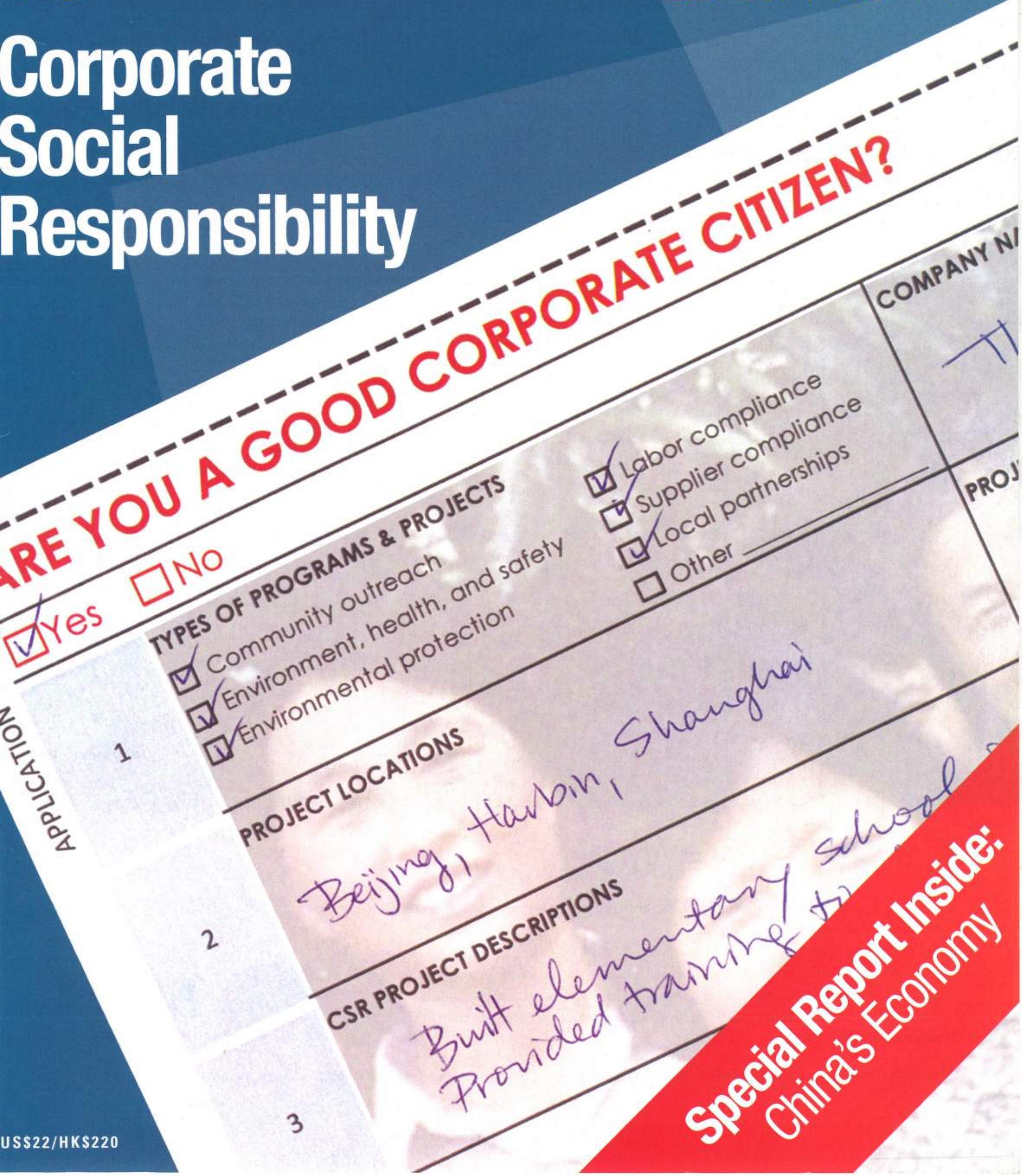
May–June 2007

The China Business Review

USCBC THE MAGAZINE OF THE US-CHINA BUSINESS COUNCIL

Corporate Social Responsibility



Special Report Inside: China's Economy

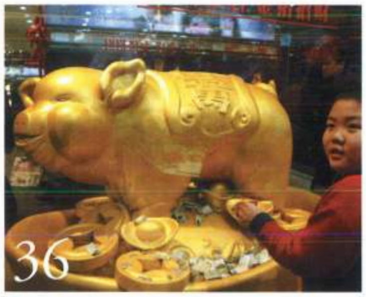
US$22/HK$220

Coca-Cola China Ltd. Co. organized an environmental education program to teach more than 100,000 primary students how to save water in their daily lives and extend these practices to their communities. Courtesy of the Coca-Cola Co.

The China Business Review

THE MAGAZINE OF
THE US-CHINA BUSINESS COUNCIL

Focus: Corporate Social Responsibility



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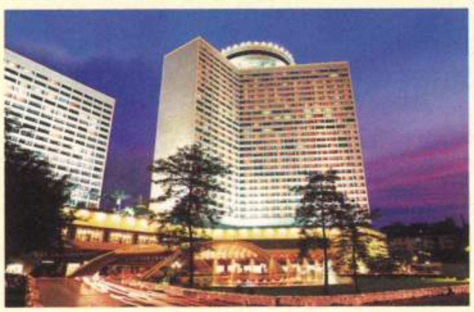


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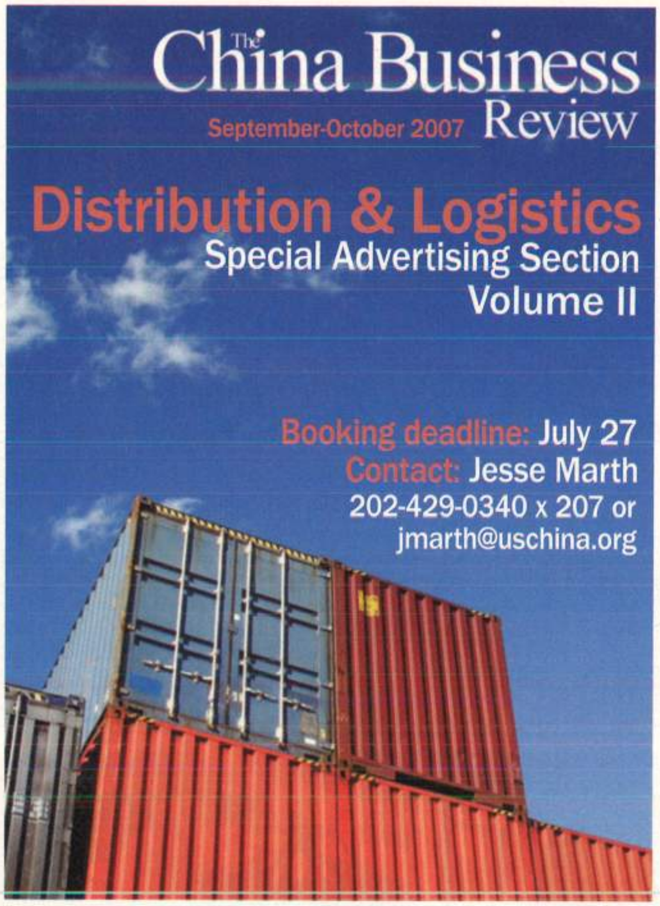

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Short Takes

Economy

The PRC State Council recently issued an opinion that aims to further liberalize China's service sector and seeks to have service industries generate 50 percent of economic output by 2020. According to the PRC National Bureau of Statistics, China's service sector currently accounts for roughly 40 percent of GDP, compared to 80 percent in the United States.

China's urban middle class is projected to number 612 million and urban per capita income to hit $3,284 by 2025, according to a report by the McKinsey Global Institute. The same report estimates that urban consumption as a percentage of GDP will rise to 45 percent in 2025 from 37 percent in 2005.

The top 20 percent of urban Chinese saw their average income rise by nearly 40 percent between 2004 and 2006, while the average income of urban residents in the lowest 20 percent rose by only about 27 percent over the same period, according to a recent Gallup poll.

Hong Kong, Macao & Taiwan

Hong Kong Chief Executive Donald Tsang won a landslide but unsurprising victory over challenger Alan Leong in late March to retain his post as the head of Hong Kong.

Macao recently surpassed Hong Kong in per capita GDP for the first time, according to Macao government statistics. In 2006, Macao's per capita GDP stood at $28,259, while that of Hong Kong was $27,469.

Statues of former Taiwan President and Kuomintang Party Chair Chiang Kai-shek were dismantled around the island on the order of current President Chen Shui-bian. The move is part of Chen's efforts to remove all vestiges of Chiang's authoritarian rule.

Aviation

United Airlines Inc. launched its new capital-to-capital service on March 28. The flight, from Dulles International Airport to Beijing Capital International Airport, took about 13 hours. United was awarded the new route in February.

China recently began the final assembly of the ARJ-21, the country's first indigenously developed regional jetliner. With a seating capacity of about 100, the ARJ-21 is a step toward China's goal of building commercial jets that could rival those of the Boeing Co. and Airbus SAS by 2020.

Environmental Protection

Chinese personal computer manufacturer Lenovo Group Ltd. shot up to first from last place in the latest Greenpeace Green Electronic Guide, which ranks 14 large high-tech companies on their "green" efforts. The guide, which was published in April, shows Apple Inc. at the bottom of the list.

The PRC National Reform and Development Commission in April released a five-year plan for energy. Though the plan aims to reduce the country's dependency on coal and oil and reform energy pricing to encourage efficiency, it also calls for greater investment in oil and gas exploration and production to meet rising demand.

Energy

Exxon Mobil Corp., Saudi Arabian Oil Co., and China National Petrochemical Corp. in April signed a $5 billion deal to expand oil refineries and build petrochemical facilities in Fujian, one of the biggest projects of its kind in China.

China's power consumption in the first two months of 2007 jumped 16.6 percent over the same period last year, according to the China Electricity Council. The country's power consumption is projected to grow 12.5 percent in 2007.

Intellectual Property Rights

In a move to further combat rampant piracy, the PRC Supreme People's Court issued a judicial opinion in April that lowers some criminal thresholds for the manufacture and sale of counterfeit products. Manufacturers of 500 or more counterfeit copies of DVDs, software, or CDs could face up to three years in prison.

The United States in early April launched two World Trade Organization (WTO) challenges of PRC laws.

One case argues that elements of China's laws on intellectual property rights (IPR) protection do not meet the country's obligations as a signatory of the WTO Agreement on Trade-Related Aspects of IPR. The second case says that restrictions China places on the import and distribution of media products violate China's WTO commitment to allow foreign companies to import, export, and distribute their products freely.

China also released its 2007 IPR Protection Action Plan in early April. To improve transparency, the plan calls for IPR court cases to be opened to the public, including representatives of international organizations and foreign governments.

Foreign Relations

PRC President Hu Jintao paid an official three-day state visit to Russia at the end of March to strengthen bilateral economic and diplomatic ties. During the visit, Hu and Russian President Vladimir Putin inaugurated the "Year of China" in Russia, and contracts worth $4.3 billion were signed.

Japanese Prime Minister Shinzo Abe in March stirred controversy when he publicly declared that Japan will not formally apologize for its alleged coercion of Chinese and Korean "comfort women" during World War II. PRC Foreign Minister Li Zhaoxing condemned Abe's comments. Nevertheless, as the *CBR* went to press, PRC Premier Wen Jiabao was visiting Japan.

Trade

The US Department of Commerce decided at the end of March to apply countervailing duty (CVD) laws on imports of coated free sheet paper from China, thereby reversing a long-standing US bipartisan policy of not applying CVDs to nonmarket economies.

Despite a steep drop in March, China's trade surplus for the first quarter stood at a mammoth $46.4 billion, twice the amount over the same period in 2006.

Laws & Regulations

The full PRC National People's Congress (NPC) in March finally passed the Enterprise Income Tax Law, which effectively unifies China's tax regimes for domestic and foreign-invested enterprises. The new tax rate for all enterprises is 25 percent.

The NPC also passed the Property Rights Law, the first piece of legislation to specifically protect private property in China since 1949.

China Conference Calendar

China-related events near you

May–October 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.

2007 China Airport Construction Summit

MAY 14–15

Forum to discuss strategies for building secure, sustainable, and modern airports in China in the next 20 years
Location: Shaanxi: Hyatt Regency Xi'an
Organizers: McGraw-Hill Construction; China Civil Airport Association; International Aviation Group
Contact: Zhou Lang
Tel: 86-10-6569-2957
lang_zhou@mcgraw-hill.com
www.construction.com/event/chinaairport

China Mergers & Acquisitions (M&A) Summit 2007

MAY 14–15

Presentations from the public and private sector on M&A pitfalls, strategies, and opportunities
Location: Beijing: Tianlun Dynasty Hotel
Organizer: Avail Corp. Ltd.
Contact: Mark Nee
Tel: 86-21-6229-1717
mark@availcorp.com
www.availcorp.com

Strategic Channel Management

MAY 14–15

Examines the evolution of distribution channels in China, customer behavior, performance metrics, and more
Location: Millennium Hongqiao Hotel Shanghai
Organizer: Marcus Evans
Contact: Kelly Lee
Tel: 603-2723-6600
klee@marcusevanskl.com
www.marcusevans.com

China Outbound Travel & Tourism Market

MAY 14–16

Business-to-business event on 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

International Exhibition & Congress on Chemical Engineering & Biotechnology

MAY 14–18

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

Global Research & Development Congress

MAY 15–16

Strategic planning for discovery, development, and clinical operations in China
Location: Philadelphia: Park Hyatt Hotel
Organizer: Cambridge Healthtech Institute
Contact: James Prudhomme
Tel: 781-972-5400
jprudhomme@healthtech.com
www.healthtech.com/2007/pcg

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 Glass 2007

MAY 16–19

Forum on innovation and new manufacturing processes for the glassmaking field
Location: Shanghai New International Expo Center
Organizer: The Chinese Ceramic Society
Contact: Joe Zhou
Tel: 86-10-6834-8131
ceramsoc@163.com
www.ceramsoc.com

China International Sporting Goods Show

MAY 17–20

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

Chinaplas 2007

MAY 21–24

Industrial fair for plastic and rubber manufacturing, molding, processing, and more
Location: Guangzhou: Chinese Export Commodities Fair-Pazhou Complex
Organizer: Adsale Exhibition Services Ltd.
Contact: Karen Cheung
Tel: 852-2516-3374
publicity@adsale.com.hk
www.2456.com/chinaplas

Western China International Economy & Trade Fair

MAY 25–28

High-level PRC government event with product trade show, matchmaking opportunities, and business forums
Location: Chengdu, Sichuan: New International Conference and Exhibition Center
Organizers: PRC State Council, Western Development Office; PRC Ministry of Commerce (MOFCOM); CCPIT
Contact: Yi Yang
Tel: 86-28-6625-8322
ccpityiyang@sohu.com
www.ccpit-sichuan.org/xbh

Hotel Finance & Investment Summit Asia

MAY 29–30

Seminar on hotels as real estate assets, winning management contracts, and mixed-use facilities
Location: Conrad Hong Kong
Organizer: Euromoney Seminars
Contact: Winnie Louie
Tel: 852-2842-6999
registrations@euromoneyasia.com
www.euromoneyseminars.com

China Conference Calendar

Interfood China, June 7–9, 2007

Interfood China 2007

JUNE 7–9

Trade fair for the foodstuffs, packaging, beverage, agricultural products, and condiment industries
Location: Guangzhou: China Foreign Trade Center-Liuhua Complex
Organizers: Canton Universal Fair Group Ltd.; CCPIT
Contact: Jenny Zheng
Tel: 86-20-8774-6095
food@faircanton.com
www.faircanton.com/interfood2007

Guangzhou International Lighting Exhibition

JUNE 8–11

Fair showing all types of illumination, from outdoor lighting to LEDs
Location: Guangzhou International Convention and Exhibition Center
Organizer: Guangzhou Guangya Mësse Frankfurt Co. Ltd.
Contact: Lucia Wang
Tel: 852-2238-9937
lbguangzhou@hongkong.messefrankfurt.com
www.messefrankfurt.com.hk

Boardroom Forum on China

JUNE 12–13

A comprehensive China-business event for board-level decisionmakers
Location: New York City: The Harold Pratt House, Peterson Hall
Organizers: Economist Conferences; *Corporate Board Member* magazine
Contact: Rosemary DiDomizio
Tel: 212-554-0627
americas_customerservice@economist.com
www.economistconferences.com

Print Expo 2007

JUNE 12–16

Pre-press and printing technology expo with seminars on industry trends
Location: Beijing: China International Exhibition Center
Organizers: China International Exhibition Center Exhibition Co. Ltd.; The Printing Technology Association of China
Contact: Michael Chen
Tel: 86-10-8460-0314
chenqian@ciec.com.cn
www.printexpo.cn

Achieving Competitiveness through Supply Chain Innovation

JUNE 13–14

Conference covering innovation in China's supply chain industry
Location: Renaissance Tianjin TEDA Hotel and Convention Center
Organizer: Council of Supply Chain Management Professionals
Contact: Jurgen Reindernick
Tel: 86-10-6279-9595
info@cscmpchina.org
www.cscmpchina.org

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 (MII); Liaoning Provincial Government
Contact: Helen Xu
Tel: 86-411-8362-6908
xuw@dlbii.gov.cn
www.cisis.com.cn

China Eco Expo

JUNE 21–24

Conference on introducing international expertise and technologies to China, held in conjunction with the China International Environmental Protection Exposition and Conference
Location: Beijing: China International Exhibition Center
Organizers: Eco Expo; China Association of Environmental Protection Industry
Contact: Marc Merson
Tel: 818-906-2700
info@ecoexpo.com
www.ecoexpo.com

Oil Refinery & Petrochemical Summit

JUNE 28–29

Comprehensive look at industry developments with presentations from government officials and business leaders
Location: Beijing: Crowne Plaza Park View
Organizer: Lnoppen (Shanghai) Co., Ltd.
Contact: Carol Zhu
Tel: 86-21-5117-5117
carolz@lnoppen.com
www.lnoppen.com/download/petrochem.pdf

China Trade & Export Finance Forum

JULY 4–5

Networking forum for professionals working in China's trade and export arena
Location: The Westin Shanghai
Organizer: Exporta Publishing & Events Ltd.
Tel: 44-208-673-9666
sales@exportagroup.com
www.gtreview.com

Tall Buildings

JULY 9–10

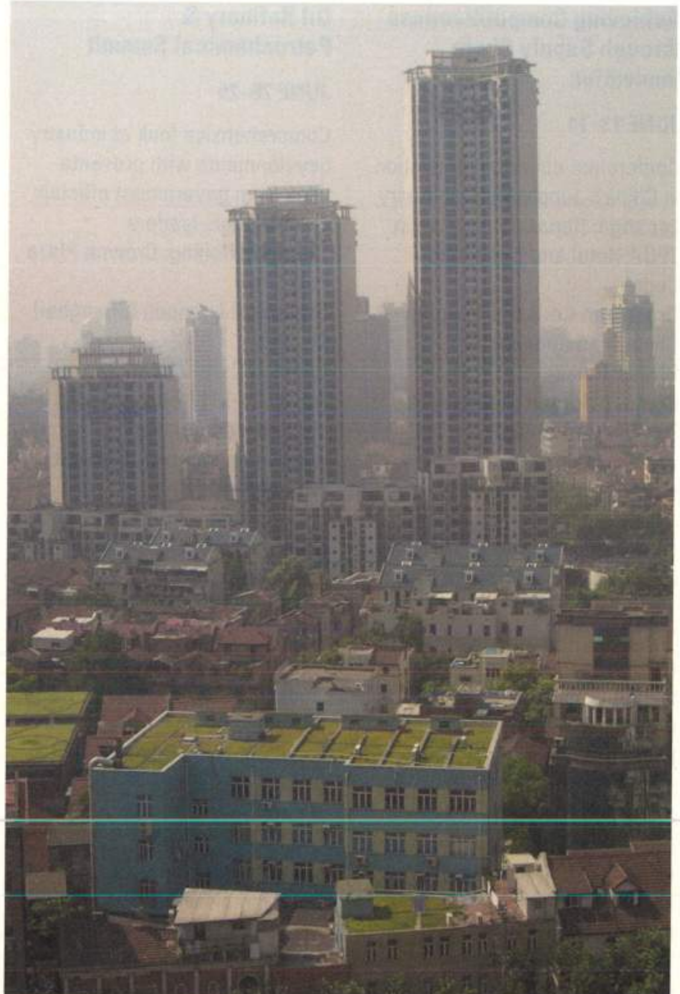
Conference on seismic designs, elevator technologies, and engineering solutions
Location: Shanghai: Grand Hyatt
Organizer: Marcus Evans
Contact: Cindy Cluny
Tel: 603-2723-6745
cindyc@marcusevanskl.com
www.marcusevans.com

China International Brand Clothing & Accessories Fair

JULY 12–14

Exhibits on apparel fabric, manufacturing, and accessories
Location: Shenzhen Convention and Exhibition Center
Organizer: Shenzhen Garment Industry Association
Tel: 86-755-8347-2858
szic_sz@126.com
http://fair.szic.cn

China Conference Calendar



Tall Buildings, July 9-10, 2007

Sino-American Logistics Conference & Exhibition

JULY 18–20

Brings together industry leaders, academics, and government officials to discuss bilateral logistics cooperation
Location: Beijing: China International Exhibition Center
Organizers: American Society of Transportation and Logistics; National Industrial Transportation League; China Communications and Transportation Association; CCPIT
Contact: Chung Tam
Tel: 86-10-8596-0739
ctam@astl-china.org
www.astl-china.org/salce

Northeast Asia Investment & Trade Expo

SEPTEMBER 2–6

Large regional investment fair and trade show with PRC government support
Location: Jilin: Changchun International Exhibition Center
Organizers: MOFCOM; PRC State Council, Regional Development Group for Northeastern China; Jilin Provincial Government
Tel: 86-431-271-8210
cnaitfs@yahoo.com.cn
www.neasiaexpo.org.cn

China International Fair for Investment & Trade

SEPTEMBER 8–11

Annual high-profile event featuring comprehensive seminars on China's trade and investment climate
Location: Xiamen, Fujian: International Conference and Exhibition Center
Organizers: MOFCOM; Fujian Provincial Government; Xiamen Municipal Government
Contact: Liaison Department of the Organizing Committee
Tel: 86-592-266-9825
cifit@chinafair.org.cn
www.chinafair.org.cn

Drug Development in China

SEPTEMBER 10–11

Pharmaceutical conference covering human resources, intellectual property, and research and development
Location: Park Hyatt Philadelphia
Organizer: Cambridge Healthtech Institute
Contact: Jim Prudhomme
Tel: 781-972-5486
chi@healthtech.com
www.healthtech.com/2007/pcc/index.asp

China Paper China Forest

SEPTEMBER 18–20

Paper, pulp, forestry products, and related services
Location: Beijing: China International Exhibition Center
Organizer: E.J. Krause & Associates, Inc.
Contact: Carol Chen
Tel: 86-10-8451-1832
ejkbeijing@gmail.com
www.ejkrause.com/events/5707.html

China Northeast Asia (Shenyang) Commodities Fair

SEPTEMBER 20–23

Investment and trade platform to promote development in Northeast China
Location: Shenyang, Liaoning: Liaoning Industrial Exhibition Hall
Organizers: CCPIT; Shenyang Municipal Government
Contact: Justin Zhang
Tel: 86-24-2272-9952
ccpitlei@hotmail.com

China Hi-Tech Fair

OCTOBER 12–17

A forum for the commercialization of technological innovation, with product exhibitions and business matching opportunities
Location: Shenzhen: China Hi-Tech Fair Exhibition Center
Organizers: MOFCOM; PRC Ministry of Science and Technology; MII; National Development and Reform Commission; Ministry of Education
Contact: Fang Fang
Tel: 86-755-8284-8857
fang@chtf.com
www.chtf.com/english

PT/EXPO COMM China 2007

OCTOBER 23–27

Postal, telecommunications, IT, wireless, and networking technologies
Location: Beijing: China International Exhibition Center
Organizers: China National Postal and Telecommunications Appliances Corp.; China International Exhibition Center Group Corp.; E.J. Krause & Associates, Inc.
Contact: Beth Harrington
Tel: 301-493-5500
harrington@ejkrause.com
www.expocommcn.com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Measuring Success at the Upcoming Dialogue

John Frisbie

The second session of the Strategic Economic Dialogue (SED) later this month will bring PRC Vice Premier Wu Yi to Washington, DC, with as many as 10 PRC government ministers, to meet with US counterparts on ways to strengthen US-China commercial and economic relations over the long term. Though the agenda was just firming up as *CBR* went to press, my experience at the China Development Forum conference earlier this spring confirms my view that the SED is the best way to achieve real progress on a number of issues important to both sides, especially against the backdrop of recent actions by the US government involving countervailing duties and intellectual property rights.

