March–April 2007

The China Business Review

USCBC
THE MAGAZINE OF
THE US-CHINA BUSINESS COUNCIL

Illicit Treasures

Cracking Down on IP Pirates

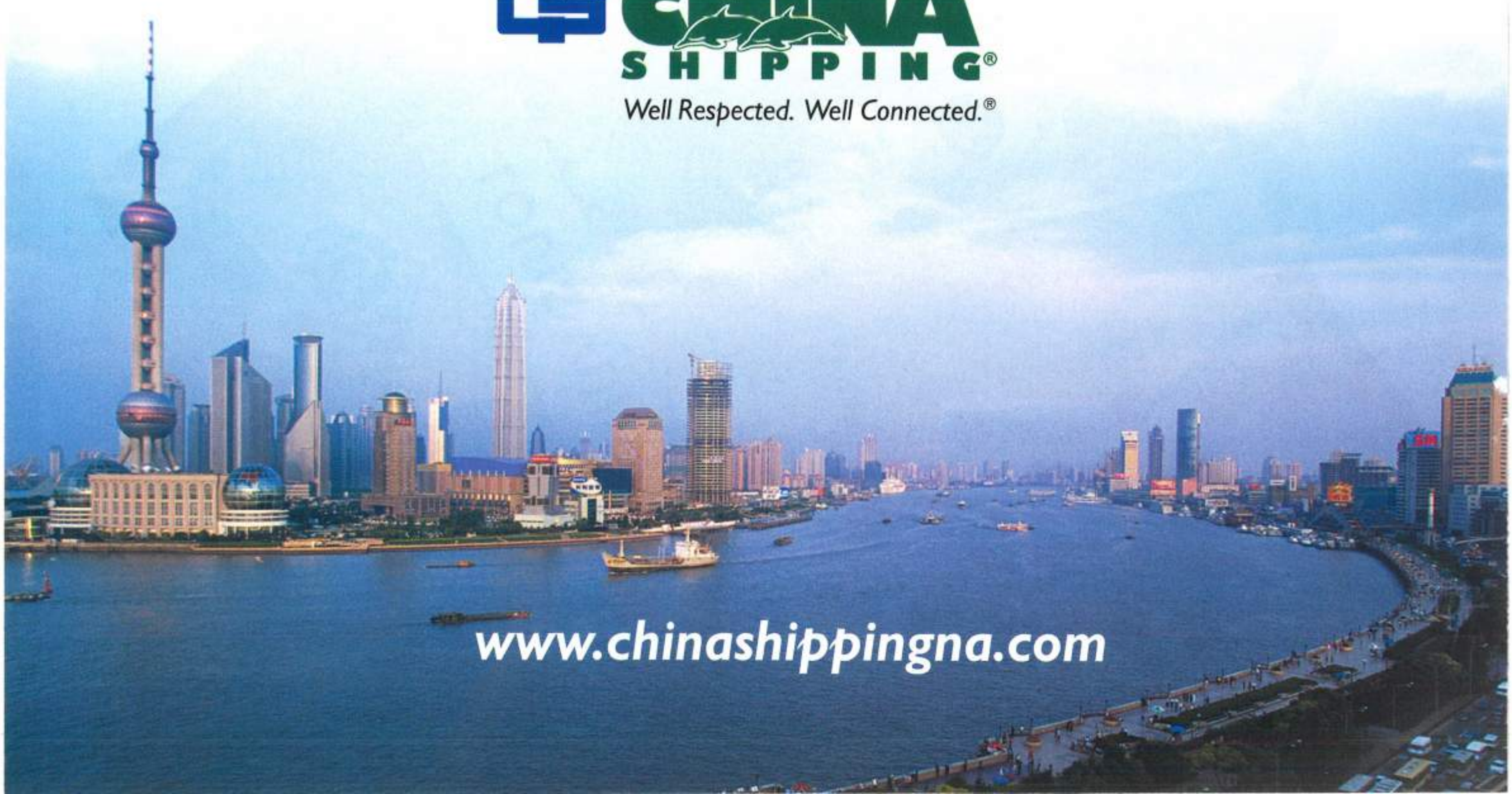
Acquiring Chinese Technology
Patents
Judicial Review

Special Report: Film & TV Guangdong Stakeholder Views

US$22/HK$220

Yangtze River Feeder Service Through Shanghai.

...Reaching The Beating Heart Of China.



A patent holder shows his invention patent certificate. China Foto Press

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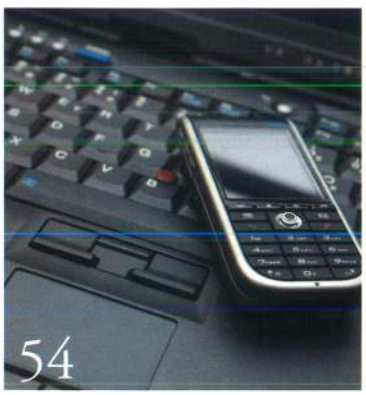
Focus: Intellectual Property



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Special Report: Entertainment

Features

Departments

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Short Takes

Trade

The United States initiated dispute settlement proceedings against China at the World Trade Organization (WTO) in early February, arguing that PRC subsidies aimed at encouraging exports and import substitution violate WTO rules. As the *CBR* went to press, the US and PRC governments had yet to resolve the dispute.

China's total trade surplus is expected to rise 6 percent to reach $189 billion this year, according to the Academy of Macroeconomic Research, a think tank under the PRC National Development and Reform Commission. Last year, China's trade surplus was more than $177 billion.

US exports to China rose 31.7 percent in 2006, according to statistics released in mid-February by the US Census Bureau and the Bureau of Economic Analysis. But the deficit with China jumped to $232.5 billion, up 15.4 percent, marking the largest bilateral trade imbalance to date.

Energy

China added 102 gigawatts of new power generation capacity last year. The figure exceeds the total capacity of the United Kingdom and is twice the capacity of California.

China's first strategic oil reserve, located in Ningbo, Zhejiang, began operations in late January. China also plans to build reserves in Daishan, Zhejiang; Dalian, Liaoning; and Huangdao, Shandong.

Economy

China's economy grew 10.7 percent in 2006, the fastest pace in 11 years. The PRC government hopes growth will slow in 2007, but most observers expect growth to top 9 percent.

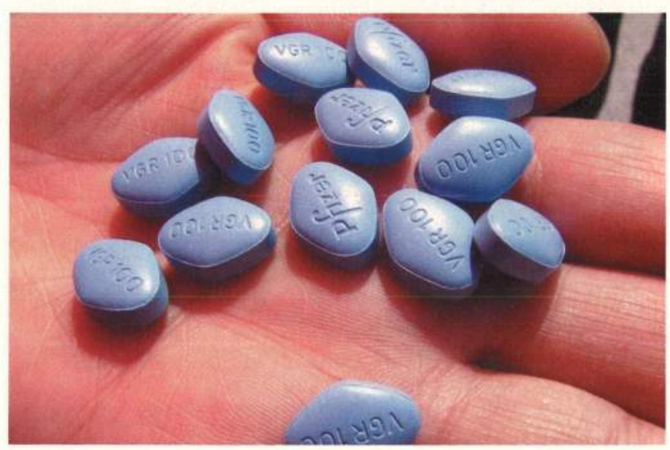
The PRC Ministry of Commerce expects the consumer price index to rise to 2.5 percent in 2007, up from 1.5 percent in 2006, largely because of higher grain and energy prices.

A study released by the China Business Forum, the research and educational arm of the US-China Business Council, publisher of the *CBR*, shows that the average Chinese household income will rise by $300–$400 by 2015 if China removes all impediments to service sector growth.

Intellectual Property Rights

Pfizer Inc.'s legal battles in China over Viagra have had mixed results. In late December 2006, a Beijing court ordered two Chinese companies to halt production and sales of fake Viagra pills and to pay compensation to Pfizer for trademark infringement. In early February, however, the same court ruled that Pfizer could not claim the name Weige for the impotence drug because a Chinese drug company had already registered the trademark.

China granted 58,000 patents in 2006, more than half to foreigners, according to the PRC State Intellectual Property Office. Overseas applications accounted for roughly 57 percent of the applicant pool.



Telecom

The number of mobile phone subscribers rose by more than 67 million in 2006 to hit 461 million, according to the PRC Ministry of Information Industry. The number of mobile phone users surfing the Internet with their phones reached 17 million.

Beijing

In preparation for the 2008 Olympic Games, Beijing will correct all public signs that contain faulty English translations by the end of October, Beijing Vice Mayor Ji Lin said in early February. The city has already replaced 6,300 road signs, according to press reports.

Beijing received nearly 4 million foreign visitors and 132 million domestic tourists last year, who together spent more than $23 billion in the capital. Foreign tourists spent a record average of $1,033 during their stay in 2006.

China Conference Calendar

China-related events near you

March–June 2007

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

War for Talent

MARCH 12–13

Harnessing the best of your human capital for a sustainable competitive advantage
Location: Shanghai: Four Points by Sheraton
Organizer: Marcus Evans
Contact: Emily Chong
Tel: 603-2723-6736
emilyc@marcusevanskl.com
www.marcusevans.com

Third Annual China Customs, Export Control & Logistics Seminar

MARCH 23

Annual seminar attached to the larger SEMICON China event (March 21–23)
Location: Shanghai New International Exhibition Center
Organizers: American Electronics Association; Semiconductor Equipment and Materials International
Contact: Ken Montgomery
Tel: 202-682-4433
ken_montgomery@aeanet.org
http://wps2a.semi.org

Wharton China Business Forum 2007

MARCH 24

Student-run global business forum with a focus on China's economic development
Location: Loews Philadelphia Hotel
Organizer: Wharton China Business Society
Contact: Eswarie Balan
Tel: 215-898-5000
eswarie@wharton.upenn.edu
www.whartonchina.com

The Seventh China International Petroleum & Petrochemical Technology & Equipment Exhibition

APRIL 3–5

From exploration equipment to gas logistics solutions
Location: Beijing Exhibition Center
Organizers: Zhenwei Exhibition Group; China Petroleum & Petrochemical Equipment Industry Association
Contact: Joanna Qiao
Tel: 86-10-5823-6588
cippe@china-zhenwei.com.cn
www.cippe.com.cn

The Sixth China Western Region International Economic Cooperation Fair

APRIL 6–10

Investment promotion fair to attract foreign investment and cooperation
Location: Xi'an, Shaanxi: Multiple venues
Organizers: China Council for the Promotion of International Trade (CCPIT); China Association for Enterprises with Foreign Investment; China Council for International Investment Promotion; Shaanxi Provincial Government
Contacts: Xun Sha; Gan Jianyong
Tel: 86-29-8729-1429
ccpit@shaanxi.gov.cn
www.ccpit-shaanxi.org

China International Medical Equipment Fair

APRIL 10–13

Biannual trade fair and conference for hospital and research facility managers with purchasing responsibilities
Location: Liaoning: Dalian World Expo Center
Organizer: Reed Sinopharm Exhibitions
Contact: Chao Li
Tel: 86-10-6202-8899 x 3501
chao.li@reedsinopharm.com
http://en.cmef.com.cn

Real Estate Structured Finance & Investment

APRIL 11

New perspectives on funding alternatives and opportunities for developers, asset owners, and investors in China
Location: Renaissance Beijing Hotel
Organizer: The Pinnacle Group International
Contact: Magdalene Lim
Tel: 65-6332-9870
magdalene.lim@tpgi.org
www.tpgi.org

The Yangzi Business Network 2007: Ports, Waterways & Vessels

APRIL 12

Networking opportunity for US logistics and manufacturing companies to meet government officials and Yangzi port managers
Location: Shanghai: Regal East Asia Hotel
Organizer: Alain Charles Publishing Ltd.
Contact: David Lammie
Tel: 44-20-7834-7676
yangtze@alaincharles.com
www.alaincharles.com

The 101st China Import & Export Fair, Phase I & II

APRIL 15–20 AND APRIL 25–30

Formerly the Canton Fair, the fair will exhibit industrial products and consumer goods and gifts
Location: Guangzhou: Pazhou and Liuhua Complexes
Organizers: PRC Ministry of Commerce (MOFCOM); China Foreign Trade Center
Tel: 86-20-2608-9999
webmaster@cantonfair.org.cn
www.cantonfair.org.cn

China Conference Calendar

Finance Leasing in China Summit

APRIL 19–20

Explores policies affecting investment and operations in the Chinese leasing market
Location: The Regent Beijing
Organizer: BSM Consulting Co., Ltd.
Contact: Jonathan Zhang
Tel: 86-21-6270-5678 x 1007
jonathanzhang@bsm conferences.com
www.bsmconferences.com

Chinasoft 2007

APRIL 19–21

Large software industry expo and conference covering sales strategies, success stories, and partnership opportunities
Location: Chengdu, Sichuan: New International Convention & Exhibition Center
Organizers: PRC State Council Informatization Office; CCPIT, Chengdu Sub-Council; Sichuan Provincial Government; Chengdu Municipal Government; China Software Industry Association
Contact: Forest Yang
Tel: 86-28-8665-6865
yj8190669@yahoo.com
www.csfair.com

The Fourth China Air Cargo Summit 2007

APRIL 19–21

International airline and airport executives meet with PRC government officials to discuss opportunities and challenges
Location: Hangzhou, Zhejiang: Hyatt Regency Hangzhou
Organizers: International Aviation Group; WellResources Consulting (Shanghai) Co. Ltd.
Contact: Aaron Jing
Tel: 86-21-5237-5559
aaron.jing@aircargo summit.org
www.aircargosummit.org

Auto Shanghai 2007

APRIL 22–28

Technology and nature is the 2007 theme of this large annual expo
Location: Shanghai New International Exhibition Center
Organizers: China Association of Automobile Manufacturers; CCPIT, Shanghai and Automotive sub-councils; World Expo Group
Tel: 86-21-6279-2828
www.autoshanghai.com.cn

The Seventh International Exhibition on Nuclear Power Industry

APRIL 23–25

Exhibitor sectors include instrumentation and controls and coolant and electrical systems
Location: Shanghai: TBA
Organizers: PRC Commission of Science, Technology, and Industry for National Defense; Coastal International Exhibition Co., Ltd.
Tel: 852-2827-6766
general@coastal.com.hk
www.coastal.com.hk

The Second Expo Central China

APRIL 26–28

High-level investment promotion fair for six interior provinces
Location: Zhengzhou, Henan: Multiple venues
Organizers: MOFCOM; Anhui, Henan, Hubei, Hunan, Jiangxi, and Shanxi provincial governments
Tel: 86-371-6357-6316
zsllb2007@126.com
http://expocentralchina.mofcom.gov.cn

Real Estate Investments in China

MAY 3–4

Practical solutions to overcome fiscal and regulatory challenges
Location: Mandarin Oriental San Francisco
Organizer: American Conference Institute
Tel: 888-224-2480
customercare@americanconference.com
www.rei-china.com

China Outbound Travel & Tourism Market

MAY 14–16

Business-to-business event for discussing and preparing contracts for the upcoming travel season
Location: Beijing: China World Trade Center
Organizer: Tarsus Group plc
Contact: Qing Qinghui
Tel: 86-21-6448-4882
qqing@tarsus.co.uk
www.cottm.com

Seventh International Exhibition-Congress on Chemical Engineering & Biotechnology

MAY 14–18

Highlights current trends in nanotechnology, biotech, and synthetic fuels
Location: Beijing: China International Exhibition Center
Organizers: Dechema e.V.; CCPIT; Chemical Industry and Engineering Society of China
Contact: Christina Hirche
Tel: 49-69-756-4277
achemasia@dechema.de
www.achemasia.de

China Retail Conference & Exposition

MAY 16–18

In-depth coverage of store design, e-payment, logistics, and more
Location: Intex Shanghai
Organizers: Shanghai Commercial Information Center; VNU Exhibitions Asia
Contact: Steve Fan
Tel: 86-21-6247-7668 x 924
crc@vnuexhibitions.com.cn
www.crcexpo.com

China International Sporting Goods Show

MAY 17–20

Professional exhibition for manufacturers, distributors, and end users
Location: Chengdu, Sichuan: New International Convention & Exhibition Center
Organizer: China Sporting Goods Federation
Contact: He Faqiong
Tel: 86-10-6710-2728
info@sportshow.com.cn
www.sportshow.com.cn

China International Software & Information Service Fair

JUNE 20–24

Nationally sponsored fair and forums on innovation and informatization in China
Location: Liaoning: Dalian World Expo Center
Organizers: MOFCOM; PRC Ministry of Information Industry; Liaoning Provincial Government
Contact: Helen Xu
Tel: 86-411-8362-6908
xuw@dlbii.gov.cn
www.cisis.com.cn

The 10th China International Environmental Protection Exhibition & Conference

JUNE 21–24

International event with seminars on renewable energy, water management, and foreign investment in the environmental protection industry
Location: Beijing: China International Exhibition Center
Organizer: China Association of Environmental Protection Industry
Contact: Yang Yan
Tel: 86-10-5155-5020
yang@china environment.org
www.chinaenvironment.org

For more events, visit www.chinabusinessreview.com/conference-calendar.php.

The Prodigal Prodigy

Godfrey Firth

By any objective measure, Shanghai is doing remarkably well. To be Shanghainese is to have enjoyed 15 straight years of double-digit economic growth, rapidly rising incomes, and apartments that have doubled in value over the past five years. Even the stock market, breaking out of a dismal five-year slump, shot up 130 percent in 2006. Foreign multinational corporations have set up 123 regional headquarters and 191 research and development centers—the pinnacle of a mountain of $44 billion in utilized foreign direct investment (FDI) attracted since 2000. Trade volumes continue to rise, hitting $227 billion in 2006, with the engineering marvel of Yangshan Port, perched on two rocky islets in the Hangzhou Bay, smoothly handling the torrent of goods flowing through the city. Shanghai remains mainland China's undisputed business capital, and business is good.

One would expect untrammeled confidence in a city with such a stellar track record. Yet the current mood in Shanghai is more cautious than the statistics suggest. Across China, the metrics of success, as most concretely defined in the career paths of local and provincial officials, are shifting. Shanghai's strengths—blazing growth, openness to foreigners, and financial sophistication—are no longer viewed with unabashed admiration. New leadership in Beijing has brought new policies, and targets for energy efficiency, environmental protection, income equality, and affordable property prices are replacing the nearly single-minded pursuit of growth. The city is slowly falling into line and even aims to break its double-digit growth streak this year.

Scandalized

Shanghai's former Chinese Communist Party secretary, Chen Liangyu, remains in disgrace and under house arrest following the revelation in October 2006 of a massive financial scandal involving the city's $1.25 billion pension fund. Investigators have found that the pension fund was used for unapproved investments in property projects—including the marquee Tomorrow Square development, with its five-star JW Marriott Hotel. Along with Chen, several other senior municipal government officials and top executives at state-owned companies have been removed from their posts and detained.

The pension fund scandal has tarnished Shanghai's image, exposing serious cracks in a key pillar of the city's self-marketing to the central government. Shanghai has long projected itself as the destination of choice for foreign investors, in part because of its claim to be the most transparent and well-managed Chinese municipality. The stamp of investment approval from so many Fortune 500 companies, with their strong corporate governance, is compelling support for Shanghai's claims. But the scandal has sparked a reexamination of the Shanghai model and, by proxy, the direction of future reform. Spurred by the central leadership's new policy focus on social groups left behind during decades of rapid growth, and played out both in closed-door government meetings and the increasingly nationalist Chinese media, the debate around Shanghai and its successes and failures remains an important weathervane for China as a whole.

Critics of Shanghai ignore the favorable environment foreign investors have found there and charge that the city has attracted foreign companies more by extracting key concessions from the central government than through any innate administrative virtue. Starting with the formation of the Pudong New Area in 1990, Shanghai has been at the forefront of almost every major pilot program to ease regulation, create new corporate structures, and generally improve China's investment environment. From the first wholly foreign-owned trading companies, set up in Shanghai's Waigaoqiao Free-Trade Zone in 1990, to the holding company and regional headquarters' initiatives, Shanghai has enjoyed the status of a pioneer. This status is now in doubt as scandal ripples through the city's administrative hierarchy. Concessions and pilot experiments from the center are likely to be harder to come by, especially as competing municipalities push hard for their own projects. Guangzhou has recently issued new regulations seeking to attract foreign companies' regional headquarters, and Tianjin has ambitious plans to develop the Binhai New Area into a financial center to rival Pudong.

Victim of its own success

While Shanghai's image and status have suffered over the past year, the city's fundamentals remain strong. Foreign investors remain optimistic, pouring in $7 billion of new investment in 2006, some 11 percent of China's total. There are still sound business reasons why companies choose to locate their key operations and highest-level employees here. In many ways, Shanghai's growing vulnerability stems from its own overwhelming success, as companies scramble in a cutthroat war for

Scandal and a new policy focus in Beijing bring a firmer hand to China's freewheeling commercial hub

scarce management talent and as compensation, office rents, and other costs rise steadily. Foreign-invested companies now employ nearly 10 percent of Shanghai's workforce, and most have plans to expand hiring in 2007.

The expansion of foreign companies in the city is creating new tensions. Five years ago, the Shanghai Municipal Government commissioned McKinsey & Co. to draw up a plan to help revitalize the city's principal commercial street, Nanjing East Road. The consultants produced a lengthy, sophisticated plan for a pedestrian walkway, centered on attracting big-name foreign retailers. At the time, the plan generated admiring approval, and today the gleaming neon-lit walkway is jammed with hordes of tourists each day. In January, however, the city came under withering domestic media criticism for purportedly refusing to renew the leases of domestic retailers in order to attract higher-paying and more prestigious foreign brands. The political and media environment in China is shifting, and Shanghai is shifting with it.

The city government is aggressively pursuing suspected commercial bribery investigations involving multinational corporations and recently sent teams of quality inspectors to test clothing pulled from the racks of luxury foreign-owned fashion boutiques—including some on Nanjing East Road. Some 5,000 of the 24,000 labor arbitration cases in Shanghai last year involved foreign companies, and employees won full or partial restitution in 86 percent of all cases. While foreign companies are still welcome, Shanghai is becoming a less-solicitous host.

Filial piety

For now, Shanghai will carefully toe the central line. It will push, quietly, for its pilot programs and initiatives but is much less likely to get all that it wants. Beijing's hand on the reins will be somewhat tighter, as demonstrated by central interventions to bring down sky-high property prices in 2006 and to cool the stock market in early 2007. Still, as the contributor of more than 15 percent of the central government's tax revenues and the home of China's principal stock market, the city will remain vital to the country's reforms. Expect Shanghai to keep on beating the forecasts, including its own: targeting single-digit growth is one thing, actually slowing down to achieve it another.

As the world's eyes turn to Beijing for the Olympics, Shanghai is readying itself for its own coming-out party on the global stage—the 2010 World Expo. It never hurts to have two extra years of preparation time to outdo one's elders, and Shanghai is still, by any measure, a true prodigy. 完

***Godfrey Firth** is chief representative, Shanghai, at the US-China Business Council.*

Event Wrap Up

WASHINGTON

December

Joint Commission on Commerce and Trade Intellectual Property Rights (IPR) Working Group Update

Featured US interagency IPR officials; special thanks to Wilmer Cutler Pickering Hale and Dorr LLP for hosting this event.

January

Luncheon Honoring PRC Vice Minister of Foreign Affairs (MOFA) Yang Jiechi

Featured Vice Minister Yang, PRC Ambassador to the United States Zhou Wenzhong, US Deputy Assistant Secretary of State for East Asian and Pacific Affairs Thomas Christensen, and other MOFA officials.

Issues Luncheon

Featured US Department of Commerce (DOC) Undersecretary for International Trade Franklin L. Lavin, who discussed the current state of US-China commercial issues.

Washington: Reception with PRC Provincial and Local Commercial Officials

Featured a delegation of senior provincial- and local-level commercial officials from Dalian, Liaoning; Guangzhou, Guangdong; Jinshan, Shanghai Municipality; Fujian; Jiangsu; and Shandong. Special thanks to Steptoe & Johnson LLP for hosting this event.

February

Forecast 2007 Reception and Conference

See p.15

Discussion with Ira Kasoff, DOC

Featured Kasoff, the new deputy assistant secretary for Asia in the Market Access and Compliance division of DOC's International Trade Administration; Cheryl McQueen, director of the Office of the Chinese Economic Area, DOC; and Nicole Melcher, Kasoff's predecessor.

Discussion with David Loevinger, Minister-Counselor for Financial Affairs, US Embassy, Beijing

Featured Loevinger, the US Department of the Treasury's financial attaché in Beijing, who spoke on recent financial meetings in Beijing between US and PRC officials.

MINNEAPOLIS, MN

February

Roundtable Discussion: Business Trends in China and US-China Trade Politics in Washington, DC

Featured the US-China Business Council's (USCBC) Vice President for China Operations Robert Poole and Washington, DC-based Vice President Erin Ennis. Special thanks to Cargill, Inc. for hosting this event.

ST. LOUIS, MO

February

Roundtable Discussion: Business Trends in China and US-China Trade Politics in Washington, DC

Featured Emerson COO Ed Monser, USCBC President John Frisbie, and Poole. Special thanks to Emerson and Anheuser-Busch Companies, Inc. for hosting this event.

BEIJING

January

Luncheon: DOC's Christopher Padilla on Export Controls

Featured Padilla, assistant secretary for Export Administration, Bureau of Industry and Security, DOC. Cosponsored by USCBC and the American Chamber of Commerce (AmCham) China.

Aviation Forum

USCBC hosted an aviation forum to discuss reforms of, and improved market access to, China's aviation sector. Andrew Steinberg, assistant secretary of Transportation for Aviation and International Affairs, and Li Jiangmin, director of the Civil Aviation Administration of China (CAAC) Department of International Affairs and Cooperation, spoke at the event. The forum brought together officials from CAAC, the General Administration of Customs, Ministry of Communications, National Development and Reform Commission, Ministry of Commerce, and MOFA.

