and operate the gas pipeline to export gas from Turkmenistan to China. (Russia:50%-PRC:50%). 04/08.

Pharmaceuticals

INVESTMENTS IN CHINA

Actavis Group (Iceland)
Acquired 90% of Hangzhou-based Zhejiang Chiral Medicine Chemicals Co. 04/08.

China Sky One Medical, Inc. (US)
Acquired Heilongjiang Haina Pharmaceutical Inc. and its food supply practice license. $4.3 million. 04/08.

Unigene Laboratories, Inc. (US)/Shijiazhuang Pharmaceutical Group Corp. (Hebei)
Will form JV, Unigene Biotechnology Co. Ltd., in China to facilitate research, development, formulation, and manufacturing. (US:45%-PRC:55%). $7 million. 04/08.

IMDi Co., Ltd. (Russia)/Jiangsu Fangyuan Pharmaceutical Co. Ltd.
Will form JV in Changzhou, Jiangsu, to develop test kits and biochips to diagnose hepatitis, AIDS, and other viruses. $1 million. 03/08.

Telecommunications

CHINA'S IMPORTS

Zhongshan Cable (Guangdong)
Will deploy US-based BigBand Networks, Inc.'s Broadband Multimedia-Service Router to process, manage, and deliver digital television services in Guangdong. 03/08.

OTHER

Hop-on, Inc. (US)
Signed distribution contracts for its products in China. 04/08.

Nokia Siemens Networks (Finland), a JV of Nokia Corp. and Siemens AG
Signed contract with Beijing-based China Netcom (Group) Co. Ltd. to guarantee information security for its data communication network in China. 04/08.

COSCO Delivers

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