China's priorities

The annual China Development Forum, organized by the State Council's Development Research Center, brings together CEOs, leading economists, and association heads with PRC government leaders and economists. This year's forum, the eighth, featured presentations by leading policymakers, including Vice Premier Zeng Peiyan, National Development and Reform Commission Chair Ma Kai, China Banking Regulatory Commission Chair Liu Minkang, Minister of Health Gao Qiang, and Minister of Commerce Bo Xilai. The foreign delegates also met with Premier Wen Jiabao.

The theme and content of this year's forum was establishing a new model for sustainable economic growth in China. Discussions surrounded two main policy goals: first, shifting to a more balanced and sustainable economic growth model that increases the role of domestic demand and reduces reliance on exports and fixed-asset investment; and second, improving energy efficiency and cutting environmental pollution over the next five years.

PRC leaders have been talking about these two policy goals for some time, with little tangible progress made on either front. I listened carefully for specific new measures that might show results, but the PRC presenters largely avoided such details. Nonetheless, both policies were rolled out with an urgency I had not heard before, perhaps suggesting stronger measures to come.

A new growth model

Policymakers recognize that export processing no longer presents the growth and employment opportunities it once did. Surplus labor is dwindling in some sectors and areas, wage rates are rising, the renminbi is appreciating against the US dollar, and future competitiveness will have to come from increasing productivity. High levels of fixed-asset investment add unneeded capacity, eat up materials, and use excessive energy. The result is pressure on resources, environmental pollution, and a growing trade surplus that threatens to provoke a protectionist backlash from China's trading partners.

All attendees agreed that a shift in its economic growth model would benefit China. In fact, China's leaders have been pledging in recent years to take steps to raise consumption. The government raised the personal income tax exemption and eliminated some taxes and surcharges on farmers. But these limited moves have failed to spur consumption significantly. Though consumption has been rising about 12 percent a year in recent years, it has failed to keep pace with other drivers of the economy, particularly investment. As a share of GDP, consumption has slipped from about 40 percent in 2002 to roughly 36 percent in 2006, while fixed-asset investment's share of GDP has risen from about 29 percent to nearly 50 percent.

Speakers at the forum all recognized that the root cause of China's high savings rate is the lack of a strong social safety net. Chinese must save for basic healthcare, education, and retirement. An undeveloped consumer credit system means they have to save for purchases, too. To free up these "trapped" savings and increase domestic demand, China must press forward with tougher, deeper reforms in these areas.

But achieving a more balanced economy requires reform to extend beyond measures aimed at consumers. To prevent them from simply investing in new capacity, companies need other options for investing or distributing retained earnings. Small and medium-sized enterprises need better access to credit so that they do not have to save to finance inventory, for example. And a corporate bond market would help channel capital more efficiently.

Foreign presenters at the forum made a number of suggestions, many if not most of which have been discussed elsewhere. For example, some suggested eliminating the value-added tax (VAT) rebate system for exports and using the resulting budgetary savings to finance pension, healthcare, and education reform to ease consumer worries and stimulate spending. Other speakers recommended that the government require state-owned enterprises (SOEs) to pay dividends. Not only would this discourage SOEs from reinvesting retained earnings in excess capacity, but the

Constructive dialogue is the best opportunity to keep this relationship moving forward.

government could use the extra revenue to finance transfer payments to the social safety net.

Foreign and PRC speakers mentioned the need to develop China's service sector, which constitutes only about 40 percent of GDP. (In contrast, services accounts for nearly 80 percent of US GDP.) Service sector growth would use fewer resources and create jobs. The China Business Forum, the educational and research arm of the US-China Business Council (USCBC), recently released a study by Oxford Economics Ltd. that highlights the benefits of a more open PRC service sector to both the US and PRC economies. The report finds that if the impediments to service sector growth in China were fully removed, the average Chinese household would be better off by $300–$400 per year by 2015. The benefit would amount to an additional $138 billion in GDP for China (in 2006 prices) and create employment for 7 million persons. Perhaps as a sign of follow-through, China announced a new policy in early April to develop the service sector, with the formation of a leading group to drive the policy.

Urgency about energy and the environment

Government speakers also highlighted several familiar measures aimed at improving the environment: China will use administrative means to shut down low-capacity and inefficient power, steel, and paper plants. To help reduce the trade surplus and investment in resource-consuming sectors, VAT rebates on exports could be eliminated or reduced for certain products—again, steel and other metals and minerals.

Speakers provided somewhat greater detail on ways to achieve more efficient use of resources and cut pollution—a subject that was brought up in every presentation. Premier Wen reiterated PRC goals of cutting energy use per unit of GDP by 20 percent in the next five years and cutting pollutants by 10 percent. Developing the service sector would help achieve these goals, presenters noted. Introducing market-based pricing for energy, water, and other resources would help tremendously, but PRC government speakers acknowledged this would occur only gradually. Fiscal policy will be used to encourage conservation by increasing tax rates on scarce resources and establishing a market-oriented land pricing system.

Convergence with the SED

China's priorities as outlined at the China Development Forum dovetail with the focus of the SED, which includes initiatives on healthcare, energy, and services, to name a few. The lack of specifics of how China will achieve its goals also, paradoxically, could be an opportunity for the SED to stimulate ideas and suggest policy directions that, ultimately, would lead to a reduction in bilateral tensions and constructive progress on the overall relationship. Reforms that develop market-based lending and repayment would help level the playing field. Providing alternatives to capacity expansion (and the resulting pressure on margins) for retained earnings distribution would do the same. Further financial system reforms that allow China to remove capital controls would enable China to move to a fully convertible and market-driven exchange rate—the ultimate solution to the exchange rate issue. Finally, boosting domestic demand might—eventually—help with the trade balance.

US Treasury Secretary Henry Paulson has rightly focused the SED on these and other topics that align with China's stated reform desires. The catch is that none of this will happen fast enough to satisfy the US Congress and other critics who see China as the source of the US trade deficit and economic insecurity.

For that reason, in my meetings in Beijing in the days following the forum, I described to PRC officials the reality of pressures resulting from the trade deficit and other issues and explained that Congress is likely to watch how the May SED goes before deciding whether to move forward with legislation. I made clear that although the SED rightly focuses on broader, longer-term issues, the dialogue needs to show markers of progress along the way—to ensure that the SED, in fact, continues. For example, the release of more draft laws for public comment could signal progress on the issue of government transparency.

But expectations, or demands, from some quarters that the SED solve all of our trade issues in May are misguided. Those expectations, as well as the number of cabinet- and minister-rank officials involved and the attention that such high-profile participation brings to the meetings, mean that the SED carries the risk of a bar set too high. Constructive dialogue, however, has proven to be, and remains, the best opportunity to keep this relationship—and, to the extent external influence is effective, China's reforms—moving forward. The SED is enormously important to establishing a framework to keep our most important economic and commercial relationship on the right track, and the USCBC will do what it can to ensure its success.

***John Frisbie** is president of the US-China Business Council.*

Event Wrap Up

WASHINGTON

March

Roundtable Discussion on the PRC Labor Contract Law
Featured Lesli Ligorner, Shanghai-based partner at Paul, Hastings, Janofsky & Walker LLP.

Reception and Luncheon Honoring He Yafei, PRC Assistant Minister of Foreign Affairs
Featured He and senior PRC Embassy and Ministry of Foreign Affairs officials. He delivered remarks on US-China relations, including the Senior Dialogue (also known as the "Strategic Dialogue"), plans for the upcoming Strategic Economic Dialogue (SED), and PRC Vice Premier Wu Yi's visit to Washington, DC, in May.

Discussion on the PRC Antimonopoly Law
Featured Wu Zhenguo, director of the PRC Ministry of Commerce's (MOFCOM) Antimonopoly Office, and Xie Lin, deputy section chief of MOFCOM's Antimonopoly Office. Special thanks to Freshfields Bruckhaus Deringer LLP for hosting this event.

Roundtable Luncheon with US Department of the Treasury's Alan F. Holmer
Featured Holmer, Treasury's newly appointed special envoy for China and the SED.

Discussion on Arbitration in China
Featured China International Economic and Trade Arbitration Commission (CIETAC) Secretary General Yu Jianlong, who discussed CIETAC's work, recent trends in arbitration in China, and the number and type of cases CIETAC has arbitrated in recent years.

Discussion with Assistant US Trade Representative (USTR) for China Affairs Timothy Stratford
Stratford discussed his recent China trip, which included meetings with PRC counterparts on the SED, the recently filed World Trade Organization (WTO) case on subsidies, and intellectual property rights enforcement.

April

Issues Luncheon: China Trade Enforcement
Featured Demetrios Marantis, chief trade counsel of the US Senate Finance Committee majority staff; Timothy Reif, chief trade counsel of the House of Representatives Ways and Means Committee majority staff; and James Mendenhall, former USTR general counsel, now partner at Sidley Austin LLP.

BEIJING

March

Luncheon with Shang Ming, Director General of MOFCOM's Department of Treaty and Law
Shang reviewed regulations and laws that MOFCOM issued in 2006, China's WTO commitments, and new laws that may be issued in 2007.

March

Breakfast meeting with Alan F. Holmer
Featured Special Envoy for China and the SED Holmer. Cosponsored by the US-China Business Council (USCBC) and the American Chamber of Commerce (AmCham) China.

A Discussion with the US Department of Commerce's (DOC) Stephen Claeys
Claeys, deputy assistant secretary for Antidumping and Countervailing Duty (CVD) Operations, DOC, reviewed trade remedy concerns between the United States and China, market economy status for China, the CVD case against China, and other areas of concern for US businesses in China. Cosponsored by USCBC and AmCham China.

Beijing Breakfast with Undersecretary of Commerce for International Trade Franklin L. Lavin
Lavin provided an update on the SED and bilateral investment initiatives. Cosponsored by USCBC and AmCham China.

Upcoming Events

WASHINGTON

Issues Luncheons
May 17, 2007
June 21, 2007
July 19, 2007

34th Annual Membership Meeting
June 5, 2007
For more information, see p.19

Gala 2007
December 5, 2007

BEIJING

China Operations Conference
May 24, 2007


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PRC Assistant Minister of Foreign Affairs He Yafei and Ambassador Carla Hills, chair and CEO of Hills & Co. and a member of the USCBC Board of Directors, at the luncheon in He's honor

He Yafei and USCBC President John Frisbie

Dow Partners With China's State Environmental Protection Administration to Develop Cleaner, More Profitable Production

Jim McIlvenny, Dow Asia Pacific and Greater China President and Wang Jirong, former Deputy Minister of SEPA jointly announce the Start-up of the Dow-SEPA National Cleaner Production Pilot Project

China's leadership is putting increasing focus on environmental sustainability as a key national policy. Dating back to 2003, China implemented the "Regulation on Promotion of Cleaner Production" designed to promote Cleaner Production on the Mainland. Commonly referred to as "CP", Cleaner Production is the continuous application of an integrated preventive environmental strategy to processes, products and services to increase efficiency and reduce risks and possible damage to humans and the environment.

The Dow Chemical Company (Dow) shares this same commitment and proudly serves as a multinational role model fully aligned with the government's drive to develop cleaner production and pollution prevention measures.

Cleaner Production Pays in China

In June, 2004, Dow and China's State Environmental Protection Administration (SEPA) signed a Letter of Intent for a three-year partnership project to support the promotion and development of CP in the country.

The "National Cleaner Production Pilot Project" was officially launched in March, 2005. It focused on small and medium sized enterprises (SMEs) from the chemicals related industries such as pharmaceuticals, dyeing, electroplating, paper and brewery. The project was implemented through a series of education, training as well as appraisal and recognition programs to support and promote the development of Cleaner Production in China.

The training programs—which were conducted in various provinces—aimed to support capacity building in both the public and private sectors, raise the awareness and understanding of Cleaner Production and encourage industries to incorporate the concept into production processes.

In 2005, nineteen enterprises from seven provinces and municipalities participated in the project, achieving significant economic and environmental benefits and creating positive impacts on the society as a whole. The project generated a combined reduction of wastewater by 3.3 million cubic meters, a reduction in exhaust gas emissions by 553.5 tons, of liquid waste by 551 tons and of solid waste by 487 tons for the 19 participating enterprises. This has resulted in 538 cleaner production measures and RMB 103.49 million per year in overall economic benefits.

Into its second year of implementation in 2006, 21 enterprises from seven provinces, municipalities and autonomous regions including Beijing and Inner Mongolia participated. Most recent results indicate a reduction in exhaust gas emissions by 2,400 tons, water savings of 3.7 million tons and 108,000 tons of coal reduction for a total of RMB 145 million in overall economic benefits.

Currently, 427 more improvement projects are being undertaken by the participating enterprises with an estimated economic benefit of RMB 200.49 million. These achievements confirm Dow's belief that Cleaner Production not only reduces waste in the production processes, it also increases the efficiency of energy resources and ultimately improves competitiveness of enterprises.

"Triple Win"

Such sustainable development programs are sometimes referred to as yielding "triple bottom line" benefits; that is, programs that yield financial results as well as social and environmental achievements. The National Cleaner Production Pilot Project is no doubt a "triple" win for all participants.

To learn more, visit us at www.dow.com

DOW®

USCBC President Attends China Development Forum, Meets Senior PRC Officials in Beijing

US-China Business Council (USCBC) President John Frisbie attended the China Development Forum March 17–19 in Beijing, at the invitation of the PRC State Council's Development Research Center. The forum is held annually after the conclusion of the full session of the PRC National People's Congress (NPC) and brings together top PRC officials, business leaders, and economists with overseas counterparts to discuss China's economic policy. The three-day forum concluded with a meeting of the delegates with PRC Premier Wen Jiabao.

Following the forum, Frisbie and USCBC Vice President of China Operations Robert Poole met separately with minister- or vice minister-rank officials at the ministries of Commerce, Foreign Affairs, and Finance; the State Administration of Industry and Commerce; the State Intellectual Property Office; and the NPC Legislative Affairs Office. During the meetings, Frisbie and Poole advocated improvements in several areas important to USCBC member companies, such as intellectual property rights protection; regulatory transparency, including issuing more draft laws for comment; concerns about rising protectionism, as seen in recent moves to use "national economic security" to guide foreign investment policy; and business licensing issues. They also underscored the US business community's support for the Strategic Economic Dialogue (SED) as a framework to propel progress in the US-China commercial relationship and discussed some of the planning for the next SED session to be held in Washington, DC, May 23–24.

China Development Forum

USCBC President John Frisbie, American International Group, Inc. Vice Chair Jacob Frenkel, and PRC Premier Wen Jiabao

Event Wrap Up

April
Luncheon with US Department of Transportation (DOT) Secretary Mary Peters
Featured Peters; cosponsored by USCBC and AmCham China.

SHANGHAI

March
Luncheon on Branding and Advertising: Views from the Other Side
Featured Joseph Wang, vice chair of Ogilvy & Mather China, and Paul French, general manager of Access Asia.

April
Luncheon with US DOT Secretary Mary Peters
Featured Peters; cosponsored by USCBC and AmCham Shanghai.

Roundtable on Green Supply Chains
Featured US Environmental Protection Agency Assistant Administrator for Enforcement and Compliance Assurance Granta Nakayama; cosponsered by USCBC and AmCham Shanghai.

Luncheon with Assistant USTR for China Affairs Timothy Stratford
Featured Stratford; cosponsored by USCBC and AmCham Shanghai.

Luncheon on Online Sales and Distribution in China
Featured Bill Noonan, vice president, Asia Pacific Development, W. W. Grainger, Inc., and Ben Martin, marketing director, Asia Pacific and Japan Services, Dell Inc.

ZHENGZHOU, HENAN

April
Expo Central China
USCBC Vice President for China Operations Robert Poole led a delegation of USCBC member company representatives to MOFCOM's "Expo Central China," an exposition that seeks to promote greater awareness of and investment in central China. Delegation members met with senior-level MOFCOM officials and attended various forums, seminars, and briefings.

USCBC

THE US-CHINA BUSINESS COUNCIL

美中贸易全国委员会

USCBC 34th Annual Membership Meeting June 5, 2007

Tuesday, June 5, 2007
8:30 am-2:00 pm
The Ritz-Carlton Washington
1150 22nd Street, NW, Washington, DC

This USCBC members-only annual conference will feature expert presentations on

- Latest HR compensation, hiring, and retention strategies
- New operating challenges for US investors in China
- An update on China's economy and economic policy trends
- Bilateral commercial relations
- Congress and China trade

Distinguished speakers from business, government, and the research community will share their insights with USCBC's membership.

Networking opportunities will be offered during the morning session and luncheon program. US government and PRC Embassy officials will be among the special guests at the luncheon.

Lodging on June 4 and 5
The Ritz-Carlton Washington
Special group rate: $325 (deluxe single/double + tax.)
Discounted hotel rate available until Thursday, May 31, 2007

Call 800-241-3333 or 202-835-0500 and indicate that you are with the US-China Business Council 34th Annual Membership meeting. All reservations must be guaranteed with a major credit card or accompanied by a first-night room deposit.

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For more details, including schedule and speakers, fees, and registration information, see ***www.uschina.org***
Contact: Gloria González-Micklin, Director of Programs, USCBC
Tel: 202-429-0340; E-mail: programs@uschina.org

A client of a microfinance program funded by Citi Foundation through the Grameen Trust in her tomato greenhouse in Laishui, Hebei. Courtesy of Citigroup Inc.

CSR Best Practices

Companies that want to improve their corporate social responsibility programs in China may learn from the experiences of others

Brett Gerson

Many foreign companies that seek to implement or expand corporate social responsibility (CSR) programs in China face significant transparency, accountability, and partnership hurdles. The experiences of several leading multinational corporations (MNCs) with well-established and successful CSR programs in China illustrate some important best practices.

One of the most vital—and basic—tasks a company should complete before setting up a CSR program is to clearly define the program's goals and determine how success will be measured. An MNC's headquarters typically defines broad principles and goals for the company's CSR efforts worldwide. These principles and goals generally align with the company's overall business model and industry. For example, some MNCs in the agricultural sector focus their CSR efforts on environmental issues while MNCs in biotechnology focus on global health concerns. MNCs that offer a broad array of products and services may devote CSR resources to multiple causes.

The most successful CSR programs in China embody company-wide CSR goals while allowing for China-specific adaptations. For instance, MNCs may need to tailor their projects when dealing with the PRC government's large bureaucracy, or they may need to adapt environmental initiatives to suit China's environmental challenges, such as pervasive and severe pollution. MNCs should also keep in mind that some CSR efforts, such as political-development exercises, are far less appropriate in China than they would be in some other countries. In fact, government officials are unlikely to tolerate such programs.

Weave CSR into the corporate structure

Involve top executives

One of the key characteristics of successful CSR programs is the involvement of the company's top executives. Executives should lead by example, be visible in their CSR participation, and encourage all employees to embrace and embody the company's CSR-related principles. Additionally, executives should encourage employees and managers to participate in efforts to give back to the community while stressing the importance of CSR participation in all in-house communications.

Divide responsibilities, create oversight committees

In China, larger MNCs with a variety of CSR programs often divide oversight among various company departments. For example, a company's corporate communications department might oversee community outreach efforts while the legal department oversees environment, health, and safety (EHS) programs. Even if CSR programs are departmentalized, the MNC should maintain communication among all departments. In a large company, the head of China operations generally oversees all programs and organizes a CSR committee that includes executives from each department and meets regularly to coordinate CSR-related efforts.

A smaller company with limited resources and fewer programs may instead designate a key manager to report directly to the head of China operations. Many companies find that the government relations director is a good person to oversee CSR programs because programs related to the three main categories of CSR—community outreach and education, EHS, and environmental protection—require significant interaction with PRC government bodies to be successful in China (see p.22).

Establish communication links

The CSR committee (in larger firms) or manager (in smaller firms) should have direct and frequent communication with employees involved with CSR in the home country. The committee or manager thus can ensure that all CSR initiatives are aligned with the company's overall CSR initiatives and that funds are being spent efficiently.

Appoint managers to oversee every project location

In addition to an executive-level CSR committee or manager at the China headquarters, a company should establish a mid-level CSR position at each China office or manufacturing plant. This employee can supervise the company's local CSR programs and report to the China CSR committee or manager. For instance, if a company has operations in Beijing; Chengdu, Sichuan; and Shanghai, each location would ideally give a mid-level employee the responsibility for overseeing CSR to ensure maximum accountability and communication between the local China operations and company headquarters. These mid-level CSR managers should report directly to the CSR manager at the China or Asia-Pacific headquarters.

Establish community outreach councils

Companies would do well to establish community outreach councils (COCs) at each location in China to help initiate, organize, and administer local CSR programs. COCs typically consist of employees from all levels. Ideally, participation in a COC is voluntary. Most companies in China find that local employees are enthusiastic about participating in CSR programs because it is their community that the programs seek to improve.

Select projects carefully

Companies should consider the following questions when selecting a CSR project:

- *Is the prospective CSR project in China consistent with the CSR framework and principles developed by the company's headquarters?*
- *What are the greatest needs in the community where the CSR project is to be implemented?* It is important to conduct research on local needs so that, for example, a company does not rebuild a school when the local community is in much

***Brett Gerson**, a former research associate at the US-China Business Council in Shanghai, is a student at American University's Washington College of Law and a research associate at the Public International Law & Policy Group in Washington, DC.*

greater need of a new hospital. Reaching out to the local government can help in this regard. In cases where a company's facilities are staffed mainly by migrant workers, who rarely blend into local communities, it is important for companies to coordinate with the workers, the larger community, and local governments to better understand the needs of the workers and the surrounding community.