February

Briefing on the Strategic Economic Dialogue with Office of the US Trade Representative (USTR) Officials

Featured Christine Bliss, assistant USTR for Services; Timothy Stratford, assistant USTR for China; Victoria Espinel, assistant USTR for IPR and Innovation; Claire Reade, chief counsel for China Enforcement; Eric Altbach, deputy assistant USTR for China; Amy Celico, senior director for China; and Ann Main and Daniel Bahar, directors for Services and Investment, respectively. Cosponsored by USCBC, the US Information Technology Office, and AmCham China.

Upcoming Events

WASHINGTON

Luncheon with He Yafei, PRC Assistant Minister of Foreign Affairs

March 6, 2007

Issues Luncheons

March 15, 2007
April 19, 2007
May 17, 2007

34th Annual Membership Meeting

June 5, 2007

For more information, see p.13

Cosponsored by the Boeing Co., FedEx Corp., Northwest Airlines Corp., Polar Air Cargo, Inc., United Airlines, Inc., and UPS.

sardari.com

PRC Vice Minister of Foreign Affairs Yang Jiechi and USCBC President John Frisbie at the January 5 luncheon in Yang's honor.

Julie Walton

Sponsors and speakers at the Aviation Forum, January 29 in Beijing.

USCBC Hosts Washington Reception and Forecast 2007 Conference

USCBC held its Forecast 2007 reception and conference on February 7 and 8, respectively, in Washington, DC. More than one-third of USCBC's member companies were represented; nearly half came from outside of Washington. Guests from the US government, PRC embassy, and academia also attended the reception and luncheon.

The evening reception featured remarks by Representatives Joseph Crowley (D-NY) and Mark Kirk (R-IL), PRC Embassy Deputy Chief of Mission Zheng Zeguang, and Assistant US Trade Representative (USTR) for China Tim Stratford. Rep. Rick Larsen (D-WA) and Rep. Geoff Davis (R-KY) also attended the event.

The conference assembled panels of renowned China experts and opinion leaders who offered prognostications for the bilateral relationship in the year ahead. Harry Harding, director of Research and Analysis at the Eurasia Group, highlighted the growing complexity of the US-China relationship and the need for a more coordinated approach in US engagement with China. Brookings Institution Visiting Fellow Cheng Li provided an overview of the crucial 17th Chinese Communist Party Congress, which will take place later this year, and analyzed the new roster of potential powerbrokers within the PRC leadership.

Jonathan Anderson, chief economist for Asia Pacific, UBS AG, forecast a stable PRC economy in 2007 with slightly higher inflation and roughly 6 percent appreciation of the renminbi against the US dollar. Anderson also noted that inflation and imports would rise over the next three to four years as demand picks up and capacity tightens. USCBC Vice President for China Operations Robert Poole discussed key operational issues facing US companies in China, which include retaining qualified employees, reinforcing government relations staff, and managing domestic media coverage. Brian Pomper and Beau Schuyler, founding partners of Parven Pomper Schuyler Inc. and former Democratic congressional staffers, concluded the morning session with a snapshot of the new Democratic Congress and its implications for China-related trade legislation.

The conference concluded with a luncheon address by Deputy USTR Karan Bhatia on the Bush administration's approach to the US-China trade relationship in 2007. Bhatia also emphasized the importance of the Strategic Economic Dialogue. For Bhatia's remarks, see www.uschina.org.

Representatives Mark Kirk (R-IL) and Geoff Davis (R-KY) at USCBC's Washington Reception

Rep. Joseph Crowley (D-NY)

Ford Motor Co. Manager of Government Affairs for Asia Pacific and Africa Gina Capalbo; PRC Embassy Deputy Chief of Mission Minister Zheng Zeguang; and Zheng's wife Mme. Hua Mei

Harry Harding, director of Research and Analysis at the Eurasia Group

Cheng Li, Brookings Institution visiting fellow

Jonathan Anderson, UBS chief economist for Asia Pacific

Brian Pomper and Beau Schuyler, founding partners of Parven Pomper Schuyler Inc. and former Democratic congressional staffers

Deputy USTR Karan Bhatia and USCBC President Frisbie during the Q&A following Bhatia's luncheon address

Hu Yuanyong/China Foto Press

China's 2006 IPR Review

China has pledged to step up efforts to protect intellectual property rights and released a plan to do so, but the results have been mixed

Erin Ennis and Robert Alaimo

Over the past year, Beijing has taken several significant steps to better protect intellectual property rights (IPR) in China. Despite those broad efforts, legal shortcomings remain, and improvements are needed. In March 2006, the PRC Office of the National IPR Protection Working Group released China's 2006 Action Plan on IPR Protection, which outlines various policy objectives for the PRC government and the private sector. It focuses on four major areas—trademarks, copyrights, patents, and imports and exports—and suggests legal and interpretational changes, enforcement efforts, transparency improvements, advocacy and outreach programs, and training and exchange programs for each area. Though the action plan does not set a timeframe for meeting all of its outlined goals, Beijing successfully met some of the benchmarks by the end of 2006.

Trademarks

The PRC government is revising the Trademark Law, which was issued in 1993 and first revised in 2001, for the second time. China currently uses a "first-to-file" approach, which means that the first company to file for a trademark is granted that trademark in China, even if another company has already been using that trademark but has not registered it. Such a provision can create problems for multinational corporations (MNCs) that have registered their trademarks abroad because China does not automatically recognize those trademarks.

Although trademark enforcement is still weak in general, amendments to the Implementing Regulations of the Trademark Law may improve the legal structure for enforcement. Under these amendments, foreign companies' local branches or subsidiaries may directly register trademarks without a domestic agent, potentially expediting the registration process.

US-based Pfizer Inc. has taken several trademark cases to PRC courts. In December, the First Intermediate People's Court of Beijing (FIPC) ruled that Pfizer's trademark for Viagra, the male impotence drug, is valid and ordered two Chinese companies to stop producing counterfeit pills. Despite registering a small victory, Pfizer's legal battles are not over. The same Beijing court ruled in January 2007 that several Chinese drugmakers' use of Weige, the common Chinese name for Viagra, does not constitute trademark infringement. Pfizer is currently appealing the case.

Copyrights

China is also revising the Copyright Law. Beijing has conducted several high-profile national and local crackdowns on copyright infringement, one of which was "Hawk Action," a 2005 national campaign that resulted in the arrest of 5,981 counterfeiters. PRC officials followed with the launch of "Operation Mountain Eagle" in 2006, a campaign designed to not only toughen copyright enforcement but also analyze and improve enforcement techniques. Throughout 2006, the PRC government undertook a series of enforcement campaigns dubbed Operation Sunshine I, II, and III, which focused on audiovisual IPR violations. (Operation Sunshine III ended on January 1, 2007.) In a step toward stronger IPR protection, the PRC government issued a regulation, which took effect in July 2006, that allows authorities to impose administrative fines of up to ¥100,000 ($12,500) per copyright infringement of works disseminated over networks.

These efforts are not nearly comprehensive enough to quiet analysts who are skeptical of the campaigns' long-term impacts. Moreover, despite intensified efforts to curb IPR violations, the PRC legal system not only lacks the teeth necessary for permanent improvements in enforcement but has issued what appear to be inconsistent rulings. For example, Baidu.com, Inc., the parent company of one of the most popular Internet search engines in China, has been sued several times for using a practice called "deep linking," which allows Baidu users to download unlicensed versions of copyrighted songs through its MP3 search engine. The Internet company has had mixed results in fending off challenges to its practices. Baidu first lost a deep linking case brought by Shanghai Busheng Music Culture Media Co., an affiliate of UK-based EMI Group plc, in September 2005 and was ordered to pay ¥68,000 ($8,781) in damages. (Baidu is currently appealing the case.) In the same month, the International Federation of the Phonographic Industry (IFPI) filed a similar, but separate suit against Baidu on behalf of four international music giants, including EMI. FIPC in November 2006 ruled in favor of Baidu, noting that the search engine simply provided links to websites from which songs could be illegally downloaded. While IFPI is appealing the latest ruling, EMI has dropped out of the appeal and has instead struck a deal with Baidu to provide legal, downloadable songs.

In the most recent demonstration of the apparent inconsistency with which PRC courts interpret China's IPR laws, FIPC in late December 2006 fined Sohu.com, Inc., another popular web portal in China, about $140,000 for allowing its users to download US movies illegally. The same Beijing court is currently hearing another copyright infringement case, in which a Chinese daily, *Beijing News*, is seeking $400,000 from web company Tom.com Corp. for the unauthorized republication of more than 25,000 *Beijing News* articles.

Patents

The process of revising the Patent Law began in January 2006 and is expected to be completed in 2008. The latest proposed revisions would amend provisions regarding novelty standards and the acquisition of design patents, among others (see p.26).

Reforms in patent enforcement have focused on training and certification programs for patent officials and regulators. Over the past year, the PRC government has held training courses for all positions related to patent distribution and maintenance. In September 2006, the State Intellectual Property Office (SIPO) established training courses for patent officers, certification programs for fraud prevention, and a review and examination system for clarifying responsibilities and penalties in criminal and administrative cases.

In a positive legal development for foreign patent holders in China, a June 2006 court ruling overturned the PRC Patent Reexamination Board's decision and upheld Pfizer's patent on Viagra (see p.20).

Imports and exports

The 2006 action plan includes provisions to strengthen IPR enforcement at China's borders, and the PRC government has taken additional steps to address the import and export of illegal goods. Among those efforts, Beijing is

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drafting new regulations that could alter the bond-posting process—under current rules, brand owners must post a bond when requesting PRC Customs to seize infringing goods (see the *CBR* November–December 2004, p.30)—and has launched studies on customs enforcement and coordination. US Customs and Border Protection recently reported that it seized $125.6 million worth of counterfeit goods from China in 2006—81 percent of all IPR-infringing goods seized at US borders that year.

2006, only a few regulations governing IPR protection on the web had taken effect, falling short of the full legislative package. China took another step toward fulfilling its JCCT commitments in late 2006 when the Standing Committee of the 10th NPC approved the WIPO Copyright and Performance and Phonograms treaties.

As part of China's 2006 JCCT commitments, Beijing agreed to verify that all computers used by the government and state-owned enterprises are loaded with legal

In 2005, China agreed to raise the number of criminal prosecutions relative to the number of administrative prosecutions.

Criminal proceedings and value thresholds

In 2005, China agreed to raise the number of criminal prosecutions relative to the number of administrative prosecutions. IPR-related cases must still meet minimum value thresholds to be considered for criminal prosecution, however. To initiate criminal proceedings, the value of seized goods must reach at least ¥50,000 ($6,300) for individuals and ¥150,000 ($19,000) for corporations.

US Secretary of Commerce Carlos Gutierrez and many other US officials have described these thresholds as a violation of China's World Trade Organization (WTO) Agreement on Trade-Related Aspects of IPR, and as the *CBR* went to press, the Office of the US Trade Representative (USTR) was considering a WTO case that may include this issue. In March 2006, China released an opinion that calls for the prompt transfer of administrative cases to public security bureaus and grants people's procuratorates the power to enforce such transfers. The opinion, however, does not define "prompt transfer" and allows a public security bureau up to 10 days to determine whether to accept a criminal case, though it may have up to 30 days when considering a case that is deemed "serious" or "complicated."

JCCT commitments

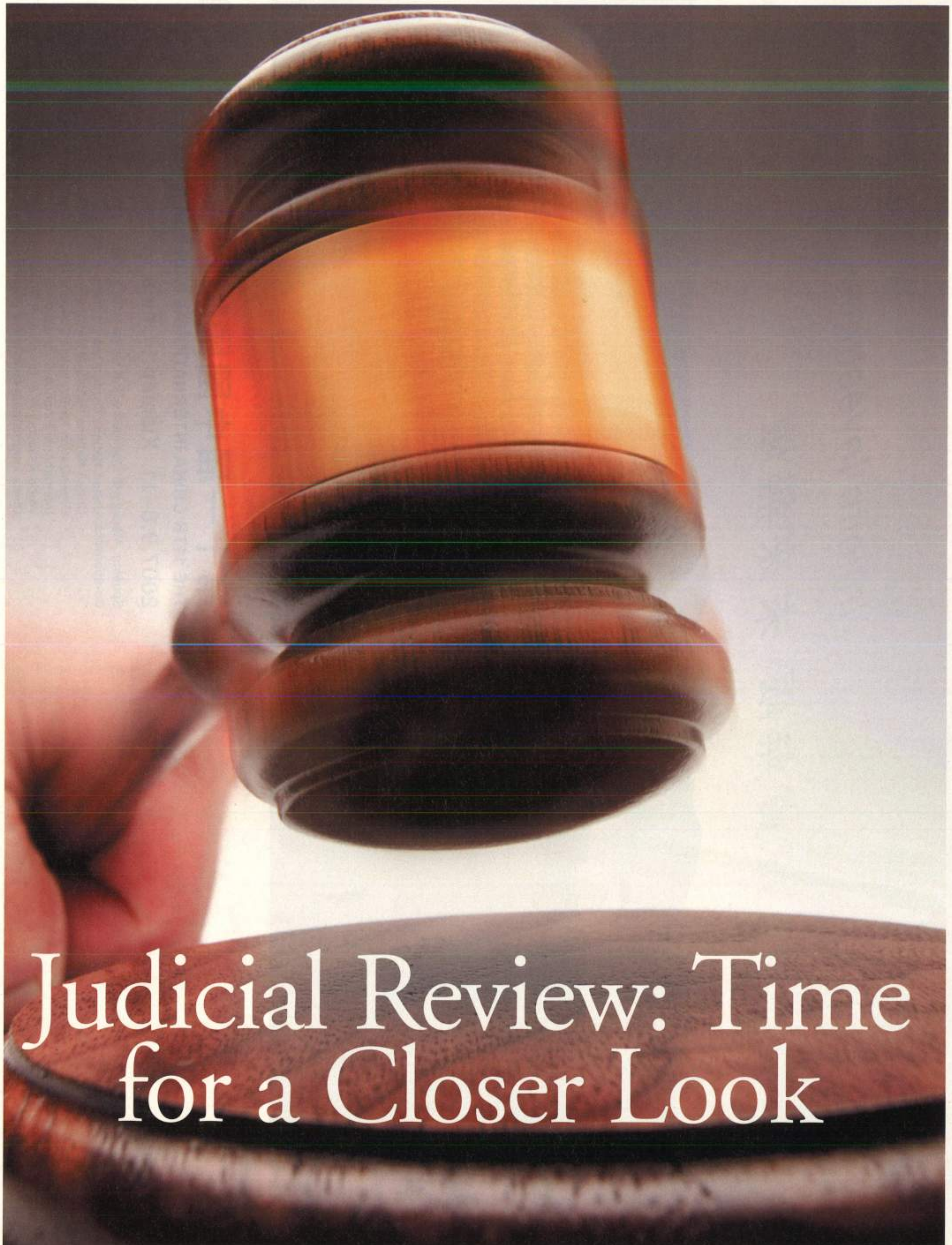
Acceding to the World Intellectual Property Organization (WIPO) treaties was one of China's 2005 Joint Commission on Commerce and Trade (JCCT) commitments, and Beijing promised to submit to the PRC National People's Congress (NPC) a full legislative package by June 30, 2006 that would bring the country into compliance with WIPO requirements. But as of July

software. China has also begun to employ new strategies at trade shows to monitor and punish entities that display illegal products, another part of the 2006 Action Plan (see the *CBR*, January–February 2007, p.24).

Into 2007

As China ushers in the Year of the Pig, it is preparing to unveil a new national strategy for IPR protection, as it did in 2006. A draft was completed and submitted to the State Council for approval on December 25, 2006. The strategy will likely be approved and released in the second half of 2007, according to SIPO. (In February, SIPO issued a separate 2007 IPR work plan that calls for better coordination of IPR strategy and intellectual property development among various government levels, improving patent information systems, and supporting the revisions to the Patent Law.)

This year may mark a new phase in US efforts to address China's IPR enforcement deficiencies, in part because US trade officials have made IPR enforcement a top priority issue under the newly formed Strategic Economic Dialogue. In addition, USTR is undertaking a special provincial review of IPR enforcement in China—announced in its annual report on international IPR enforcement in March 2006—and solicited public comments on its proposal in February 2007. Moreover, the US Congress has made the Bush administration's record on IPR enforcement in China a top priority in the first trade hearings of the 110th Congress. A WTO case against China's IPR enforcement record could address some of the congressional concerns. 完



Judicial Review: Time for a Closer Look

The judicial review of Patent Reexamination Board decisions is an important—but underused—patent protection mechanism in China

Mei Y. Gechlik

Since China joined the World Trade Organization (WTO) in December 2001, the country's commitment to abide by WTO rules has captured the attention of businesses and policymakers in the United States. Much of the discussion of China's WTO commitments has focused on intellectual property (IP) protection, especially the infringement of patents, copyrights, and trademarks. But the controversial invalidation of Pfizer Inc.'s PRC patent for Viagra by the Patent Reexamination Board (PRB) of China's State Intellectual Property Office (SIPO) in 2004 shows that problems pertaining to IP can emerge before infringement occurs. Although the PRB's decision was revoked by the First Intermediate People's Court in Beijing (FIPC) in 2006, the final outcome remains uncertain. The High People's Court in Beijing (HPC) will hear an appeal. A further appeal to the Supreme People's Court, China's highest appellate court, while unusual, is still possible.

Regardless of the final result, this case has aroused concern about an important but little known area of Chinese law—the judicial review of PRB decisions—and its effectiveness in protecting patent rights in China. The judicial review of PRB decisions covers decisions made during reexamination (*fushen*) and invalidation (*wuxiao*) proceedings. When China's Patent Office rejects a party's application for a patent, the party may request that the PRB reexamine the Patent Office's decision. When a party believes that a granted patent does not conform to the PRC Patent Law, the party may invoke the invalidation proceeding to request that the PRB declare the patent invalid in whole or in part.

Decisions made during these proceedings are subject to judicial review. In most cases, FIPC and HPC are the first-instance and second-instance courts. In theory, these cases can be further appealed to the Supreme People's Court. In practice, this rarely happens. For some cases that courts consider to be "major and complex" (*zhongda yinan*), the HPC and the Supreme People's Court could be the first-instance and second-instance courts, respectively.

The evidence before us

To better understand the judicial review of PRB decisions, this study analyzes all 497 cases of this kind available, as of June 2006, on Beijing courts' website (http://bjgy.chinacourt.org). Of these cases, 265 are first-instance cases decided by the FIPC, and the remaining 232 are second-instance cases decided by the HPC. A comparison of these numbers with China's official data shows that the Beijing courts have yet to honor their pledge to publish all IP-related judgments—the posted judgments account for roughly one-third of all such judgments rendered during the same period.

To determine how foreign companies searching for ways to better protect and defend their IP in China can best use this process, the author reviewed the data with a focus on six questions.

What percentage of judicially reviewed PRB decisions was reversed by courts?

FIPC reversed 26 percent of PRB decisions. Roughly 70 percent of PRB decisions remain intact after going through the first and second instances.

The vast majority of cases involved invalidation proceedings. In 74 percent of the 262 first-instance invalidation cases, the FIPC upheld the PRB decision because it found that the evidence upon which the board relied was conclusive, the board's application of relevant laws and regulations was correct, and the board complied with relevant legal procedures. In the remaining 26 percent of these cases, the court revoked the PRB decision, citing inadequacy of essential evi-

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dence, incorrect application of laws and regulations, or violation of legal procedures. In some of these cases, the court also remanded the case to the PRB for another decision.

In 80 percent of the second-instance invalidation cases, HPC dismissed the appeal and upheld the FIPC ruling.

Do courts succumb to PRB pressure to uphold its decisions?

In China, government officials and academics often refer to the "losing rate" of defendant agencies in judicial review to discuss the extent to which officials respect the law. The term "losing rate," though not defined, primarily covers the rate at which one of three outcomes occurs: a plaintiff withdraws its administrative case from the court after the defendant agency agrees to change the challenged administrative act; the court decides to revoke or change the challenged administrative act; or the court orders the defendant agency to implement its legal obligations.

The first and third of these outcomes are rare. Unlike administrative agencies at lower levels of the PRC government structure, the PRB, a central-government agency, rarely "fails to act." It is also rare for the PRB to change its decisions informally so that a party finds it unnecessary to continue the lawsuit and thus withdraws the judicial review case. Therefore, in this type of judicial review, the losing rate mainly covers the second outcome—a reversal of the PRB's decisions, which, as stated above, is 26 percent.

This rate is lower than the 35 percent average losing rate of all defendant agencies in China. When the losing rate of a certain defendant agency or of agencies in a certain geographical area is lower than the national average, it is often interpreted as a sign of one of two opposite situations: that the concerned officials show *more* respect for the law than their counterparts across China and that, therefore, courts are more likely to find their administrative acts lawful; or that the concerned officials show *less* respect for the law than their counterparts, and they therefore are more likely to pressure the courts to rule in their favor.

In the context of the judicial review of administrative acts made by lower-level governments of less-developed localities, the second explanation often prevails. This stems from a major problem in China's judicial review system. Local courts, especially basic-level courts, often succumb to local government pressure to rule in favor of local administrative agencies' decisions. Their susceptibility to such interference is largely because of local government control over the financial and personnel arrangements of local courts and local officials' inadequate respect for, and understanding of, the law.

In contrast, local officials' greater respect for the law prevails in explaining the overall 20 percent losing rate of Shanghai's defendant agencies. Experts interviewed attribute Shanghai agencies' relatively low losing rate to the fact that the city's officials demonstrate greater respect for the law than their counterparts in other parts of the country. This, in turn, is largely because of their better qualifications and training. As a result, these officials are less likely to interfere with courts and more likely to make lawful administrative acts that are subsequently upheld by courts.

Against this backdrop, the relatively low losing rate of the PRB should prompt readers to wonder whether the PRB may have pressured the FIPC and the HPC to uphold its decisions. It is generally recognized that officials in the central government, such as those in the PRB, show more respect for the law than officials in lower-level governments because of their better qualifications and training. FIPC and HPC judges who handle IP cases are also generally considered to be more qualified than average judges in China. These two factors, together with the fact that the PRB is not part of the Beijing municipal government that controls the financial and personnel arrangements of the city's courts, suggest that the FIPC and HPC are less likely to suffer from interference.

What is the impact of legal representation on the "losing rate"?

Lawyers represented plaintiffs and appellants in only 32 percent of the 265 first-instance cases and 28 percent of the 232 appeal cases (see Tables 1 and 2). It is unclear why these parties did not have lawyers handle their cases. Considering that 70 percent of plaintiffs are companies and that roughly 13 percent and 56 percent of the appellants are, respectively, the PRB and companies, inadequate financial resources to hire an attorney is unlikely to be the main

Table 1:
Legal Representation in First-Instance Cases, 2001–06

	Total	Cases with legal representation		Cases without legal representation	
		Number	Percent	Number	Percent
Parties from Mainland China	229	71	31.0	158	69.0
Other Parties	36	13	36.1	23	63.9
Total	**265**	**84**	**31.7**	**181**	**68.3**

Table 2:
Legal Representation in Appeal Cases, 2001–06

	Total	Cases with legal representation		Cases without legal representation	
		Number	Percent	Number	Percent
Parties from Mainland China	215	62	28.8	153	71.2
Other Parties	17	3	17.6	14	82.4
Total	**232**	**65**	**28.0**	**167**	**72.0**

Source: Mei Y. Gechlik, based on her analysis of cases posted on http://bjgy.chinacourt.org.

reason. Instead, many legal experts believe that the principal reason is that many litigants still lack confidence in Chinese lawyers to handle highly technical cases such as those that involve patent rights.

The lack of legal representation may have affected the outcome of these cases. Of the first-instance cases, 76 percent of plaintiffs without lawyers lost their cases, compared with 69 percent of those with lawyers. In appeal cases, 84 percent of appellants without lawyers lost, compared with 71 percent for those with lawyers.

Does this avenue provide an inexpensive and efficient means to protect patent rights?

The FIPC and HPC charge only ¥1,000 ($125) to handle a case, and it takes on average only about 10 months to complete the first-instance and appeal processes. In short, the judicial review of PRB decisions is an inexpensive and fairly efficient avenue for parties to protect their patent rights.

Such efficiency is generally welcomed, but must not be pursued at the expense of quality. In 2003, Jiang Zhipei, the leading Supreme People's Court judge who oversees IP litigation in China, openly acknowledged that the FIPC was facing enormous pressure to handle its heavy—and growing—caseload more quickly. In 2005, he noted that the problem of inadequate resources hampers China's IP protection system.

To what extent do non-mainland parties use this avenue?

Of the first-instance and appeal cases, only 11 percent were brought by non-mainland parties. Given that patents obtained by applicants outside mainland China account for 22 percent of all patents granted by PRC authorities from 1985 to 2005 (see Table 3), one would expect to see a higher percentage of cases brought by parties from these places.

A possible explanation for this discrepancy is that non-mainland parties are less prepared to resort to judicial enforcement of IP rights. Some experts attribute this situation to these companies' unfamiliarity with PRC law and a lack of confidence in the PRC court system. On the low percentage of IP cases brought by foreign parties, Judge Jiang commented that these companies often only complain to the media and their own governments. He urged them to take their complaints to the courts.

Table 3: Total Number of Patents Granted by China, 1985–2005

Places	Number of patents obtained	Percentage of total granted
Mainland China	1,151,545	78.36
Outside Mainland China	317,957	21.64
Total	**1,469,502**	**100.00**

Source: PRC State Intellectual Property Office

Figure 1: Losing Rate in First-Instance Cases, 2001–06

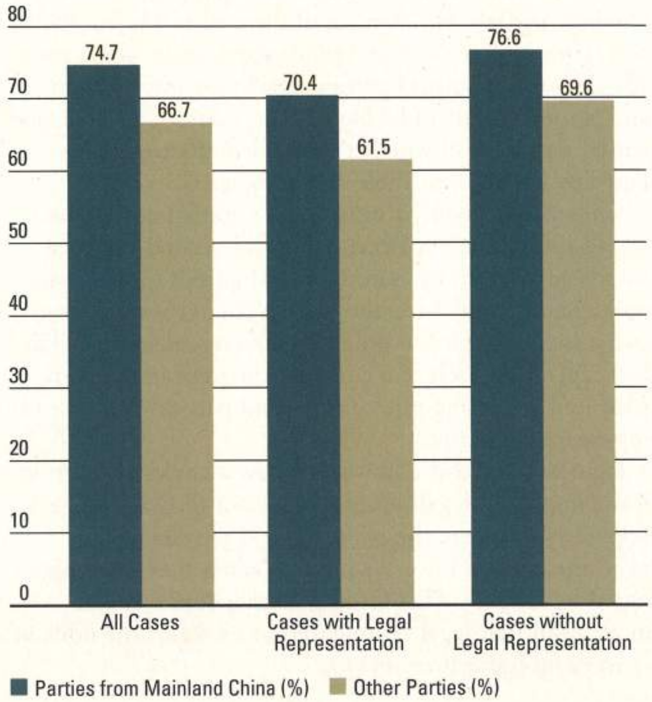
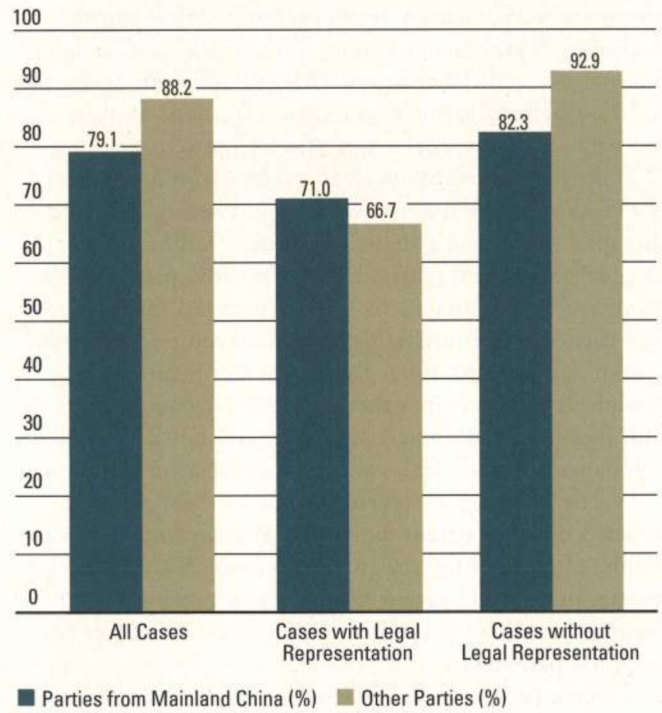


Figure 2: Losing Rate in Appeal Cases, 2001-06



Source: Mei Y. Gechlik, based on her analysis of cases posted on http://bjgy.chinacourt.org.

How likely are non-mainland parties to win?

Of the 229 first-instance cases in which plaintiffs were mainland parties, 74.7 percent of those plaintiffs lost their cases, compared to 66.7 percent of the cases in which plaintiffs were non-mainland parties. The losing rate of mainland parties appears to be higher than that of non-mainland parties, regardless of whether those plaintiffs were represented by lawyers (see Table 1 and Figure 1).

Table 2 and Figure 2 summarize a similar analysis of second-instance cases. Because only 17 second-instance cases were brought by non-mainland parties (3 with legal representation and 14 without), the data generated from such a small sample are unlikely to be representative. This may explain the lack of a consistent pattern in the comparison of the losing rate of mainland parties with that of non-mainland parties.

Figures 1 and 2 do, however, show a consistent pattern in the impact of legal representation on the losing rate. Regardless of where the plaintiffs and appellants are from, they have a lower losing rate when they are represented by lawyers. This finding further supports the observation that legal representation increases the odds of a successful judicial review.

Recommendations for foreign parties

In light of these findings, US and other foreign businesses in China would do well to consider the following three steps to protect their inventions or designs in China.

First, foreign firms should apply for PRC patents.

To enjoy the protection of the judicial review of PRB decisions, foreign parties must apply for Chinese patents, including, if possible, invention, utility model, and design patents. The judicial review of PRB decisions only covers the PRB's reexamination and invalidation decisions. Both scenarios require the inventor to apply for a Chinese patent.

Take the United States as an example. From 1985 to 2005, the United States ranked second behind Japan in the total number of patents obtained in China. This is mainly because US parties filed fewer PRC patent applications than their Japanese counterparts, even though the US parties have consistently submitted more international patent applications under the Patent Cooperation Treaty than have parties from other countries. A major reason for this problem is that many US parties do not know that China has a first-to-file, instead of a first-to-invent, system. The failure of US parties to file for PRC patents opens a door for patent violations. Potential infringers in China often carefully review information disclosed by US parties in their US patent filings. Upon making slight modifications to the original design, these infringers file for PRC patents.

Foreign parties should, wherever applicable, apply for utility model and design patents at the same time as they apply for invention patents. It takes a long time for the PRC authorities to approve an invention patent. The quicker issuance of utility model and design patents allows these parties to fill any possible loophole that potential infringers could exploit.

Second, foreign firms should consider using the judicial review of PRB decisions to protect their patent rights and have attorneys handle their cases.

Of the 497 cases analyzed in this study, only 53 (11 percent) were brought by non-mainland parties. In particular, only six were brought by US parties (five companies and one individual). Foreign parties often seem to believe that they cannot win in PRC courts and agencies. Pfizer's success in winning the Viagra patent case at the FIPC (though an appeal is pending) and the finding that non-mainland parties of the cases analyzed here have slightly lower losing rates than their counterparts in mainland China suggest the need to reconsider this belief.

In the 53 cases brought by non-mainland parties, only 16 had legal representation. In particular, in the six cases brought by US parties, none of the plaintiffs or appellants hired lawyers to represent them. Instead, they were represented by patent agents registered in Hong Kong or Beijing. More confidence in the competency of Chinese lawyers is warranted. At present, more than 70 percent of China's 154,000 practicing lawyers have bachelor of law degrees. (As in other jurisdictions, including the United Kingdom, legal education begins at the undergraduate level in China.) Of these lawyers, about 10 percent have advanced law degrees such as master's and doctorates. Furthermore, an increasing number of Chinese attorneys return to China after rigorous legal training in countries with developed judicial practices, such as the United States. Finally, hiring an attorney appears to have a positive impact on the outcome of a patent judicial review case. All of these factors suggest that foreign businesses should seek legal representation in these cases.

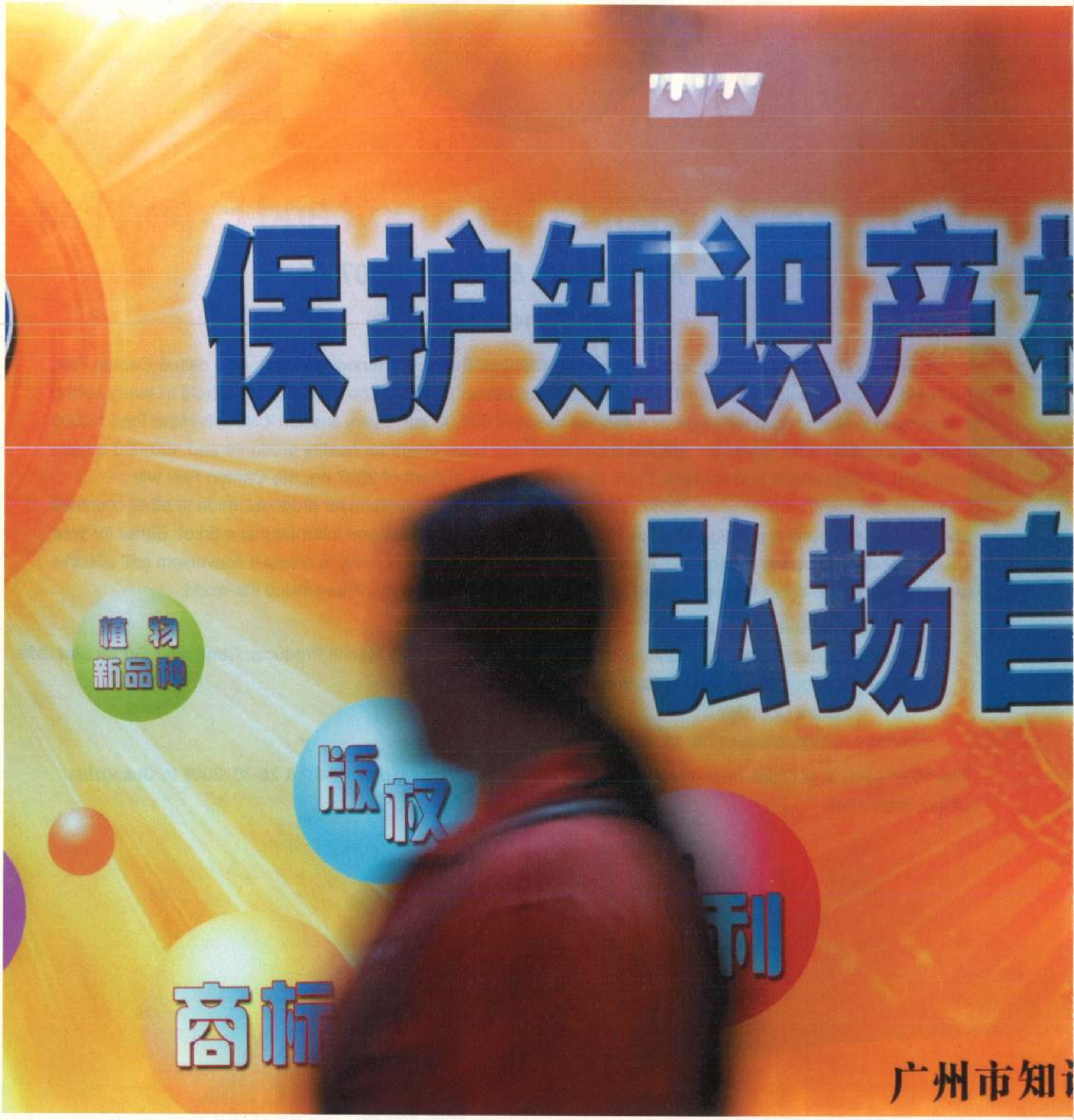
Third, foreign firms should seek to better understand the judicial review process and direct their concerns about it to the PRC government.

As discussed above, one reason that few foreign parties seek judicial review of PRB decisions is their inadequate understanding of and lack of confidence in this mechanism. A better understanding of how this mechanism works would give companies another way to protect their IP in China. And by directing concerns about the process to the PRC government, companies could spur further improvements in the process.

Of course, as noted earlier, scarce resources are an issue for the courts and, coupled with a mounting caseload, would bog down the system, resulting in delays or in speedy trials that may compromise the quality of judgment. From 1993 to 2004, the Beijing courts' caseload jumped

Continued on page 39

Changing China's Pat



Protect intellectual property rights. Promote independent innovation. China Foto Press

ent Regime

Many of the proposed changes to the PRC Patent Law are aimed at encouraging domestic innovation

Thomas T. Moga

The PRC State Intellectual Property Office (SIPO) recently sent draft amendments to the PRC Patent Law to the State Council Legislative Affairs Office for finalization by the end of this year and for submission to the National People's Congress in 2008. When passed, this will be the third amendment to the Patent Law. The first amendment to the Patent Law, made in 1992, enacted certain basic upgrades commonly required of developing countries after the initial adoption of a patent law. The second amendment, made in 2000, was generally aimed at bringing the law into compliance with the World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) (see the *CBR*, July–August 2001, p.38).

The draft third amendment—which revises roughly half of the original 69 articles and adds 12 new articles—is different from the first two revisions. On one hand, the amendment may clarify some of the ambiguities introduced by the second amendment, such as the lack of clarity surrounding compulsory licensing requirements (see the *CBR*, November–December 2002, p.14). On the other hand, the third amendment may mark a departure from the original Patent Law and the first two amendments. Indeed, as SIPO explains, this new amendment includes changes intended to safeguard China's national interest and economic security, in line with China's current drive to promote domestic innovation and its attempt to reduce its reliance on foreign-controlled patents.

Tension with TRIPS?

Some of the most important revisions are the proposed changes for patent applications related to genetic material,

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which underscore China's willingness to deviate from international norms. Amended Article 25, which identifies subject matters not patentable in China, states that patent rights will not be granted "for an invention-creation, the completion of which depends on genetic resources, [and] the acquisition and exploitation of said genetic resources are contrary to relevant laws and regulations of the State." Amended Article 26 requires applicants seeking to patent an invention-creation that depends on genetic resources to specify the "source" of the genetic resource in their application. Curiously, though the revised Patent Law will likely require the disclosure of the source of genetic material, the current law and the proposed amendment lack a provision on the disclosure of relevant prior art—relevant information that was previously made available to the general public. This lack of information not only compromises a patent examiner's ability to vet the application, but also creates an incentive for inventors to hide relevant prior art that could render their invention unpatentable.

Similar requirements on the source disclosure of genetic resources already exist in some countries, such as India, Brazil, and Peru. There is, however, significant discussion about whether such provisions are TRIPS-compliant. In a September 2006 letter to SIPO, the Intellectual Property Owners Association noted three problems. First, the amendments to articles 25 and 26 appear to add new substantive requirements to patentability that exceed those required under Article 29 of TRIPS and Article 5 of the Patent Cooperation Treaty. Second, the proposed amendments, which apply only to inventions that use genetic resources, "are in conflict with Article 27.1 of the TRIPS Agreement, which provides for nondiscrimination in patent availability among different fields of technology."

Finally, the two articles include ambiguous language. For example, the meaning of the phrases "relevant laws and regulations" in Article 25 and "the completion of which depends on genetic resources" in Article 26 are unclear. The ambiguity of these phrases makes it difficult to ascertain what might not be patentable and thus to comply with the procedures for obtaining a patent set forth in articles 25 and 26. These changes conflict with Article 62.1 of TRIPS, which mandates governments to provide "reasonable procedures and formalities" for the acquisition and maintenance of intellectual property rights.

First filing

Requirements on when a patent application should be filed in China will also likely be revised. According to amended Article 20, an applicant that files an international application for a patent must comply with the provisions of amended Article 4, which stipulates that SIPO must first approve an application for an overseas patent for an invention-creation made in China. In addition, new Article 76 states that no patent right shall be granted in China if an applicant files in a foreign country without first obtaining SIPO approval. In other words, when an invention is "completed" in China, the patent application must be filed first in China unless the applicant obtains prior approval for foreign filing. This new rule will apply regardless of citizenship and will, in effect, prevent a foreign parent company from choosing where the patent application is to be first filed. Although the intent behind this proposed change may be to boost the number of patent applications filed in China, it could have a chilling effect on foreign investment in research and development in China.

Exemptions to infringement

The amended Patent Law also exempts a broader range of activities from consideration as patent infringements. The new Article 74 establishes that a patent holder's rights are not infringed "where, after the sale of a patented product made by the patent holder or with the authorization of the patent holder, or of a product directly obtained by using the patented process, any other person uses, offers to sell, sells, or imports that product." This poses a problem in cases where a product that is patented in China and that a patent holder sells outside of China is subsequently imported into China by another person: Under Article 74, the rights under the Chinese patent are deemed to be "exhausted" once the product is sold in another country. As the American Intellectual Property Law Association notes in an August 2006 report, such importation "drastically reduces the scope of patent protection in China." The association argues that sales by a patent holder that occur outside of China should not exhaust the patent holder's rights within China with regard to the item sold.

At least as great a concern is the exception to infringement for drugs and medical equipment. According to the new Article 74, an infringement does not occur when a person manufactures, uses, or imports a patented drug or a patented medical apparatus "solely to obtain and provide the information needed for the administrative approval of the drug or medical equipment" and when a third party manufactures, imports, or sells a patented drug or a patented medical apparatus to such a person. This amendment is similar to what is known in the United States as the Bolar exception, which allows for the use of a patented invention without the permission of the patent rights holder if such a use is related to providing information required to obtain regulatory approval. This exception allows, for instance, a manufacturer of a generic drug to use the technology of a patented drug before the patent expires to prepare the generic drug for regulatory approval so that the manufacturer can sell it soon after the patent expires.

But the new Article 74 lacks features found in US law that balance the interests of the patent holder and those of the party seeking to use the invention. First, under US law, a third party infringes upon the patent rights if it intends to obtain regulatory approval before the patent expires. Second, US law allows in certain circumstances the extension of a patent term for time that the patent holder loses as the third party seeks regulatory approval. (The use of an invention by a third party—without the patent holder's permission—to obtain regulatory approval is considered to shorten the term of the patent.) Third, US law requires the regulatory agency from which the third party seeks approval to withhold approval if the third party and the patent holder disagree over the scope and the validity of the patent and the patent holder brings legal action against the third party. Lacking these balancing features, the proposed amendment fails to adequately protect the interests of patent holders.

Other changes

The proposed amended Patent Law changes the standard by which an invention will be deemed novel and thus patentable. China currently applies a "mixed" novelty standard: Prior art includes material that has been published internationally but excludes inventions that have been publicly used or similarly disclosed outside of China. The amended law expands the scope of prior art by defining it as "any technology known to the public before the date of filing by way of public disclosure in publications, public use, or any other means in this country or abroad." This would level the playing field between foreign and domestic entities and individuals in China. It also mirrors the broader trend in other countries' patent regimes to remove geographic restrictions in their novelty standards.

The draft amendment specifically makes available injunctive relief to preserve evidence before the initiation of a lawsuit. Thus, a patent holder may request a court to order that the evidence of possible infringement be preserved to prevent its possible destruction. If this request is granted, a patent holder can move to protect the potentially incriminating evidence, which may be later used against the alleged infringer. TRIPS requires injunctive relief to preserve evidence, and though it is practiced in China, it has never been written into PRC law. The draft amendment also incorporates the doctrine of equivalents, which is currently not embodied in the law but has nevertheless been recognized by PRC courts. Used in the United States and other developed economies, the doctrine allows a court to impose liability for infringement on a party even though the party does not literally infringe upon a patent.

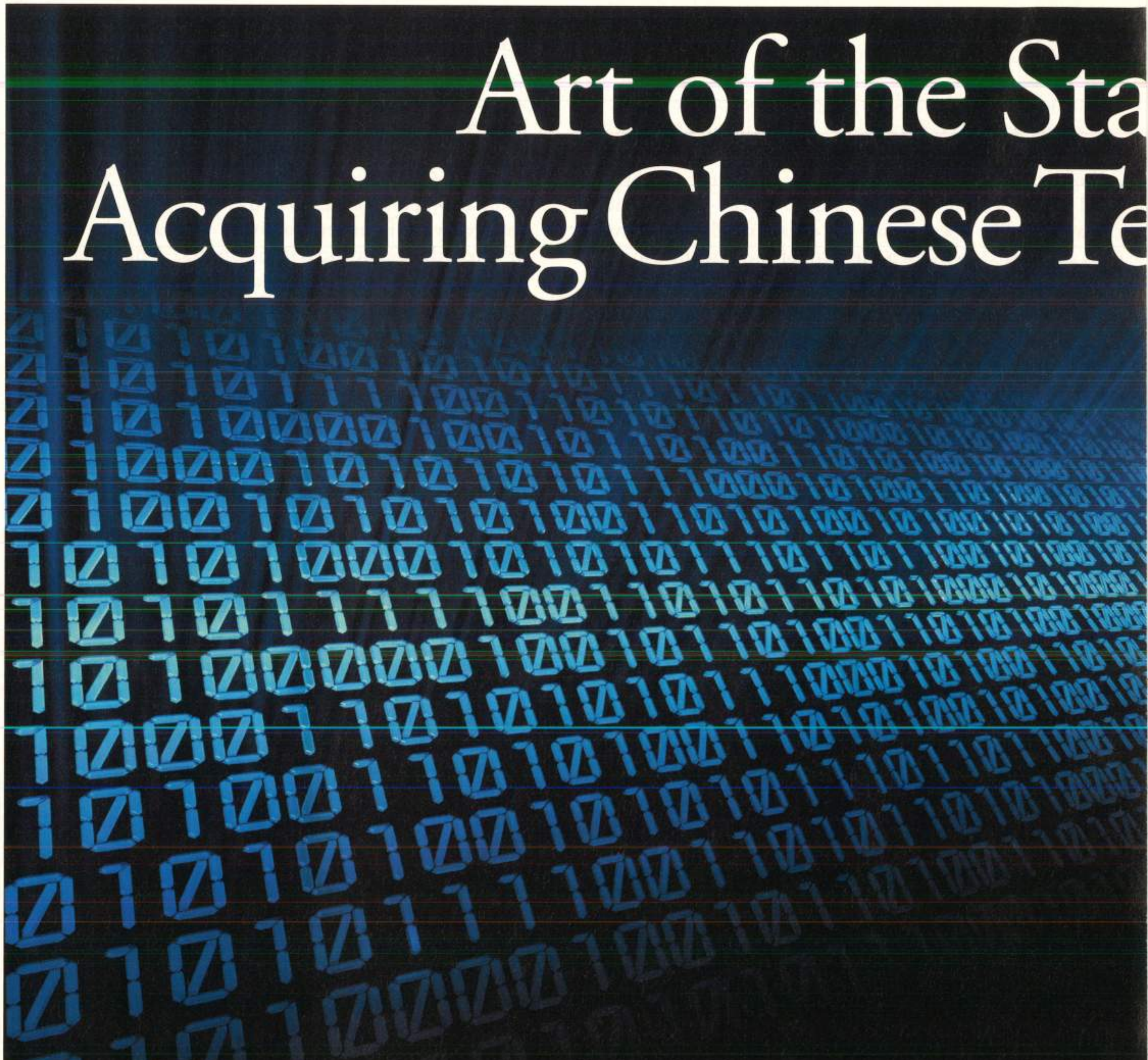
Patent holders have had for many years the option of pursuing infringers through judicial and administrative channels, either separately or simultaneously. Several articles of the amended law, particularly new Article 67, define the powers of the patent authorities more clearly. For example, the new article allows patent authorities to investigate alleged illegal acts and to conduct on-the-spot inspections of a site where an alleged act took place.

Article 49 of the Patent Law concerns compulsory licensing. Currently, this article allows the government to grant a compulsory license in the event of a national emergency or if "any extraordinary state of affairs occurs or where the public interest so requires." The proposed amendments include an amended Article 49 that, in general, represents an overall improvement because it clarifies some of the vagueness in the current law. The amended article, however, also broadens the circumstances under which a compulsory license may be granted to include the prevention, treatment, and control of an "epidemic disease." The World Health Organization defines this term as an outbreak of a disease that meets certain criteria, such as the seriousness of the disease's impact and the degree to which the disease can be spread through travel and trade. Thus amended, Article 49 appears to be overly broad and would benefit from clearer definitions.

Finally, the provisions on design patents are largely left intact. Although the amendment makes minor procedural changes, China will continue to have a post-grant opposition system that features only minimal, non-substantive examination before a patent is issued. Under such a system, third parties may challenge a patent only after it is granted. Given the importance of design patents in China, the failure to adopt substantive examination prior to patent issuance is inconsistent with China's push for innovation. Indeed, some argue that the current system allows designs unworthy of patents to be patented.

A chance to comment?

The draft amended Patent Law revises a number of provisions in the current law and introduces several new features. Although the amendment lacks details in some areas, observers hope that the law's implementing regulations will also be revised to provide more clarity. More important, foreign businesses hope that the PRC government will make the draft of the law available for public comment before it is finalized and approved, as even detailed implementing regulations will not overcome problems in the version that SIPO submitted to the State Council. As Mark Cohen, the senior intellectual property attaché at the US Embassy in Beijing, said in early February, "We are hoping that the State Council will publish the next revision [of the Patent Law] and accept comments. ... We encourage the State Council to continue its engagement with the business community and the United States government to better inform its consideration of the various issues to the Patent Law amendment proposals." 完



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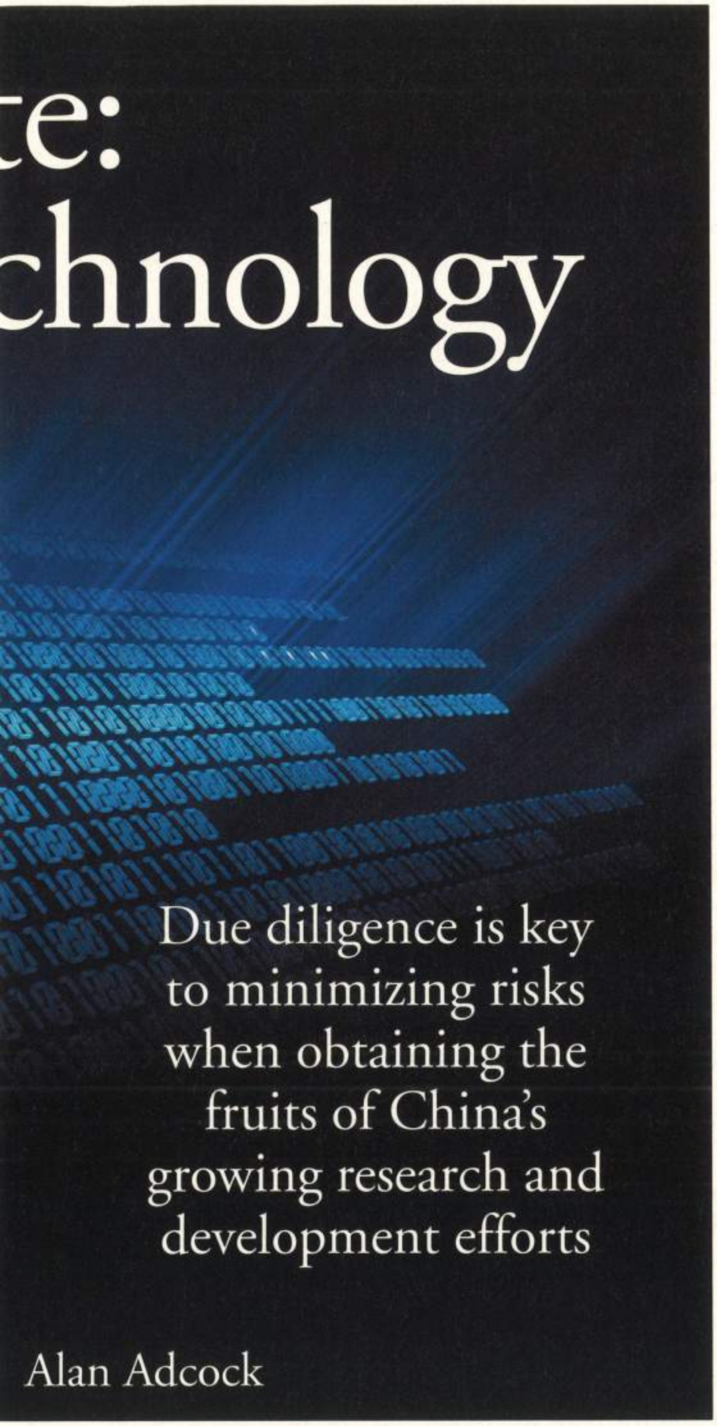
Acquiring Chinese Te

China's commitment to technological development and innovation is not only fostering a shift from "Made in China" tags to the more quality-indicative "Made by China" labels, but is also making local technologies targets for acquisition by foreigners. Developed and incubated in state-funded, private, and Sino-foreign research and development (R&D) centers, these technologies are often discovered by foreign enterprises as they conduct due diligence on Chinese targets for acquisitions, joint venture partnerships, and even contract-manufacturing arrangements.