- *Is the prospective CSR program relevant to the goods and services that the company offers?* For example, a financial services company may help most by creating a microlending initiative or a financial education program that teaches local citizens how to manage their money, while an agricultural firm could help local farmers increase their crop yields through educational programs.

Get employees involved

Some CSR programs naturally attract high employee participation because the programs appeal to their personal interests. Other times, however, a company may need to encourage employees to participate in the CSR programs. Companies can boost employee participation in CSR-related activities in a number of ways:

- *Design CSR initiatives around the interests and concerns of local employees.* Local employees are more likely to have a personal stake in making CSR projects a success. They also understand local needs better and can help tailor companies' CSR programs to address the most pressing issues.
- *Establish an employee-run COC to discuss, plan, and monitor CSR initiatives.* Positions in the COC can be voluntary, mandatory, rotating, or elected, depending on a company's preference.
- *Set up a Listserv or other form of communication for CSR managers throughout the company.* Improving communication allows staff to easily share experiences, best practices, and advice on their respective CSR programs.
- *Consider hosting an annual recognition event to reward employees for their CSR-related work.* Award banquets and other such events not only boost morale and motivation but also allow employees from different locations to meet face-to-face. Moreover, these events show employees CSR projects' aggregate impact on communities throughout China. Annual awards can be given to the best CSR project, the location with the top CSR program, and the employee who most embodies the company's CSR objectives.

It is important to conduct research on local needs so that, for example, a company does not rebuild a school when the local community is in much greater need of a new hospital.

Select partners carefully

Many foreign company operations in China lack the infrastructure and staff to undertake CSR projects alone. As a result, some companies work with other organizations—usually international nongovernmental organizations (NGOs) or domestic Chinese organizations—to help implement their CSR initiatives (see p.24). MNCs should carefully evaluate potential NGO partners, whether inter-

CSR Categories

Corporate social responsibility (CSR) in China is often divided into community outreach and education; environment, health, and safety (EHS); and environmental protection.

- **Community outreach** refers to the actions that companies take to improve the standard of living in the communities in which they operate. Examples include rebuilding local schools, providing computer classes to local schoolchildren, or hosting information sessions for farmers to help them maximize their crop yield. Improving education, whether in primary schools or universities, can be a constructive way to give back to local communities.

- **EHS** refers to company efforts to provide a safe and properly regulated work environment. While the backbone of EHS is ensuring that all company locations comply with local labor laws and regulations, many companies move beyond basic compliance, set more stringent standards, and extend these standards to their suppliers and subcontractors.

- **Environmental protection** activities include steps that companies take to minimize their impact on the environment beyond legal requirements. Examples include using "clean energy," safely disposing of waste material, and reducing energy consumption.

—*Brett Gerson*

national or domestic. For example, even if a potential partner is well-known and respected, MNCs should speak with its leaders and invite them to the company's facilities and other locations where the potential project will be carried out. MNCs should also ensure that their executives articulate exactly what they expect from the NGO and what the NGO can expect in return.

International NGOs

International NGOs that operate in China generally have a "host" government body that oversees their work in-country. Although this does not prevent such organizations from operating with relative freedom, it can pose unique transparency and management challenges depending on the nature of the relationship between the NGO and the government and the NGO and the MNC. (Because it is difficult to acquire official backing, many smaller international NGOs have registered in China as for-profit businesses.)

In general, international NGOs are useful resources and can help implement a company's CSR-related objectives in target communities and train company employees in CSR-related tasks. International NGOs—particularly those with lengthy track records in China and links to the PRC government—are generally accountable, trustworthy, transparent, and extremely diligent. (For a list of international NGOs operating in China, see the China Development Brief [www.chinadevelopmentbrief.com/dingo].)

Domestic NGOs

Most domestic NGOs in China are quasi-governmental organizations or government-organized NGOs directly supervised by a PRC government organ, in part because China lacks a legal framework for the establishment of nongovernmental and nonprofit entities. (China has been drafting a Civil Associations Law for a number of years, but this law does not appear on the National People's Congress Legislative Calendar for the 11th Five-Year Plan [FYP, 2006–10] and is thus unlikely to be completed in the near future.) The China Association for NGO Cooperation (CANGO, www.cango.org) serves as an umbrella organization that aims to link the top NGOs in China with foreign counterparts and donors. CANGO can help MNCs find CSR partners and keep companies abreast of all CSR-related news in China.

PRC government-organized CSR programs in China primarily encourage charitable donations or other forms of philanthropy. For example, if a natural disaster hits or a school needs textbooks, Chinese NGOs and government-linked charities may request donations from MNCs. Participating in such government-sponsored efforts is worthwhile for companies, but these short-term drives are not substitutes for CSR initiatives that require long-term commitment, employee involvement, and other resources and responsibilities.

Domestic NGOs with which companies form successful partnerships tend to be selected using techniques similar to

Media Outreach

Companies should plan ahead when presenting their corporate social responsibility (CSR) efforts to the media. Many companies require their CSR departments to include a media plan for each CSR project, detailing how the project will be reported and communicated to all stakeholders, including the media, the local community, employees, corporate headquarters, and various government agencies. Once a CSR committee or manager is designated in China and community outreach councils are in place, all CSR-related information, ideas, and news can be channeled throughout the corporate structure. Corporate communications, public relations, and external affairs managers should be informed of all CSR projects in China.

One of the key tasks of the communications executives should be to connect company values and goals, expressed by CSR efforts, to the brand image of the company through marketing, events, and media. This will ensure that the goals and results of all CSR projects are disseminated within the company and, of course, to the media, nongovernmental organizations (NGOs), and governments. Executing this plan throughout the project boosts transparency and maximizes project impact because greater exposure typically leads to more participation.

Companies will also find it helpful to customize reports for industry-specific media outlets to tie CSR efforts to topics that their audiences are most concerned about. For example, a biotechnology company that initiates a science development program for students may wish to notify science-related media outlets about the project, rather than all general newspapers or magazines.

In addition, companies may want to consider linking CSR initiatives to marketing campaigns to enhance a company's overall brand image. (Companies should, however, avoid linking CSR initiatives so closely to their marketing efforts that an action intended as altruistic is viewed merely as a publicity stunt.) Marketing and corporate communications departments can work closely with CSR project leaders to maximize positive exposure. Companies should be careful, however, to set clear rules regarding the use of their logo, trademarks, brands, and company name by NGOs or other CSR project partners. Companies may also want to take steps to ensure that internal communications about CSR projects are not leaked to the press.

—Brett Gerson

NGO-Business Partnerships: The Case of the WWF and IKEA

In 2002, IKEA Group and the World Wide Fund for Nature (WWF) began a partnership to promote responsible forestry in priority regions around the world. The partnership took off with a brainstorming workshop at which IKEA and WWF representatives jointly set priorities for the collaboration. The countries chosen for inclusion in the project were selected on the basis of their importance to WWF's conservation priorities and IKEA's wood sourcing. Together, the two organizations have planned and implemented a series of projects in Bulgaria, China, Estonia, Latvia, Lithuania, Romania, and Russia. The projects are important steps in implementing IKEA's forest action plan and in achieving WWF's conservation targets. The long-term goal of the partnership is to ensure that all IKEA wood products are made from certified and well-managed forests.

Wu Luming/China Foto Press

China is playing an increasingly important role in international timber markets. With only 18 percent of its land area covered by forests, according to the PRC National Bureau of Statistics, China is a relatively forest-poor country. Most of its forests were cleared centuries ago, and over-harvesting in recent decades has depleted many of the remaining forests of mature timber trees. In 1998, China banned commercial logging in much of the country. As a consequence, China's import demand for forest and wood products is now the largest in the world, and consumers in other countries are using a growing proportion of the wood processed in China, much of which originates in the Russian Far East and Southeast Asia. This dynamic underlines the importance of not only encouraging sustainable forestry within China, but also ensuring that businesses in China source wood from sustainable forests.

The WWF-IKEA partnership identifies priority high-conservation-value forests, conducts training and education, encourages legal compliance in domestic and overseas forest supply chains, provides sustainable forest-management training to forest protection and management personnel, and promotes the implementation of forest certification—a process that determines whether a forest or woodland is managed responsibly in accordance with the standards of a third-party body, such as the Forest Stewardship Council. So far, the project has trained hundreds of PRC forest officers and scientists, as well as personnel from forestry-certification bodies and wood-processing businesses, in responsible forestry and certification. The partnership has also helped certify 420,000 hectares of forests in Northeast China. The PRC government has embraced the concept of forest certification for sustainable forest management and will develop a national forest certification system in the next few years, which will help promote sustainable forest management nationwide.

In 2006, WWF and IKEA launched the second phase of their partnership. In the next three years, the two organizations will continue to encourage responsible forest management in China. In addition, the project will seek to curb illegal logging in Russia and reward legal forestry trade between Russia and China. The project will provide training on how to identify illegally sourced timber, analyze Russian and PRC customs procedures and methods on timber trade, and provide recommendations to customs authorities and other stakeholders on how to better verify wood supplies and compile relevant statistics.

The WWF-IKEA collaboration is only one example of the partnerships that are emerging in China and the rest of Asia. Companies have the opportunity to establish themselves in leading positions on issues of sustainability, thereby reinforcing positive perceptions among employees and the general population alike.

—Carine Seror

Carine Seror is a marketing manager with the World Wide Fund for Nature China in Shanghai.

those used to select commercial suppliers. The China CSR programs of large MNCs are evaluated according to Western standards and thus require measurable results and transparent accounting. Because Chinese NGOs are not always accustomed to these standards, foreign company executives and employees of the most successful programs are deeply involved in decisionmaking and supervision.

Companies should ask any potential Chinese NGO partner the following questions:

- What does the NGO want from the partnership with the company? (An NGO that seeks only money or a donation is unlikely to be a credible partner. One foreign executive involved in her company's China CSR programs notes that organizations that try to limit companies' contributions to cash donations are immediately crossed off her list of potential partners.)
- Do the NGO's goals and values match those of the company?
- What other major companies or MNCs have partnered with the NGO?
- What is the NGO's supervising government body?
- How does the NGO manage media relations? What kind of press coverage have past projects received?
- Can the NGO present credible results of its previous projects? Can company executives visit project sites and speak with local beneficiaries?
- Does the NGO have audited accounts?
- Does the NGO have partnerships with well-known or well-regarded international NGOs?

Consider partnering with educational institutions

Many companies focus their CSR initiatives on improving education in China. Aside from scholarship programs, companies have structured some CSR projects as competitions between universities, requiring students to work in teams and submit proposals on projects to benefit their surrounding communities. Many companies work with vocational and technical schools to improve their curriculum and develop practical skills such as computer training, leadership development, and basic finance. These skills help students become more productive members of the workforce.

Relate CSR efforts to government development goals

It is important that companies' CSR efforts relate to China's social development goals, which are outlined in official government documents, such as the national 11th FYP, and in provincial- and county-level statements. Issues that China hopes to address during the 11th FYP period include improving access to and quality of social services—particularly health and education—fostering innovation, and improving environmental conditions in China. Because these areas are broad, many CSR-related activities will likely fall under at least one category.

After an MNC has reviewed local development plans to identify overlap among its business goals in the China market, its global CSR activities, and local development priorities, the company should communicate to PRC government officials exactly how its CSR initiatives relate to government benchmarks. In some cases, companies may want to align the language of CSR-related company communications with government goals and visions. At the provincial level, companies should highlight the positive impact of their CSR initiatives on working conditions, employee morale, the surrounding community, and the environment.

Companies may wish to invite PRC government officials to CSR-related events and award banquets to ensure that the officials see the company's positive impact on the community. Some companies hold quarterly meetings between high-level company managers and local government officials that include CSR as a topic of discussion.

Turn CSR efforts up a notch

Because stakeholders—both in China and around the world—emphasize the growing importance of responsible corporate citizenship, EHS, and the environment, companies in China will likely maintain or expand their CSR efforts in the foreseeable future. Indeed, companies are already going beyond legal compliance and occasional charitable giving by developing programs with surrounding communities to improve working conditions, provide educational opportunities, and help the local environment. 完

A financial services company may help most by creating a microlending initiative or a financial education program that teaches local citizens how to manage their money, while an agricultural firm could help local farmers increase their crop yields through educational programs.

Moving Beyond Suppl

Xie Zhengyi/China Foto Press

er Auditing

To ensure supplier compliance, foreign companies need to rethink their auditing approach

Amy Wong

Last year, I interviewed a local employee of a major US retailer in Shanghai. This employee, whom I'll call "Abby," was responsible for ensuring that suppliers complied with the retailer's code of conduct. At the time, this retailer had about 300 suppliers in China, though as far as I could tell, Abby was the only full-time China-based employee overseeing compliance. Based on the retailer's publicly available materials, I already knew that third-party audits were usually carried out on key suppliers once a year and that the suppliers shouldered the full cost. When I asked Abby how she ensured compliance, she said she relied upon documentation. Each supplier had to provide paperwork—typically certified by a local government agency—stating that it met various requirements related to workplace conditions. When I asked her, "Wouldn't it be easy for a supplier that had good relations with the local government to pay for the right paperwork without actually meeting the requirement?" she responded, "As long as the supplier provides the necessary paperwork, that's all that matters." In other words, independent verification of the documents was less important than simply having the certified documents. When anyone questioned the compliance of a supplier, she could produce certified "proof."

This example illustrates not only the approach most commonly used by multinational corporations (MNCs) to handle supply chain compliance but also, and more important, the main shortcoming of such a strategy. This approach involves gathering information on the work conditions of a supplier factory to determine whether the factory complies with specific labor, health, safety, and envi-

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ronmental standards or codes in the workplace. Carried out by internal MNC teams and independent third-party organizations (not including government agencies), these social compliance audits typically include a review of documents such as time cards, a factory walk-through, and interviews with factory management and workers. These audits first emerged about 15 years ago in China and other countries, when allegations of sweatshop labor, the loss of US jobs to outsourcing, and increasing pressure from activist nongovernmental organizations (NGOs), particularly labor and human rights groups, aroused mainstream public concern and prompted MNCs to find better ways to extend their corporate social responsibility (CSR) models to overseas supply chains.

Audits fall short

Since then, social compliance auditing has become an industry in countries like China. Although the process has led to some improvements in supplier compliance, it has failed to bring about widespread and lasting change. The key problem with auditing is that its effectiveness depends on the quality of the information collected and on what buyers and suppliers do with that information. As was the case with Abby's company, many MNCs use only a small team of in-house staff to oversee the compliance of hundreds, sometimes thousands, of supplier factories. Even with the help of third-party organizations to conduct all or most of the audits, it can be overwhelming for a compliance team to digest, much less verify, all of the audit information and make sound decisions about so many suppliers.

Meanwhile, falsifying certificates, payroll records, and other documents is only one of the many ways suppliers can cover up abuses. Factory owners and managers regularly coach workers to provide the "right" answers to auditors, remove underage and aggrieved workers from the factory floor on audit day, and outsource some of the production—and by extension, noncompliant practices—to unauthorized subcontractors. Suppliers can even hire outside consultants to train them on how to conceal violations and pass an audit.

Supplier frustration

Most suppliers view auditing as a one-sided punitive process, something that is done *to* them rather than *with* them, that should be evaded. Audits often take owners or senior managers away from conducting business and are particularly disruptive for suppliers in industries where no uniform code of conduct exists. Factories that work with multiple buyers must comply with various codes and can be bombarded with different audit requirements. In some cases, a factory may spend up to 100 days a year just preparing for, and working with, different auditing teams. Perhaps most frustrating for suppliers is that even when an audit uncovers major violations, the buyer rarely offers substantial assistance to correct the problem. In short, the major flaw of audits is that they tend to highlight problems without providing solutions. Although an MNC or auditor may issue an action plan to remedy violations, suppliers are largely expected to implement and, more important, pay for the solutions on their own. Facing external pressures from investors, consumers, and activists, MNCs tend to hold a higher set of expectations for their suppliers than domestic companies hold for theirs. Compounding this situation is the pricing pressure that buyers place on suppliers. Many MNCs expect suppliers to invest in good workplace conditions but demand lower prices each year, making it difficult for suppliers to fund improvements.

Such a setup creates incentives for suppliers to formulate ways to beat the system rather than cooperate with it. Aware that their conflicting expectations constrain suppliers, many buyers choose not to push too hard, keeping noncompliant but otherwise reliable or "critical" suppliers. The result is that in most cases, codes are neither implemented nor enforced, and few suppliers and buyers take action based on audit results.

A new approach

Over the past 15 years, China has become the "world's factory" in many ways, a phenomenon that has focused attention, particularly that of NGOs, on the country as reports of workplace violations have proliferated. MNCs operating in China have had to rethink their approach to supply chain compliance, and over the past several years, a promising trend has emerged that can best be described as "beyond auditing."

This movement focuses on tracing the root cause of violations to core business processes and management systems that may be absent or weak, rather than on simply identifying a checklist of violations. For example, if a factory has poor quality control, it will likely have a high rate of defective products, requiring workers to spend extra time to remanufacture or repair the defective units. Moreover, if the factory must ship the order on a tight deadline, its employees may need to work overtime beyond what is legally permitted. But those workers may not receive overtime pay because the only way for the factory owner to make a profit on the order is to withhold the extra compensation. This example shows that excessive overtime and wage arrears—two common violations reported by auditors—can result from poor quality control, a core business process.

The key to a successful beyond auditing approach is to provide the follow-up training and technical assistance necessary to establish or strengthen the underlying business processes and management systems. The entire process, which takes at least six months, typically includes the following components:

- A senior manager with decisionmaking responsibilities serves as the in-house champion and coordinator of the process.

- An initial assessment based on factory visits and meetings with factory staff identifies major areas in which productivity and efficiency can be improved. Reliable audit information can be used in this step.
- Practical improvement projects with specific benchmarks and designated staff are created based on the initial assessment and input from factory staff.
- Participating factory staff receive initial training to better equip them with the tools, skills, and mindset to implement the projects.
- Additional training and onsite consultations are provided during project implementation to ensure that factory staff are effectively applying and adapting the skills and tools they have learned.
- Data are collected and evaluated throughout the process to measure business and compliance improvement.

Over the past five years, many international organizations in China, including several nonprofits, have pioneered this approach of connecting workplace compliance with productivity training and technical assistance. One of the earliest pioneers was Impactt Ltd., a UK-based consultancy focused on responsible supply chains. Based on a three-year project with 11 UK retailers and a group of suppliers in southern China, Impactt gathered quantitative data to support the business theory that improving a factory's productivity, human resources management, and internal communications through training and consulting can reduce overtime hours and maintain wage levels. In addition, TÜV Rheinland Group, a company that specializes in testing, assessment, training, and certification, and CSR Asia, a Hong Kong-based nonprofit organization, formed a partnership to establish the Factory Improvement Training 5 (FIT5) program, which consists of five integrated modules: communications, human resources management, lean manufacturing, occupational health and safety, and social accountability. The program provides participating factories with training and onsite consulting and requires them to develop and implement action plans over a period of six months.

In mid-2004, two US-based NGOs, the Southeast Consortium for International Development and the Kenan Institute, developed the Global Suppliers Institute (GSI) program. Similar to Impactt's overtime project and the FIT5 program, GSI provides productivity-linked training and technical assistance to an MNC's key suppliers over a period of at least six months. It has one unique feature, however. Qualified graduate students from Chinese universities are recruited and matched with participating factory teams to support the implementation of improvement projects, primarily by gathering, analyzing, and evaluating data. By working side-by-side with factory managers, the GSI interns not only develop practical skills but also become aware of the effectiveness of process-based solutions in addressing compliance issues. Business for Social Responsibility, another US-based NGO, has also been working on these issues through its China Training Initiative since 2004. Even NGOs that set labor codes, such as the Fair Labor Association and Social Accountability International, have begun to explore how to

Process-Based Training Topics

Supplier training programs often cover several different subjects that encourage a systematic, process-based approach to problem-solving. Below are explanations of several of these subjects.

Lean manufacturing is a process management philosophy derived from the Toyota Production System, which includes the two core concepts of *jidoka* (automation with a human touch) and just-in-time, a system that delivers raw materials and components immediately before they are needed for production. Lean manufacturing focuses on the elimination of waste and inconsistencies on the production line and on the expeditious delivery of products to customers. The goal is to use less human effort, inventory, time, and space, while maintaining product quality.

Six Sigma is a quantitative methodology that aims to eliminate product defects. It uses statistical analysis to measure and improve a company's operational performance, practices, and systems. The goal of Six Sigma is to ensure that a production process does not produce more than 3.4 defects per million opportunities.

Occupational safety and health (OSH) is a complex and cross-disciplinary area concerned with protecting the safety, health, and welfare of employees in their place of employment. Workplace safeguards must be implemented with regard to biological agents, chemical agents, heavy metals, physical agents such as noise, physical hazards (such as slips, trips, dangerous machinery, and electricity), factors that cause work-related stress (such as overtime, sexual harassment, and emotional, verbal, and psychological abuse), and workplace comfort (such as temperature, lighting, and ergonomic design). OSH policies and measures vary across industries and must be adapted to suit the specific conditions of different workplaces.

Human resources management (HRM) is the function within an organization that focuses on recruiting, managing, and providing direction for employees. In addition to compensation and hiring, HRM deals with issues such as performance management, organization development, safety, wellness, employee motivation, communication, and training. HRM's objective is to maximize the return on investment in the organization's human capital.

—Amy Wong

augment the traditional model of social compliance auditing with a beyond auditing approach.

Training can focus on topics such as lean manufacturing, Six Sigma, occupational safety and health, and human resources management (see p.29). Projects may vary from changing the layout of machines on the factory floor and introducing quality-control circles (small, autonomous groups of shop-floor workers formed to discuss quality-control) to implementing visual management techniques (using displays, signs, and images to quickly and easily communicate to workers factory processes and safety information) and instituting a better system for selecting and appraising raw material suppliers. Regardless of the specifics, the primary goal is not only to teach the tools and skills but also to introduce a new way of thinking—one that centers around a more comprehensive, systematic, and process-based approach to manufacturing. As projects are implemented, participating factory managers and workers learn the value of business processes and management systems, as well as the power of holistic creative problem-solving, to achieve business and compliance goals.

The advantages

The main advantage of a beyond auditing approach is that the benefits—fewer defective products and after-sales returns, shorter cycle times, and reduced waste and downtime—are obvious to suppliers. And instead of relying on superficial, piecemeal, and ultimately ineffective solutions to manufacturing problems, factory managers and workers can focus on expanding the company in a sustainable way.

Buyers also benefit from improved delivery times and higher-quality products under such a systematic approach to compliance. Indeed, rather than being punitive and one-sided, the process becomes a partnership and a shared investment in the future: As buyers expand, so do well-managed suppliers. Suppliers thus have a greater incentive to cooperate with audits, and both sides waste less time on an exhausting cat-and-mouse game. Meanwhile, for buyers that are reluctant to drop noncompliant but critical suppliers, a beyond auditing approach can help to spur real change.