Such discoveries of local technology should not be surprising. With China's large and highly skilled research and scientific community, low costs for research and manufacturing, sophisticated laboratories, and government incentives for creation and innovation—which were first instituted in the early 1990s and show no signs of abating—the pace of China's climb up the technological ladder should only increase. What is surprising, however, is the fact that many of these technologies are for sale. In China's case, there may still be some Rembrandts in the attic.



te: chnology

Due diligence is key to minimizing risks when obtaining the fruits of China's growing research and development efforts

Alan Adcock

Commitment to technology and innovation

China has long been committed to the development of innovative technologies. Its five-year plans (FYPs) regularly emphasize technology creation, and its various laws and regulations aim to promote and protect technology. In addition, many national programs are designed to encourage development in technological fields. These include the Major Science and Technology Projects of the 11th FYP (2006–10) and the National High-Tech R&D Program, which is also known as the 863 Program.

To implement these and other plans, several PRC ministries and agencies in July 2006 issued an opinion to encourage innovation and technology transfers into China. The Opinion on Methods for Promoting Technology Transfers and Innovation and Encouraging Changes in Foreign Trade Growth focuses on biotech, telecom, petrochemicals, civil aviation and aerospace, environmental protection, and renewable energy. Although most of the opinion discusses how domestic companies can achieve the goals set by Beijing, it also encourages foreign companies to create partnerships with local companies, R&D centers, and universities in their research endeavors. The opinion indicates that PRC tax authorities will study ways to adjust income taxes levied upon royalties that foreign companies earn from technology transfers.

The state of China's R&D

Statistics compiled by the PRC Ministry of Science and Technology show that during the 10th FYP (2001–05), the number of full-time personnel engaged in basic research in China rose from 78,800 in 2001 to 115,400 in 2005, a jump of 46.5 percent. The country now has roughly 200 national labs in operation and an expanding network of satellite field research stations. The amount of government funding for science and technology has also significantly increased in the past few years, from ¥54.4 billion ($6.6 billion) in 1999 to ¥133.5 billion ($16.1 billion) in 2005.

Apart from financial support, the government encourages the patenting of new technologies not only from government-supported R&D centers, such as universities and government labs, but also from state-owned and private enterprises. Statistics from the PRC State Intellectual Property Office (SIPO) suggest that these efforts may be paying off (see Table). Though China's R&D strength may not match that of Western economies, it is clear that the PRC government has made and will continue to make technological development a national priority.

R&D centers in China

As a result of tax incentives, encouragement by investment authorities, Chinese consumers' demand for innovations, and the overall globalization of technological development, many foreign enterprises in China have set up R&D centers. According to the PRC Ministry of Commerce (MOFCOM), about 46 percent of multinational corporations (MNCs) operating in China established R&D centers by 2005. Reports also indicate that China has more than 750 foreign-invested R&D centers, the vast majority of which are located in Beijing, Shanghai,

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Shenzhen, Tianjin, and Zhejiang. This is a significant increase from the 400 or so widely reported in 2003. R&D centers are mainly concentrated in technology-intensive industries, such as information technology, electrical motors, telecom, and pharmaceuticals.

In a survey conducted in 40 cities in September 2006 by the PRC National Bureau of Statistics, about half of the 1,600 enterprises surveyed said that they prefer collaborative research projects to going it alone in China. State-owned enterprises (SOEs) said they prefer to collaborate with universities or scientific and research institutes, whereas foreign companies often prefer to collaborate with clients or investment partners. Collaboration with universities provides other benefits, however, such as relatively easy access to talent. By the end of 2005, 97 MNCs had set up 202 collaborative R&D centers with 36 universities in China.

US engine designer and manufacturer Cummins Inc. and Dongfeng Motor Corp. in August 2006 established one of the newest collaborative R&D centers in China, the country's first collaborative engine R&D center. While many domestic enterprises are setting up their own R&D centers in China, often by forging relationships with other companies, universities, or foreign partners, large Chinese MNCs have also set up centers overseas. For example, Haier Electronics Group Co., Ltd. and Lenovo Group Ltd. have centers in the United States, while Huawei Technologies Co., Ltd. has set up in India.

Acquiring Chinese technology

When purchasing or obtaining a license for Chinese technology or when Chinese technology is contributed as part of a joint venture's capital, companies should conduct due diligence on that technology to verify several things. First, a company should identify the technology to a degree sufficient to confirm that it fits the needs of the company or of the joint venture. Second, the company should also confirm that the seller or the partner owns the technology and determine whether any state funds were used in its development. Third, the company should ensure that the technology does not infringe upon any third party's intellectual property (IP) rights.

Due diligence on registered IP (normally patents and designs, but occasionally trademarks and copyrights) is generally straightforward, but unregistered IP (normally in the form of trade secrets or confidential information) can be trickier (see the *CBR* May–June 2005, p.36). In addition to confirming the target registered and unregistered IP, comprehensive due diligence should also analyze previous transactions and other relevant agreements that may affect what can be done with the target IP.

Identifying the technology

A Chinese seller should be able to describe the technology in enough detail for a buyer to understand the technology fully. This can be a simple step if the target technology is a product, but if it is a process for the formulation of something or a process for effecting some desired result, then the description may be more complicated, especially if the process is a trade secret kept in the heads of a small reference group or in an operator's manual that the seller may not want to share until the deal is completed. The parties to a transaction can address this problem by entering into a nondisclosure agreement, but the buyer or joint venture partner should understand that even this is sometimes insufficient to convince the seller to fully disclose the technology.

Identification of the exact technology to be acquired is also critical to determine whether the technology falls within certain categories of "prohibited," "restricted," or "free" technologies as set out in the 2002 Regulations for the Administration of Technology Import and Export, which serve as the principal guide for foreign acquisition, use, and export of Chinese technology. If the technology to be acquired belongs to the prohibited or restricted category, it may not be transferable at all, or it may be transferable—but only with government approval.

Confirming ownership

Determining whether the seller actually owns the technology under consideration normally requires several meetings between the parties, with relevant technicians present, to understand how the technology was developed step by step. It is crucial for a prospective buyer to know how the technology was developed, by whom, when, and with whose funds. If the seller no longer employs the technicians who were involved, the prospective acquirer should find out where those technicians are now. Prospective buyers should also find out whether any state funds were involved in the development. If external subcontracted testing and development were involved, a buyer should ascertain to what degree that input might give rise to third-party inventorship rights to the technology in question.

Apart from understanding the history of the technology, a prospective buyer should thoroughly review the employment agreements of the seller's employees who assisted in the development. First, the buyer should confirm that the seller owns the employees' contributions. Second, the buyer should learn whether the seller has imposed confidentiality restrictions on its employees and, if so, whether these have

Domestic Invention Patents, 2001–06

Year	Applications filed	Patents granted
2001	30,038	5,395
2002	39,806	5,868
2003	56,769	11,404
2004	65,786	18,241
2005	93,485	20,705
2006	122,318	25,077
% change	307	365

Source: PRC State Intellectual Property Office been enforced. Certain PRC statutory provisions preclude employees who contributed, but subsequently left the seller's employment, from claiming inventorship rights within 12 months after their departure. As long as the seller can prove that the departed employees made the contribution during the course of their employment in relation to their normal duties, the seller will be able to effectively refute the employees' subsequent claims of inventorship after the statutory time limit expires.

Third, the buyer should learn whether the employees have been properly rewarded for their contribution to the technology in question. Article 16 of the PRC Patent Law requires that an employer "reasonably" remunerate employees for the inventions made while performing their duties once the resulting patents are commercialized. The law and its implementing regulations do not stipulate the amount of remuneration for foreign enterprises (foreign R&D centers in China generally adopt the employee reward schemes of their home offices, which would most likely meet the reasonableness test). For SOEs, the Implementing Regulations of the Patent Law require a minimum of 2 percent of after-tax profit derived from the use of the invention and at least 10 percent of any after-tax license fees. University and research institutes may adopt their own rules and may have even higher requirements for employee rewards. Buyers should also be aware that local regulations may encourage higher levels of remuneration. For example, Shanghai regulations mandate that employee inventors in private enterprises receive as much as 30 percent of after-tax profits resulting from the use of a patent, including its acquisition by or license to a third party. A seller's failure to adequately reward the employees responsible for the development of the technology in question could give rise to future claims against the buyer.

Finally, apart from reviewing relevant employee agreements, prospective buyers should ensure that additional legal due diligence includes a complete review of all licenses, authorizations, consents, options or rights to acquire, charges, pledges, and liens or other forms of security over or affecting the technology. In particular, prospective buyers of Chinese technology should investigate whether the technology's licensees have been involved in counterfeiting or in civil or criminal litigation for counterfeiting or breach of agreement, have procedures in place to protect IP licensed to them, produce for competing brands, or outsource production to third parties. In addition, buyers should find out details concerning licensees' subcontractors and sub-subcontractors involved in the licensing arrangements and their current and planned distributors, marketing agents, and component suppliers. Buyers should also perform a "brand hygiene check" to ensure the licensees' ethical, regulatory, and environmental compliance. Last but not least, buyers should investigate what kind of tooling and equipment the licensee has used in manufacturing for the licensor and whether tooling and equipment have also been licensed under the licensing agreement. Buyers should also review copies of any executed powers of attorney into which the seller has entered.

Assuring noninfringement

To address the possibility of infringement, a buyer should normally begin with a "novelty search" at SIPO to obtain an authoritative opinion on whether the technology is new and inventive, two of the three criteria for patentability. This search could be beneficial to a buyer if the seller has not made the technology public and if the technology is still suitable for patenting. The novelty search also identifies patents, patent applications, and publications, which can help the buyer determine whether a seller may have infringed upon third-party IP rights.

Obtaining further assurances

If, after the due diligence is completed, the buyer is not fully satisfied with the due diligence disclosure or questions remain unanswered, a buyer may want to obtain statements from the seller and, if necessary, from the relevant technicians. Such statements would confirm that all disclosures made during the course of the due diligence are true and would indemnify the buyer against liability for infringement of IP rights if such an infringement stems from something that was not disclosed or disclosed incorrectly.

After obtaining these statements, the parties can draft an acquisition agreement to keep the deal alive, though, in the case of restricted technology, such an agreement does not take effect until the government approves it. This is not the case for free technology: The acquisition agreement can be drafted and executed and will serve as the basis for the government review required as part of the process to register the agreement.

Government approval

The Regulations for the Administration of Technology Import and Export specify the procedures for government review and approval of technology acquisition deals in China. Technology in the prohibited category may not be exported, so an agreement involving this kind of technology is illegal.

Restricted technology can be exported, but only after obtaining an export license from the government. The detailed procedure is as follows: The Chinese entity files an application for technology export with MOFCOM, which, along with the Ministry of Science and Technology, reviews the technology and decides whether to approve the export. After both ministries agree to grant an approval, MOFCOM issues a formal approval opinion for the technology acquisition. Only after receiving such an approval can the parties begin substantive negotiations and conclude the acquisition agreement. After finalizing the agreement, the PRC entity applies for a technology export license with MOFCOM by presenting relevant documents such as the agreement and the list of relevant technologies. The ministry then reviews the authenticity of the agreement and decides whether to grant a technology export license. After obtaining the export license, the PRC entity should register the agreement via the website of the China International Electronic Commerce Center (CIECC). An agreement that involves restricted technology export takes effect when the export license is issued.

An agreement relating to free technology, which constitutes the bulk of technology acquired from PRC entities, only needs to be registered. After the parties sign the acquisition agreement, the PRC entity applies online to register the deal via the CIECC website. After submitting the online application, the PRC entity delivers relevant documents—such as the application form, the agreement, and certain supporting documents—to the local authority in charge of foreign trade. The local officials review the documents and may require amendments. After the review is completed, the local authority issues a registration certificate. An agreement that involves free technology takes effect when it is executed.

Prospects

According to the Organization for Economic Cooperation and Development, China spent an estimated $136 billion on R&D in 2006, more than Japan and second only to the United States. This reflects China's desire to enter the realm of innovative economies and, for foreign companies, presents opportunities to acquire new technologies for commercialization in China and abroad.

A savvy buyer knows that technology acquisitions in China must be approached with the same care and due diligence one would require of similar deals in other countries. This is particularly true now that the PRC government is seeking to address what it calls the "misuse" of Chinese innovations by plugging holes in the relevant legal framework (see below). Barring any surprises, however, changes to rules on the acquisition of Chinese technology should not discourage foreign buyers. The government's expanded support for technological development should lead to a wealth of choices for those hoping to acquire technologies in China. 完

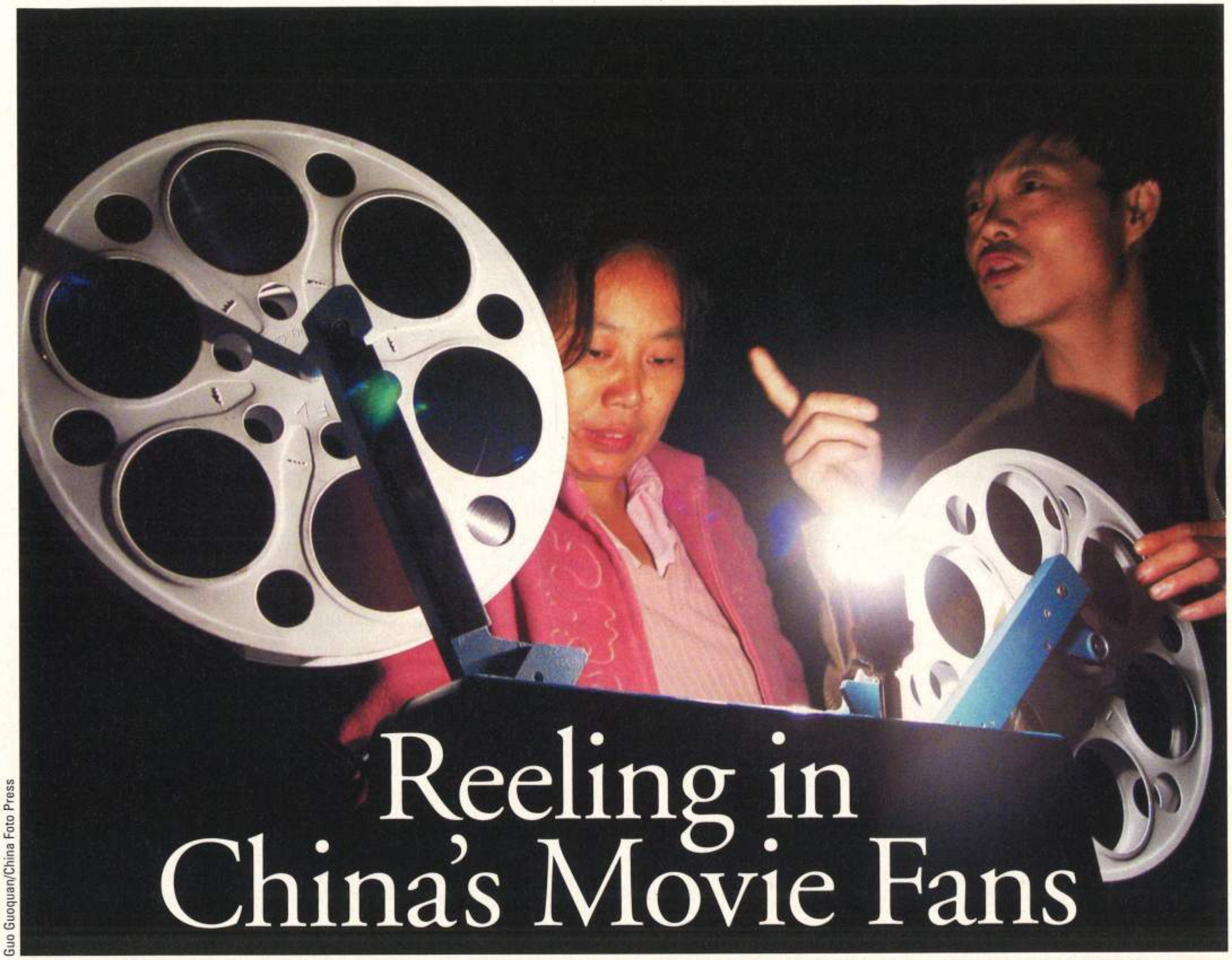
Judicial Scrutiny of Technology Acquisition Deals

Although China encourages Sino-foreign collaborations in technology creation and use, the PRC government has acted to tackle concerns about foreign misuse of Chinese technology. In December 2004, the PRC Supreme People's Court released the Interpretation on Certain Issues Regarding Laws Applicable to Trying Cases Concerning Disputes Involving Technology Contracts. The interpretation seeks, in part, to help prevent the misuse of Chinese intellectual property by clarifying Article 329 of the PRC Contract Law, which stipulates that a technology contract is ineffective if it illegally monopolizes the technology, impedes technological advances, or hampers other parties' technological creation.

Observers note that a contractual party to a technology acquisition that finds itself unsatisfied with the deal may reasonably seek to challenge the contract based on the interpretation and that PRC courts will scrutinize these deals more closely now that more specific rules are available. Although how judges interpret the interpretation may vary, it is important to note the growing policy emphasis on local innovation. Over the past few years, senior PRC leaders have sent clear messages that there must be more PRC innovations independent of foreign ownership. Moreover, judicial committees appointed by local officials still advise judges on important policy decisions, and such committees are likely scrutinizing judges in cases involving technology acquisitions, particularly those in which the technology has strategic importance. As a result, prospective buyers should exercise extreme caution and remember that assignment-back provisions normally acceptable in the West, whereby local innovations are assigned back to the licensor of the original technology, bear risks. How courts interpret such clauses depends on the technology itself, the venue, and the extent to which the assignment clause meets the basic requirement of reciprocity and reasonableness between the licensor and the licensee.

One sign of the growing emphasis on local technological innovations is the anticipated toughening of China's "first filing" rule. Currently, Article 20 of the PRC Patent Law states that inventions "made" in China by a PRC entity or individual should be "first filed in China." Though there have always been concerns that inventions that do not meet this requirement may not be certified for transfer back to China, there is no penalty for failing to comply with Article 20. A draft amendment to the Patent Law would subject the inventions of all entities and individuals in China to the first filing requirement, including inventions developed by Sino-foreign joint ventures and wholly foreign-owned enterprises (see p.26). The draft law would also direct the State Intellectual Property Office to reject patent applications that do not meet this first filing requirement and invalidate patents that may later be discovered to have been developed in China but first filed overseas. If adopted, these proposed changes would have a significant impact on foreign companies that develop IP in China. Foreign companies interested in acquiring Chinese technology would have to ensure that the technology is filed first for patent protection in China so that it can receive protection if it is ever used in China again. This would add another step to the due diligence necessary for acquiring Chinese technology.

—Alan Adcock



Guo Guoquan/China Foto Press

Reeling in China's Movie Fans

Removing market access barriers and improving intellectual property protection would go a long way toward helping foreign film studios reach Chinese consumers

Paula M. Miller

Hollywood film studios have experienced tough times in US and other markets over the last few years. With gradually declining box office sales, rising filmmaking and advertising costs, and rampant piracy, these studios are finding it increasingly difficult to earn profits. According to the Motion Picture Association (MPA), only one in ten MPA members' films recovers its investment from theatrical releases in the United States, and only four out of ten recover the initial investment after all releases.

To spread investment risk, parent companies of the major US film studios have expanded their businesses over the years to include other markets—such as network television, subscription cable, print publications, online video games, and even amusement parks. They have also reconsidered their overseas strategies. In the past, Hollywood's main aim was to attract US audiences, and studios made films in other countries primarily to cut costs. Today, US film studios increasingly target overseas audiences. And

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China, with a population of 1.3 billion and a growing middle class, has become a coveted market (see Box).

Foreign films: Knocking on China's door

Though the PRC government has fulfilled its limited World Trade Organization (WTO) commitments in the entertainment sector, the market openings that have occurred have come with restrictions and with the goal of attracting new skills and technology to strengthen China's domestic film and TV industry. Before its WTO entry, China permitted 10 foreign films for theatrical release on a revenue-sharing basis annually and prohibited foreign investment in cinemas. Fulfilling its WTO commitments, China now allows 20 foreign films for theatrical release on a revenue-sharing basis each year, and foreign investors may own up to 49 percent of cinema joint ventures (JVs) (see the *CBR*, November–December 2003, p.42). But several challenges still exist. In recent interviews with the *CBR*, many film industry insiders described the following as top investment issues.

Obstacles

Film quotas

Of the 20 foreign films released in Chinese theaters on a revenue-sharing basis per year, 14–16 of those films are usually Hollywood releases. Nevertheless, the limit is a huge constraint for Hollywood studios, which produce hundreds of films each year. Foreign distributors can release films on a flat-sales basis without quota limits in China, but studios find the marketing information gathered by box office ticket sales, which they can obtain only through revenue sharing, invaluable. Because the films of qualified Sino-foreign coproductions can bypass film quotas, many foreign studios are exploring coproductions (see below).

Strong Growth in China's Film Industry

In terms of the number of films produced per year, China's film industry is the world's third largest—after India's Bollywood and the United States' Hollywood.

- **¥2.62 billion ($337 million)** China's total 2006 box office revenue, up ¥620 million ($79.8 million) from 2005.
- **¥5.73 billion ($737 million)** Total revenue earned by China's motion picture industry in 2006, up ¥930 million ($119.6 million) from 2005.
- **55 percent** Share of 2006 total box office revenue earned by domestic films.
- **330** Number of domestic feature films produced in China in 2006, about one-third of which played in cinemas.
- **270** Number of film production companies in China, of which roughly 75 percent are privately owned.

Source: PRC State Administration of Radio, Film, and Television

Intellectual property (IP) violations

A 2006 report that MPA commissioned from LEK Consulting singles out piracy as the "biggest threat to the US motion picture industry." The report states that major US motion picture studios lost $6.1 billion in 2005 to piracy worldwide; 80 percent of those losses were from overseas piracy, and 20 percent were from piracy in the United States. According to the report, China has the highest piracy rate of all surveyed countries: 90 percent of the potential China market was lost to piracy in 2005, resulting in a $244 million loss for MPA companies alone. MPA estimates that the film industry in China (including all foreign and Chinese companies) loses $2.7 billion per year in potential consumer spending to piracy.

The film industry argues that China's film quotas fuel piracy because such restrictions enable pirates, not industry, to fill demand. Anecdotal evidence indicates that Chinese consumers seem increasingly willing to pay more for higher quality fakes, however, and movies that are pirated using handheld camcorders are losing their appeal. Perhaps more consumers will soon be willing to pay for legitimate products.

Lack of regulatory transparency and consistency

Many foreign film studios cannot predict when industry rules will change or whether local film officials will interpret rules the same way as officials at the State Administration of Radio, Film, and Television (SARFT) in Beijing do.

Because of unexpected regulatory changes, Time Warner Inc. announced in November 2006 that it would pull out of its cinema JVs in China. After the PRC government released temporary rules in 2003 that permitted foreign enterprises to own up to 75 percent of cinema ventures—instead of 49 percent—in select Chinese cities, Warner Brothers International Cinemas raised its investment from 49 percent to 51 percent in some theaters. The government retracted the right to foreign majority ownership in 2005, however, and the company pulled out of the business after its JV contracts ended. Other foreign cinema operators are scheduled to open movie theaters in early 2007; time will tell whether they experience greater regulatory stability or will be granted majority control over their investment.

Few theaters

Despite the construction of 82 new movie theaters last year, China now has only 1,325 theaters with 3,034 screens—about 1 screen per 428,477 people. (In contrast, the United States has roughly 6,100 cinemas and 37,700 screens—about 1 screen per 8,100 people.) Because of the dearth of cinemas, competition for theatrical release is intense. Independent films and films with small and medium-sized budgets have little chance of theatrical release.