The challenges

Perhaps the paramount challenge of such an approach is for MNCs to align compliance more closely with procurement and to drop suppliers that are still noncompliant after the six-month training period, even if they have the lowest price. Taking this step could put progressive and socially responsible MNCs at a competitive disadvantage, however. Other difficulties include figuring out how to extend a beyond auditing approach to suppliers that are not critical to the MNC, influencing key suppliers with which the MNC has less leverage because its orders represent a small percentage of the supplier's overall business, and ensuring that the benefits of a beyond auditing program are passed on to suppliers' employees.

The main advantage of this approach is that the benefits—fewer defective products and after-sales returns, shorter cycle times, and reduced waste and downtime—are obvious to suppliers.

In addition, the beyond auditing approach requires a substantive and long-term commitment from the buyer. The MNC must be willing to invest the time and human resources required to recruit and work with suppliers to identify mutually beneficial goals, design suitable solutions, and implement them. These steps are necessary, whether an MNC chooses to build in-house capacity to implement this approach or hire a third-party organization to provide training and technical assistance and coordinate and manage the project. To ensure success, the MNC must also be willing to allocate financial resources to make the projects more affordable to suppliers. Joint investment in factory improvements can be extremely effective because persistent violations often stem from lack of funds, rather than opposition to change.

Align with consumers and investors

MNCs must also work with consumers and investors to expand market-based incentives for ethical sourcing and better educate these two groups about the impact of their purchasing and investment decisions. Consumers who are willing and able to pay more for higher-quality or brand-name products can be convinced to pay more for products that are manufactured by suppliers that invest in better workplace conditions. Convincing large organizations with tremendous purchasing power, such as multilateral institutions and government agencies, to buy ethically sourced products would help make such practices competitive. Socially responsible investing, especially on the part of government pension funds and well-endowed universities and charitable foundations, can also encourage and support responsible MNCs. In the long run, a critical mass of demand for companies that use responsible supply chains to conduct business will be essential to sustain responsible business practices. In the same way that responsible MNCs reward good suppliers, consumers and investors should support responsible MNCs. 完


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Nurturing the Rule of Law in China

US businesses are helping China improve its legal system

US-China Legal Cooperation Fund staff

Since 1999, 44 US businesses have donated nearly $1 million to the US-China Legal Cooperation Fund, an effort to strengthen the rule of law in China. Members of the US-China Business Council (USCBC), publisher of the *CBR*, established the fund in late 1998 soon after the presidents of the United States and China committed to enhance bilateral cooperation in the field of law.

As of March 2007, the fund has made 82 grants that support a wide variety of rule-of-law projects in China. PRC and US co-participants, most of which are educational institutions and legal services organizations, jointly conduct these projects. The fund's trustees have selected the supported projects from among nearly 300 proposals. Many of the fund's grants are seed money aimed at leveraging larger grants from others. The fund uses 100 percent of its assets for project grants; the USCBC and Jones Day, which administer the program, absorb without charge all of the fund's overhead and operating costs. Below are some of the fund's accomplishments to date.

Promoted legal development of China's governmental process by supporting

- Compilation of a handbook on conducting Chinese village elections;
- Research on possible reforms of the PRC National People's Congress legislative procedures; and
- Research and a workshop in China on freedom of information.

Enabled Chinese citizens to understand and enforce their legal rights by supporting

- Education of Chinese farmers and lawyers in PRC land laws, and the promotion of rural land reform;
- Publication of a Chinese health law textbook for Chinese law schools; and
- Training of legal aid lawyers in representing female victims of domestic violence.

Strengthened China's judicial and administrative legal processes by supporting

- Establishment of a commercial dispute resolution facility;
- Evaluations of Chinese courts' performance in commercial litigation; and
- Training of Chinese judges in court administration.

Enabled Chinese law drafters, judges, lawyers, and law teachers to learn about US laws by supporting

- Chinese-language courses in China on US corporate, securities, and intellectual property law;
- Publication of an English-to-Chinese law dictionary and a manual for translation of international trade terms; and
- Production of a Chinese-language journal about US law.

Strengthened protection of intellectual property rights (IPR) by supporting

- A seminar for Chinese judges on IPR;

US Supporters of the LCF

The following companies and foundations have financed the US-China Legal Cooperation Fund: Cargill, Inc.; Chubb Corp.; CIGNA Foundation; Dewey Ballantine LLP; Eastman Kodak Co.; ExxonMobil Corp.; FedEx Express; Ford Motor Co.; GE Foundation; Jones Day; Mary Kay, Inc.; Motorola, Inc.; Payless ShoeSource, Inc.; Robert A. Kapp & Associates; Time Warner, Inc.; and UPS.

- A Chinese university patent training workshop;
- A program for US-China cooperation in education and research on IPR; and
- A study of criminal sanctions to enhance trademark protection in China.

Reinforced China's World Trade Organization (WTO) education and compliance efforts by supporting
- Dissemination of China's WTO obligations and requirements;
- WTO training programs for PRC judges, government officials, academics, and enterprise managers; and
- Education of PRC legislators and agriculture regulators on the implications of WTO membership on agriculture.

In 2005, the fund's trustees, with the assistance of the GE Foundation, commissioned an evaluation of the fund's work by Stephen J. Golub, an independent expert on rule-of-law programs. His report states its "core conclusion is that [the fund] plays a valuable role in contributing to improvements in China's legal system." 完

PRC Fund Recipients

Chinese educational institutions and other organizations that have received support from the fund include the following: the All-China Lawyers Association; Beijing University; China Council for the Promotion of International Trade; China National Legal Aid Center; China University of Political Science and Law; Chinese Academy of Social Sciences; Fudan University Law School; Legal Aid Foundation of China; Legislative Affairs Office of the PRC State Council; PRC Supreme People's Court; and Tsinghua University.

Case Study: Advancing Legal Aid

The US-China Legal Cooperation Fund (LCF) provided a $10,000 grant to International Bridges to Justice (IBJ) in June 2001 to support its work with the China National Legal Aid Center. Formed in 2000, IBJ is a nonprofit organization that seeks to guarantee the basic legal rights of ordinary citizens in Asia, particularly in the area of criminal justice. Established in 1996, the China National Legal Aid Center reports to the PRC Ministry of Justice and works with local legal aid organizations to provide legal services to those who cannot afford them.

Awarded just one year after IBJ was founded, the LCF grant enabled IBJ to implement the memorandum of understanding it reached with the China National Legal Aid Center in February 2001. For example, the grant helped IBJ develop a brochure for distribution by the China National Legal Aid Center to promote rights awareness in China and a "how to" criminal investigation and defense legal aid manual for legal aid attorneys. In Anhui, the grant also helped to support the development of a criminal defense skills training program and an assessment of legal aid needs. IBJ was subsequently able to build on the work that the LCF supported. In particular, IBJ established a Defense Resource Center in Anhui, the first such organization in China, to help train and advise legal aid offices throughout the province.

According to IBJ, the June 2001 LCF grant was the first it received from an organization as opposed to from individuals. That the grant came from a foundation supported by the US business community gave IBJ more credibility and helped the organization to establish its presence in China. More important, the small LCF grant enabled IBJ to attract funding from other organizations, including substantial grants from the Open Society Institute and the Echoing Green Foundation. Stephen J. Golub, an independent consultant who evaluated LCF's work in 2005, wrote in his report that although the LCF grant amount was modest, it played "a key role in the initial institutional growth of IBJ."

Since it received the June 2001 LCF grant, IBJ has significantly expanded its presence and work in China. It has established a Defense Resource Center in Beijing, organized training conferences for more than 1,000 defenders, distributed more than 500,000 posters and brochures to promote rights awareness, and conducted rights awareness campaigns in all PRC provinces and autonomous regions. IBJ has also initiated a project to enhance the quality of the legal representation of ethnic minority criminal defendants in Guizhou, Inner Mongolia, Ningxia, Sichuan, and Yunnan. In September 2006, IBJ launched a project that seeks to advance the rights of juvenile defendants in seven provinces and municipalities.

Since the June 2001 initial grant, the LCF has continued to support IBJ in its efforts to promote legal aid in China. In April 2005, the LCF awarded IBJ a grant to hold a criminal-defense training seminar in Lanzhou, Gansu, in July 2005 with the China National Legal Aid Center and the Gansu Provincial Legal Aid Center. At the three-day seminar, 75 legal aid attorneys from a majority of Gansu's 104 legal aid centers received training from foreign and Chinese experts. The topics included both substantive and procedural law, and the attorneys participated in hands-on workshops to strengthen their pre-trial advocacy and trial skills, such as cross-examination techniques. In June 2006, LCF also gave a grant to IBJ to support its ethnic minority legal aid project.

—Victorien Wu

Victorien Wu is assistant editor of the CBR.

CSR Resources for Your China Business

Damien Ma

Corporate social responsibility (CSR) is becoming more important to consumers across Asian markets, according to a stakeholders survey conducted in 2006 by Edelman (see the *CBR*, March–April 2007, p.46). As foreign corporations expand their presence in China and elsewhere in Asia, they will want to maintain positive images in the eyes of consumers, media, and other stakeholders. One of the best ways to accomplish this is to engage in ethical and responsible corporate practices and other forms of CSR. Although not comprehensive, the following compilation is intended to be a useful resource for companies interested in learning more about CSR programs and standards in China and around the world.

Asian Corporate Governance Association

Engaged in research, advocacy, and educational efforts to promote effective corporate governance, the Asian Corporate Governance Association (ACGA) was established in Hong Kong in 1999 and now has 63 members from around the world. Most of its members are pension and investment fund companies and other financial institutions.
www.acga-asia.org

ASrIA

The Association for Sustainable & Responsible Investment (SRI) in Asia (ASrIA) is a nonprofit, membership-based organization primarily composed of financial institutions. ASrIA provides training, capacity-building, and information to its members and organizes SRI-related conferences throughout Asia. Although SRI can take many forms, it is based on the principle that investment should not only provide financial returns but also be socially, ethically, and environmentally responsible.
www.asria.org

Business for Social Responsibility

A nonprofit, membership-based organization headquartered in San Francisco, Business for Social Responsibility (BSR) provides socially responsible business solutions and practices to its 250 member companies. BSR also offers its members reports, analysis, news, and advisory services and has offices in Europe and China.
www.bsr.org

Business Social Compliance Initiative

Based in Brussels, Belgium, the Business Social Compliance Initiative (BSCI), an initiative launched by the Foreign Trade Association, primarily consists of European industry associations, retailers, suppliers, and importers. BSCI devises solutions for monitoring workplace conditions and has recently expanded into the food supplier sector. Membership is open to non-European businesses and associations.
www.bsci-eu.org

China CSR

China CSR is a bilingual monthly magazine, published by Hong Kong-based BDL Media Ltd., that offers news and information to help companies navigate the CSR landscape in China. The publication offers online content that includes Chinese media translations and press releases.
www.chinacsr.com

China Development Brief

Established in 1996, the *China Development Brief* (*CDB*) is an English-language monthly e-newsletter that covers environmental, CSR, legal, and labor issues in China. The *CDB* intends to reach international institutions, government agencies, grantmaking organizations, and private businesses that wish to better understand China's social environment. In 2001, the *CDB* created a sister edition in Chinese.
www.chinadevelopmentbrief.com

CSR Asia

CSR Asia seeks to promote awareness of CSR issues in companies and supply chains across the Asia-Pacific region and emphasizes sustainable development. Started in Hong Kong, CSR Asia also has an office in Singapore. Defining itself as a "social enterprise"—a business with primarily social objectives whose surpluses are reinvested to meet those objectives—CSR Asia funds its work through conferences, advertising, and advisory services.
www.csr-asia.com

CSRwire

Founded by Meadowbrook Lane Capital, LLC, CSRwire provides news and reports on CSR-related events, resources, philanthropy, SRI, and community service. Members of CSRwire, which include companies, nongovernmental organizations (NGOs), and other organizations, may submit their CSR news on CSRwire's website to reach a wider audience.
www.csrwire.com

Ethical Corporation

Ethical Corporation, a UK-based monthly magazine, covers CSR, environmental sustainability, and other relevant issues around the world. It recently launched a new online magazine, Climate Change Corp.com.
www.ethicalcorporation.com

Fair Factories Clearinghouse

Fair Factories Clearinghouse (FFC), an association of retailers and retail and consumer organizations, helps companies better manage and share auditing information worldwide. FFC maintains a global database that can help companies track information on factory conditions and social compliance auditing reports. Companies can choose whether to share their information. Founded in 2004, FFC is a nonprofit, membership organization that receives grants from the US Department of State's Bureau of Democracy, Human Rights, and Labor.
www.fairfactories.org

Fair Labor Association

Representing a coalition of NGOs, universities, and companies, the Fair Labor Association (FLA) aims to ensure that companies operate according to international labor standards. The FLA has developed its own workplace Code of Conduct to supplement existing international ones. Participants include Nike, Inc., Reebok International Ltd., and Liz Claiborne, Inc.
www.fairlabor.org

The Global Compact

The United Nations (UN) launched the Global Compact in 1999 to promote responsible global corporate citizenship. Members of the compact promise to adhere to UN human rights, labor, environmental, and anticorruption principles. The compact has roughly 3,800 participants, of which nearly 3,000 are businesses. To participate in the compact, a company's chief executive officer should send a letter to the UN Secretary General describing how the company will uphold and promote the UN principles.
www.unglobalcompact.org

Global Reporting Initiative

Boston-based CERES launched the Global Reporting Initiative (GRI) in 1997, now a widely accepted standard for corporate reporting on environmental and social performance. GRI consists of multiple stakeholders that created the "Sustainability Reporting Framework," which more than 1,000 organizations now use worldwide.
www.globalreporting.org

Institute of Contemporary Observation

Founded in 2001, the Institute of Contemporary Observation (ICO) is based in Shenzhen and engages in CSR-related education, training, research, advocacy, and community service with a focus on labor issues. ICO also cooperates with multinational corporations to monitor and enforce labor standards in their supply chains.
www.ico-china.org

Responsible Supply Chain Association

Under the direct administration of the China National Textile and Apparel Council, the Responsible Supply Chain Association (RSCA) promotes CSR awareness in enterprises in the Chinese textile industry. RSCA developed the indigenous China Social Compliance 9000 for Textile and Apparel Industry (CSC9000T) standard, a management system that aims to address labor issues specific to China's textile industry and bridge the gap between CSR standards and the operating environment in China.
www.csc9000.org.cn

Social Accountability International

Known for its Social Accountability 8000 Standard (SA8000), Social Accountability International (SAI), established in 1997, focuses on developing workers' rights standards and systems. SAI created SA8000 based on internationally accepted norms and conventions and with labor and human rights organizations, retailers, manufacturers, academics, and consulting and accounting firms.
www.sa-intl.org

Verité

Spanning more than 70 countries, Verité has extensive experience working with various NGOs, governments, and corporations in workplace auditing, training, and implementation of solutions that create a fair working environment. Verité has worked with companies such as the Gap, Inc. and the Timberland Co. and holds an annual conference for China-based factory managers and sourcing agents.
www.verite.org

Damien Ma *is assistant editor of the* CBR.

The Year of the “Pig

China Foto Press

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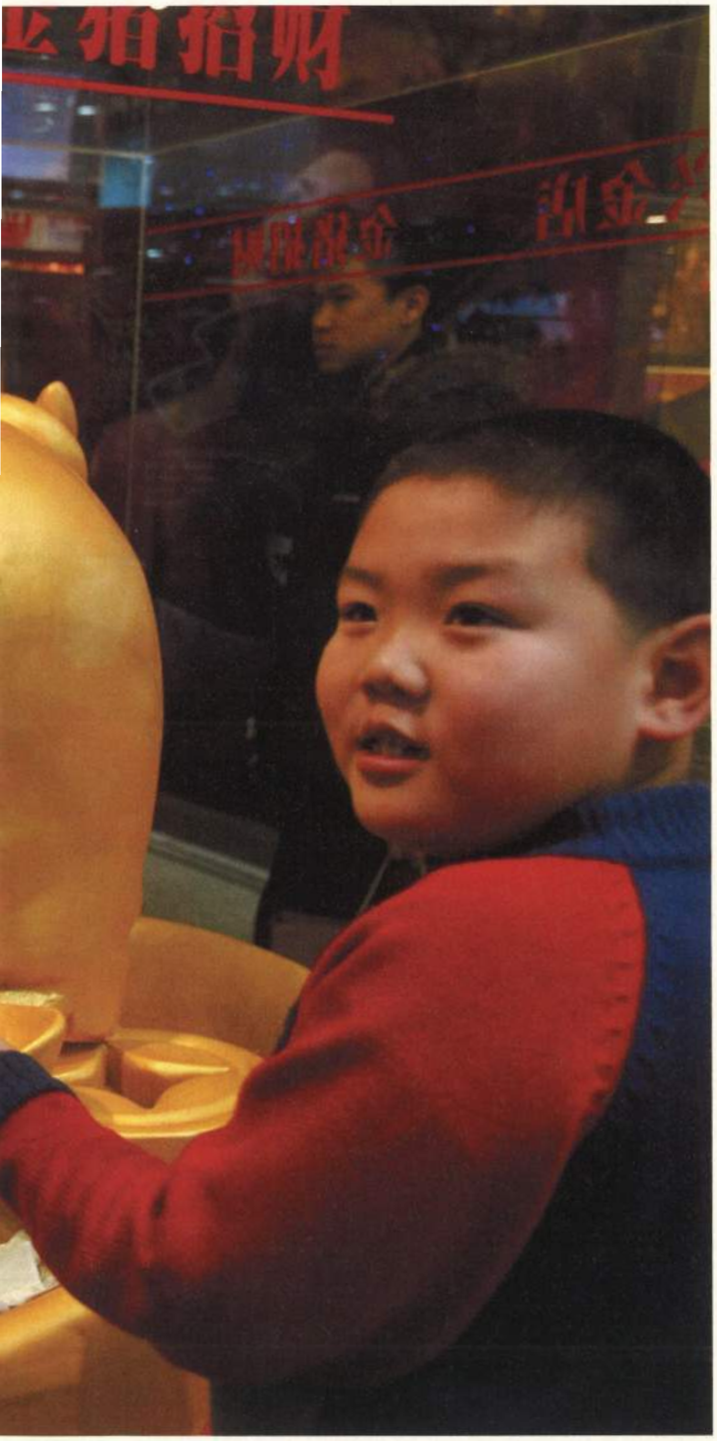
Booming exports, slow imports, and more capital outflows are on the horizon

Vanessa Rossi



Boosted by strong export earnings and foreign investment inflows, China's bulging foreign exchange (forex) reserves—more than $1 trillion stacked up at the central bank—could easily rise by another $200 billion, or more, in 2007. This trend will likely continue in 2008 and beyond unless China moves to open up its capital account and transform capital flows.

Exports—and trade surplus—still soaring

China's economy expanded 10.7 percent in 2006, and over the last few months, its monthly exports and trade balance hit record highs. In late 2006, export growth hovered around 30 percent, with the trade surplus totaling $20 billion per month. Export growth in the first months of 2007 was even stronger. With the world economy on a solid footing and oil prices easing from their 2006 peak, China's export and import trends will likely continue, and the trade surplus could leap from last year's $177.5 billion to $250 billion in 2007. The current account surplus will probably be even higher, possibly close to $300 billion. Despite rising outflows, net foreign direct investment (FDI) may also add another $60–$70 billion to the balance of payments, suggesting that reserves may well jump by $350 billion in 2007.

China's trade surplus is unlikely to fall significantly for several years. China's current situation can be compared with that of Japan, which has maintained an annual trade surplus of 2–4 percent of GDP ($50–$150 billion) since the mid-1980s. On average, China's surplus has been around 2 percent of GDP since the early 1990s, shooting up to $102 billion in 2005 and $177.5 billion in 2006 (roughly 5 and 7 percent of GDP, respectively). Eventually, the pace of China's export growth will slow, if only because it is difficult to keep expanding market share every year. Over the next five years or so, PRC export growth should fall into line with world trade growth. In fact, China's annual export growth, meas-

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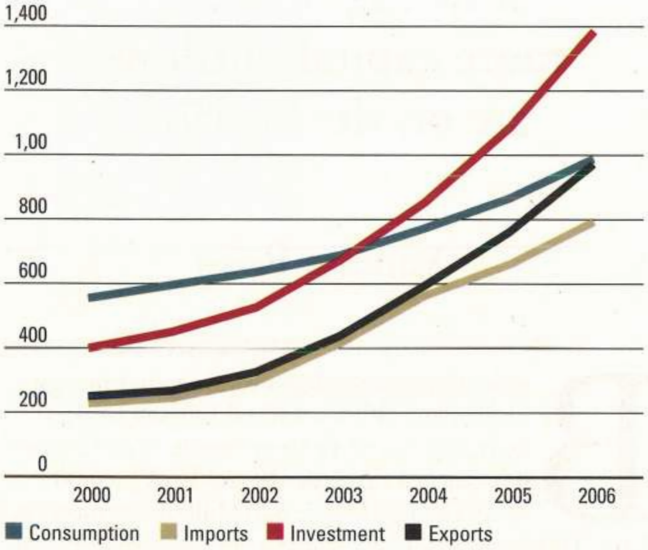
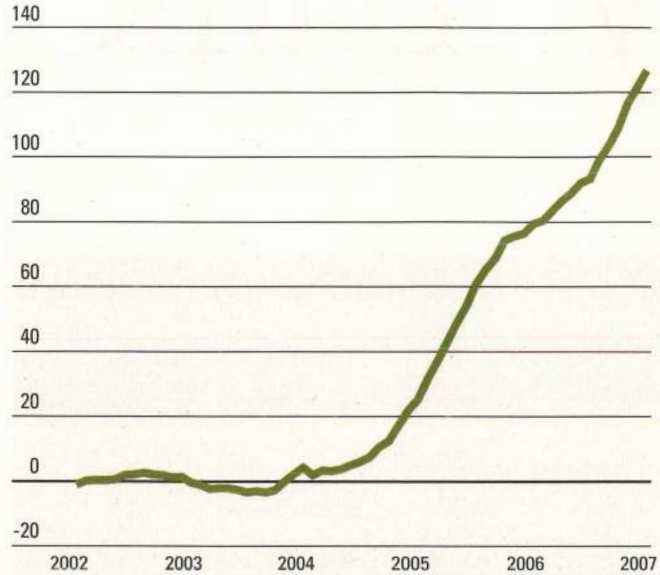
Figure 1:
China's Imports Trail Exports and Investment ($ billion)



Source: Oxford Economics Ltd.

Figure 2: China's Trade Surplus in Mechanical and Electrical Products (12-month moving total, $ billion)



Source: Haver Analytics Inc., based on PRC data.

ured in dollar terms, has moderated from a peak of 35–40 percent in 2003–04 to less than 30 percent in 2005–06, with volume growth down to 20–25 percent, although this is still roughly double world trade growth.

This slowdown in export growth has been mild in part because China has successfully exploited new markets. Indeed, although 30–40 percent of PRC exports go to the US market, PRC exporters have been building up trade links elsewhere, taking advantage of the opportunities offered by the rapid growth of demand in oil economies. Trade with key Middle Eastern partners, such as the United Arab Emirates, has soared, mostly at the expense of traditional European and Asian suppliers. The United States is not the only market supporting China's booming trade, and much of the recent rise in PRC export sales has been to other destinations.

Another reason for the continued rise in China's exports is the extra capacity recently built in export industries, which is in part a result of the massive surge in investment since China's World Trade Organization entry in 2001. Annual investment doubled between 2001 and 2005 (to more than $1 trillion in 2005), modernizing and adding substantially to the economy's capital stock. Over the same period, exports almost tripled and, by 2006, totaled nearly $1 trillion.

Why is import growth so slow?

The sharp rise in China's trade surplus from 2004 has been driven by both sides of the trade account. While exports have soared, import growth has been much weaker than expected. Although imports tripled between 2001 and 2006, this growth failed to keep pace with the rapid rise of exports since 2004. This situation is quite unusual, even for China.

Why has import growth over the last few years been so weak given the strong growth in both exports and domestic demand? On a short-term basis, one possible explanation for the recent drop in import growth in nominal terms may be lower oil prices. But over the last year, oil and other commodity prices have remained high; as a result, this hardly explains the overall weak performance of imports. Rising retail sales and demand for consumer durables, including private cars, typically lead to higher imports in most countries. Indeed, surging import demand often pushes developing countries into balance of payments problems. But in China, these durable goods are almost all domestically produced, and so far, consumers seem to favor domestic goods, except in some narrow segments, such as luxury items and specialized equipment.

Apart from raw materials, machinery and equipment are China's main imports, and relatively weak growth in this sector has led imports to underperform. Indeed, clear signs indicate that import substitution has taken place in intermediate industries, such as aluminum and steel: Import growth has weakened since 2004 even as domestic demand has risen, suggesting that local production is meeting domestic requirements. Such substitution is likely to be true for other imported manufactured goods. Although destocking probably contributed to the sharp drop in import growth at the start of 2005, the most important explanation for the continued weakness in imports through 2005 and 2006 is import substitution in a broad range of products, including in machinery and equipment. Substitution could account for $50–$100 billion of the rise in the trade surplus since 2004. This phenomenon is strongly linked to past investment performance. Despite high GDP and investment growth over the last two years, imports have clearly lagged, most notably in the investment and intermediate goods categories (see Figure 1). Moreover, with China's announcement of its plans to manufacture large aircraft that can rival those of the Boeing Co. and Airbus SAS, there is reason to expect that import substitution will advance into new territory in the future.

Band-Aid solutions

China's rising trade surplus will likely stoke more concern in the United States and European Union and help generate more calls for faster appreciation of the renminbi (RMB). At the same time, perhaps surprised by the spike in the trade surplus and forex reserves in 2006, the PRC government is starting to respond to the pressures caused by these trends. For instance, officials have indicated that further growth in forex reserves is no longer desirable and have announced plans to set up a new investment company, similar to Singapore's Temasek Holdings Pte Ltd., to manage part of China's forex reserves. Such responses may not necessarily correspond to those that Washington and Brussels have in mind, but they are probably the most realistic indicators of what the future holds.

Although China also talks of raising imports, and some deals involving aircraft and high-tech equipment could be significant, these deals may do no more than stabilize the trade balance in 2007–08. If foreign governments want China to raise its imports significantly, they may have to consider China's demands for access to a broader range of high-tech imports, some of which are currently restricted for military and strategic reasons. This option may not appeal to the public and politicians in the United States and European Union, who will not embrace the export of dual-use equipment and technology to China unless they can be certain that it is in their military and strategic inter-

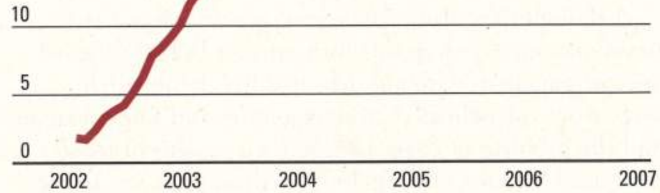
> The most important explanation for the continued weakness in imports through 2005 and 2006 is **import substitution in a broad range of products.**

While past investment is still feeding into both export growth and import substitution, weakening investment growth is further reducing the immediate demand for imports. With up to 50 percent of imports possibly linked to investment demand, the slower investment growth reported in late 2006 may have caused at least part of the dip in import growth during the same period. The more China succeeds in curbing investment growth, the more import growth will slow, pushing up the trade surplus. As a result, imports will continue to show lackluster growth unless major industries, such as the power, transportation, and high-tech sectors, begin to purchase massive amounts of equipment from abroad.

If falling imports in the machinery and equipment sector is one of the most important factors behind weak import growth, then major machinery exporters, such as Japan and Germany, should have experienced a corresponding slowing down in export growth. The data on China's trade balance by country and sector seem to confirm this view. Figure 2 shows that China's surplus in mechanical and electrical products has soared, accounting for almost all of the gain in the trade balance. At the same time, as Figure 3 demonstrates, China's reported trade deficit with Japan and Germany has stalled. This deficit would have deteriorated sharply if there had been less import substitution and if investment demand for imported equipment had remained steady.

In sum, China's remarkable ability to rapidly raise sufficient capacity to competitively meet its demand and that of its trading partners has contributed to a ballooning trade surplus. Some investment has undoubtedly been wasteful and inefficient, but there has been enough efficient investment to enable output to grow rapidly, avoiding capacity shortages and traditional overheating problems, such as inflation. The rate of expansion in the power sector alone has been phenomenal—an increase of about 50 percent in just two years. This is a testament not only to China's high savings rate but also to the country's ability to respond swiftly to demand and to raise output where necessary.

Figure 3: China's Trade Deficit with Japan and Germany (12-month moving total, $ billion)



Source: Haver Analytics Inc., based on PRC data.

ests to do so. Trade of less sensitive equipment that could be used to develop environmental, aerospace, and information technology might be relaxed, and these changes could help produce at least a one-off surge in China's imports from the United States and European Union.

Experience suggests that neither these import promotion schemes nor a faster revaluation of the RMB will lead to a swift, substantial, and sustained reduction in China's enormous trade surplus. This is a lesson evident from the persistently large trade gaps in Japan, Germany, and, in reverse, the United States. Although the rate of appreciation has been low, the RMB's gains so far have had no perceptible impact on curbing export growth and may even have boosted sales in nominal terms. Many estimates, including that of Oxford Economics Ltd., suggest that another 20–30 percent revaluation of the RMB would have only a marginal effect on trade with China (see the *CBR*, March–April 2006, p.38). It is much more likely that China's trade will remain in substantial surplus in the near future.

China's new question: Where to invest its wealth?

A possible response to alleviating the balance of payments surge and an unwarranted and unwanted buildup of central bank forex reserves is to encourage capital outflows. In addition to plans to establish a state investment company to diversify the central bank's forex reserves, other clear signs point to greater private capital outflows in FDI deals and mergers and acquisitions (M&A). According to PRC Ministry of Commerce statistics, outbound FDI, excluding the financial sector, shot up from $5.5 billion in 2004 to $16.1 billion in 2006. In addition, Oxford Economics' estimates indicate a sharp reversal in the flow of other, non-FDI capital flows, from a net $85 billion inflow driven by currency speculation in 2004 to a net outflow of $22 billion in 2005. Such outflows will almost certainly rise markedly over the next few years, supported by deposits of about $4 trillion—almost double China's GDP—in Chinese banks.

Although the encouragement of private capital outflows may merely swap one form of stabilizer for the balance of payments with another, it shifts the limelight away from the politics of exchange rates and forex reserves and the problem of central bank management of those reserves. Outflows of capital may reduce pressures in the Chinese banking system and curb the central bank's involvement in the US government bond market. At the same time, however, such outflows will create other political and business links that may raise questions about China's future aspirations and global power. Indeed, what might be China's intentions regarding the use of these capital outflows? Is this simply business development matched with benign aid that might offer real chances for growth to African and other developing countries? Or is it an effort to build a global power base that may rival Washington and Brussels? Will China be a positive force or a potential threat?

Capital outflows will almost certainly rise markedly over the next few years, supported by deposits of about $4 trillion—almost double China's GDP—in Chinese banks.

So far, China's FDI outflows have largely targeted aid and development projects and resource-linked enterprises, with Beijing notably competing with Taipei for a prime role in Africa. Most of the other capital flows have been low-profile, but there has been some headline-grabbing M&A activity, such as the acquisition of MG Rover Group by Nanjing Automobile Group, Lenovo Group Ltd.'s takeover of the personal computing business of IBM Corp., and the unsuccessful attempt by China National Offshore Oil Co. Ltd. to acquire Unocal Corp. Although the Lenovo acquisition clearly created some concerns about China's entry into US and other foreign markets, more deals involving Chinese partners—some spectacularly large—will almost certainly materialize. Chinese businesses have developed significant links with the rest of Asia and the Middle East, and given the potential scale of China's capital outflows, major projects and M&A deals must be in the cards. For instance, Chinese involvement in the expansion of the Suez Canal is possible, and although China did not participate in the recent bidding wars in the steel industry, it could delve into similar areas in the future, especially in cases where involvement in, and acquisition of, foreign operations could contribute to the global reach and technical capacities of Chinese industry.

If China's trade keeps hitting a monthly surplus of $20–$25 billion, with FDI inflows contributing another $5 billion per month, China needs to generate capital outflows of around $25–$30 billion per month to neutralize these inflows. This amount would allow Chinese companies to buy several large US and EU companies each year and to fund sizeable projects—such as dozens of new power stations in Africa—every year. This deployment of capital abroad would rapidly strengthen China's global economic and political clout, and the world is carefully watching to see how China will use this new power. 完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The Future of China's Service Sector

China will benefit greatly by fully removing the remaining impediments to services trade and investment

Erik Britton and Vanessa Rossi

The service sector is emerging as a key engine of the Chinese economy, and China's implementation of its World Trade Organization (WTO) service commitments is yielding significant benefits for the country. Even more substantial gains would be possible, however, if China were to fully remove the remaining market barriers in its service sector.

From farm to factory—and then to services

The dramatic growth of the Chinese economy has been associated with equally dramatic changes in the country's industrial structure, as a largely agricultural economy transformed into one increasingly dominated by industry. This transformation has followed the same pattern already experienced by many other economies that are now further down the path of economic development.

Historically, in all economies, the period of rapid industrialization generally is just the first phase of economic development. The next phase involves the shift out of manufacturing industries toward service industries. This second phase is already fairly advanced in most developed economies, is about to get under way in intermediate economies like South Korea, and may be still a decade or more into the future for emerging economies such as China.

Despite recent changes in the composition of employment—viewed in terms of the shares of the agriculture, forestry, fishing, and mining industries (primary sector); the manufacturing and construction industries (secondary sector); and the service industry (tertiary sector), Chinese employment remains heavily concentrated in primary industries, largely agriculture. This is a predictable pattern for countries at China's stage of industrialization. Because of the relatively low productivity of the primary sector, the primary share of employment in developing economies tends to be much larger than the primary share of GDP.

In China's case, manufacturing accounts for almost half of economic output, and the service sector share has surpassed agriculture. In December 2005, the PRC National Bureau of Statistics (NBS) revised the 2004 GDP estimate upward by 16.8 percent after preliminary input from the 2004 economic census. NBS reported that ¥2.3 trillion ($277.8 billion) had been added to the 2004 GDP figures, bringing the total to ¥15.99 trillion ($1.93 trillion). The first national economic census revealed many economic activities, mostly in the service sector, that had been previously underreported.

Upward revisions to service sector output accounted for more than 91 percent of the GDP change—¥2.1 trillion ($253.6 billion) out of the increase of ¥2.3 trillion—implying that the composition of GDP had also changed. After the revision, the service sector's contribution to GDP increased to 40.7 percent from the previous estimate of 31.9 percent. Correspondingly, manufacturing's share of GDP declined from 52.9 percent to 46.2 percent. The share of agriculture and related activities fell to 13.1 percent of GDP from 15.2 percent.

Four sub-sectors of the service sector—transport and storage; post and communications; wholesale, retail, and catering trade; and real estate—together accounted for 70 percent of the increase in value added of the service sector. This implies that within the service sector, the composition of output also has been revised. Figure 1 shows the revised composition of the service sector based on Oxford Economics Ltd. estimates for the shares of all the sub-sectors within services. The share of the transport and storage and the post and communications segments within the service sector has nearly quadrupled. The wholesale, retail, and catering trade sector now contributes 26 percent of services output, rather than the previous estimate of 7.6 percent. The contribution of real estate services also has more than tripled.

Using new findings of the first national economic census, NBS revised the level and composition of historical GDP data going back to 1993. Service sector output is significantly larger—and growing significantly faster—than previously estimated (see Figures 2 and 3). The Chinese service sector is growing far more rapidly than its counterpart in the United States (approximately 10 percent per year compared to 4 percent), but China's service sector remains merely a fraction (about one-ninth) of the US service sector.

Services trade and investment

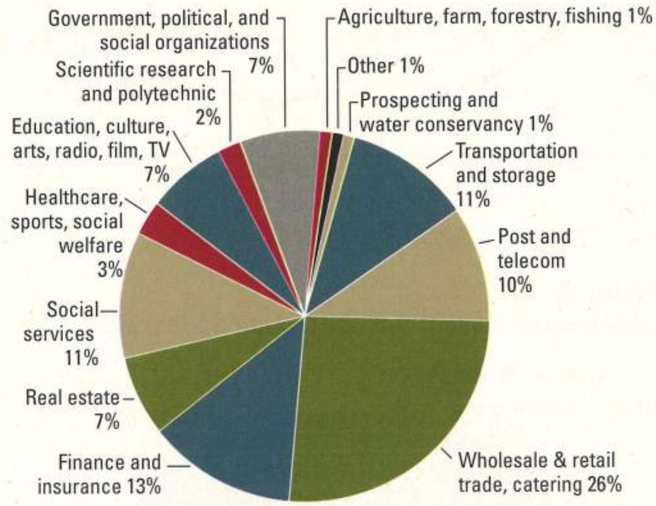
The growth in service sector output in China has accompanied even more rapid growth in flows of services into and out of China via international trade. Both exports and imports of services have been growing at around 20–30 percent over the last few years in dollar terms, far outperforming the growth of service sector output (about 10 percent). Together, in 2004, service sector imports and exports were worth $134 billion, or 17 percent of service sector output in China, up from 11 percent in 1993. These figures show the increasing importance of trade in China's service sector as well as growing opportunities for services exporters in the United States and other economies.

China's services trade with the United States

China is running a substantial surplus on the current account of its balance of payments, including trade in both goods and services. But China is in deficit on its services trade account with all economies, to the tune of $9.5 billion in 2004. China also had a $2.6 billion deficit on its bilateral services trade account with the United States in 2005.

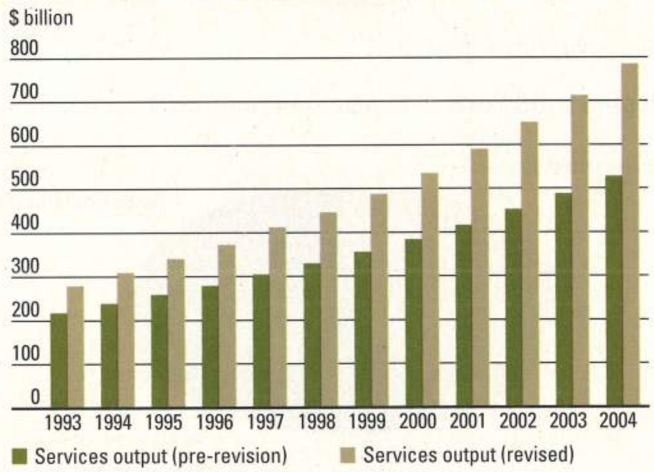
China's service sector exports to the United States are growing rapidly as the Chinese market opens up and the country becomes a more attractive destination for tourists and business visitors. The average annual growth rate is 14.5 percent in dollars at current prices. In 2005, Chinese service sector exports to the United States were $6.5 billion, compared to $1.5 billion in 1994. But Chinese service sector imports from the United States were $9.1 billion in 2005, up from $2.1 billion in 1994, an average annual growth rate once again of 14.5 percent over that period—and from a higher starting level than exports. China's bilateral service trade deficit with the United States has increased by almost $2 billion over that period, and China's service sector imports from the United States were more than 14 percent of its total service sector imports in 2004.

Figure 1:
Composition of China's Service Sector, 2004 (revised)



Source: Oxford Economics Ltd.

Figure 2:
China Services Output, 1993–2004 (2004 prices)



Source: PRC National Bureau of Statistics

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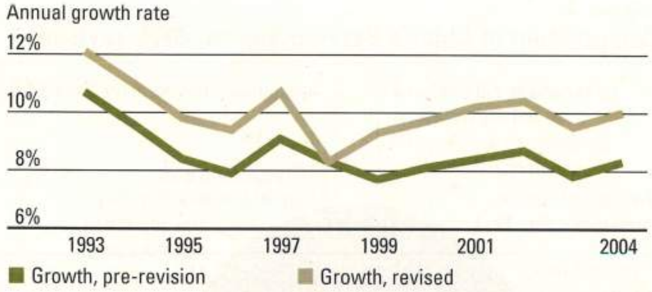
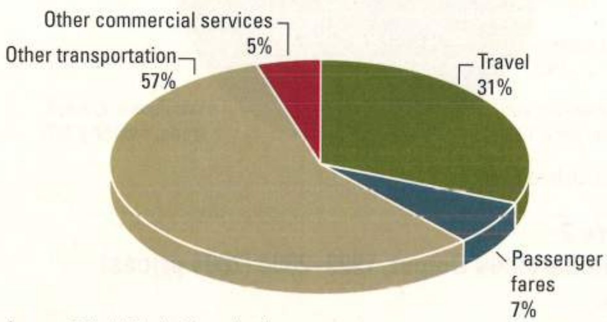
This article is adapted from the December 2006 China Business Forum report, The Prospects for US-China Services Trade and Investment. *The China Business Forum (www.chinabusinessforum.org) is the educational and research arm of the US-China Business Council, publisher of the* CBR.

Figure 3:
China Service Sector Output Growth, 1993–2004



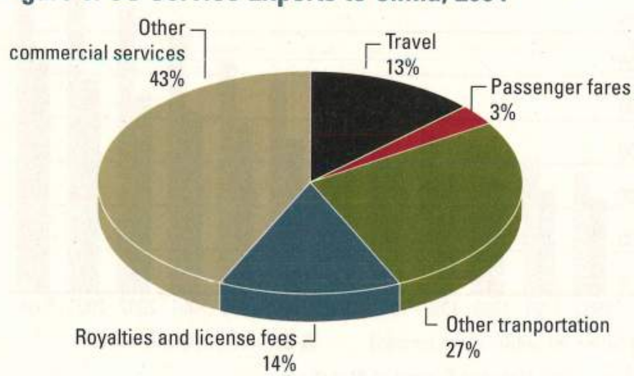
Source: PRC National Bureau of Statistics

Figure 4:
China Service Exports to the United States, 2004



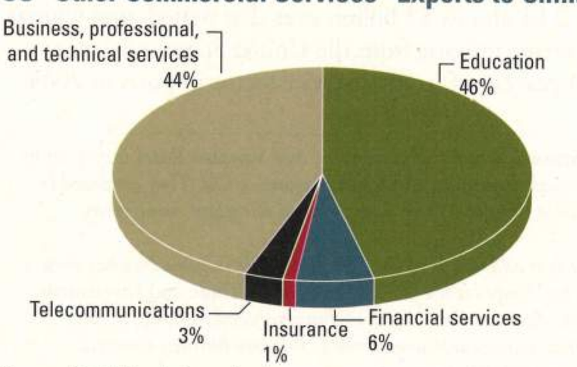
Source: World Trade Organization

Figure 5: US Service Exports to China, 2004



Source: World Trade Organization

Figure 6:
US "Other Commercial Services" Exports to China, 2004



Source: World Trade Organization

Most Chinese service sector exports to the United States are in the travel and transportation sectors, with a small residual of other commercial services. In contrast, 43 percent of US service sector exports to China consist of "other commercial services" (see Figures 4 and 5). Breaking down this category into its subcomponents reveals that the share of "education" services was the largest, followed by "business, professional, and technical," "financial," "telecommunications," and "insurance" services (see Figures 6 and 7).

US investment in the Chinese market

US companies are also investing in China's service sector. They are setting up operations in China to sell express delivery, financial, business, and other high-skill services directly to Chinese customers. The investments and sales of US operations in China are not reflected in bilateral trade figures, but they are an important element of the commercial relationship.

The US Department of Commerce's Bureau of Economic Analysis produces data on US foreign direct investment (FDI) flows to China, broken down by sector (see Figure 8). US FDI flows to China between 2001 and 2005 reached $16.8 billion, of which roughly $3 billion, or 19 percent, was in service industries. Between 1996 and 2005, the service sector share of those investment flows increased. In 2005, service sector FDI accounted for 54 percent of the total. (Note that this picture of how US direct investment flows to China refers only to the flows that go directly from the United States to China. It does not capture any flows that might be routed through Hong Kong or other economies. To include these funds would probably more than double the quantity of US direct investment into China.)

Impacts on China's economy

Benefits to date

Chinese industry is growing rapidly in part because of strong imports of knowledge services, network services (transport, communication, and information technology) and financial services from developed economies. Oxford Economics estimates that the increase in China's service sector imports after 2001 resulted in higher average labor productivity of 0.3 percent. This productivity increase equates to a $6.5 billion increase in Chinese GDP in 2005, of which roughly $650 million is attributable to service sector imports from the United States.

FDI in the service sector has also benefited China. In particular, inflows of service sector investment from the United States were worth around $3 billion between 1996 and 2005. Assuming that between half and three-quarters of US FDI outflows to Hong Kong during that period were ultimately destined for China, then inflows from the United States were around $6.1 billion. This addition to the capital stock contributed some $1.6 billion, or 0.1 percent, to Chinese GDP in 2005, via higher productivity.

Baseline forecast:
Implementation of WTO commitments

China's implementation of all of its WTO commitments will continue to translate into substantial benefits in the future. Oxford Economics estimates that under this scenario, the share of service sector imports in China's GDP will increase from 4.1 percent in 2006 to 5.4 percent in 2015. US service sector exports to China are slated to increase in proportion to Chinese service sector imports. Moreover, inflows of service sector FDI from the United States will also increase over the forecast period, by an average of around 5 percent per year.

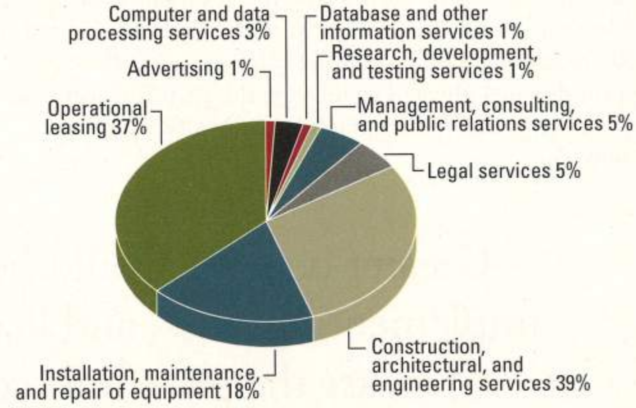
China's commitment to remove and relax these constraints will have a significant positive impact on China's GDP by the end of 2015. If the share of China's service sector imports were to remain at pre-2001 levels until 2015, there would be a substantial impact on whole-economy productivity: By 2015, Chinese GDP would be around 1.2 percent, or $66 billion (in 2006 prices), lower. Of that shortfall, around one-tenth, or $6.6 billion, would be attributed to lower service sector imports and smaller inflows of service sector FDI from the United States.