Blackout dates

Foreign film studios increasingly find that during key PRC holidays when crowds and box office profits are largest, such as Chinese New Year and PRC National Day, foreign films are excluded from theaters for "Chinese film festivals." In 2006, *The Da Vinci Code* was pulled from Chinese theaters short of its scheduled three-week run, allegedly to make room for domestic Chinese films during peak summer viewing days. Before the film was pulled, it had already made more than $13 million in China. SARFT may just want to give Chinese films the best chance to make money by allowing them full access to theaters during peak viewing periods, but some foreign industry representatives wonder whether PRC regulators also pull foreign films that do "too well" at the box office.

Distribution and segmented markets

Quota limits placed on theatrical releases do not apply to home entertainment, but distributing DVDs and video compact discs (VCDs) in China poses other challenges. For example, instead of using a handful of large chain stores to distribute DVDs, as many distributors do in the United States, companies in China must coordinate with tens of thousands of distribution points. And whereas film distributors promote nationwide in the US market, China's market is so segmented that films must be promoted separately in each city.

Foreign film distributors generally need more time to release DVDs and VCDs for international home distribution than for distribution in their home countries because they must add subtitles, change the product's cover and design for the new market, and provide tailored extras—such as downloadable content in the target language. Films for home distribution in China must also face China's censors and make necessary edits before release. In contrast, pirates can release whatever material they want—uncensored—immediately after or sometimes even before a film's theatrical release, undermining the market for licensed products.

China's film quotas fuel piracy because such restrictions enable pirates, not industry, to fill demand.

High ticket prices

Since the early 1980s, movie ticket prices in China have risen 300 fold, and box office revenues have dropped by roughly 30 percent, according to Entertainment Asia Network (EAN), a market research company. Depending on the city and theater, movie ticket prices in China currently range from ¥30 to ¥80 ($3.90–$10). In 2006, China's annual urban per capita disposable income hit $1,517, and the annual rural per capita net income reached only $463, making a $10 ticket an expensive outing for most Chinese. In contrast, DVDs usually range from ¥5 to ¥35 ($0.64–$4.50), depending on their features and whether they are legitimate, which makes them much more affordable.

Content guidelines and censorship

Though the PRC government has issued content guidelines—for example, films and TV programs cannot contain explicit sex or violence—the guidelines remain fairly open to interpretation. To avoid delays and additional production costs related to the censorship process, some studios self-censor their materials. Nonetheless, films still encounter unexpected delays. Last year, the distributors of *Mission Impossible III* planned to release the film simultaneously in the United States and China. Because of censorship delays, however, it was released several weeks late in China, giving pirates a head start.

For years, producers have urged China to implement a film rating system; currently state censors cut films so that they are suitable for viewers of any age. Perhaps because Zhang Yimou's 2006 film *Curse of the Golden Flower* received criticism for gratuitously showing actresses' busts—to the embarrassment of parents who brought their children to see the film—SARFT may reconsider the establishment of a rating system.

Meager revenue-sharing deal

China's box office revenue-sharing deal is reportedly one of the worst in the world for film studios. As set by SARFT, foreign films earn about 13 percent of ticket sales in China. In contrast, film distributors in the United States earn, on average, 50 percent of ticket sales.

Problem solving

Industry regulators and players can make many changes to further open China's film sector. In an ideal world, the PRC government would remove market access restrictions, such as film quotas, and prevent blackout dates. It would also strictly enforce IP laws, implement harsher penalties for IP violations, and consistently conduct more criminal prosecutions—instead of short-term antipiracy campaigns. Meanwhile, instead of simply lobbying for regulatory change, film distributors are doing what they can to tackle pirates or even convert them into legitimate retailers.

Legal action

Hollywood won a string of court cases, filed by the MPA, in December 2006. A Beijing court ordered Sohu

Internet Information Service Co., a subsidiary of the Chinese Internet portal Sohu.com, Inc., to pay about $140,000 in damages to Hollywood studios and publicly apologize for making more than 100 movies available for illegal download. A Beijing court also ordered two Beijing shops accused of selling pirated movies of six Hollywood film studios to pay a total of $20,964 in costs and damages. But winning court cases is only the first step because enforcing awards from a case can be difficult in China. As the *CBR* went to press, the courts were unable to locate the store owners, and the fine may never be paid.

and on DVD, and because of its quick release date and low price, we were able to outplay the pirates."

Vaughan mentioned other IP protection strategies the company uses, such as promoting IP protection at film events, arranging for movie audiences to receive coupons for discounts on DVDs, and attempting to convert stores that sell counterfeit goods into sellers of licensed DVDs.

■ **Twentieth Century Fox Home Entertainment** News Corp.'s Twentieth Century Fox Home Entertainment, LLC formed a distribution agreement with Zoke Culture

Instead of simply lobbying for regulatory change, film distributors are doing what they can to tackle pirates or even convert them into legitimate retailers.

Group, China's largest video distributor, in November 2006 and is establishing a representative office in Guangzhou. To provide consumers licensed films at low prices, the Fox-Zoke team will also collaborate on ways to reduce DVD and VCD piracy.

In January 2007, Keith Feldman, general manager and executive vice president of Twentieth Century Fox Home Entertainment, told the *CBR*, "We're not limiting ourselves to a strict pricing and release policy; we just want to be accessible to consumers and competitive with pirates. We know we have to experiment and try many methods to combat pirates. Fortunately, our partner, Zoke Culture Group, has a great distribution network and an active antipiracy enforcement arm." Feldman continued, "Because we have only released three films so far in China...it is too soon to evaluate the strategy's success. We know that Chinese consumers have a very strong appetite for film entertainment, however, and this makes us feel bullish about the market. We're hopeful and confident that Chinese consumers have a desire for quality and legitimate products."

Experimenting with cheap DVDs

Some players in the market—such as Time Warner and, more recently, Twentieth Century Fox Film Corp.—have been experimenting with DVD release dates and pricing to beat the pirates.

■ **Warner Home Video** As the first US studio to establish an in-country DVD/VCD distribution and marketing operation in China, Warner Home Video formed a JV with China Audio Video in 2005. The JV, CAV Warner Home Entertainment Co., soon became known for its experimental DVD pricing and release dates—set to compete with film pirates. Tony Vaughan, managing director of the JV, explained: "To stop people from buying cheap fakes, companies can't only appeal to people's morals. Companies have to give consumers a better alternative. For example, genuine DVDs have a clear quality advantage over counterfeit DVDs, which usually jump, wear out faster, and lack surround sound, and the dubbing and subtitles are off."

Vaughan noted that pirates entered China's market because legitimate DVDs were too expensive for the average Chinese consumer, the release dates were too late, and the demand for films was higher than the available supply. Treating pirates as competitors, CAV Warner Home Video has lowered its prices, shortened the window between the theatrical release and DVD release, and offers bonus features. "Initial research told us consumers in first-tier cities would be willing to pay ¥20–¥22 [$2.6–$2.8] for legitimate DVDs," he said. "So we developed different products and pricing for second-tier cities. Depending on the release date and bonus features, our DVDs range from ¥15 to ¥35 [$1.9–$4.5]. We released the DVD for *Crazy Stone*, which was priced at ¥10–¥15 [$1.3–$1.9], two weeks after the theatrical release. *Crazy Stone* did very well at the box office

Coproductions

Many companies are also engaged in film coproductions—especially since the success of the 2000 film *Crouching Tiger, Hidden Dragon*, which was coproduced by companies from mainland China, Hong Kong, Taiwan, and the United States.

In 2004, Warner Brothers Pictures, China Film Group, and Hengdian Group formed the first Sino-foreign JV film-entertainment company in mainland China. The JV—Warner China Film HG Corp.—develops, finances, produces, markets, and distributes feature films, made-for-TV films, and animation. The JV released four films in 2006: *Crazy Stone*, which became one of the highestgrossing, low-budget domestic films in 2006; *Phone Number 601*; *Jade Warrior*; and *The Painted Veil*, which reached North America in December.

The Walt Disney Co. plans to release its first coproduced film in China in 2007. *The Secret of the Magic Gourd*, Disney's first film made in China for Chinese viewers, in Mandarin, is a coproduction among Buena Vista International, Inc., the international theatrical distribution arm of the Walt Disney Studios; Centro Digital Pictures Ltd., a visual effects production company in Hong Kong; and the China Film Group Corp. The film is an adaptation of a children's novel written by the late Chinese author Zhang Tianyi in the 1950s.

New media take up the slack

Many observers agree that China must either allow its domestic industry to produce better films and TV programming—or allow more imports (see p.40). Because official supply cannot meet demand, consumers are already turning to alternative, legal media, namely the Internet. For example, China Internet Café Cinema Line, operated by Beijing Netmovie Co., Ltd., served up to 2 million Internet café users a day on its personal computer terminals in 2006, according to EAN. Also, in late 2006, six Hollywood studios were negotiating with BestTV, an arm of Shanghai Media Group, to distribute their movies to China's Internet protocol TV market in 2007. If launched, the video-on-demand service would create a new channel for film distribution in China.

Until legitimate supply can satisfy demand, however, the average consumer will likely support the pirate industry by purchasing bootlegged DVDs and downloading pirated films and TV programs, as MPA statistics suggest. China already has a large Internet base: According to the latest China Internet Network Information Center survey, China boasted 137 million Internet users in 2006, second only to the United States. And a January 2007 survey by the China Youth Daily Research Center and Sina News Center found that, of 2,952 Chinese youth surveyed, 81.4 percent said the Internet was their top entertainment choice; television followed at 65.6 percent. The Internet can be a powerful tool for consumers and companies, as well as for pirates. As a player in the international arena, China is obliged to better protect IP, which will stimulate the flow of creative juices from both domestic and foreign entertainment companies. 完

China must either allow its domestic industry to produce better films and TV programming—or allow more imports.

Judicial Review: Time for a Closer Look

Continued from page 24

from roughly 70,000 to more than 300,000, but the number of judges increased by fewer than 100. Even Judge Jiang has acknowledged the shortage of resources and has pointed out that he must share one assistant with the seven other Supreme People's Court judges who handle IP cases. To focus attention on this problem, US and other foreign businesses and policymakers should call on China to devote more resources to the judicial review of PRB decisions to further improve the efficiency and quality of the process.

Foreign businesses and policymakers should also urge China to honor its pledge to publish all IP judgments. A complete set of these cases will generate more reliable findings, from which interested parties inside and outside China can draw useful lessons to improve China's IP protection system.

The steps recommended above are not only beneficial to foreign parties but also consistent with Beijing's goal of transforming China into an "innovative country" by 2020. These common interests would make the negotiations over patent rights improvements easier.

In January, the Supreme People's Court issued the Judicial Opinion on Comprehensively Reinforcing the Adjudication of IPR Cases and Providing Judicial Support for Building an Innovative Nation to reiterate China's commitment to improving IP protection and to broadly outline some guiding principles. While this statement is welcomed, China must work hard to implement what it promises. Whenever China's IP reform efforts wane, PRC authorities should be reminded that one important determinant of a country's economic development and its status in the world is its ability to develop—and protect—advanced technologies. 完

Guo Guoquan/China Foto Press

Mixed Signals

Though the demand for quality TV programming is strong in China, it's not easy for foreign companies to get their programs on the air

Paula M. Miller

With roughly 1.24 billion viewers, 400 million TV households, and 128 million cable subscribers, China had one of the world's largest TV markets in 2005. According to the State Administration of Radio, Film, and Television (SARFT), China's 302 TV stations and 1,932 joint TV-radio stations broadcast 2,899 channels on terrestrial and pay-TV platforms at city, provincial, and national levels that year. Though China produced 2.6 million hours of TV programming in 2005, viewers demanded about 9 million hours of TV programming that year, according to media analysts. To make the market even more enticing for foreign media investors, TV ad spending in China reached about ¥313.2 billion ($40.4 billion) in 2006, up 26 percent over 2005, according to Nielsen Media Research.

The PRC government has encouraged the improvement of domestic TV programming and technology for some years—in part to prepare for digital broadcasts of the 2008 Beijing Olympic Games. In September 2006 China introduced its own digital terrestrial TV transmission standard—the world's fourth—which takes effect in August 2007. China aims to digitize all TV broadcasts by 2010 and to stop analog broadcasts by 2015. Meanwhile, the PRC government recognizes that the country will need more and better-quality TV programming to encourage TV viewers to go digital. Cable subscribers currently pay an average of $2 a month to receive about 60 channels. Digital TV subscriptions cost about $4 a month now, but a US Commercial Service report estimates that, after industry upgrades, digital TV will be unprofitable at less than $10 a month. To convince viewers to pay that much, digital TV must offer many more channels with far better programming than it currently does.

Despite China's large TV market and its unmet demand, foreign companies are finding it difficult to break into the sector. China wants to modernize and expand its TV industry, which may require foreign participation, but it also wants to control broadcasts to prevent negative foreign influences, boost the domestic TV program production industry, and keep ad revenue with local firms (see the *CBR*, July–August 2005, p.46). PRC regulations in the last few years have reflected this conflict—opening the sector a little but then closing it more. Foreign program producers that want to operate their own channels with unlimited access to Chinese audiences face a long wait.

Hurdles

Many foreign investors involved in TV programming rank regulatory and market access issues as their top problems. Content limitations and censorship, marketing, and intellectual property (IP) are also high on the list.

Lack of regulatory transparency and consistency

Many industry insiders note that SARFT often announces regulations without posting them on its website or otherwise releasing them to the public. Even those that are publicly released are often too vague. In addition, on some occasions, local TV bureaus have granted foreign TV programs approval when SARFT has not, or vice versa, thus hindering investment plans. Foreign investors also cannot predict when or how investment rules will change.

PRC regulators relaxed media ownership rules in 2004 but began tightening the market in 2005. Opening the market, SARFT and the Ministry of Commerce (MOFCOM) released provisional rules in November 2004 that allowed foreign TV and radio broadcast stations to establish production joint ventures (JVs) with Chinese partners on an equity or cooperative basis, instead of a per-project basis. But in March 2005, SARFT issued an implementing notice to the provisional rules that restricted most foreign media companies to one production JV in China and banned the participation of foreign investors considered "unfriendly" to China. Next, SARFT issued rules in July 2005 that prohibit local TV and radio stations from renting channels or broadcasting frequencies to foreign companies; cooperating with foreign companies in the operation of channels or frequencies; and investing in, cooperating on, or broadcasting fixed programs (such as news) and live broadcasts with foreign companies. These rules brought an end to News Corp.'s unofficial agreement with Qinghai Satellite Co. to broadcast News Corp. programming in western China. In August 2005, the PRC Ministry of Culture, MOFCOM, SARFT, and two other agencies released a guiding opinion that bars new foreign satellite TV stations from establishing landing rights in China. This move prevents the creation of new foreign-owned TV channels and thus disrupted the expansion plans of a few companies, including the Walt Disney Co. and Viacom Inc. The opinion also announced that authorities would step up censorship of imported programs. Though SARFT never publicly released the full August regulations, industry insiders say that the opinion also prohibits the approval of new TV program production JVs.

Market access

The PRC government has prohibited individuals from installing satellite dish antennas without a permit since 1993. Under SARFT rules, only hotels with three or more stars, foreign residential and commercial compounds, and authorized state organizations may own satellite dishes, which pick up foreign channels on the SINOSAT-1 platform (see p.42). Though the general population cannot legally receive foreign channels on the SINOSAT-1 platform, they can view Chinese satellite channels distributed by cable. (Some individuals install unapproved satellite dish antennas to view SINOSTAT-1 channels.)

A few foreign satellite TV channels hold mass landing rights in China, such as News Corp.'s Star TV, Viacom's MTV, and the News Corp.-backed Phoenix Satellite Television Co., Ltd., but these companies are generally limited to broadcasting on the SINOSAT-1 platform and to homes in the Pearl River Delta. Thirty-one foreign companies hold limited broadcasting rights in the country; these companies may broadcast only on the SINOSAT-1 platform. Other foreign companies offer programming on domestic TV through JV partnerships. For example, Disney provides programming through its JV

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with China Central TV (CCTV), and Viacom provides Nickelodeon programming through its JVs with CCTV and the Shanghai Media Group (p.43).

Content limitations and censorship

Before their programs can be approved for domestic TV, foreign companies must add captions and have the programs screened by censors. Again, some companies have found that a SARFT censor's approval of a program does not guarantee CCTV or provincial stations' approval because censorship guidelines are vague. Foreign programs also face other restrictions. For example, foreign programming may not exceed 25 percent of a station's airtime each day, and stations may not broadcast foreign news programs or foreign TV dramas concerning criminal cases. Stations also may not broadcast foreign dramas or cartoons during primetime.

Developments such as SARFT's September 2006 ban on foreign cartoons from 5:00 pm to 8:00 pm, which cuts mainly US and Japanese programming, aim to strengthen China's domestic cartoon industry. SARFT recently boasted that China's cartoon industry produced more than 81,000 minutes of animation in 2006, almost doubling the 2005 total.

In January 2007, shortly after SARFT announced a crackdown on "vulgar" reality shows, the administration declared that, for at least eight months beginning in February, satellite TV networks may only broadcast "ethically inspiring" dramas that show China in a positive light during primetime. Now these programs must pass through four levels of TV censorship for approval. Because previous SARFT regulations prevent most foreign dramas from being aired during primetime, the announcement mainly affects domestic programming. Analysts believe the government launched these

China must grapple with how
to develop its TV market while retaining its culture.

Foreign Satellite TV Channels in China

SINO Satellite Communications Co. Ltd. launched SINOSAT-1, the main satellite for TV and telecom transmissions for China and parts of southwestern Asia, in 1998. The company launched SINOSAT-2 in October 2006. This second satellite, which was to bring satellite TV to more than 100 million homes in rural China—in time for the 2008 Beijing Olympics—malfunctioned after launch and cannot broadcast. The company plans to launch at least one smaller satellite this year.

To be shown on the SINOSAT platform, foreign TV channels must apply to the China International Television Corp. (CITVC), a SARFT branch that is the only agent authorized to distribute foreign satellite programs on the mainland. Thirty-one foreign companies are currently licensed to broadcast programs on the SINOSAT-1 platform, which reaches hotels with three or more stars and foreign compounds. After confirming that a foreign channel meets SARFT conditions, CITVC grants the channel a license for one year, after which the foreign company must reapply. The arrangement permits PRC censors to interrupt transmissions to censor content.

—*Paula M. Miller*

Foreign Satellite Channels on China's SINOSAT Platform in 2007

Channel	Place of origin	Channel	Place of origin
AXN	US	MASTV Chinese	Macao
BBC World	UK	MTV Mandarin	US
Bloomberg Television	US	National Geographic Channel Asia	US
Celestial Movies	Malaysia	NHK World Premium	Japan
CETV	HK/US	NOW TV	Hong Kong
Channel News Asia	Singapore	Phoenix Chinese	Hong Kong
CNN	US	Phoenix Infonews Channel	Hong Kong
Cinemax	US	Phoenix Movies	Hong Kong
CNBC Asia Pacific	US	Star Movie International	US
Cuba Vision International	Cuba	SUNTV	Hong Kong
Discovery	US	TVB8	Hong Kong
East TV	Macao	TVB Galaxy	Hong Kong
EuroSports News	EU	TV5	France
Hallmark	US	Channel [V]	Hong Kong
HBO	US	Xing Kong Wei Shi	US
Horizon Channel	Hong Kong		

Source: CITVC

attempts to "clean up" the airwaves because 2007 is a politically sensitive year. The 17th Chinese Communist Party Congress will convene in the fall; 2007 also marks the 50th anniversary of the antirightist campaign.

Marketing

PRC regulations prohibit the display of foreign logos or branding on TV programs. For example, when Nickelodeon and its JV partner broadcast *SpongeBob SquarePants* and *Dora the Explorer* on domestic TV, the Nickelodeon logo may not appear on screen. Foreign companies therefore must think of creative ways to brand their products, such as through the use of color.

Intellectual property

In an effort to thwart unauthorized copying, some foreign TV channels and programs do not offer downloadable content on their websites. Pirates, however, often counterfeit DVDs of TV series. File-sharing sites have become increasingly popular in China, and pirates have taken advantage of this avenue. Internet users download and swap programs such as *Prison Break,* which has not yet aired on Chinese TV, and translate the programs themselves. (To attract younger viewers, CCTV will begin broadcasting *Prison Break* this year.) Pirates also counterfeit consumer products on a large scale.

Taking the initiative

While waiting for China to loosen its curbs on foreign broadcast media, many foreign companies have sold TV content to Chinese operators and diversified their operations—especially by expanding their online and mobile offerings and consumer products. (Many of the large entertainment conglomerates have diversified their operations globally.) For example, Disney operates four business segments in China: media networks, which includes TV, website, mobile content, and online gaming; parks and resorts; studio entertainment; and consumer products (see the *CBR,* January–February 2007, p.31).

In another example of company diversification, MTV Networks formed an agreement with the Chinese search engine company Baidu.com, Inc. in October 2006 to launch "MTV Zone," a branded platform on Baidu. The service provides 15,000 hours of video content for online streaming and downloading—allowing anyone in China with Internet access to view select MTV and Nickelodeon content and providing another advertising platform.

Grappling with change and cultural influence

TV markets are changing radically across the world—partly in response to stiff competition from the Internet, Internet protocol TV, mobile communications, satellite channels, and the like. As the entertainment industry adapts to market changes, China must grapple with how to develop its TV market while retaining its culture. Like many countries before it, China wants a strong domestic TV sector and worries that foreign entertainment behemoths may trample Chinese productions. If the PRC government prevents its domestic industry from producing or airing TV programs that audiences want to watch, however, many viewers will seek entertainment from the Internet, DVDs, or other sources. 完

> While waiting for China to loosen its curbs, many foreign companies have sold TV content to Chinese operators and expanded their online and mobile offerings and consumer products.

China's Domestic TV Stations

China Central Television (CCTV), a subdivision of the State Administration of Radio, Film, and Television, is the country's only national TV network. Founded in 1958, CCTV now operates 16 channels that broadcast across the country via satellite; PRC regulators require local channels to carry CCTV main news broadcasts. CCTV is the country's largest broadcaster, followed by the Shanghai Media Group and Beijing Television, which are also state owned. In an effort to make state-owned broadcast channels profitable, China is reducing government subsidies and encouraging them to streamline production and advertising operations. In the race to attract more viewers—and advertising dollars—several provincial- and city-level channels have grown more attentive to viewers' interests. These channels have introduced new programming, including reality TV shows, which in the case of Hunan TV's 2005 hit *Super Girl* (or *Mengniu Yogurt Super Girl Contest*—an adaptation of *American Idol*) reportedly attracted 20 million TV viewers each week and 400 million viewers for the show's grand finale.

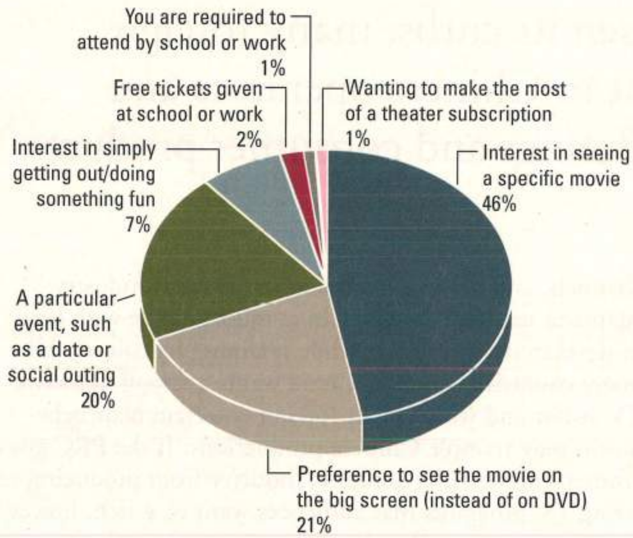
—*Paula M. Miller*

China's Film- and

ACNielsen polled more than 1,000 Internet users in Beijing, Guangzhou, and Shanghai in December 2005 about their movie-viewing habits. Those polled were age 16–34 and had visited movie theaters at least once in the previous six months. The following are highlights from ACNielsen's 2006 report "China Movie-Goers Online Survey."

Primary Motivation for Attending the Cinema

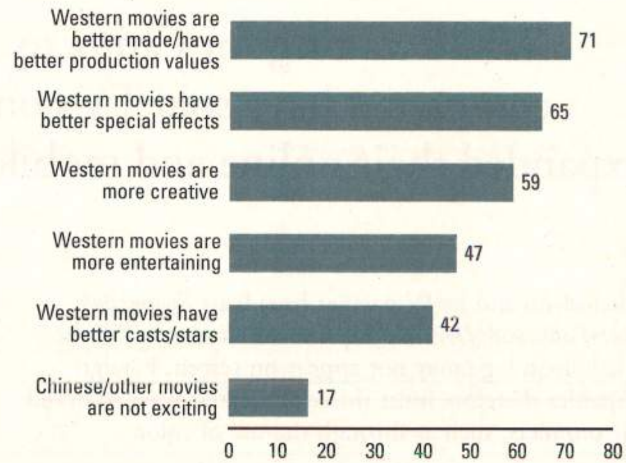
Q: When deciding to see a movie in the cinema, your decision is primarily motivated by...



Note: Because of rounding, figures do not add up to 100%

Reasons for Preferring Western Movies

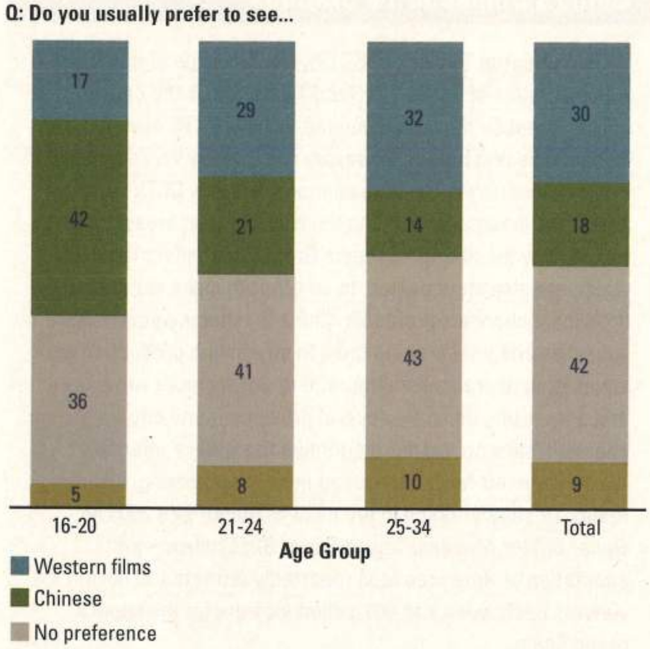
Q: Why do you typically prefer Western movies?