Alternative scenario:
Removing all remaining service sector restrictions

In the baseline forecast, the gradual removal of constraints on service sector imports and on inflows of investment has a significant positive impact on productivity and GDP growth in China. But if remaining constraints were to be removed, the impacts on China's GDP and productivity growth would be even more substantial. Figure 9 compares the baseline forecast to an alternative scenario under which all the existing constraints on service sector imports and FDI inflows from all countries are removed by 2015. In the alternative scenario, the benefits to China's GDP would more than double by 2015 and reach almost 2.5 percent of GDP or $138 billion in 2006 prices. This would make the average Chinese household better off by $300–$400, or ¥2,300–¥3,100, per year. In comparison, average household income in China was around ¥30,000 ($3,700) in 2005. Service sector trade and investment flows with the United States would generate one-tenth of these gains.

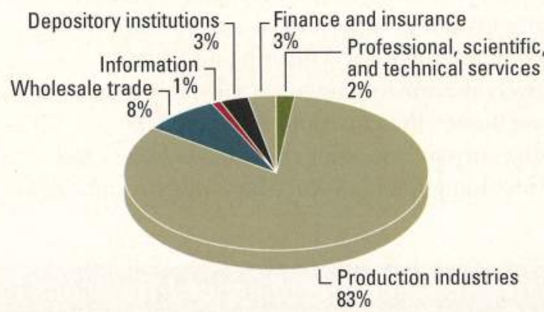
The benefits also extend to job creation. The baseline forecast, which assumes existing WTO commitments are honored, projects employment in all foreign majority-owned service companies in China to increase to around 5 million by 2015, of which around 400,000 jobs would be in US majority-owned companies. In the alternative scenario, service sector employment in these companies would be nearly 7 million, of which 550,000 would be in US majority-owned companies. Thus, the growth in service sector trade and investment by 2015 would create up to an extra 7 million jobs in China—jobs in relatively high-paying, high-productivity service industries. This figure is almost equivalent to the entire population of Xi'an, Shaanxi.

Figure 7: US "Business, Professional, and Technical Services" Exports to China, 2004



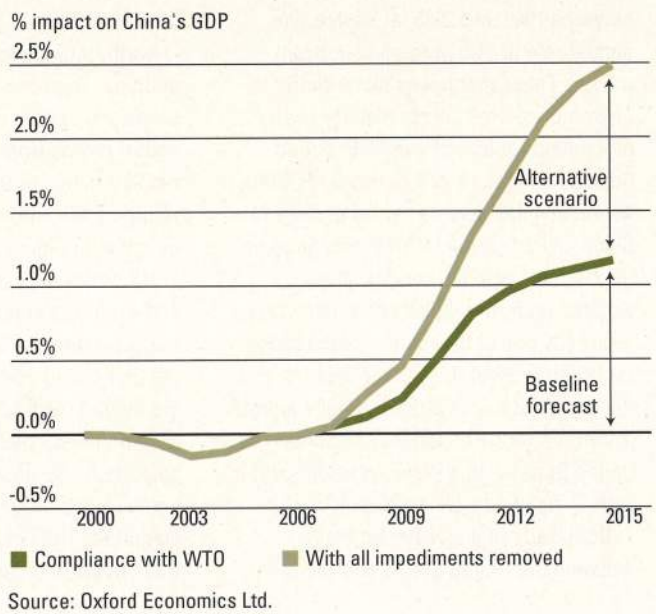
Source: US Bureau of Economic Analysis

Figure 8: Sectoral distribution of US FDI to China, 1996–2005



Source: US Bureau of Economic Analysis

Figure 9: Impact of Removing All Impediments to Growth in China's Service Sector Trade and Investment



Source: Oxford Economics Ltd.

Realizing these benefits

Fully implementing China's WTO commitments is an essential first step to maximizing the advantages for the Chinese economy, but greater benefits would be realized if PRC regulations, implementing rules, and license approvals were adjusted to increase the pace and scope of service sector reform. In practice, this would entail the following:

- Increasing the transparency of the regulatory environment for foreign service providers, through early publication of proposed regulations, consultation with foreign and domestic industry, participation in international service sector forums, and adoption of international standards and norms;
- Progressively deregulating markets for the provision of services to encourage the growth of those services;
- Addressing current restrictions on market access and expansion (including foreign ownership, industry, and geographic limitations) so that foreign expertise in the service sector can become another tool to further China's economic development;
- Creating a level playing field by reducing government support for domestic enterprises in the services markets; and
- Continuing to gather and publicize sectoral data about the performance of the Chinese economy, to enable all participants in the economy to understand more clearly how quickly the various service sectors in China are growing and what their future growth prospects might be.

Adopting such measures would generate significant benefits for China and help the country to move more quickly and effectively to achieve its economic development goals.

Greater benefits would be realized if PRC regulations, implementing rules, and license approvals were adjusted to increase the pace and scope of service sector reform.

Taking it to the next level

In China, the service sector is growing, contributing to economic development and a rise in living standards by

US Economy Benefits from Services Trade and Investment with China

The United States is the world's largest exporter of services and is well positioned to benefit from China's rapidly growing demand for services. US service sector exports to China grew more than twice as fast as US total service sector exports between 1992 and 2005, at an average annual rate of 14.5 percent (in current prices). That growth was faster than the growth of service sector exports to any other major economy over that period (including India, at 12.7 percent per year). As a result, US service sector exports to China, at $9.1 billion in 2005, now account for 2.4 percent of US service sector exports, up from 1.0 percent in 1992. China is already one of the top ten destinations for US private service sector exports, and the United States is already a net exporter of a broad range of services to China: The United States had a services trade surplus with China of $2.6 billion in 2005.

Both trade and investment flows between the United States and China in service industries have an impact on the current account of the balance of payments and, as a result, on US GDP. In 2005, in addition to the bilateral services trade surplus of $2.6 billion, US affiliates in China repatriated profits worth $3.3 billion. Of that, around 17 percent, or $560 million, is attributable to service sector affiliates in China. Together, service exports to China, along with repatriated service sector profits from China, contributed a net $3.1 billion to US GDP in 2005, slightly reducing the bilateral current account deficit with China.

US net exports of services to China make a direct contribution to US GDP in the short term via the current account of the balance of payments. In the long run, the overall net trade position is determined by such factors as the appetite for savings in the United States, compared to other countries, and its magnitude will not be affected by bilateral trade flows with any single country. There is, however, another way in which US service sector net exports to China can make a permanent contribution to US GDP. Indeed, service sector net exports to China support employment in relatively high-productivity and high-wage sectors of the US economy. According to Oxford Economics Ltd. estimates for 2005, net exports of "other private services" to China support a net number of roughly 37,000 high-productivity jobs in the United States. This provides a permanent boost to US GDP, worth around $460 million in 2005.

Maximizing the benefits

China's implementation of its World Trade Organization (WTO) commitments will continue to benefit the United States in the future. In the baseline forecast, in which China honors all of its WTO service commitments, US service sector exports to China will increase to $45 billion by 2015, while the US surplus on services trade with China will increase to boosting the productivity of industrial enterprises. The expanding market for service-based jobs is vital to China's ability to absorb the large numbers of young workers and college graduates entering the job market each year. Historically, the growth of a service sector is also seen as a significant step in the evolution of a nation's economy.

From a broader perspective, the expansion of China's services infrastructure is essential to the country's integration into the global economy and continued economic development. For example, the establishment of a modern capital market will help China move toward a market-driven exchange rate. Market-based lending will help level the playing field between US and Chinese competitors. China's ability to provide pension and health care insurance to its citizens will enhance social stability and unlock capital resources tied up in precautionary savings. Improving the regulatory framework for services will help Chinese manufacturers and commercial firms to continue to move up the value chain in all areas, from transportation, professional and financial services, and information technology, to retail, tourism, and hospitality, to name a few.

China's initial implementation of its WTO commitments in services already benefits the Chinese economy. But even complete implementation of these WTO commitments will leave in place a range of impediments to the growth of China's service sector, as well as service trade and foreign investment. By removing these constraints, China will realize the full potential economic benefits of trade and investment in services. 完

The expanding market for service-based jobs is vital to China's ability to absorb the large numbers of young workers and college graduates entering the job market each year.

$15 billion, or 0.1 percent of US GDP. On top of that, inflows of net income from US service sector affiliates in China will increase to around $1.5 billion by 2015. And the impacts on US productivity will also increase, as service sector trade and investment in China contribute a projected $2.5 billion to US GDP in 2015. The growth in service sector net trade with China and inflows of profits from service sector investments in China together will also support more rapid growth in service sector employment in the United States. In the baseline forecast, these effects combine to create an additional 60,000 service sector jobs in the United States by 2015.

If the outstanding impediments to service sector growth in China were fully removed, the bilateral services trade surplus with China would increase to around $60 billion by 2015, supplemented by extra income derived from US service-related investments in China worth $7 billion. This would boost US GDP in the short term by about 0.3 percent. The average US household would be better off by about $500 per year in 2010 as a result of this growth in services trade with China. The removal of all impediments to growth in services trade and investment with China would also create up to 240,000 high-paying US service sector jobs by 2015, accounting for 1.5 percent of the growth in US service sector employment between 2005 and 2015.

The effects in 2015 do not capture the long-run impact of services trade and investment with China on the US economy. The Chinese market for services will have grown substantially by 2015, but the real focus of US service providers should be on a longer horizon, one that spans the decades to come. By 2050, US service sector exports to China could reach between 1.5 percent and 3.5 percent of US GDP. By then, of course, China's service sector exports will also have grown, but the US surplus on service sector trade with China still could be worth around 1 percent of US GDP, while inflows of profits from US service sector FDI in China could contribute a further 0.5 percent of GDP to the US current account of the balance of payments.

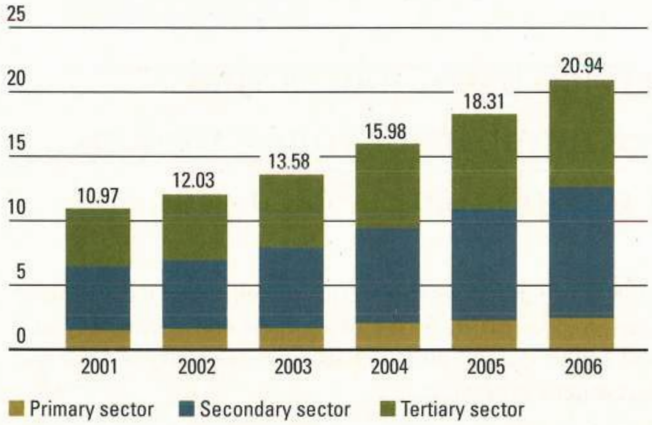
Net services trade with China supports relatively high-productivity jobs in the United States, and the impact of this trade on the composition of US employment leads to higher average productivity and, therefore, higher GDP in the long run. The impact on US productivity via this channel could be worth 0.1 percent to 0.2 percent of US GDP in the long run: a substantial effect. This scenario clearly projects long-run benefits for the United States. For these benefits to develop fully, however, the market barriers in China's service sector must be dismantled completely.

—Erik Britton and Vanessa Rossi

China's Economy

Since 2001, the size of China's economy has almost doubled

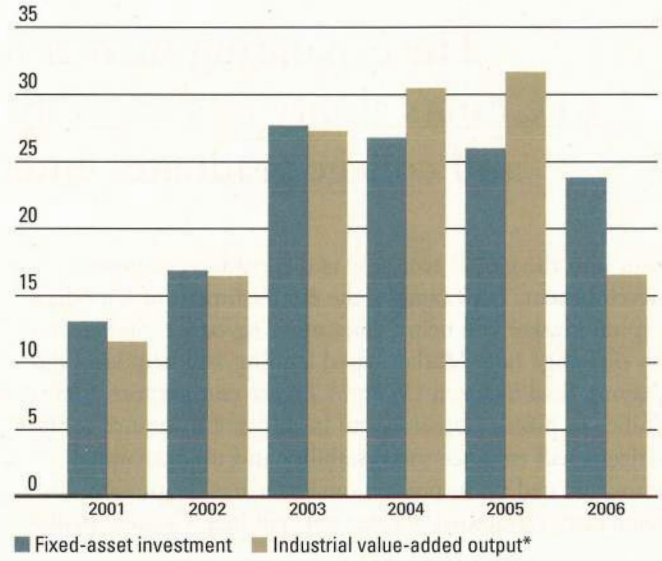
China's GDP, 2001–06 (¥ trillion)



Note: Current prices.

Slower growth in fixed-asset investment may help cool industrial output and the economy

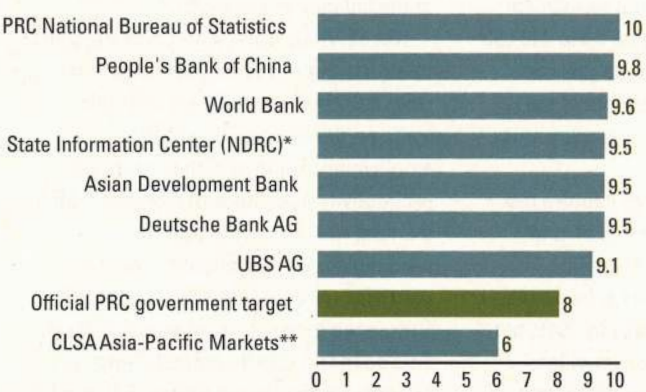
Growth in Fixed-Asset Investment and Industrial Output, 2001–06 (%)



Notes: Figure indicates nominal percent growth over the preceding year.
*All state-owned industrial enterprises and non-state industrial enterprises with revenue from principal business of more than ¥5 million.

Most analysts expect the economy to expand faster than the official target this year

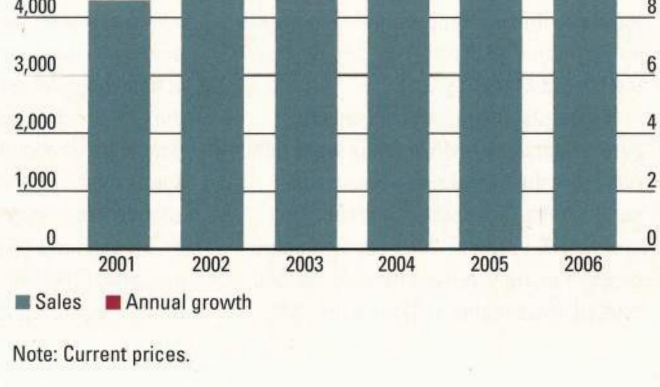
GDP Growth Estimates for 2007 (%)



Notes: NDRC = PRC National Development and Reform Commission.
*Projects growth of 8.5%–10.5%. **Projects growth of 5.0%–7.0%.

Consumption has risen steadily

Retail Sales of Consumer Goods, 2001–06

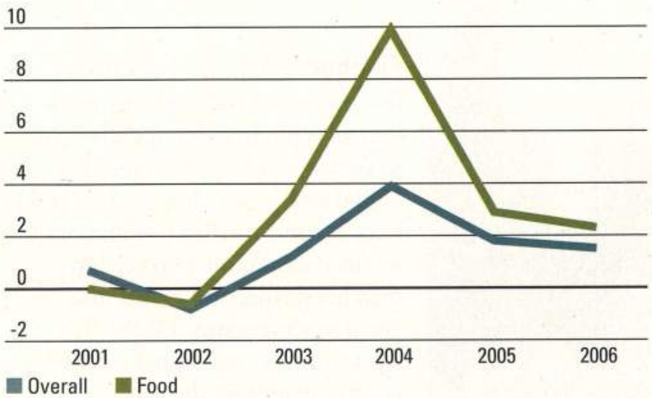


Note: Current prices.

Sprints Ahead

Food prices have been the main drivers of inflation in recent years

Consumer Price Index, 2001–06 (%)



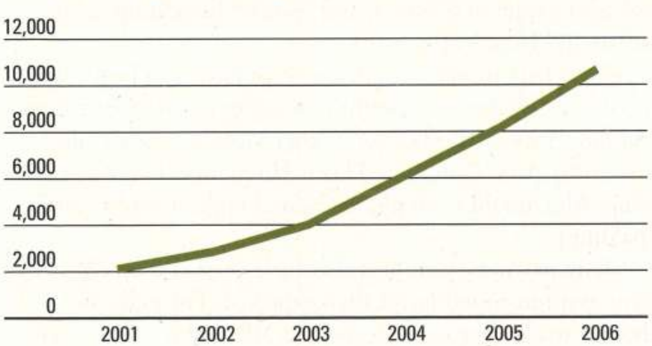
As China's trade has ballooned, so has its trade surplus...

China's Trade with the World, 2001–06 ($ billion)

	2001	2002	2003	2004	2005	2006	% change, 2001–06
Exports	266.1	325.6	438.2	593.3	762.0	969.1	264.2
Imports	243.6	295.2	412.8	561.2	660.0	791.6	225.0
Total	509.7	620.8	851.0	1,154.6	1.421.9	1,760.7	245.4
Balance	22.5	30.4	25.5	32.1	102.0	177.5	688.9

...and its foreign exchange reserves

China's Foreign Exchange Reserves, 2001–06 ($ billion)



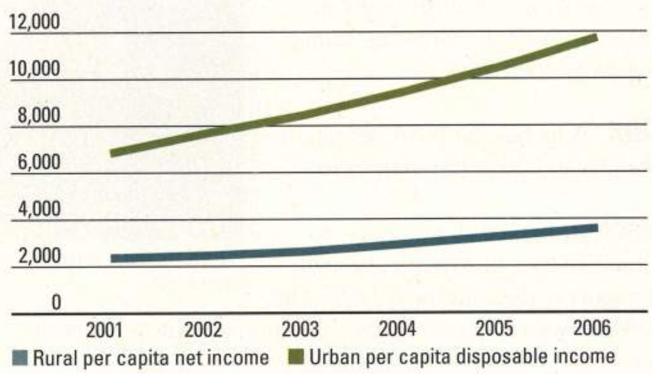
Since 2001, foreign direct investment has arrived at a rate of roughly $1 billion a week

Foreign Direct Investment in China, 2001–06

	2001	2002	2003	2004	2005	2006	% change, 2001–06
No. of contracts	26,140	34,171	41,081	43,664	44,001	41,485	59
Amount utilized ($ billion)	47	55	54	61	60	70	48

Despite government efforts, the rural-urban income gap remains staggering...

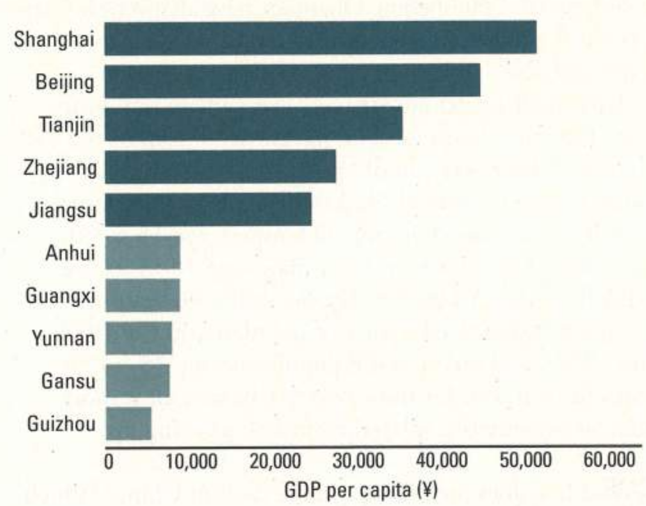
Rural and Urban Incomes, 2001–06 (¥)



Note: Current prices.

...and regional economic differences are stark

The Five Wealthiest and Five Poorest Provinces, 2005

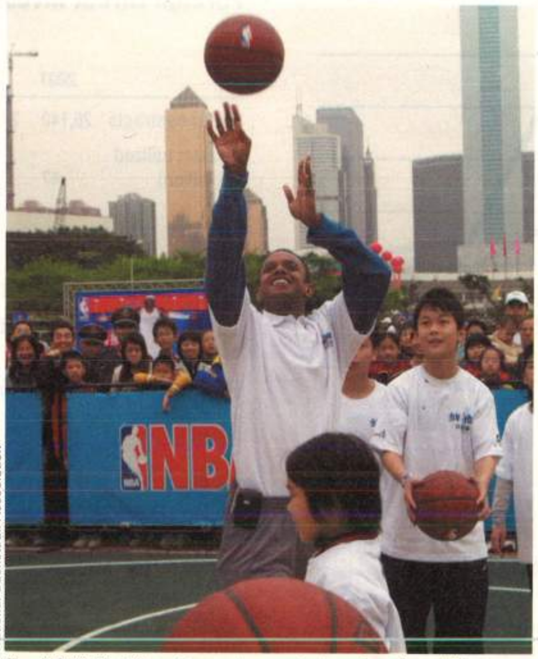


Sources: Associated Press, Deutsche Bank AG, PRC National Bureau of Statistics, Reuters, *The Standard*, UBS AG, *Wall Street Journal*, and Xinhua News Agency

Slam Dunk

Through its marketing efforts in China, the NBA has achieved success for itself and for basketball

CBR *Associate Editor Paula M. Miller recently met with Mark Fischer, managing director, National Basketball Association (NBA) China, about the NBA's marketing operations in China. Fischer has worked for the NBA since 1997, based in Taiwan and then in Hong Kong. Now based at the NBA China headquarters in Beijing, he has led the development of basketball and the NBA brand in China since 2002, becoming managing director in 2005.*



National Basketball Association

The NBA's B.J. Armstrong demonstrates shooting skills in Guangzhou.

CBR: Why has the NBA become so popular in China in recent years?

Fischer: Basketball is not new to China; in fact, missionaries brought the sport to the country in 1896. The NBA, however, was the first organization to actively promote basketball in China—beginning in 1979 when the Washington Bullets, now the Wizards, traveled to China to play two exhibition games against the Chinese national team. Basketball is popular in China now for several reasons—including the NBA's promotional efforts. Yao Ming's joining the Houston Rockets, high corporate interest in sports sponsorships, and general "sports fever," which has risen in the lead-up to the 2008 Beijing Olympics, have all given the game a boost. It also helps that basketball is relatively easy to watch, learn, and play.

Basketball courts are virtually everywhere in China—from factories to schools and parks. According to the PRC General Administration of Sport, roughly 300 million Chinese play basketball. Basketball is also the number-one overall favorite sport among all Chinese age 15 to 30. Currently, about 83 percent of males age 15 to 24 are NBA fans, up 75 percent over the 2005–06 season.

Soccer experienced a wave of popularity in the 1980s and 1990s, and soccer is still popular among 35- to 50-year-old men. But for those over 50, basketball is more popular because they played basketball growing up.

CBR: How does the NBA promote itself in China? Which marketing method has been most successful?