Note: Figures indicate percentages; multiple choice question

Chinese vs. Western Films

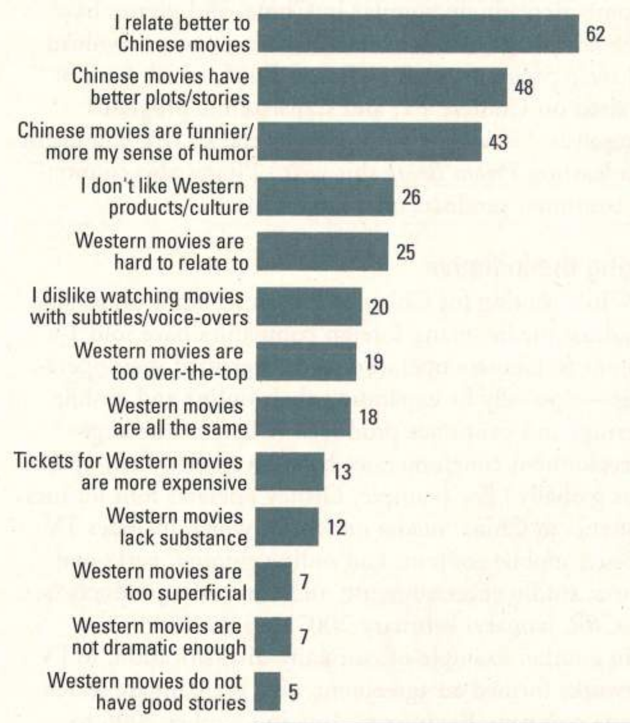
Q: Do you usually prefer to see...



Note: Figures indicate percentages

Reasons for Preferring Non-Western Movies

Q: Why do you typically prefer non-Western movies?



Note: Figures indicate percentages; multiple choice question

TV-Viewing Trends

Top 10 Box Office Hits, 2006

Title	Box office revenue ($ million)	Place of origin
1. *Curse of the Golden Flower*	31.98	China
2. *The Banquet*	16.63	China
3. *The Da Vinci Code*	13.43	US
4. *King Kong*	13.05	US
5. *Fearless*	12.92	China/Hong Kong
6. *Rob-B-Hood*	12.41	China/Hong Kong
7. *Mission Impossible III*	10.49	US
8. *Poseidon*	8.82	US
9. *Battle of Wits*	8.57	China/Hong Kong
10. *Superman Returns*	8.00	US

Source: PRC State Administration of Radio, Film, and Television

CSM Media Research, China's largest professional TV-rating data provider, operates PeopleMeters and diary panels to measure TV-viewing data in China. The following data are from CSM's publication *China Media Facts*, 2007.

Top 10 TV Dramas, 2006

Rank	Name	Channel	Average rating (%)	Average share (%)
1	Qiao's Grand Country Yard	CCTV-1	8.6	18.3
2	Don't Take Him as Nothing	CCTV-1	6.4	13.7
3	Love Story in a Rural Area	CCTV-1	6.0	13.5
4	Battlefield Point	CCTV-1	5.1	11.1
5	Migrants in Metropolis	CCTV-1	5.0	12.1
6	General Chen Geng	CCTV-1	4.9	10.8
7	The Tears of Mother	CCTV-1	4.8	10.7
8	Jade Breaking	CCTV-1	4.7	10.7
9	General Xu Shiyou	CCTV-1	4.5	10.1
10	The Story of the Long March	CCTV-1	4.4	10.1

Top 10 Movies on TV, 2006

Rank	Name	Channel	Average rating (%)	Average share (%)
1	*Hands Up*	CCTV-6	3.9	8.8
2	*The Myth*	CCTV-6	3.7	9.0
3	*Kung Fu Hustle*	CCTV-6	3.7	8.3
4	*New Police Story*	CCTV-6	3.4	8.2
5	*A World without Thieves*	CCTV-6	3.0	6.4
6	*Fist of Legend*	CCTV-6	2.9	6.5
7	*On Taihang Mountain*	CCTV-6	2.8	6.5
8	*Shaolin's Five Founders*	CCTV-6	2.6	5.5
9	*Red Sun*	CCTV-6	2.5	5.8
10	*Rush Hour*	CCTV-6	2.4	10.7

Top 10 TV Programs, 2006

Rank	Name	Genre	Channel	Average rating (%)	Average share (%)
1	Lunar Spring Festival Evening	Entertainment	CCTV-1	31.1	63.6
2	One Year After Another	Other	CCTV-1	15.8	34.9
3	Friends of Mankind	Special Program	CCTV-1	15.3	34.7
4	Lunar Lantern Festival Evening	Entertainment	CCTV-1	12.5	25.0
5	Weather Forecast	General Service	CCTV-1	9.8	23.7
6	CCTV News Report	News	CCTV-1	9.5	25.2
7	2006 Germany Football World Cup: Portugal vs. Iran	Sports	CCTV-5	9.3	25.1
8	2006 Germany Football World Cup: Japan vs. Croatia	Sports	CCTV-5	9.3	25.0
9	2006 Germany Football World Cup: South Korea vs. Togo	Sports	CCTV-5	9.2	25.0
10	2006 Germany Football World Cup: Argentina vs. Serbia and Montenegro	Sports	CCTV-5	8.9	23.5

Note: Rating = the percentage of people or households tuned to a station or program out of the total market population; share = the percentage of people or households tuned to a station or program out of all those using the medium at that time; CCTV = China Central Television

Gaining Trust

Companies should find out which channels and sources their stakeholders trust—and adjust their communications strategies accordingly

Alan Vandermolen

With China behind the wheel, Asia's economic dynamism has become a key driver of international news. From stubborn double-digit economic growth to PRC President Hu Jintao's globetrotting, China's prominence in international news is rapidly shaping how opinion leaders around the world view the rising power. As the world reexamines its perceptions of China, Chinese themselves are acquiring new vistas. Standing tall in the global media spotlight has reinforced the confidence of Chinese opinion leaders—individuals of stature whose opinions influence those of others—in their country's success story, and booming trade throughout the Asia-Pacific region is driving unprecedented economic interaction. These flows have been accompanied by an upsurge in nationalism in China and a sense of optimistic national pride, to which corporations must appeal to succeed in the Chinese market.

At the same time, a new consumerism, strengthened by the Internet, has given consumers a greater ability to shape corporate reputations and operations in China and across Asia. The recent class-action lawsuit filed against Dell Inc. after dissatisfied Chinese customers posted their complaints on an online bulletin board is early evidence of this power in action. "Social media," such as blogs, are increasingly influencing mainstream media, governments, and businesses in the region by drawing attention to new issues and providing new channels for direct interaction between companies and stakeholders—individuals or organizations that can help determine a company's success or failure and with whom a company must interact skillfully to remain in business over the long term. In response to these micro developments, companies in China are redefining their business practices. For example, companies are beginning to deploy core competencies in their corporate social responsibility efforts.

These macro and micro trends are simultaneously shaping stakeholder perceptions and handing stakeholders unprecedented power, placing relationships at a premium for foreign firms in China. The importance of these macro and micro trends is revealed in the Procter and Gamble Co.'s (P&G) troubles with its SK-II cosmetics brand. Following government reports of harmful chemicals in SK-II products, P&G initiated a product recall while stating its products were completely safe. But perceived delays in compensating buyers and strict product return requirements drove public anger to a boil, leading to scuffles at product return points and the occupation of P&G's Shanghai office by an angry crowd. Ultimately, P&G withdrew the SK-II line from the China market. In this case, from the macro perspective, P&G underestimated and mismanaged nationalist sentiments when it initially gave the appearance of not taking seriously the government report and of treating China as a secondary market. From the micro perspective, P&G also underestimated the heightened expectations of Chinese consumers and their willingness to take action. These miscalculations combined to damage P&G's reputation and perhaps its entire brand portfolio in China.

To gain insight on these changing perspectives, Edelman launched its Asia-Pacific Stakeholder Research initiative in 2002. For its 2006 research, the latest of the annual installments, Edelman partnered with Harris Interactive Inc. to conduct 1,050 40-minute face-to-face interviews with opinion leaders at their workplaces across 10 Asia-Pacific markets. These included 140 stakeholders in China. (Individuals interviewed included government officials at the director level or higher in ministries of finance or economic affairs; media representatives at the senior-editor level or above; representatives of nongovernmental organizations [NGOs], trade associations, and institutional investors; senior business executives at the director level or higher, and employees at the manager level, in multinational corporations [MNCs]; and consumers with an income measured in local purchasing power parity of at least $70,000, a university education, and employment in an MNC or government.) An additional 70 qualitative interviews were conducted in Hong Kong, Indonesia, Malaysia, Singapore, and Taiwan. To identify key trends shaping the stakeholder perception landscape in China and across the region, these results were compared with the nearly 2,000 interviews conducted in previous years. The research focused on the following questions:

- What are the levels of stakeholder trust in business, and how do they compare to trust in other institutions, such as government, NGOs, and media?
- What do different stakeholder groups think are drivers of opinion on companies?
- What do stakeholders think are the absolutely essential characteristics of good and responsible companies in China?

The state of trust

The 2006 Asia-Pacific Stakeholder Research initiative first sought to illuminate the level of stakeholder trust in various institutions in China. The research reveals that interviewees across institutions—with the exception of business, which trusted itself—placed the greatest trust in government (see Figure 1). Other institutions' trust in business, already low in 2005 at 22 percent, slipped even further in 2006. Within that segment, European corporations had a slight trust advantage over their US counterparts (59 percent vs. 53 percent). Asian MNCs, including Chinese state-owned enterprises (SOEs), faced a huge trust deficit, with trust levels reaching only half of those of foreign MNCs. This is mostly because of instability and unemployment created by the closure of Chinese SOEs. The media was the least-trusted institution, with only 20 percent of media trusting itself.

For corporations, the implications of these findings are threefold. First, government holds a high level of influence across all institutions, making alignment with government priorities key for businesses. Second, relatively low trust in all other institutions reinforces the importance for corporations to reach out to and cooperate with multiple stakeholders, without which their efforts to build trust will have little success. Finally, the trust deficit affecting media underscores the importance of direct stakeholder outreach.

Some companies have already begun such outreach efforts. For example, Johnson & Johnson has conducted campaigns to educate medical professionals and the public about diabetes, mental illnesses, and other diseases and collaborated with government bodies to help address critical issues, such as neonatal care. It has also used its sponsorship of the 2008 Olympic Games in its outreach efforts.

Sources and channels

Although media is the least-trusted institution, widely varying levels of trust in specific channels and sources carry important implications for corporations in their efforts to reach out to stakeholders. Across the Asia-Pacific region, foreign mainstream media is the most trusted media source—with 38 percent of Chinese respondents indicating a high level of trust. In terms of information channels, television, with a score of 49 percent, continues to reign in China, as it does in other countries with low per capita GDPs in the Asia-Pacific region. Though trust in the Internet slid from 51 percent in 2005 to 34 percent in 2006, it is still much stronger than trust in other non-television media such as newspapers, which are trusted only half as much as the Internet.

When asked about the trustworthiness of communication vehicles for company-specific information, stakeholders put

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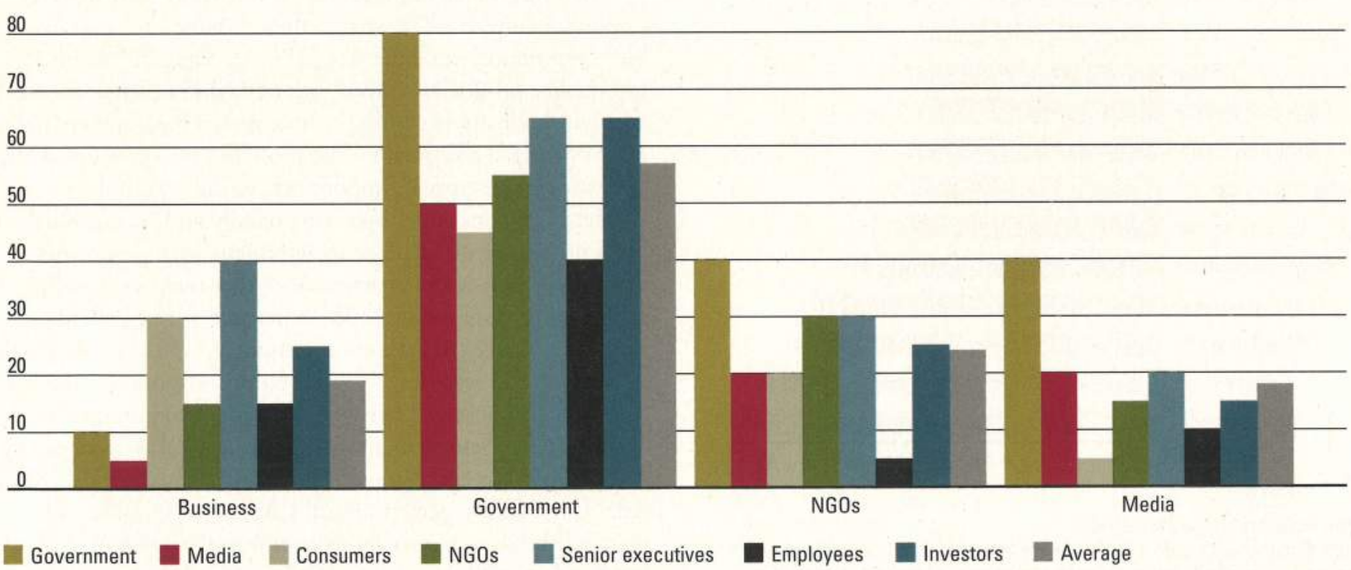
Figure 1: Stakeholder Trust in Institutions in China



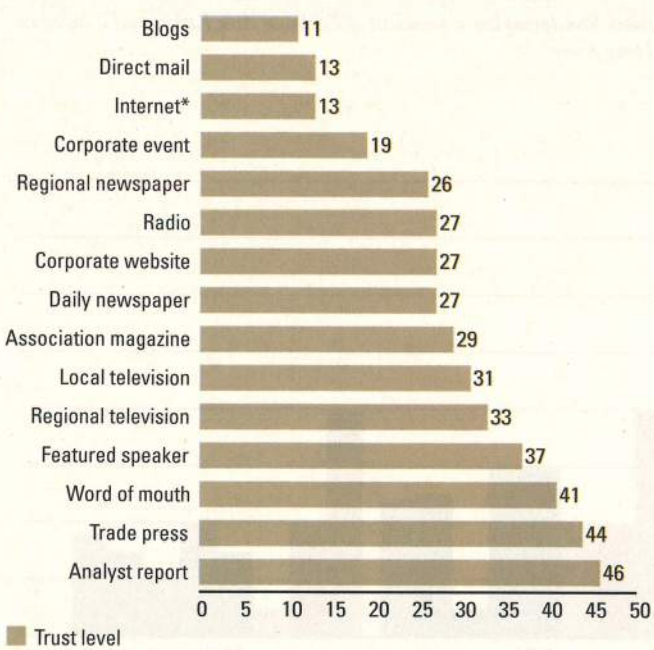
Note: NGO = nongovernmental organization
Respondents were asked: "How much do you trust each of the following institutions to do what is right?" The numbers show the percentage of respondents that indicated a trust level of 8, 9, or 10 on a 10-point scale, with 1 being low trust and 10 high trust.
Source: Edelman Asia-Pacific Stakeholder Research initiative 2006

the greatest stock in "expert" sources: analyst reports and trade publications that are perceived to have the "inside" story on a particular industry (see Figure 2). Chinese stakeholders also highly trust company representatives speaking at third-party forums, and their likelihood of using information provided by such speakers rose 36 percent in the last year to reach 30 percent.

Corporate websites are not a widely trusted information channel, with only 27 percent of respondents indicating a high level of trust, but these websites are nevertheless visited frequently. Thirty-one percent of Chinese stakeholders are likely to visit company sites for information, compared to 22 percent for other Internet sources. This highlights the importance of Chinese-language corporate websites in communicating with stakeholders in China. The blogosphere has also become a highly active forum for Chinese opinion leaders: 83 percent of Chinese respondents reported that they are aware of blogs, and 88 percent said they actively blog. Nevertheless, only 11 percent of respondents said they highly trust blogs.

When asked which individuals are the most trusted sources of information on a company, Chinese stakeholders overwhelmingly indicated a preference for sources within a company. The chief executive officer (CEO) (58 percent) is the most trusted, followed by the chair (51 percent) and chief financial officer (50 percent); the trust levels for all three significantly rose from their 2005 levels. The most

Figure 2: Trust in Communication Channels in China



*Not including corporate websites
Note: Respondents were asked: "How trustworthy and believable do you feel certain communication vehicles are when passing information along about a corporation?" The numbers show the percentage of respondents that indicated a trust level of 8, 9, or 10 on a 10-point scale, with 1 being low trust and 10 high trust.
Source: Edelman Asia-Pacific Stakeholder Research initiative 2006

trusted outside source is government (49 percent), with academics coming in second (38 percent). The greater level of trust placed in inside sources is opposite to what is frequently seen in the West, where outside sources are most highly valued and the chief officers are treated with great skepticism.

Businesses can find a reasonable degree of comfort in these findings, as stakeholders are ready and willing to listen to companies wishing to tell their stories in their own words. The statistics on the use of company websites also clearly highlight the rise of the Internet as a trusted and widely used source of information, making it a strong platform for stakeholder engagement.

Core drivers of opinion

Since the Asia-Pacific Stakeholder Research initiative was launched, opinion leaders across the region have consistently identified three core areas that drive their opinions of companies: quality of products and services, management and management practices, and social accountability.

These areas are also crucial in China. Most notably, strong management is emerging as a critical driver in the China market, with "management and leadership"—whether a company's senior leadership can be trusted, is highly visible, and provides a reasonable return for shareholders—ranking as the leading characteristic of an outstanding company (see Table 1). In another sign of management's growing importance in the eyes of stakeholders, "employee development and benefits" jumped to 16 percent from 10 percent in 2005. "Innovation" also rose in importance, climbing 7 percentage points from 2005 to 2006. This change underlines the growing importance of product quality and service and possibly reflects the government's campaign to promote domestic innovation.

The importance of these core drivers resurfaced when respondents were asked what defines a "good and responsible" corporation in China (see Table 2). Though "offering top quality products/services" was ranked first, trust in management is clearly becoming a top concern for opinion leaders. Similarly, a company's efforts to build relationships with key stakeholders rose in importance, as did stakeholder emphasis on companies operating openly and transparently.

With a score of 11 percent, alignment with government priorities is one of the characteristics that make companies stand out to respondents, and 35 percent of respondents think that active concern for community welfare is a key trait of a "good and responsible" corporation. Although these characteristics received less emphasis than product quality and company management, social accountability has become more important every year in China, as it has elsewhere in Asia. If the future perceptions of Chinese stakeholders follow regional trends, concern about community welfare will play a larger role in defining a "good and responsible" company.

Chinese stakeholders know what they are looking for in a "good and responsible" company, but they do not always like what they see. Most notably, respondents consistently say that Chinese companies do not meet their expectations in core areas, such as product quality, trust in senior management, and openness and transparency (see Table 3). In contrast, Western companies, well-respected across Asia, score higher than Japanese and Chinese companies in key areas and exceed stakeholder expectations in transparency and concern for community welfare.

What does this mean for companies?

The stakeholder research shows that Chinese opinion leaders look to the senior executives of corporations and the employees they lead to form their opinions of companies. In addition, stakeholders' emphasis on quality is incorporating new features, such as the search for the innovative spark. The idea that companies should work to enhance community welfare is also gaining traction. At the same time, stakeholders have a relatively low level of trust in companies compared with other institutions, including government. Therefore, companies in China should pay closer attention to critical relationships with the government—the institution most trusted by and influential among opinion leaders—and civil society organizations.

The research also tells another story: The communications paradigm in China, as elsewhere in Asia, is becoming more multidimensional. The old way of top-down communication has been superseded by the explosion of instantaneous, Internet-powered conversations between multiple stakeholders, which simultaneously reduce trust, raise expectations, and grant all players unprecedented influence over policies and reputations.

For business, the implications are clear. Companies should identify which stakeholders are key to their business objectives, conduct detailed research to understand the goals of those stakeholders, and determine where overlapping objectives form common ground to build trust. This "stakeholder mapping" must take place in tandem with research aimed at identifying the communication channels

Continued on page 53

Table 1: Characteristics that Make Companies Stand Out in China

Characteristic	Percent in 2006	Percent in 2005
Management and leadership	26	21
Employee development and benefits	16	10
High profitability	15	19
Efficient production	11	5
Alignment with government objectives	11	14
Brand and product quality	9	12
Innovation	8	1
Corporate culture	8	6

Note: Respondents were asked: "What is the first thing you notice that makes companies stand out from the rest?" Open-ended answers were collected and tallied.
Source: Edelman Asia-Pacific Stakeholder Research initiative 2006

Table 2: Characteristics of "Good and Responsible" Companies in China

Characteristic	Percent in 2006	Percent in 2005
Offers top quality products/services	86	87
Stands behind products/services when something goes wrong	83	84
Has senior leadership that can be trusted	77	69
Makes products that really impress other people	76	81
Works hard to build relationships with core stakeholders	61	51
Communicates frequently and openly with employees	59	52
Operates openly and transparently	50	36
Concerned about and active in doing something for community welfare	35	31

Note: Respondents were asked: "How important are the following characteristics for 'good and responsible' corporations?" The numbers show the percentage of respondents that indicated an importance level of 8, 9, or 10 on a 10-point scale, with 1 being not important and 10 very important.
Source: Edelman Asia-Pacific Stakeholder Research initiative 2006

Table 3: Stakeholder Perceptions of Western, Japanese, and Chinese Corporations

	Stakeholder expectation	Western corporations	Japanese corporations	Chinese corporations
Offers top quality products and services	86	81	63	29
Stands behind its products and services when something goes wrong	83	66	46	24
Has senior leadership that can be trusted	77	55	42	24
Works hard to build relationships with core stakeholders	61	51	46	46
Communicates frequently and openly with employees	59	50	24	15
Operates openly and transparently	50	64	39	19
Concerned about and active in doing something for community welfare	35	57	35	20

Note: Respondents were asked: "To what degree do you believe these different types of corporations live up to that characteristic?" The numbers show the percentage of respondents that checked a level of 8, 9, or 10 on a 10-point scale, with 1 being to a very small degree and 10 to a very large degree.
Source: Edelman Asia-Pacific Stakeholder Research initiative 2006

China's Powerhouse Shows Its Soft Underbelly

William H. Hess

Proximity to Hong Kong helped to turn Guangdong into a key export and production center after economic reforms were introduced in China in the late 1970s. By most measures, Guangdong leads all other provinces economically: It has the largest GDP of any province in China—$317 billion at the end of 2006; it is China's biggest exporter and domestic retail market; and it has received the largest proportion of foreign direct investment (FDI). But internal structural issues, such as wage inflation, environmental degradation, and labor shortage, as well as external pressures, such as trade friction, a strengthening renminbi, and intense inter-provincial competition for export and domestic markets, are gradually eroding the province's economic lead.

Guangdong's economy—fueled largely by traditional, labor-intensive exports, including toys, garments, and low-end electronics—is perhaps the most integrated with international markets and supply chains among China's provinces. In 2005, its total trade was equivalent to 166 percent of its GDP. Provincial leaders, however, are attempting to push the economy toward higher value-added output to ensure that the province's future competitiveness is as strong as its recent economic past.

robust infrastructure and consumer spending are expected to pick up some of this slack to sustain impressive growth rates in the coming years.

Temporary slowdown?

In the first half of 2006, Guangdong's economy sustained the momentum it gathered during 2005 through an increase in capital spending and strong export growth. The pace of export growth will likely slow during the next few quarters, however, largely because of trade frictions with major Western trading partners, rising production costs, and the impact of a gradually appreciating currency. Macro controls implemented by various PRC government agencies have moderated fixed-asset investment (FAI) spending, which will also likely curb Guangdong's growth. On the other hand, robust infrastructure and consumer spending are expected to pick up some of this slack to sustain impressive growth rates in the coming years.

Although Guangdong remained China's largest provincial economy in absolute nominal terms at the end of 2006, it lost ground to its peers. The economies of Jiangsu and Shandong expanded 14.9 percent and 14.5 percent, respectively, while Guangdong's economy grew at a more modest 14.1 percent (see Table 1). Though strong export demand has significantly boosted most of the coastal provinces, the relative level of FAI growth has helped to determine these rankings. In the first half of 2006, Shandong stood out for its high level of growth in capital expenditures, especially when compared to Guangdong, which has experienced below-average FAI growth.

Officials in Guangdong are sensitive to the fact that per capita urban and rural incomes in Jiangsu have grown

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Guangdong has long been a symbol of China's economic strength, but structural shifts are exposing the weaknesses in its economy

much more rapidly than in Guangdong (see Table 2). They cite increases in government wages in Jiangsu and the relatively low proportion of private enterprises in Guangdong as reasons for the difference in wage growth. Moreover, they seem to be aware of the long-run negative correlation between the size of the state sector in a given provincial economy and the growth rates of worker productivity and wages. At the end of 2005, average wages in the state-owned sector were 117 percent of the average wage level in the province, partly a reflection of the state's monopoly in many state industries. Economic planners in Guangdong have taken steps to boost productivity levels in the province—including the promotion of private enterprise growth, especially of small and medium-sized enterprises, and innovative activity—as means to ramp up overall wage levels, though it will take time before these measures bear fruit. Until nonstate firms are allowed to access markets dominated by state industries, their development in all areas will suffer.