Fischer: In China, the NBA has five integrated business segments that all build brand and deliver back to partners: television and radio; digital media, which includes NBA's websites and wireless products and services; marketing partnerships; merchandizing; and events and grassroots programs. Of the five segments, TV and digital media efforts are leading the way.

Currently, the NBA broadcasts ten different games a week, including seven on TV and three on broadband. During the 2006–07 season, the number of NBA telecasters will increase from 32 to 51. CCTV5 [Chinese Central Television 5] provides national coverage of NBA games, but the NBA also has agreements with regional stations in all of mainland China's municipalities and autonomous regions, as well as 20 of the 22 provinces. The NBA debuted a weekly basketball and lifestyle show, *NBA Zhi Zao [Made in the NBA]*, in 2006. Forty-three broadcasters carry the show, which is produced in China.

During the 2006–07 NBA season, the NBA.com/China website has been averaging 12 million page views and 2 million visitors per day, according to Nielsen Netratings. The China site generates 20 percent of the NBA's global traffic. We are working with NuSports [NuCom Sports Interactive Co., Ltd.] and Sohu.com Inc. to enhance the website's games and broadband features by adding more videos and broadcasts.

The NBA's marketing partnerships have also been very successful. We have 17 major marketing partners in China [Adidas, Amway, Budweiser, China Mobile, Coca-Cola, Electronic Arts, Gatorade, Haier, Homenice, Lenovo, Li-Ning, McDonald's, Mengniu, Nike, Nokia, Reebok, and Spalding].

Many partners' products that have carried the NBA logo have sold out much faster than expected. For example, about a week after Lenovo and the NBA announced their partnership in October 2006, Lenovo sold out all of the three computer models it was promoting in its campaign. I believe Lenovo set a record by selling roughly 30,000 units across China in one day. Corporate and public interest in the NBA is high. In about the first two weeks after Lenovo's press release on the NBA partnership, 413 publications covered the NBA-Lenovo deal.

In another recent example, Bugles [a brand of General Mills, Inc.] sold snack chips with a collectable NBA booklet inside each package in 2006. With the NBA booklet, Bugles sold 30 percent more chips than the previous year, when it was running a different promotion. Basically, if 30 chip brands are on a supermarket shelf, the NBA chips stand out.

Additionally, McDonald's ran a promotion in 2005 in which customers who bought Big Mac value meals could pay a little extra for cups that featured NBA "hero" players. It planned to run the promotion for four weeks—offering one cup a week—but the cups sold out after two and-a-half weeks.

Currently, more than 500 unique NBA-branded products are sold at more than 20,000 retail locations in China. Nearly 400 million NBA branded items were sold through 25 merchandise partners [NBA's licensees or retail partners] in the 2005–06 season. This season, NBA retail sales in China are expected to grow by more than 50 percent. Currently, LA Lakers guard Kobe Bryant tops the list of NBA players' jerseys sold in China. Bryant is followed by Denver Nuggets guard Allen Iverson and Houston Rockets guard Tracy McGrady. China's Yao Ming, from the Houston Rockets, ranks sixth on the list.

CBR: How important is the role of Chinese players such as Yao Ming in popularizing the NBA in China? Why is Yao's jersey currently the sixth-best-selling jersey in China—instead of number one?

Fischer: Other players' jerseys are popular in part because there is widespread popularity for the NBA in general in China; the NBA was popular in China before Yao Ming and other Chinese players joined. Another reason other players' jerseys sell well is that when buying jerseys or shoes, consumers tend to buy items that represent athletes they identify with most. Though Yao Ming is Chinese, he's also 7′6″, and not many people can immediately relate to that.

CBR: Is the NBA more popular in certain regions of China? For example, are there more NBA fans in first-tier cities or along the coast?

Fischer: Because residents in first-tier cities generally make more money than those in third-tier cities, they can also spend a lot more. But once someone lives above subsistence level, he or she can afford to be interested in sports. We haven't seen big geographical differences in NBA interest—there are basketball courts even in Tibet. Of course, fans in big cities may have more leisure time and better Internet access than fans in rural areas and thus can spend more time, for example, on the NBA China website.

CBR: What steps is the NBA taking to protect intellectual property (IP) in China?

Fischer: We are currently taking many steps to improve IP protection, including working with the Chinese and US governments. We are optimistic because of the progress that has been made in this area over the last several years. More people are recognizing the importance of IP protection. It may help that the 2008 Olympics will be held in Beijing. Like foreign sponsors, Chinese Olympic sponsors are also struggling to protect their own IP.

CBR: What are the NBA's biggest challenges in China?

Fischer: China has such a large market, the demand for the NBA and for basketball is almost insatiable. One of the NBA's largest problems in China may be trying to satisfy demand while maintaining brand quality; this is a good problem to have. We need to increase production to meet demand while simultaneously maintaining excellence. By this I mean that we need to make the game more accessible to our fans in China. The most direct way to do this is through TV and through digital media. We also work with our marketing partners in China to reach our fans through promotions and local activities, and we stage grassroots events. 完

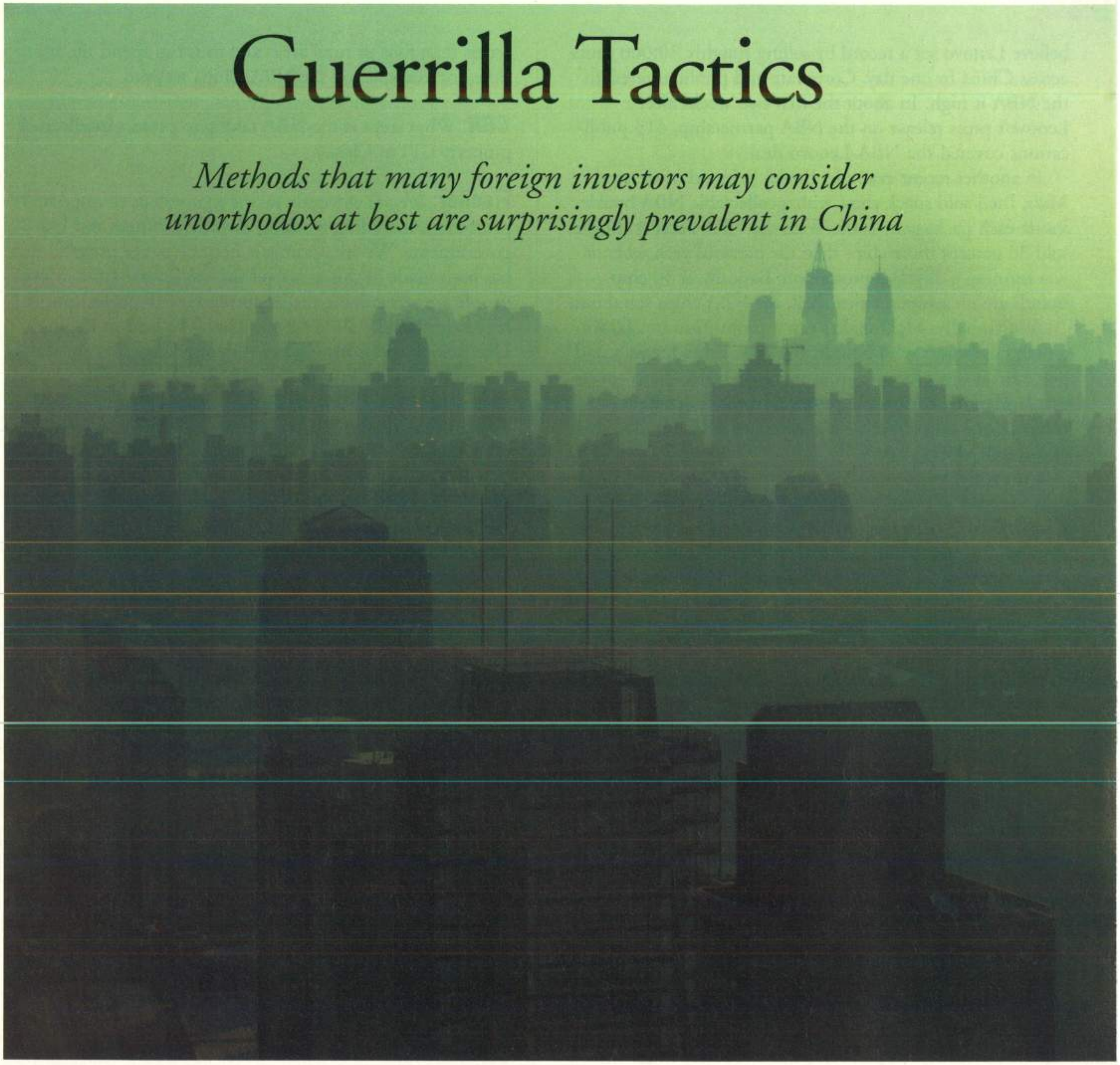
NBA Games and Events in China

The first National Basketball Association (NBA) China Games took place in October 2004 when the Houston Rockets and Sacramento Kings played preseason games in Beijing and Shanghai. In addition to holding games, the NBA also runs basketball camps and touring programs. Events range from major NBA games to grassroots programs such as NBA Jam Van, a touring, interactive event that reached more than 2.3 million fans across 17 Chinese cities in 2006 and that is heading to 24 cities in 2007. Another event is the Junior NBA Skills Challenge, a competitive and instructional program for youth that reached 1.2 million fans across 15 Chinese cities in 2006 and is traveling to 18 cities in 2007. NBA Cares, the league's global outreach initiative, serves communities through events such as Basketball without Borders, an instructional camp in which NBA players participate in basketball instruction and community outreach events; NBA Cares basketball camps and clinics; and other charity or volunteer services.

—Paula M. Miller

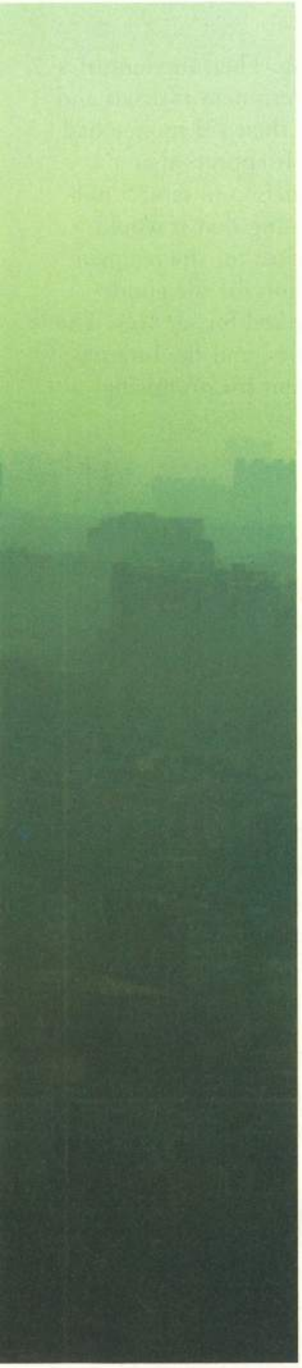
Guerrilla Tactics

Methods that many foreign investors may consider unorthodox at best are surprisingly prevalent in China



John E. Coulter

As my taxi pulled up outside the Hailong Building, at the retail apex of China's Silicon Valley in Haidian District, Beijing, police were rushing into the crowd. "Guerrillas!" (*da you ji*) the driver exclaimed, admiring and bemused. The police were trying to catch the illegal DVD sellers, mostly peasant women renowned for their cunning affront in selling and nimble elusiveness from the law. The guerrilla notion struck me because I had just come from a meeting at a large Chinese company that had recently acquired part of a foreign company, where I had learned that 1,000 jobs would be slashed, mainly abroad. The announcement had been couched in strategic terms borrowed from Sun Tzu's *The Art of War*: *Wei hu wei hu, shen hu shen hu.* The standard translation of the full verse is: "O divine art of subtlety and secrecy! Through you we learn to be invisible, through you inaudible; and hence we can hold the enemy's fate in our hands." The implication was that by hiding its intent to



cut jobs during acquisition negotiations, the Chinese company had managed to avoid opposition that could have railroaded its plans.

In today's China, it may come as a surprise to encounter such tactics, on the street and in big business, but careful observers can catch fleeting glimpses of them throughout China's economy. While businesses operating anywhere in the world keep elements of their plans and operations under wraps in an effort to stay ahead of competitors, plentiful anecdotal evidence suggests that secrecy—and even deception—is more commonly used in China than in other parts of the world.

Perhaps because it is advocated in *The Art of War*, romanticized in the thirteenth-century classic *The Water Margin*, and glorified in Mao Zedong's *On Guerrilla Warfare*, deception is sometimes seen as elegant and honorable and will even be protected by higher authorities, albeit tacitly. Anyone staying in a Chinese city may well wonder, for instance, at the gap between the shameless sale of pirated movies, music, and software for less than a dollar and the genuflections of local officials answering to indignant intellectual property rights claimants on the other. This is the guerrilla economy, alive and virulent, mid-2007.

During its more than five years of World Trade Organization membership, the PRC government has made great efforts to prove that it is a responsible global citizen and present China as a market economy that abides by international rules and standards. Indeed, having discovered that these standards and procedures are not negotiable, most Chinese exporters now adhere to international expectations. But within China, not all players have adopted international standards. In part because many Chinese consider most interactions as a zero-sum game in which one side must lose, players that consider themselves at a tactical disadvantage on an open and level playing field may conceal their plans, wait until the timing is in their favor, and then strike hard and fast using methods that may be considered unethical, if not actually illegal, in other countries. In China, many foreign investors have been blindsided by the use of such tactics.

Disposable steelmills and stealth factories

Conventional mainstream economics encourages sustainability and slow depreciation, but in a rapidly changing world the trend is toward cheap investment in single-purpose, temporary production lines to profit from new demand before markets change. One global iron ore market development manager for a large diversified resources company, who was previously based in China, reports with astonishment and some awe that single-purpose steel mills, including blast furnaces, spring up within months of realizing a new demand node. They use the latest technology, quality can be good, the output is exactly what the customer wants, and the whole process is focused, cheap, fast, and flexible.

Disposable steel mills are a spectacular and extreme example of guerrilla tactics in business because steel mills normally require large capital investments. But guerrilla-like tactics are used in many industries in China, particularly in light manufacturing. For instance, a foreign investor may set up operations complete with company culture and administrative practices imported directly from corporate headquarters. Maintaining high standards in quality, safety, environment, and ethics can be costly, but the resulting product is so good that most foreign companies generally consider the investment worthwhile. But in many cases, once production is up and running smoothly, key local staff, having learned how the operation works, calculate that a replica can be made more cheaply by cutting corners in quality, safety, and environmental standards. They are then set up by a local investor in another industrial park across town to churn out imitation products. The illegal upstart usurps the foreign investor's market, reaps profits, and sometimes even puts the original foreign factory out of business. By the time the law catches up, the guerrilla factory has made its profit and closed shop, leaving no trace but an expired mobile phone number.

Caught in the crossfire

Such tales of woe are not just confined to companies doing business in China, but extend to those based outside the country doing business with China. An international company with a good reputation in rehabilitating open-cut mine sites was approached by a San Francisco-based Chinese agent requesting quotes for goods (mainly seeds and planting equipment) and services (technology

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transfer and training) on a project of significant scope in China. The agent accepted the quotes without query and flew the manager of the international company to Beijing, where he signed an agreement deal to provide goods and services totaling $5 million.

This was good news for the international company because the goods, especially the machinery, had been quoted with a high markup. Having heard through the machinery suppliers that China was a tough market, the company conducted a thorough investigation, and the letter of credit was deemed valid. On a second invited and sponsored visit, replete with banquets and sightseeing tours, the international company's manager asked about the services component. The agent allegedly told him not to worry because the relevant ministry had received grant aid for training. This was how it was done. There was no need for training from the international company. All he had to do was sign off on the deal, ship the goods, and the letter of credit would be honored. The manager had met so many important and pleasant people that he was at ease. So he sent the containers, and the buyers paid $3.1 million for the goods.

The recipients, four state-owned farms in China, received the goods (which they discovered were overpriced), but they could not use them because there was no operational commissioning or training. Then the inquiries and visits started from Australian government officials and consultants demanding to know why their aid money had been spent but the training omitted. It appears that a Chinese firm used a front in San Francisco to tap $5 million in grant aid from Australia, claiming that it would use the money to buy goods and services for the recipient state farms. Instead, it paid $3.1 million for the goods and pocketed the $1.9 million earmarked for services. The case is now before the Australian courts, and the international supplier could face imprisonment for promising training services that were never delivered. The agent has no San Francisco office, and its Chinese mobile phone number has expired.

> The illegal upstart usurps the foreign investor's market, reaps profits, and sometimes even puts the foreign factory out of business.

Potemkin statistics and accounting

Within China, world-class environmentalists have absorbed lessons from the West's Industrial Revolution and are abreast of and involved in leading-edge environmental solutions. But though the government now generally acknowledges that China's record GDP growth has inadvertently achieved record pollution, official data are still selectively sampled and more selectively published. Ma Zhong, dean of the School of Environment and Natural Resources, People's University, Beijing, and a key

Transparency on the Rise

Transparency is the catchall of good corporate governance and public administration. The World Bank and Asian Development Bank are unwilling to lend without the implementing organization demonstrating mastery of an online management information system, which allows them to check balances anywhere in the project.

Transparency is also beginning to triumph in private enterprise in China. For instance, the building industry, notorious for contractors and subcontractors cashing in on confusion, is slowly being cleaned up by companies such as Aconex Pty Ltd., which provides a fast, electronic retrieval system for every agreement and variation made in a project. The greatest proponents of the initiative are banks, which increasingly insist that project borrowers be instantaneously accountable for all deals in which they will be involved, no matter where, when, or how big. Because funds are disbursed throughout the project as benchmarks are met, projects must use the system to receive full funding. Aconex's Shanghai-based China Manager Michael Lucas grins when he observes that crooked contractors fade away when they realize they can no longer exploit loopholes.

—John E. Coulter

national policy advisor, was surprised himself when he discovered that even national conservation parks have polluted water.

Nor is China's famed economic growth always what it seems. Despite a spate of market-oriented reforms in recent years, the current investment boom is not necessarily the result of market forces. For instance, the Shanghai Chinese Communist Party secretary reportedly controls 45 percent of that city's industry. Former Shanghai Party Secretary Chen Liangyu was sacked last fall for gross misuse of the city's pension funds and for aggressively promoting a culture of crooked accounting, which for years hid massive transfers of public monies to private funds.

One may wonder what the difference is between this case and the Enron scandal that erupted in the United States a few years ago. The answer lies in two words: transparency and politics. Enron and a few other Western scandals were, once exposed, well documented and treated with relative transparency by the courts and the press. In contrast, such cases in China come to light largely for political reasons, and once exposed, are rarely investigated in a transparent manner.

Dealing with guerrillas

The key conclusion is that guerrilla tactics, which can even encompass fraud and embezzlement, are still commonly used—and sometimes tacitly tolerated—throughout China's economy. The points below may seem inanely obvious. Yet when trying to salvage projects and deals that have gone awry, one often finds that the loss of so much money, time, goodwill, and potential began with a simple oversight.

- Foreign firms would do well to follow this rule of thumb: Do not do anything that you would not do in your home country.
- Due diligence in China must go far beyond the level of checking documentation, no matter how official it appears, and extend to physical assessment of assets and an understanding of who controls them.
- Andy Grove's *Only the Paranoid Survive* is a great guide for operating in China. Remain vigilant, even though things are going well.
- Guerrilla tactics operate on several levels and, in the most harmless form, are characterized by caginess. Some businesspeople in China do not carry business cards and, when asked why, pun that a card (*pian*) is a lie (also *pian*). In other words, many business cards are not what they seem. Guerrillas at the other extreme see themselves in a zero-sum game—they can either win or lose. To ensure that they win, they consider any tactic justified.
- Forewarned that guerrilla tactics may be used against them in China, companies and people can adjust habits accordingly. For example, many Westerners may put full contact information for references on a CV. At least one foreigner has discovered, to his dismay, that a Chinese company may collect that information and use it for its own marketing purposes. In such an environment, companies should carefully consider whether the information they decide to reveal could be used against them or for purposes they would not sanction.

Foreign firms would do well to follow this rule of thumb:
Do not do anything that you would not do in your home country.

Foreign companies should take care to avoid becoming involved in, or the target of, guerrilla tactics. The PRC government has little tolerance for foreign companies playing the guerrilla game. Guerrillas aim for win-lose outcomes, and before using such tactics, a foreign company should ask whether it really expects to win, and if so, who would lose, and how the government and other players would respond. Even guerrilla marketing as practiced in the United States—using unconventional, and usually inexpensive, marketing tactics—will fall flat in China if practiced by a foreign entity. The closest a foreign company can get to adopting guerrilla tactics without the risk of getting burned is to use subtle, low-key, and flexible methods—likely an advantage anywhere in the world. 完

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

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

US Institution: American Clipper Trust
Project Description: To recreate a US clipper ship and anchor it in Shanghai during the 2010 World Expo

The American Clipper Trust (ACT), a nonprofit organization based in Annapolis, MD, seeks to recreate an American clipper ship and berth it in Shanghai during the World Expo in 2010 as the US pavilion. US businesses and attendees of the expo will be able to use the ship.

Clipper ships were the swiftest vessels to sail up the Huangpu River to Shanghai, lured by the lucrative tea trade with China in the 1800s. ACT plans to build an authentic replica of the American clipper ship "Sea Witch," the first of nearly 400 vessels based on the US clipper design built in 1846.

Under the direction of ACT, construction is slated to take place in Alameda, CA, on San Francisco Bay and to last two years. The US government will not provide funding for the US pavilion; ACT is currently seeking finance and sponsorship from US industry.

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US Institution: Bridge to Asia
PRC Institution: PRC Ministry of Education
Project Description: To supply English-language educational materials to Chinese universities

Bridge to Asia (BTA) is one of the world's largest suppliers of free English-language books, journals, databases, and other educational materials to developing nations that cannot afford them. BTA operates its biggest program in China and has, since the 1980s, supplied more than 8 million books to Chinese universities.

US publishers, book wholesalers, college bookstores, and individuals donate the books. BTA works with the PRC Ministry of Education, which has distributed the books to more than 1,000 universities across China.

BTA currently receives about 250,000 books annually, but that number could double or triple with a budget increase of $250,000. BTA seeks greater awareness of, and involvement in, the program among US industry and individuals.

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US Institution: Family Resource Center
PRC Institution: China Center of Adoption Affairs
Project Description: To improve the infrastructure and equipment of welfare institutes that care for Chinese orphans

Established as a nonprofit organization in 1987, the Family Resource Center (FRC) provides adoption services to birthparents, adoptive parents, and children being placed for adoption. In 1995, the China Center of Adoption Affairs (CCAA), a government-authorized agency that oversees the adoption of Chinese children, approved FRC to work with Chinese orphans.

CCAA has recently launched the "Project of Love," which seeks to upgrade the infrastructure of welfare institutes across China to improve child care. The project hopes to set up or improve bottle preparation, clinic, laundry, and physical therapy rooms for 30 welfare institutes, with costs ranging from ¥10,000 ($1,286) to ¥1.2 million ($154,321). In addition, the project wishes to equip 80 institutes with incubators at a total projected cost of ¥800,000 ($102,881). For details of the equipment needs, visit www.china-ccaa.org/axfx/axfx_index_en.jsp.