Labor market challenges

Guangdong, like other booming coastal provinces, is facing strong upward pressure on wages, which is blunting its edge in labor-intensive manufacturing and processing operations. To retain the necessary supply of migrant workers, provincial officials in July 2006 announced an average minimum wage increase of 17.8 percent, a move that Guangdong's competitors soon followed. Historically, Guangdong has relied more on migrant workers than other provinces. For example, Guangdong's population in 1980 was 88 percent of Jiangsu's and 127 percent of Zhejiang's, figures that jumped to 123 percent and 188 percent, respectively, by the end of 2005, largely because of inflows of migrant workers. Based on estimates from Guangdong's statistical bureau, migrants account for more than 65 percent of the labor force in the manufacturing sector of major producer cities across the province and nearly 60 percent in the construction and services sectors. Though a recent large influx of migrant workers helped to keep wages down in Guangdong, growing inter-provincial competition for such workers and wage hikes have, to some extent, already turned this dependence on outside labor into a competitive vulnerability.

Interestingly, reports of supply shortages for migrant and low-skilled workers have been matched by those for slack demand for white collar workers in Guangdong. These divergent trends show the structural nature of job creation in Guangdong, which appears to favor labor-intensive positions rather than higher-productivity and higher-wage jobs that the provincial government hopes to create through its structural shift toward more advanced and capital-intensive industries.

Wage growth has been offset by consistent productivity gains in some provinces, but in Guangdong's case, productivity gains in its secondary industries (manufacturing and construction) have, on average, been slower and far more inconsistent than those in competing coastal provinces. One reason is that the average firm size in Guangdong is smaller than those in peer provinces. Greater reliance on human capital inputs, rather than on machines, has also put a drag on productivity and scale growth among producers in the province.

Table 1: Growth in Coastal China, 2006

	Nominal GDP (¥ billion)	Real year-on-year growth (%)	Margin of growth over 2005 (%)
Guangdong	2,600	14.1	-0.3
Shandong*	2,148	14.5	-0.7
Jiangsu*	2,129	14.9	-0.5
Zhejiang	1,560	12.0	-0.6
Shanghai	1,030	13.6	-0.5

*Year-end estimates

Source: Global Insight China Regional Service

Table 2: Income in Coastal Provinces, First Half, 2006

	Urban disposable income	Year-on-year growth (%)	Rural cash income	Year-on-year growth (%)
Shanghai	¥10,704	10.9	¥5,855	9.2
Zhejiang	¥10,046	12.6	¥4,733	10.6
Guangdong	¥8,531	9.0	¥2,899	7.9
Jiangsu	¥7,315	14.8	¥3,239	14.5
Shandong	¥6,126	14.3	¥2,671	16.1

Source: Global Insight China Regional Service

Critical Eye on Guangdong

Foreign companies in China are increasingly reporting that the available workforce lacks the required technical training and industry-specific manufacturing techniques, which has intensified the pressures that are driving up wages in the region. Employee turnover rates in many coastal provinces have reportedly jumped in recent years, especially at foreign firms, which have been fighting to recruit and retain qualified staff for their domestic operations (see the *CBR,* March–April 2006, p.18). According to a study by Shenzhen's Institute of Contemporary Observation, the annual employee turnover rate in low-skilled, labor-intensive industries is around 50 percent in Guangdong. At the higher end of the pay scale, several prominent employers in Guangdong have reported normal turnover rates of around 20 percent or more, a rate lower than those of peer provinces.

Looking to the east

As part of its economic transition and 11th Five-Year Plan (FYP, 2006–10), the Guangdong government in late 2006 announced plans to invest ¥270 billion ($34 billion) in 390 industrial and infrastructure projects in the eastern part of the province. Discrepancies between Guangdong's eastern and western regions have become more prominent in recent years. As the Pearl River Delta region in the west attempts to climb the value chain and stem the migration of traditional heavy industries to other provinces, Guangdong's leaders are looking east for new sources of development and industrial growth. Chaozhou, Jieyang, Shantou, and Shanwei, all in eastern Guangdong, are targeted for new development, particularly in industries such as petrochemicals, equipment manufacturing, electronics, and energy. At the same time, the provincial government is developing plans to boost the technological level of western Guangdong by supporting industries such as biotech and software.

More infrastructure spending through 2010

Guangdong's government also recently reiterated its commitment to spend ¥290 billion ($36.3 billion) on infrastructure projects during the 11th FYP period. The plan calls for new roads, port berths, an interregional bridge network, and a high-voltage electric transportation system. Under this program, about 140 new berths for large vessels will dot the coastal and inland ports; 3,300 km of new roads will be built, extending the province's network to 140,000 km; and 22 new power projects will add a total of 7.2 million kilowatts of generation capacity.

A large portion of this investment will focus on Guangzhou, but funding will also aim to integrate poorer areas with more prosperous regions and Hong Kong. Many of the new expressways will improve the links between major cities in southern Guangdong and Hong Kong and Macao, the centerpiece being the construction of a bridge connecting the coastal city of Zhuhai with Hong Kong. With construction slated to last from 2007 to 2015, the 45 km bridge is estimated to cost ¥55 billion ($6.8 billion). Overshadowing all of these infrastructure investments is the highly anticipat-

Guangdong at a Glance

Guangdong by the Numbers

	2006*	2010*
Real GDP growth (%)	13.2	9.8
Nominal GDP ($ billion)	316.8	598.1
Nominal per capita GDP ($)	3,384.0	6,044.0
Exports ($ billion)	300.9	637.0
Export growth (%)	26.4	18.1
Imports ($ billion)	225.7	424.3
Import growth (%)	18.9	17.3
Trade balance ($ billion)	75.2	144.7
Foreign direct investment ($ billion)	13.4	18.5
Fixed-asset investment growth (%)	20.0	11.1
Retail sales growth (%)	14.9	12.2
Consumer price index (%)	1.8	2.6
Population (million)	93.6	96.4

*Year-end estimates
Source: Global Insight China Regional Service

Useful Websites

Guangdong Provincial Government
www.gd.gov.cn

Guangdong Provincial Department of Foreign Trade and Economic Cooperation
www.gddoftec.gov.cn

Guangdong Provincial Development and Reform Commission
www.gddpc.gov.cn

Guangdong Provincial Bureau of Industrial and Commercial Management
www.gdgs.gov.cn

Guangdong Provincial Foreign Affairs Office
www.gdfao.gd.gov.cn

China Council for the Promotion of International Trade-Guangdong Sub-Council
www.getgd.net

Guangdong Invest
www.gdtzzs.gov.cn

Guangdong's Zones

National-Level Development Zones

Guangzhou Economic and Technological Development Zone
Huizhou Daya Bay Economic and Technological Development Zone
Zhanjiang Economic and Technological Development Zone

Special Economic Zones

Shenzhen Special Economic Zone
Zhuhai Special Economic Zone
Shantou Special Economic Zone

Other zones

Chaozhou Economic Development Experimental Zone
Guangzhou New High-Tech Industry Development Zone
Jieyang Economic Development Experimental Zone
Meizhou Economic Development Experimental Zone
Shantou New High-Tech Development Zone
Shenzhen Export Processing Zone
Shenzhen New High-Tech Industrial Park
Zhuhai New High-Tech Development Zone

ed completion of the second phase of the Guangzhou Baiyun International Airport. Once fully completed at the end of 2008, this facility will be able to handle around 40 million passengers and 2 million tons of cargo annually, almost doubling its current capacities of 25 million and 1 million, respectively, according to provincial authorities.

Further urbanization

Guangdong contains some of China's most modern and prosperous cities, namely Guangzhou and Shenzhen. Nationwide, roughly 300 million rural dwellers are expected to move to cities in the next few years. Provincial officials are currently drawing up plans for Guangdong's cities to absorb 5 million rural residents by the end of 2010, the majority of whom will be employed in the rapidly expanding manufacturing, construction, and services sectors. The provincial government has emphasized the development of the services sector and views its growth as a symbol of prosperity. To this end, it seeks to promote everything from legal, financial, and accounting services to tourism. Moreover, Guangdong Governor Huang Huahua has pledged significant fiscal support to ease workers' transition from the countryside into alternative forms of employment.

Currently, about 26 million, or 28.2 percent, of the province's total estimated population of 91.9 million are originally from other parts of the country. Officials have also announced that they intend to limit Guangdong's population to 97.3 million by the end of 2010 to prevent population pressure from overwhelming the province's physical and social infrastructure. Specific measures for population control have not been issued, though administrative restrictions on residency and employment statuses will likely be employed. Individual cities are also instituting their own measures. For example, Guangzhou recently announced that it will tighten restrictions on the "low-quality floating population," such as roadside peddlers and other groups it deems undesirable.

Slower, but more balanced growth

In the medium term, growth in Guangdong's economy will gradually slow in step with the national economy, but will remain an above-average performer among China's provinces. Despite the structural shifts taking place in its economy, Guangdong will remain an exporting power and leading destination for FDI. Above-average growth in per capita GDP and population will keep retail sales growth strong. As a result, overall demand in Guangdong will become more balanced than in many peer provinces, which have typically relied more on FAI.

When viewed from the outside, Guangdong, like China's overall economy, appears to be an economic fortress with high growth rates, strong export earnings, and robust consumer markets. Behind the fortress walls, however, structural weaknesses in Guangdong's economy, many of which mirror those at the national level, have emerged as the provincial leaders attempt to steer the economy toward a higher value-added future and deal with growing developmental and income gaps within Guangdong's borders. Though Guangdong's economy will continue to grow rapidly, this expansion will be accompanied by many social challenges and the task of maintaining competitiveness in tougher domestic and international markets. 完

Gaining Trust

Continued from 49

key stakeholders most readily turn to and trust and the sources they are likely to find credible on issues that matter to them. Finally, like Johnson & Johnson, companies must initiate and sustain conversations with their stakeholders by developing long-term, strategic communications platforms that resonate with stakeholders and meet business objectives. These platforms could include a mix of government relations efforts, employee communications programs, online engagement such as CEO blogs, and corporate social responsibility programs. Such a disciplined management of corporate reputation, one that emphasizes transparency and dialogue and uses the channels opinion leaders rely on the most, will help determine who wins and who loses in the China market. 完

Climbing the ICT Ladder

Innovation tops the agenda for China's information and communications industries

Dan Steinbock

Not long ago, China's economy was known primarily for simple, low-tech manufactured goods, such as textiles, shoes, and plastics. Today, China is the world's largest supplier of information and communication technology (ICT) goods and is moving up the value chain toward producing more complex, high-tech ICT goods.

Leading supplier of ICT goods

According to a report by the Organization for Economic Cooperation and Development (OECD), China supplied just 10 percent of all US imports of ICT goods in 2000. By 2004, that figure had soared to 27 percent, and China had become the single largest exporter of ICT goods to the United States, accruing an ICT trade surplus of $34 billion. China also came close to matching the United States in the value of its global trade in ICT products. Between 1996 and 2004, the value of US ICT trade grew more than 50 percent, from $230 billion to $375 billion. Over the same period, the value of China's ICT trade soared from $35 billion to $329 billion—almost 1,000 percent.

China's ICT exports, including laptop computers, mobile phones, and digital cameras, rose more than 46 percent to $180 billion in 2004, for the first time outstripping US exports of $149 billion. By the end of 2005, ICT goods accounted for 30 percent of China's overall export trade, and after almost a decade of explosive growth in the electronics sector, China overtook the United States as the world's biggest supplier of ICT goods.

China's booming ICT trade rides on the back of the country's status as a leading manufacturer, assembler, and developer of ICT products. In 2005, China produced more than 303 million mobile phones, exceeding production levels in most OECD countries; 81 million computers, making it the world's second-largest personal computer (PC) manufacturer; and more than 27 billion units of integrated circuits. The country's growing output has exerted downward pressure on the prices of ICT products globally, making them more affordable around the world.

On the demand side, China has emerged as an important market for foreign ICT firms. In 2005, China spent more than $118 billion on ICT products, ranking sixth in the world. China is now the world's largest mobile phone market, according to OECD. In 2005, each urban household had an average of 1.37 mobile phones, while roughly half of rural households had mobile phones, according to the *China Statistical Yearbook* 2006. In addition, more than 40 percent of urban households had computers. In 2005, total retail sales of computer and related equipment reached roughly ¥31 billion ($4 billion). The China Internet Network Information Center reported that, at the end of 2006, China had 137 million Internet users, 26 million more than a year earlier, while the number of broadband users jumped from 64 million to 104 million. In both the Internet and the broadband markets, the long-term growth prospects are high.

The story of China's ICT sector

In the early 1990s, foreign multinational corporations (MNCs) saw China mainly as a low-cost processing and assembling base, relying on imports of component parts from Japan, Taiwan, the United States, and Europe. Since the late 1990s, these giants have increasingly localized by sourcing their inputs, hiring managers, and developing technology locally. Meanwhile, by contracting, subcontracting, and setting industry benchmarks, they have given rise to a new generation of indigenous challengers, including Lenovo Group Ltd. in PCs, Ningbo Bird Co., Ltd. in mobile phones, Huawei Technologies Co., Ltd. in telecom infrastructure, and Haier Electronics Group Co., Ltd. in consumer electronics.

In 2001, Chinese equipment manufacturers commanded less than 10 percent of China's mobile handset market. Once the technology platform and manufacturing infrastructure were established, however, Chinese firms began to excel. Knowing the marketplace intimately and focused on building distribution networks that took them even into small cities, local firms such as Ningbo Bird, Amoi Electronics Co. Ltd., Panda Electronics Group Co., Ltd., and TCL Corp. were able to beat longstanding foreign industry leaders, including Nokia Corp., Motorola, Inc., and Siemens AG, by offering product designs and features that appealed to Chinese users at lower prices and by running clever advertising and promotion campaigns (see the *CBR*, November–December 2003, p.28). By 2003, Chinese companies had acquired an extraordinary 52 percent market share.

Stung by the success of indigenous challengers, foreign MNCs mounted their counterattack. Imitating the entire marketing mix of their challengers, they flooded the market with products similar to those of their Chinese competitors, launched aggressive marketing campaigns, exploited comparable distribution channels, and slashed prices. In 2004, the market share of Chinese mobile equipment producers declined to 37 percent, and in the third quarter of 2006, that figure dropped to 31 percent despite rising profits, according to CCID Consulting Co., Ltd.

During the past few years, similar developments have occurred in industries as different as autos, detergents, petroleum, and petrochemicals. First, foreign MNCs pioneer the high-volume markets. Then, indigenous challengers respond with imitation and low-cost strategies. Finally, strategies that focus on innovation and quality emerge as the keys to sustainable success. In this three-act drama, companies discover that low-cost strategies provide short-term benefits, but that sustained leadership requires innovation. The challenges that emerging indigenous producers face stem from the fact that foreign MNCs engage in innovation on a global scale—from global research and development (R&D) to global marketing campaigns and distribution.

Innovation is key

Chinese challengers rarely spend more than 5 percent of their revenue on R&D. Yet in the mobile handset industry, global industry leaders generally invest at least 10 percent

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of their revenue on R&D. This spending gap provides a substantial competitive advantage to the incumbent MNCs. Still, the boldest Chinese challengers are determined to catch up. Indeed, the recent emergence of strong local high-tech companies—including Chint Group, a manufacturer of low-voltage electronics; Shanghai Electric Group Co., Ltd., a maker of power generation products; and Shenzhen Hangsheng Electronics Co., Ltd., an auto electronics producer—is creating a formidable challenge for MNCs that seek a share of the Chinese market. Today, scores of Chinese high-tech companies—largely unknown outside China—are rapidly assuming market leadership on the mainland while diligently building the capabilities to go global. Over the past three years, McKinsey & Co. reports, China's 100 largest high-tech companies grew by 26 percent annually, more than twice the overall market growth rate of 12 percent and nearly four times the annual global rate of 7 percent. By 2010, domestic companies may hold 80 percent of China's high-tech market, up from 67 percent in 2004, according to McKinsey. Like the indigenous mobile equipment producers, challengers in other high-tech sectors initially benefited from cost advantages and intimate knowledge of the market. Now, these companies are seeking to climb the value-added chain by focusing on innovation and R&D.

To tackle the challenge posed by Chinese companies, foreign high-tech firms must rethink how they compete. First, they must reduce costs significantly—by 30 to 50 percent—to bring themselves into line with Chinese competitors. In addition to achieving cost parity, foreign companies must also discover other ways to create value—by creating new distribution systems and leveraging their global brands not only in China's first-tier cities, but also in second- and third-tier cities and rural regions.

To tackle the challenge posed by Chinese companies, foreign high-tech firms must rethink how they compete.

Since the late 1990s, Chinese mobile technology companies have caught up rapidly with cutting-edge mobile services, but innovation is key in the third-generation (3G) era. In the absence of Chinese patent holders, MNCs, which currently have the technological advantage, will continue to reap the biggest profits in China. If, however, Chinese companies can secure patent rights for their 3G standard, they would secure a foothold for future growth. The importance of obtaining patents to the dominant technology is the driving force behind China's 3G efforts (see p.57).

In the 1980s, the US mobile handset industry was based on the advanced mobile phone system (AMPS) standards. In the early 1990s, the European Commission's push for the global system for mobile communications (GSM) standard created markets because penetration rates were still less than 10 percent in western and northern Europe. Like AMPS in the 1980s, GSM unified fragmented markets, accelerated the spread of mobile phones,

Origins of the Chinese Hardware and Software Industry

The earliest and most well-known Chinese information technology (IT) companies originated in various government research institutes, universities, and "greenfield" start-ups. Over time, many firms, such as Lenovo Group Ltd., have established mighty software arms, and some firms have expanded into multiple activities, such as software development and systems integration.

- **Institutional spin-offs** Some Chinese IT leaders got their start as spin-offs from the government-funded research institutes of the Chinese Academy of Sciences (CAS). For example, in 1984, Liu Chuanzhi, an engineer at the CAS Institute of Computing Technology, established Legend Group Holdings Co., which gave rise to Lenovo.
- **University and industry spin-offs** A few well-known Chinese hardware firms began as spin-offs from universities. For instance, Founder Holdings Ltd. was born in 1986 when Wang Xuan of Beijing University formed a company with $50,000 in government seed capital. It began distributing personal computers in 1993.
- **Spin-offs from state-run firms** Great Wall Technology Co. Ltd. manufactures computers and computer peripherals. Recently, it has embarked on an ambitious broadband project.
- **Greenfield start-ups** Graduates of Qinghua University started Stone Group Corp., and its first products were word processing products. Since then, Stone Group has expanded its portfolio to manufacture and distribute other electronics products and to offer IT services.

—Dan Steinbock

and allowed the market to mature rapidly. Today, mobile penetration is estimated to range from 90 to 110 percent in maturing and technologically advanced mobile markets (topping 100 percent when a consumer owns more than one phone), but penetration rates remain low in emerging economies, at 10–30 percent. In the long term, indigenous standards with potential for global use are the keys to success for China's rapidly expanding ICT industry, along with a willingness to take risks, entrepreneurship, and disruptive innovations, which typically result in products that create new markets or that compete in the low end of established markets. In the long term, indigenous standards with limited geographical scope have only secondary value. As globalization progresses, only the best innovations will be adopted globally.

Room to grow

Despite its critical role among the world's leading ICT markets, China's ICT market potential remains huge. Apart from mobile phones, the vast majority of Chinese do not yet use ICT products. There is also a deep "digital divide" between urban and rural populations. At about 4.5 percent of GDP in 2005, overall ICT consumer spending is lower in China than in leading OECD countries, which spent about 9 percent of GDP in 2005. These relatively low penetration and spending rates leave room for significant growth in the future. By 2008, the number of global mobile phone subscribers is expected to reach 3 billion, up from 2.1 billion today, and nearly one in four of the new subscribers will be in China.

The PRC government announced in the 11th Five-Year Plan (2006–10) its intent to foster domestic innovation in all high-tech sectors through greater investment and domestically owned patents and to reduce dependence on foreign technology and intellectual property. This heralds a new era in China's ICT policy. Indeed, the PRC government has set its sights on becoming a global player by moving from being a low-cost manufacturer to being a global provider of high value-added products, such as software, information security, and information technology services. With this in mind, the government is encouraging domestic firms to invest overseas and to seek mergers and acquisitions in the quest for new technology and expertise. This "go-out" strategy lies behind the merger of TCL's television business with that of France-based Thomson SA in 2004 and Lenovo's acquisition of IBM Corp.'s PC business in 2005.

China's growing ICT strength will allow foreign ICT leaders to move higher up the value-added chain while speeding up the expansion of Chinese ICT leaders in complementary areas. Market competition will most likely weed out small indigenous producers that have focused excessively on imitation and cost advantages rather than innovation. The same forces will also lead foreign MNCs to increasingly localize their operations to further cut the costs of ICT products and services worldwide. Along with competition and localization, entrepreneurialism and the rapid growth of the venture capital market in China will contribute to market-driven technology development. In the long term, foreign and domestic ICT companies—as well as consumers worldwide—stand to benefit. 完

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The 3G Bet

Though controversial among critics, PRC government policies to promote its own mobile phone standards are hardly a departure from the industry's history. During the 1980s, the mobile industry was dominated by the advanced mobile phone system technology of the United States. During the 1990s, the global system for mobile communications technology, which the European Commission made mandatory in the European Union, led the industry.

Instead of a single third-generation (3G) standard, the dominant players have adopted a slate of regional standards. In the United States, Qualcomm Inc. pioneered code division multiple access (CDMA). In Europe, a group of companies led by Nokia Corp. developed wideband CDMA. Since December 2000, China has been pushing its time division-synchronous CDMA (TD-SCDMA). Most notably, in January 2006, the PRC Ministry of Information Industry declared TD-SCDMA a national standard, and in December 2006, the ministry announced that base stations and handsets using TD-SCDMA had passed a round of government testing. As the *CBR* went to press, however, *Caijing* reported that another round of 3G testing would begin in March 2007 and that licenses would not be issued until 2008. By promoting the PRC standard and issuing 3G licenses in the future, Beijing hopes to contribute to the success of Chinese firms in key mobile segments—chips, infrastructure, handsets, and software.

—Dan Steinbock

Sales and Investment

November 16, 2006–January 15, 2007

The following listings contain information from recent press reports of business contracts and negotiations exclusive of those listed in previous issues. For the most part, the accuracy of these reports is not independently confirmed by the *CBR*. Firms whose sales and other business arrangements with China do not normally appear in press reports may have them published in the *CBR* by sending the information to the attention of the editor.

Compiled by Bryan Klein

Advertising, Marketing & Public Relations

INVESTMENTS IN CHINA

Ogilvy & Mather Worldwide, a subsidiary of WPP Group plc (UK)
Acquired a 49% stake in Beijing Raynet Advertising Co., Ltd. 12/06.

Agriculture

CHINA'S EXPORTS

Jiangsu Changfa Group
Will supply agricultural equipment to Zimbabwe-based Saltlakes (Private) Holdings Ltd. 11/06.

INVESTMENTS IN CHINA

Pioneer Hi-Bred International, Inc., a subsidiary of E. I. du Pont de Nemours and Co. (US)/ Dunhuang Seed Co., Ltd. (Gansu)
Will form joint venture, Dunhuang Seed Pioneer Hi-Bred Co. Ltd., to develop and distribute corn hybrids. (US:49%-China:51%). 12/06.

Automotive

CHINA'S IMPORTS

Delphi Corp. (US)
Will provide passenger safety and navigation systems for Anhui-based Chery Automobile Co., Ltd. 01/07.

Volvo Bus Corp., a unit of AB Volvo (Sweden)
Will provide 700 Volvo B6R and B7R city buses to Shanghai. 01/07.

Oshkosh Truck Corp. (US)
Will provide a Striker aircraft rescue and fire-fighting vehicle to Shanghai Baojiang Automobile Trading Co., Ltd. for Quzhou Airport in Zhejiang. 12/06.

CHINA'S INVESTMENTS ABROAD

Iran Khodro Industrial Group/Chery Automobile Co., Ltd. (Anhui)
Will form joint venture to manufacture cars in Iran. (Iran:49%-China:51%). $200 million. 11/06.

INVESTMENTS IN CHINA

BASF Catalysts LLC, a subsidiary of BASF AG (Germany)
Will acquire Guangxi-based Guilin Reecat Catalyst Co., a manufacturer of motorcycle catalytic converters. 12/06.

Daewoo Bus Corp. (South Korea)/FAW Bus & Coach Co. Ltd., a unit of China FAW Group Corp. (Jilin)
Will form joint venture to assemble Daewoo-brand buses. (South Korea:50%-China:50%). $20 million. 12/06.

Delphi Corp. (US)/Lingyun Industrial Group Co., Ltd. (Hebei)
Will form joint venture to build a half-shaft plant in Anhui. (US:60%-China:40%). $40 million. 12/06.

DEUTZ AG (Germany)/FAW Jiefang Automotive Co. Ltd., a unit of China FAW Group Corp. (Liaoning)
Will form joint venture, DEUTZ Engine Co., to build a diesel engine plant in Dalian, Liaoning. (Germany:50%-China:50%). 12/06.

Noble International, Ltd. (US)/ Wuhan Iron and Steel Co., Ltd. (Hubei)
Will form joint venture, WISCO Noble Laser Welding Technology Co., Ltd., to manufacture laser-welded automotive blanks. (US:50%-China:50%). $2.5 million. 12/06.

Yulon Nissan Motor Co., Ltd., a joint venture between Nissan Motor Co., Ltd. (Japan) and Yulon Motor Co., Ltd. (Taiwan)
Will acquire a 16.55% stake in Hubei-based Aeolus Xiangfan Automobile Co., Ltd. $22 million. 12/06.

DaimlerChrysler AG (Germany)
Will acquire a 24% stake in Beijing-based Beiqi Foton Motor Co. Ltd. $104.1 million. 11/06.

GKN Driveline Torque Technology KK, a subsidiary of GKN plc (UK)
Will build a new facility in Shanghai to manufacture geared components. $4.4 million. 11/06.

GKN Driveline Torque Technology KK, a subsidiary of GKN plc (UK)/China South Industries Motor Co. Ltd., Shanghai GKN Driveshaft Co. Ltd., a joint venture between GKN plc and Shanghai Automotive Industry (Group) Corp.
Will form joint venture, GKN Driveshaft (Chongqing) Ltd., to supply driveshafts to China South Industries Motor Co. Ltd. (UK:34.5%-China:65.5%). $6.4 million. 11/06.

Johnson Controls, Inc. (US)/Chery Automobile Co., Ltd. (Anhui)
Will form joint venture to manufacture automotive interiors. (US:50%-China:50%). $30 million. 11/06.

OTHER

Chery Automobile Co., Ltd.
Will manufacture Chrysler-brand automobiles for US-based Chrysler Corp., a subsidiary of DaimlerChrysler AG. 12/06.

Aviation/Aerospace

CHINA'S IMPORTS

GE Aviation, a subsidiary of General Electric Co. (US)
Will supply and service nine Boeing 787 aircraft engines to Shanghai Airlines Co., Ltd. $550 million. 12/06.

IAE International Aero Engines AG, a joint venture between Japanese Aero Engines Corp., MTU Aero Engines GmBh (Germany), Pratt & Whitney, a subsidiary of United Technologies Corp. (US), and Rolls-Royce Group plc (UK)
Will provide and maintain 50 V2500 aircraft engines to Guangdong-based China Southern Airlines Co. Ltd. $1.4 billion. 12/06.

INVESTMENTS IN CHINA

Mesa Air Group, Inc., Wilmington Trust Corp. (US)/Shenzhen Airlines Co. Ltd. (Guangdong)
Will form a Beijing-based joint venture airline company to service routes within China. (US:49%-China:51%). $640.6 million. 12/06.

Pratt & Whitney, a subsidiary of United Technologies Corp. (US)/China Eastern Airlines Co., Ltd. (Shanghai)
Will form joint venture, Pratt & Whitney Shanghai Aircraft Engine Maintenance Co. Ltd., to overhaul aircraft engines in Shanghai. 11/06.

Banking & Finance

CHINA'S INVESTMENTS ABROAD

BOC (Beijing)
Acquired Singapore Aircraft Leasing Enterprise Pte Ltd. $965 million. 12/06.

ICBC (Beijing)
Will acquire a 90% stake in PT Bank Halim Indonesia. 12/06.

INVESTMENTS IN CHINA

Crédit Agricole SA (France)/ABC, Aluminum Corp. of China Ltd. (Beijing)
Will form a fund management joint venture. (France:33.67%-China:66.33%). $12.8 million. 01/07.

The Carlyle Group LLC (US)
Acquired a 7.99% stake in Chongqing Commercial Bank. 12/06.

Dah Sing Group (Hong Kong)
Acquired a 17% stake in Chongqing Commercial Bank. $89 million. 12/06.

ABN AMRO Holding NV (the Netherlands)
Established ABN AMRO Leasing (China) Co. Ltd. to offer financial leases and other products in China. 11/06.

Australia and New Zealand Banking Group Ltd. (Australia)
Will acquire a 19.9% stake in Shanghai Rural Commercial Bank Co., Ltd. $252 million. 11/06.

Banco Bilbao Vizcaya Argentaria, SA (Spain)
Acquired a 5% stake in Beijing-based China CITIC Bank, a subsidiary of CITIC. $642 million. 11/06.

Citigroup Inc. (US)
Acquired a 20% stake in Guangdong Development Bank Co. Ltd. $715 million. 11/06.

IBM Corp. (US)
Acquired a 4.74% stake in Guangdong Development Bank Co. Ltd. $169.4 million. 11/06.

Chemicals, Petrochemicals & Related Equipment

CHINA'S IMPORTS

Larsen and Toubro Ltd. (India)
Will supply three ethylene oxide reactors to Beijing-based Sinopec. $86 million. 12/06.

Lurgi AG, a subsidiary of GEA Group AG (Germany)
Will develop and build a polypropylene production plant for Beijing-based Datang International Power Generation Co. Ltd. 11/06.

Lurgi AG, a subsidiary of GEA Group AG (Germany)
Will develop and build a polypropylene production plant for Shenhua Ningxia Coal Industry Group Co. Ltd., a subsidiary of Beijing-based Shenhua Group Corp. Ltd. 11/06.

INVESTMENTS IN CHINA

Ineos Fluor Ltd. (UK)/Zhejiang Xing Teng Chemical Co. Ltd.
Will form joint venture, Jiangxi In-Tech Chemical Co. Ltd., to produce anhydrous hydrogen fluoride in Jiangxi. 01/07.

Air Products and Chemicals, Inc. (US)/Nanjing Chemical Industries Co. Ltd., a subsidiary of Sinopec (Beijing)
Will form joint venture to produce hydrogen, nitrogen, oxygen, and liquid products in Nanjing, Jiangsu. 12/06.

Excel Polymers LLC (US), Mitsui & Co., Ltd. (Japan)
Formed WFOE, EXLP Global (Foshan) Co., Ltd., to manufacture rubber in Guangdong. (Japan:39%-US:61%). 12/06.

Imperial Chemical Industries plc (UK)
Will build a polymerization plant in Shanghai. $20 million. 12/06.

Linde AG (Germany)/Sinopec Qilu Co., a subsidiary of Sinopec (Beijing)
Will form joint venture, Zibo BOC Qilu Gases Co., to produce and distribute oxygen, nitrogen, and argon in Shandong. (Germany:50%-China:50%). $64 million. 12/06.

Rohm and Haas Co. (US)/ Weihai Jinhong Polymer Co., Ltd. (Shandong)
Will form joint venture, Jinhong Rohm and Haas Chemicals Co., Ltd., to produce plastic additives products in Shandong. (US:51%-China:49%). 12/06.

Aqualon, a unit of Hercules Inc. (US)
Will build a manufacturing plant for its hydroxyethylcellulose products in Nanjing, Jiangsu. 11/06.

Consulting

INVESTMENTS IN CHINA

Bellsystem24 Inc. (Japan), Pacificnet Inc. (Hong Kong)
Will form WFOE, Bell-Pact Consulting, to provide customer relationship management consulting services in Shanghai. (Hong Kong:40%-Japan:60%). $643,000. 01/07.

Microsoft Corp. (US)
Acquired a 10% stake in TCS (China) Co., a joint venture between India-based Tata Consultancy Services Ltd. and three Chinese companies. $1.4 million. 11/06.

Distribution, Logistics & Related Services

OTHER

Bax Global Inc. (US)
Will manage and operate the Shenzhen distribution and logistics center for the Netherlands-based Trust International BV. 12/06.

Electronics, Hardware & Software

CHINA'S IMPORTS

Tata Consultancy Services Ltd. (India)
Will provide IT solutions to BOC. $100 million. 12/06.

CHINA'S INVESTMENTS ABROAD

Century Shuanghong Display Devices Co., Ltd., a joint venture between IRICO Group Electronics Co., Ltd. (Shaanxi) and Changhong Electric Co., Ltd. (Sichuan)
Acquired a 75% stake in the Netherlands-based Sterope Investments BV. $99.9 million. 12/06.

INVESTMENTS IN CHINA

Cirrus Logic, Inc. (US)
Acquired Shanghai-based Caretta Integrated Circuits Corp. $10.5 million. 01/07.

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

SunGard Data Systems Inc. (US)
Acquired Shanghai Fudan Kingstar Computer Co., Ltd. 12/06.

Sai Global Ltd. (Australia)/China Quality Certification Center (Beijing)
Established joint venture to provide management technology and training services in China. (Australia:50%-China:50%). 11/06.

OTHER

Saifun Semiconductors Ltd. (Israel)/Semiconductor Manufacturing International Corp. (Shanghai)
Formed partnership to develop and produce an 8-gigabyte data flash memory. 11/06.

Energy & Electric Power

CHINA'S EXPORTS

Xi'an Electric Engineering Co., Ltd. (Shaanxi)
Will restore 42 steel transmission towers for Philippines-based National Transmission Corp. $8.7 million. 01/07.

CHINA'S IMPORTS

Atlas Copco AB (Sweden)
Will supply three turbo compressors to Beijing-based Datang International Power Generation Co. Ltd. $17.2 million. 12/06.

Telefonaktiebolaget LM Ericsson (Sweden)
Will build an optical transmission network for Central China Power Grid Co. Ltd. 12/06.

The Shaw Group Inc., Westinghouse Electric Co., LLC (US)
Will build four nuclear reactors for Beijing-based State Nuclear Power Technology Co. 12/06.

CHINA'S INVESTMENTS ABROAD

Hong Kong Energy (Holdings) Ltd., PT Sinar Mas Agro Resources and Technology tbk (Indonesia)/CNOOC (Beijing)
Will jointly form and operate a biofuel development project in Indonesia. $5.5 billion. 01/07.

INVESTMENTS IN CHINA

GT Solar Inc. (US)
Established WFOE, GT Solar (Shanghai) Co., Ltd., in China. 12/06.

Environmental Equipment & Technology

CHINA'S IMPORTS

Sino-Environment Technology Group Ltd. (Singapore)
Will provide waste gas treatment services to CIMC Zhangzhou Container Co., Ltd., a subsidiary of China International Marine Containers (Group) Co., Ltd. $1.3 million. 12/06.

INVESTMENTS IN CHINA

Grontmij NV (the Netherlands)
Will design, engineer, and operate a waste water-treatment and biogas-production plant in Wuhan, Hubei. $29.8 million. 01/07.

Befesa Medio Ambiente, SA, a subsidiary of Abengoa, SA (Spain)/Qingdao Municipal Government (Shandong)
Formed joint venture to build and operate a desalination plant in Qingdao. (Spain:70%-China:30%). $70.2 million. 12/06.

Euro Tech Holdings Co. Ltd. (Hong Kong)
Will acquire a 20% stake in Zhejiang Tianlan Desulfurization and Dust-Removal Co. Ltd. $4.5 million. 12/06.

Food & Food Processing

INVESTMENTS IN CHINA

Groupe Danone (France)/China Mengniu Dairy Co. Ltd. (Inner Mongolia)
Will form joint ventures to develop, manufacture, distribute, and sell yogurt products. (France:49%-China:51%). $204.8 million. 12/06.

Diageo Highlands Holdings BV, a subsidiary of Diageo plc (UK)
Will acquire a 43% stake in Sichuan Chengdu Quanxing Group Co., Ltd. $66.7 million. 12/06.

Sojitz Corp. (Japan)/Beijing Sanyuan Group Co.
Will form joint venture to wholesale frozen and chilled foods in Beijing. (Japan:49%-China:51%). $7.4 million. 12/06.

Forestry, Timber & Paper

CHINA'S IMPORTS

The Pulp and Paper Group, a division of Groupe Laperrière & Verreault Inc. (Canada)
Will provide paper machine equipment to two Chinese companies. $4.5 million. 11/06.

INVESTMENTS IN CHINA

Cathay Forest Products Corp. (Canada)
Acquired 35-year land-use rights on 650 hectares of standing timber in Hunan. 01/07.

Cathay Forest Products Corp. (Canada)/Jiangxi Forestry Development Co. Ltd.
Will form joint venture to develop a poplar plantation in Jiangxi. (Canada:70%-China:30%). 01/07.

Whatman plc (UK)/Hangzhou Xinhua Paper Industry Co., Ltd. (Zhejiang)
Will form joint venture to manufacture and market paper in China. (UK:75%-China:25%). 12/06.

Cathay Forest Products Corp. (Canada)
Acquired 35-year land-use rights on 450 hectares of standing timber in Hunan. 11/06.

Infrastructure

INVESTMENTS IN CHINA

CMS Works International (China) Ltd., a subsidiary of Cahya Mata Sarawak Bhd (Malaysia)/China Yunnan Highway Construction Group Co., Ltd.
Will form joint venture to develop a toll road in Kunming, Yunnan. (Malaysia:44%-China:56%). 12/06.

Internet/E-Commerce

INVESTMENTS IN CHINA

Google Inc. (US)
Acquired a stake in Guangdong-based Xunlei Network Technology Ltd. 01/07.

Verisign, Inc. (US)/China Netcom, MII (Beijing)
Will launch Internet domain name service website in China. 12/06.

OTHER

Symantec Corp. (US)/Baidu.com, Inc. (Beijing)
Reached agreement under which Baidu.com will make Symantec antivirus software available through its website. 01/07.

Light Industry/Manufacturing

CHINA'S INVESTMENTS ABROAD

Sanyo Electric Co., Ltd. (Japan)/Haier Group Co. (Shandong)
Will form joint venture, Haier Sanyo Electric Co., to manufacture and sell personal-use refrigerators in Japan. (Japan:40%-China:60%). $32.2 million. 01/07.

INVESTMENTS IN CHINA

Toshiba Corp. (Japan)/ Guangzhou Baiyun Electric Group Co., Ltd. (Guangdong)
Will form joint venture to manufacture and market vacuum switch tubes in Liaoning. (Japan:60%-China:40%). $7 million. 12/06.

The Goldman Sachs Group, Inc. (US)
Will acquire a 10.7% stake in Guangdong Midea Electric Appliances Co., Ltd. $91 million. 11/06.

Machinery & Machine Tools

INVESTMENTS IN CHINA

Tat Hong Holdings Ltd. (Singapore)/Beijing Zhong Jian Zhenghe Construction Machinery Co. Ltd.
Will form joint venture, Shanghai Zheng He Tat Hong Construction Equipment Rental Co. Ltd., to lease tower cranes in Shanghai and Beijing. (Singapore:50%-China:50%). $9 million. 01/07.

OTHER

Caterpillar Inc. (US)
Moved Asia Pacific headquarters from Tokyo to Beijing. 11/06.

Media, Publishing & Entertainment

INVESTMENTS IN CHINA

Celrun Co., Ltd. (South Korea)/Chinacom Televideo Inc. (Tianjin)
Will form joint venture to launch an IP television service in China. 12/06.

Sun 3C Media plc (UK)
Will acquire an 80% stake in Caijing Times Advertising Corp., Ltd. and Optima Media International, Ltd., which held the sales, marketing, and distribution rights to *China Business Post.* $8.4 million. 12/06.

Sun 3C Media plc (UK)
Will acquire 21 CN Business News Agency Ltd. $2 million. 12/06.

SMI Publishing Group Ltd. (Hong Kong)/*China Business Times* (Beijing)
Will form joint venture to run the business and production operations of *China Business Times.* (Hong Kong:51%-China:49%). $1.3 million. 11/06.

OTHER

EMI Group plc (UK)/ Shanghai Media Group
Formed partnership under which Shanghai Media Group will make available EMI releases through its online, mobile, and traditional media outlets. 11/06.

OpenTV Corp. (US)/Star Communication Network Co., Ltd. (Beijing)
Will jointly develop digital television products and services for cable networks in China. 11/06.

Medical Equipment & Devices

INVESTMENTS IN CHINA

Adaltis Inc. (Canada)
Will acquire Shanghai Hua Tai Biotechnology Co. Ltd. 12/06.

Cynosure, Inc. (USA)
Acquired the remaining 48% stake in its joint venture, Suzhou Cynosure Medical Devices Co., to be renamed Cynosure China, from 66 Vision Tech Co. Ltd. 12/06.

OTHER

Century Medical, Inc., a subsidiary of Itochu Corp. (Japan)/China Medical Technologies, Inc. (Beijing)
Entered exclusive distribution agreement under which Century Medical will distribute China Medical's high intensity focused ultrasound tumor therapy systems in Japan. 12/06.

Metals, Minerals & Mining

CHINA'S IMPORTS

Admiralty Resources NL (Australia)
Will provide 940,000 tons of concentrate iron to Hubei-based Wuhan Iron and Steel Co., Ltd. $65 million. 01/07.

Outokumpu Technology Oyj (Finland)
Will upgrade and expand a zinc plant for Hunan Zhuye Torch Metals Co. Ltd. $38.8 million. 01/07.

POSCO (South Korea)
Will supply a tin plate manufacturing machine to Hebei-based Zhongyue POSCO (Qinhuangdao) Tin Plate Industry Co., Ltd. $17.8 million. 01/07.

CHINA'S INVESTMENTS ABROAD

Samancor Chrome (South Africa)/Sinosteel Trading Co. (Beijing)
Will establish chrome-production joint venture, Tubatse Chrome Co., in South Africa. 11/06.

Sinosteel Trading Co. (Beijing)
Acquired a 50% stake in a South African chrome mine and processing plant held by Samancor Chrome Co. $200 million. 11/06.

INVESTMENTS IN CHINA

POSCO, POSCO China Investment Co., Ltd. (South Korea), Zhongyue Industry Material Ltd., a subsidiary of Guangnan (Holdings) Ltd. (Hong Kong)
Will form joint venture, Zhongyue POSCO (Qinhuangdao) Tin Plate Industry Co., Ltd., to manufacture and sell tin plates in Hebei. (Hong Kong:66%-South Korea:34%). $60 million. 01/07.

Asia Dragon Group Inc. (Canada)/Henan Yunfeng Resource of Mine Development Co. Ltd.
Will form joint venture to develop the Shizhaigou Gold Mine in Henan. (Canada:70%-China:30%). 12/06.

Deutsche Bank AG (Germany), Korea Electric Power Corp. (South Korea)/ Shanxi International Electricity Group Co., Ltd.
Will form joint venture to develop coal mines and acquire power plants in Shanxi. (Germany:19%-South Korea:34%-China:47%). $1.3 billion. 12/06.

Petroleum, Natural Gas & Related Equipment

CHINA'S EXPORTS

China Oilfield Services Ltd. (Beijing)
Will provide offshore petroleum drilling services to Indonesia-based MEDCO MOECO Langsa Ltd. 11/06.

CNPC (Beijing)
Will drill 12 natural gas wells in the Gunorta Eloten field for the government of Turkmenistan. $152 million. 11/06.

CHINA'S IMPORTS

Fugro NV (the Netherlands)
Will provide investigative drilling for gas hydrates in the South China Sea for the Guangzhou Marine Geological Survey. 12/06.

INVESTMENTS IN CHINA

BP plc (UK)/CNOOC (Beijing)
Will jointly develop a drilling project in the South China Sea. $100 million. 12/06.

Devon Energy Corp. (US)/CNOOC (Beijing)
Will explore for, and exploit, deep-water gas and oil in the western South China Sea. 12/06.

OTHER

Hiap Seng Engineering Ltd. (Singapore)/CNOOC Engineering Ltd., a subsidiary of CNOOC (Beijing)
Formed strategic alliance to pursue oil production engineering projects in China. 12/06.

Ports & Shipping

CHINA'S EXPORTS

Ningbo Dongfang Shipyard Co. Ltd. (Zhejiang)
Will supply two double-hull clean petroleum product tankers to Malaysia-based Global Carriers Bhd. $20 million. 11/06.

INVESTMENTS IN CHINA

Nippon Yusen Kabushiki Kaisha (Japan)/China Shipping Terminal Development Co. Ltd., a subsidiary of China Shipping (Group) Co. (Shanghai), Dalian Port Container Co. Ltd., a subsidiary of Dalian Port (PDA) Co. Ltd. (Liaoning)
Signed MOU to establish a joint venture to develop and operate a container terminal in Dalian's Dayao Bay. 12/06.

ProLogis (US)
Will develop a new industrial park, ProLogis Park Dalian Port, to provide warehouse facilities. 12/06.

Stolthaven Terminals BV, a subsidiary of Stolt-Nielsen SA (UK)/CITIC Daxie Development Co., a subsidiary of CITIC (Beijing)
Will form joint venture, Stolthaven Ningbo Ltd., to build and operate a chemical and oil products terminal on Daxie Island in Zhejiang. (UK:50%-China:50%). $44 million. 12/06.

Rail

CHINA'S EXPORTS

Qishuyan Locomotive and Rolling Stock Works, a subsidiary of China South Locomotive and Rolling Stock Industry (Group) Corp. (Jiangsu)
Will supply 12 diesel locomotives to Venezuela. $20 million. 12/06.

CHINA'S IMPORTS

Metso Minerals Oy, a unit of Metso Corp. (Finland)
Will supply and service railcar dumpers to China Communications Construction Group Ltd. $13.2 million. 11/06.

INVESTMENTS IN CHINA

Adriatic Ocean Shipping Co. Ltd. (Italy)
Acquired an 8% stake in China United International Rail Containers Co., Ltd., a joint venture between Hong Kong-based NWS Holdings Ltd., China Railway Container Transport Co., Ltd., China International Marine Containers (Group) Co., Ltd., and Promisky Investment Ltd. 11/06.

Deutsche Bahn AG (Germany)
Acquired an 8% stake in China United International Rail Containers Co., Ltd., a joint venture between Hong Kong-based NWS Holdings Ltd., China Railway Container Transport Co., Ltd., China International Marine Containers (Group) Co., Ltd., and Promisky Investment Ltd. 11/06.

Zim Integrated Shipping Services Ltd., a subsidiary of Israel Corp.
Acquired an 8% stake in China United International Rail Containers Co., Ltd., a joint venture between Hong Kong-based NWS Holdings Ltd., China Railway Container Transport Co., Ltd., China International Marine Containers (Group) Co., Ltd., and Promisky Investment Ltd. 11/06.

OTHER

Deutsche Bahn AG (Germany), JSC Russian Railways/PRC Ministry of Railways (Beijing)
Signed MOU to increase cooperation in and development of rail transport and logistics between Europe and Asia. 11/06.

Real Estate & Land

INVESTMENTS IN CHINA

Henderson Land Development Co. Ltd. (Hong Kong), Temasek Holdings Pte Ltd. (Singapore)
Formed WFOE to develop a residential project in Xi'an, Shaanxi. (Hong Kong:50%-Singapore:50%). 12/06.

Lifestyle International Holdings Ltd. (Hong Kong)/Suzhou Industrial Park Administrative Committee, Suzhou Industrial Park Urban Development Co., Ltd. (Jiangsu)
Will form joint venture to develop a shopping center and an office building in Suzhou, Jiangsu. $100 million. 12/06.

SingLand China Holdings Pte Ltd., a subsidiary of Singapore Land Ltd.
Acquired a 7,560 m^2 property in Chengdu, Sichuan. $22.3 million. 12/06.

Treasury Holdings Ltd. (Canada)
Acquired the Xidan Centerpoint shopping center complex in Beijing from Hubei-based China Metallurgical Construction (Group) Corp. $471.4 million. 12/06.

CapitaLand Commercial (Barbados) Ltd., a subsidiary of CapitaLand Ltd. (Singapore)
Acquired Beijing Red Diamond Science & Technology Development Co. Ltd., including its Red Diamond Plaza in Beijing. $7.8 million. 11/06.

Evergro Properties Ltd., a subsidiary of Keppel Land Ltd., Keppel Land Ltd. (Singapore)/ Jiangyin Chengshi Real Estate Co. Ltd. (Jiangsu)
Formed joint venture to purchase and develop land in Jiangyin, Jiangsu. (Singapore:83.3%-China:16.7%). 11/06.

Evergro Properties Ltd., a subsidiary of Keppel Land Ltd., Keppel Land Ltd. (Singapore)/ Jiangyin Chengshi Real Estate Co. Ltd. (Jiangsu)
Acquired land for future development in Jiangyin, Jiangsu. $58.8 million. 11/06.

GIC Real Estate Pte Ltd., a division of the Government of Singapore Investment Corp. Pte Ltd., Yanlord Land Group Ltd. (Singapore)
Will form WFOE to invest in property development projects in China. 11/06.

Neo-China Group (Holdings) Ltd. (Hong Kong)
Will acquire a 71.5% stake in Xi'an Chan Ba Construction Development Co. Ltd. $118.4 million. 11/06.

Retail/Wholesale

INVESTMENTS IN CHINA

Aeon Co., Ltd. (Japan)
Will open a shopping center in Foshan, Guangdong. 12/06.

The Home Depot, Inc. (US)
Acquired Chinese home improvement chain, The Home Way. 12/06.

Telecommunications

CHINA'S EXPORTS

AsiaInfo Holdings, Inc. (Beijing)
Will develop a push mail platform for China Unicom. 01/07.

ZTE Corp. (Guangdong)
Will supply GSM equipment to India-based Reliance Communications Ltd. $700 million. 11/06.

CHINA'S IMPORTS

Telefonaktiebolaget LM Ericsson (Sweden)
Will build an optical transmission network for Central China Power Grid Co. Ltd. 12/06.

Xelerated, Inc. (US)
Will provide its X11 network processor to Guangdong-based Huawei Technologies Co., Ltd. 12/06.

Xelerated, Inc. (US)
Will provide its X11 network processor to Guangdong-based ZTE Corp. 12/06.

Compagnie Financière Alcatel (France)
Will install router and network management equipment in 13 provinces and municipalities for China Mobile. 11/06.

ECI Telecom Ltd. (Israel)
Will upgrade Beijing Electric Power Corp.'s optical communications network. 11/06.

INVESTMENTS IN CHINA

3Com Corp. (US)
Acquired remaining 49% stake in Zhejiang-based joint venture, Huawei-3Com Technology Co., Ltd., from Huawei Technologies Co., Ltd. $882 million. 11/06.

OTHER

Green Packet (Shanghai) Ltd., a WFOE of Green Packet Bhd (Malaysia)/Shanghai Unicom, a branch of China Unicom (Beijing)
Will collaborate to offer IP voice services in Shanghai. 11/06.

Tourism & Hotels

INVESTMENTS IN CHINA

Thai Charoen Corp. Group (Thailand)
Will acquire Bank Hotel Kunming from ICBC's Yunnan branch. $26.8 million. 11/06.