CCAA is seeking donations from organizations and individuals to complete this project. Donors may target their donations to specific provinces and institutes.

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Int'l Institution: World Wide Fund for Nature (WWF)
PRC Institution: PRC State Forestry Administration
Project Description: To promote responsible business practices and find innovative solutions to environmental problems

WWF is the world's largest nongovernmental organization (NGO) devoted to nature conservation. In 1980, WWF became the first international NGO to enter China and work with the PRC government on nature conservancy. Currently, WWF China is active in nine Chinese cities, working on issues such as the protection of species, forests, and freshwater and marine resources; climate and energy; education for sustainable development; the elimination of wildlife trade; and the intersection of scientific development and international policy.

Companies in China increasingly face pressure from stakeholders to engage in sustainable business practices. WWF believes that profit maximization and responsible business practices are not mutually exclusive and that businesses play an important role in finding solutions to pressing environmental issues. WWF seeks partnerships with international and Chinese corporations to develop innovative environmental solutions.

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Wu Nan/WWF China

Sales and Investment

January 16–March 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

Automotive

CHINA'S EXPORTS

SORL Auto Parts, Inc. (Zhejiang)
Signed one-year contract to supply air brake valves to India-based TaTa Motors Ltd. 03/07.

CHINA'S IMPORTS

Komatsu Ltd., Toyota Tsusho Corp. (Japan)
Will provide 45 dump trucks to a subsidiary of Beijing-based China National Coal Group Corp. $115.2 million. 01/07.

INVESTMENTS IN CHINA

Bognor SA (Uruguay)/Chery Automobile Co., Ltd. (Anhui)
Will form joint venture to manufacture bullet-proof sedans in Wuhu, Anhui. (Uruguay:30%-China:70%). 03/07.

Otsuka Corp., Toyota Tsusho Corp. (Japan)
Formed joint venture, Tianjin Toyotsu Otsuka Textile Co., Ltd., to manufacture and supply non-woven fabric for vehicles. $4.2 million. 02/07.

Pegasus Sewing Machine Mfg. Co., Ltd., Shimamoto Diecast (Japan)
Will form joint venture to manufacture car parts in the Tianjin Economic-Technological Development Area for export to Japan. $3 million. 01/07.

Aviation/Aerospace

CHINA'S EXPORTS

Aircraft Maintenance & Engineering Corp., a joint venture between Deutsche Lufthansa AG (Germany) and Air China Ltd. (Beijing)
Will provide aircraft-engine overhaul services for UK-based Flyjet Ltd. 03/07.

CHINA'S IMPORTS

CFM International, SA, a joint venture between Snecma, a subsidiary of SAFRAN Group (France), and the General Electric Co. (US)
Will provide CFM56-5B aircraft engines to Air China Ltd. $345 million. 01/07.

INVESTMENTS IN CHINA

Changi International Airports Pte Ltd., a wholly owned subsidiary of the Civil Aviation Authority of Singapore
Acquired a 29% stake in Nanjing Lukou International Airport. $138 million. 02/07.

CFM International, SA, a joint venture between Snecma, a subsidiary of SAFRAN Group (France), and the General Electric Co. (US)/Air China Ltd. (Beijing)
Will form joint venture to repair and maintain aircraft engines in China. 01/07.

OTHER

Japan Airlines Corp./Hainan Airlines Co., Ltd.
Signed a code-sharing agreement for flights between Beijing and Osaka, Japan. 03/07.

Banking & Finance

INVESTMENTS IN CHINA

Hana Bank, a unit of Hana Financial Group Inc. (South Korea)
Will form a subsidiary in Beijing to supervise and operate Hana Bank branches in China. 02/07.

AXA Investment Managers Ltd., a unit of AXA Group (France)/Shanghai Dragon Investment Co., Ltd., Shanghai Pudong Development Bank Co., Ltd.
Will form a fund management joint venture in Shanghai. 01/07.

HSBC Holdings plc (UK)
Will open a new branch in Shenyang, Liaoning. 01/07.

Korea Asset Management Corp. (South Korea)/China Great Wall Asset Management Corp. (Beijing)
Will form joint venture to manage nonperforming loans and other financial assets in China. 01/07.

Nissan Motor Co., Ltd. (Japan)/Dongfeng Motor Group Co. Ltd. (Hubei)
Will form joint venture, Dongfeng Nissan Auto Finance Co., Ltd., to provide auto retail finance and inventory finance to Nissan and Infiniti customers and dealers, respectively, in China. (Japan:65%-China:35%). 01/07.

Woori Bank, a unit of Woori Finance Holdings Co., Ltd. (South Korea)
Will establish a retail bank in China. 01/07.

Chemicals, Petrochemicals & Related Equipment

CHINA'S IMPORTS

Aker Kværner ASA (Norway)
Won a contract from China Petroleum Material & Equipment Corp., a subsidiary of CNPC, to design and supply equipment for a polypropylene plant in Guangxi. 03/07.

INVESTMENTS IN CHINA

Lubrizol Corp. (US)
Will build a chemical production plant in Shanghai. $40 million. 03/07.

Formosa Plastics Corp. (Taiwan)
Will launch and operate an ethylene-production project in Ningbo, Zhejiang. 02/07.

Lonza Group Ltd. (Switzerland)
Will build a plant to manufacture performance chemicals in Nanjing, Jiangsu. 01/07.

Perstorp AB (Sweden)/Shandong Fufeng Chemical Co., Ltd.
Will form joint venture, Zibo Fufeng Tongsheng Chemical Co. Ltd., to produce trimethylolpropane in Zibo, Shandong. (Sweden:51%-China:49%). 01/07.

Distribution, Logistics & Related Services

CHINA'S EXPORTS

e-Future Information Technology Inc. (Beijing)
Will design a business-to-business platform for Johnson & Johnson China Ltd., a unit of Johnson & Johnson, to manage its supply chain. 01/07.

INVESTMENTS IN CHINA

New City Corp. (Japan)
Purchased a logistics facility from Shanghai Waigaoqiao Logistics Corp. 02/07.

Nippon Express Co., Ltd. (Japan)/Dongfeng Motor Group Co. Ltd. (Hubei)
Will jointly establish a distribution network for auto parts in China. 02/07.

Schneider National, Inc. (US)
Established Schneider Logistics (Tianjin) Co. Ltd. to provide transportation services in China. 02/07.

IGLO International Ltd., a wholly owned subsidiary of Haisan Resources Bhd (Malaysia)
Acquired land and a 43,444 m^2

site from Beijing Golden Bridge Technical Industry Base Development Co. Ltd. to build a multiple temperature-controlled facility and to expand IGLO's cold chain network, respectively. $6.9 million. 01/07.

TALKE Logistics Services, a unit of ALFRED TALKE GmbH & Co. KG (Germany), Kerry Logistics Network Ltd. (Hong Kong)
Will form joint venture to provide chemical transportation services in China. 01/07.

Electronics, Hardware & Software

CHINA'S EXPORTS

Along Mobile Technologies Inc. (Shaanxi)
Will license a mobile phone video game to Motorola, Inc. 02/07.

CHINA'S IMPORTS

MultiPlus Solutions AS (Norway)
Will supply and implement its enterprise resource planning system in five shipyards owned by Sinopacific Shipbuilding Group. $6 million. 03/07.

Playtech Ltd. (UK)
Signed an agreement with Hong Kong-based Foundation Group Ltd. to provide peer-to-peer competitive gaming software in China. 03/07.

Winbond Electronics Corp. (Taiwan)
Will supply pseudo static random access memory (PSRAM) products to Guangdong-based TCL Corp. 03/07.

Winbond Electronics Corp. (Taiwan)
Will supply PSRAM products to Shandong-based Haier Group Co. 03/07.

Winbond Electronics Corp. (Taiwan)
Will supply PSRAM products to Zheijiang-based Ningbo Bird Co., Ltd. 03/07.

Advanced Micro Devices, Inc. (US)
Will supply personal computer microprocessors to TCL Computer Tech. Co., Ltd., a unit of Guangdong-based TCL Corp. 01/07.

CHINA'S INVESTMENTS ABROAD

UFIDA Software Co., Ltd. (Beijing)
Will acquire a 66.67% stake in Fidatone Mobile Technology and Services Co. Ltd. $8.4 million. 01/07.

INVESTMENTS IN CHINA

Qualcomm Inc. (US), Samsung Venture Investment Corp. (South Korea)
Invested in Shanghai-based Advanced Micro-Fabrication Equipment Inc. $8 million. 03/07.

Advanced Semiconductor Engineering, Inc. (Taiwan), NXP Semiconductors (the Netherlands)
Signed MOU to form a joint venture in Suzhou, Jiangsu, to package and test semiconductors. (the Netherlands:40%-Taiwan:60%). 02/07.

LemonQuest (Spain)
Acquired Beijing-based mobile phone game-creator, Ice-Storm Mobile Software Corp., which operates i4Game.com. 02/07.

Nitto Denko Corp. (Japan)
Will build plant in Shenzhen, Guangdong, to manufacture film for liquid crystal display panels. 01/07.

ProMOS Technologies Inc. (Taiwan)
Signed agreement with Chongqing Municipal Government to construct and operate an eight-inch chip manufacturing project in Chongqing. 01/07.

OTHER

Envisage Solutions, Inc. (US)/hiSoft Technology International Ltd. (Beijing)
Merged under the hiSoft Technology name. 03/07.

Energy & Electric Power

CHINA'S EXPORTS

Suntech Power Holdings Co., Ltd. (Jiangsu)
Will provide photovoltaic modules to Germany-based Conergy AG. $270 million. 02/07.

China Hydraulic and Hydroelectric Construction Group Corp. (Beijing)
Won contract to construct a hydroelectric power plant in Tajikistan. 01/07.

CHINA'S IMPORTS

The Shaw Group Inc., Westinghouse Electric Co., LLC (US)
Signed framework agreement to provide four AP1000 nuclear power plants to Beijing-based State Nuclear Power Technology Corp. 03/07.

Maxwell Technologies, Inc. (US)
Will supply ultracapacitor electrode material to Shanghai Sanjiu Electric Equipment Co., Ltd. 02/07.

Vestas Wind Systems A/S (Denmark)
Will supply 152 V52-850-kW wind turbines for Heilongjiang-based Datang Chifeng Saihanba Wind Power Co. Ltd. 02/07.

Vestas Wind Systems A/S (Denmark)
Will supply 68 V52-850-kW wind turbines for Inner Mongolia-based Yilan Longyuan Wind Power Co. Ltd. 02/07.

INVESTMENTS IN CHINA

Xantrex Technology Inc. (Canada)/Shanghai Power Transmission and Distribution Co., Ltd.
Will form a joint venture to research, design, produce, and sell transformers and systems for wind and solar power generation. (Canada:49%-China:51%). $20 million. 03/07.

OTHER

Windtec GmbH (Austria), a wholly owned subsidiary of American Superconductor Corp.

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

(US)/Sinovel Wind Co., Ltd. (Beijing)
Will jointly design and develop 3-MW and 5-MW wind energy systems. 03/07.

Windtec GmbH (Austria), a wholly owned subsidiary of American Superconductor Corp. (US)/Zhuzhou Electric Locomotive Research Institute (Hunan)
Signed licensing agreement permitting Zhuzhou Electric Locomotive Research Institute to manufacture, operate, and sell Wintec energy systems in China. 01/07.

Environmental Equipment & Technology

CHINA'S IMPORTS

Fuel Tech, Inc. (US)
Will provide a NOxOUT ULTRA urea-to-ammonia engineering system to Huaneng Beijing Co-Generation Co., Ltd., a subsidiary of Huaneng Power International, Inc. $2.6 million. 01/07.

INVESTMENTS IN CHINA

Hyflux Utility Ltd., an affiliate of Hyflux Ltd. (Singapore)
Won a 30-year concession agreement to design, develop, and operate a water clarification plant in Dafeng, Jiangsu. $4.5 million. 03/07.

Hyflux Utility Ltd., an affiliate of Hyflux Ltd. (Singapore)
Won a 30-year concession agreement to construct and operate a water clarification plant in Zunhua, Hebei. $15.5 million. 03/07.

Hyflux Utility Ltd., an affiliate of Hyflux Ltd. (Singapore)
Won a 30-year concession agreement to design, develop, and operate a waste-water treatment and water recycling plant in Tianjin. $24 million. 03/07.

Asia Water Technology Ltd. (Singapore)
Won concession agreement to build and operate a waste-water treatment facility and develop a waste-water piping network in Suzhou, Jiangsu. 02/07.

Covanta Holding Corp. (US)
Will acquire a 40% stake in Chongqing Sanfeng Environmental Industry Co., Ltd., a unit of Chongqing Iron & Steel Co., Ltd. 02/07.

Salcon Bhd (Malaysia)/ Fujian Provincial Government
Signed MOU to develop a water supply system in Fujian. $47.4 million. 01/07.

Food & Food Processing

CHINA'S EXPORTS

Beijing Huiyuan Beverage and Food Group Co., Ltd.
Will provide fruit juice to 3,000 Wal-Mart Stores, Inc. outlets in the United States. $12.5 million. 03/07.

INVESTMENTS IN CHINA

Lam Soon (Hong Kong) Ltd.
Will construct a manufacturing and storage facility for wheat and flour products in Shandong. $13.3 million. 02/07.

The Hershey Co. (US), Lotte Confectionery Co., Ltd. (South Korea)
Will form a joint venture to produce Hershey and Lotte products at a facility near Shanghai for distribution and sale in China. 01/07.

Forestry, Timber & Paper

INVESTMENTS IN CHINA

ArjoWiggins SAS (France)
Will acquire a 37.67% stake in Zhejiang Halberd Paper Co., Ltd. $2.5 million. 01/07.

Internet/E-Commerce

INVESTMENTS IN CHINA

Match.com, LP (US)
Acquired Chinese online dating service edodo.net. 02/07.

568 Network Inc., CryptoLogic Inc. (Canada)/Brilliance Technology Co., Ltd. (Beijing)
Signed MOU to form a Chinese online gambling joint venture. 01/07.

OTHER

IC Star MMS Ltd., a subsidiary of Telecom Communications, Inc. (Hong Kong)/Sina Corp. (Shanghai)
Formed partnership to develop and provide content for a channel for women on Sina.com. 02/07.

Light Industry/Manufacturing

CHINA'S IMPORTS

Alfa Laval AB (Sweden)
Secured three orders in China for its Packinox custom-designed heat exchangers. $25.6 million. 02/07.

INVESTMENTS IN CHINA

General Cable Corp. (US)
Acquired Jiangyin Huaming Specialty Cable Co. Ltd. 02/07.

Noevir Co., Ltd. (Japan)/Shanghai Bailian Group Co., Ltd., Shanghai Lian You Li Jia Trade Co., Ltd.
Will form joint venture, Shanghai Noevir Co., Ltd., to manufacture and market a cosmetic line in China. (Japan:50%-China:50%). $642,900. 01/07.

OTHER

Industrial Electric Wire & Cable Inc. (US)
Will open a sales office and distribution center in Suzhou, Jiangsu. 03/07.

Machinery & Machine Tools

CHINA'S IMPORTS

Teer Coatings Ltd. (UK)
Will provide four physical vapor deposition coating machines to Zheijiang Huijin-Teer Coatings Co., Ltd., a joint venture between Zheijiang Huijin Group and Teer Coatings Ltd. 02/07.

INVESTMENTS IN CHINA

Haldex AB (Sweden)
Will acquire a Shangdong-based hydraulics supplier, Runguang Hydraulics, and form a new company, Haldex Hydraulics (Qingzhou) Co. Ltd. 02/07.

Media, Publishing & Entertainment

INVESTMENTS IN CHINA

Draper Fisher Jurvetson; Highland Capital Partners, Inc.; Sequoia Capital; Steamboat Ventures, a unit of the Walt Disney Co.; Susquehanna International Group, LLP (US)
Will invest in Beijing-based Internet video provider UUSee Co. Ltd. $23.5 million. 03/07.

Sony BMG Music Entertainment (US), a joint venture between Bertelsmann AG (Germany) and Sony Corp. of America (US)
Acquired a stake in Access China Media Solutions, a WFOE of Japan-based Access Co., Ltd. and US-based Melodeo, Inc. 01/07.

Warner Music Group Corp. (US)
Acquired a stake in Access China Media Solutions, a WFOE of Japan-based Access Co., Ltd. and US-based Melodeo, Inc. 01/07.

OTHER

EMI Group plc (UK)/Baidu.com, Inc. (Beijing)
Formed partnership to provide free online music download service. 01/07.

Medical Equipment & Devices

CHINA'S IMPORTS

Royal Philips Electronics NV (the Netherlands)
Will supply 200 radiography systems to Zheijiang-based Ascent Profit. $34.9 million. 01/07.

INVESTMENTS IN CHINA

3M Health Care, a division of 3M Co. (US)
Will build a facility in Shanghai to manufacture healthcare products. 02/07.

Metals, Minerals & Mining

CHINA'S IMPORTS

Nippon Yusen Kabushiki Kaisha (Japan)
Will ship iron ore from Brazil to Maanshan, Anhui, for Shanghai-based Baoshan Iron & Steel Co., Ltd. 02/07.

CHINA'S INVESTMENTS ABROAD

Chiping Xinfa Huayu Alumina Co. Ltd. (Shandong)
Acquired a 10% stake in Cape Alumina Pty Ltd., a subsidiary of Australia-based Metallica Minerals Ltd. $5.8 million. 02/07.

Zijin Tongguan Investment Development Co. Ltd. (Fujian), a joint venture between Tongling Nonferrous Metal (Group) Inc. (Anhui), Xiamen C&D Inc., and Zijin Mining Group Co., Ltd. (Fujian)
Will purchase a 70% stake in UK-based Monterrico Metals plc. $179 million. 02/07.

Packaging & Labeling

INVESTMENTS IN CHINA

Carolina Precision Plastics LLC (US), Fischer Tech Ltd. (Singapore)
Will form joint venture, CPP-Fischer Pte. Ltd., to renovate and operate a packaging facility in Suzhou, Jiangsu. (Singapore:50%-US:50%). 02/07.

Petroleum, Natural Gas & Related Equipment

CHINA'S IMPORTS

KNM Special Process Equipment (Changshu) Co. Ltd., a subsidiary of KNM Group Bhd (Malaysia)
Will provide towers to an ethylene project in Fujian for Sinopec Engineering Inc., a subsidiary of Sinopec. 02/07.

CHINA'S INVESTMENTS ABROAD

Sinopec (Beijing)
Signed a framework agreement to acquire Hong Kong-based China Resources Enterprise, Ltd.'s petroleum and gas distribution businesses in Hong Kong. $510 million. 03/07.

INVESTMENTS IN CHINA

China Gas Holdings Ltd. (Hong Kong), GAIL Ltd. (India)
Will form joint venture, Zhongyin Energy Co. Ltd., to build and run compressed natural gas projects in China. (Hong Kong:50%-India:50%). 02/07.

Exxon Mobil Corp. (US), Saudi Arabian Oil Co./Fujian Petrochemical Co., Ltd., a joint venture between Beijing-based Sinopec and the Fujian Provincial Government
Formed joint venture to expand and operate an existing refinery and construct related facilities in Quanzhou, Fujian. (Saudi Arabia: 25%-US:25%-China:50%). 02/07.

Exxon Mobil Corp. (US), Saudi Arabian Oil Co./Sinopec (Beijing)
Formed joint venture to manage, operate, and market 750 service stations in Fujian. (Saudi Arabia:22.5%-US:22.5%-China:55%). 02/07.

London Asia Chinese Private Equity Fund Ltd. (UK)
Purchased a stake in Beijing-based Wan Wei Oil Technology & Services Ltd. $8.2 million. 02/07.

Syntroleum Corp. (US)/Sinopec (Beijing)
Signed MOU under which Syntroleum and Sinopec will jointly develop and construct coal-to-liquids and natural gas-to-liquids technologies and facilities in China. 02/07.

Royal Dutch Shell plc (the Netherlands)/Donyen Holdings (Chongqing)
Formed joint venture, Donyen Shell Chemical Ltd., to build and operate Shell service stations in China. 01/07.

OTHER

Myanmar Oil and Gas Enterprise/Sinopec (Beijing)
Signed production-sharing contracts for three oil-exploration blocks off the west coast of Myanmar. 01/07.

Pharmaceuticals

INVESTMENTS IN CHINA

ReceptoPharm, Inc., a subsidiary of Nutra Pharma Corp. (US)/Zhong Xin Dong Tai Co., Ltd. (Jiangsu)
Signed nonbinding agreement to form joint venture to develop, market, and produce Nutra Pharma's antiviral drug, RPI-MN, in China. 03/07.

Alliance Boots plc (UK)/Guangzhou Pharmaceuticals Corp. (Guangdong)
Will form joint venture to sell pharmaceutical products in China. (UK:50%-China:50%). 01/07.

OTHER

Sinclair Pharma plc (UK)/Auroren Pharmaceuticals (Liaoning)
Signed licensing agreement under which Auroren will market and distribute Sinclair's Aloclair-brand mouth ulcer drugs in mainland China, Hong Kong, and Macao. 01/07.

Ports & Shipping

CHINA'S EXPORTS

SinoPacific Heavy Industries Group (Shanghai)
Will supply 46 offshore supply vessels to France's Bourbon Group. $739 million. 02/07.

Shanghai Zhenhua Port Machinery Co. Ltd.
Will supply 27 heavy container cranes to Taiwan-based Taipei Port Container Terminal Corp. $100 million. 01/07.

China Shipbuilding Industry Corp. Wuchang Shipyard (Hubei)
Will build three anchor-handling tug supply vessels and two large platform supply vessels for Greece's Toisa Ltd. 01/07.

CHINA'S IMPORTS

Wärtsilä Corp. (Finland)
Will provide sterntube bearings, shaftline bearings, and airguard seals to Shanghai Waigaoqiao Shipbuilding Co., Ltd. 01/07.

INVESTMENTS IN CHINA

Neptune Orient Lines Ltd. (Singapore)/SITC Maritime (Group) Co., Ltd. (Shandong)
Will form joint venture to construct and operate a container terminal in Qingdao, Shandong. (Singapore:50%-China:50%). 02/07.

Rail

CHINA'S EXPORTS

China Railway Engineering Corp. (Beijing), Transtech Engineering Corp., a unit of China Railway Erju Co., Ltd. (Sichuan)
Will jointly construct a 470-mile railway line in Sudan. $1.2 billion. 02/07.

CHINA'S IMPORTS

Alstom SA (France)
Signed contract with the PRC Ministry of Railways (MOR) to manage and implement the electrification of the Shijiazhuang-Taiyuan high-speed line. $55.4 million. 03/07.

Otis Elevator Co. (US)
Will supply and install 111 elevators and escalators for the Beijing South Railway Station. 03/07.

Bombardier Inc. (Canada)/Dalian Locomotives and Rolling Stock Co., Ltd. (Liaoning)
Will jointly supply 500 electric freight locomotives to MOR. $485.7 million. 02/07.

Voestalpine AG (Austria)
Will manufacture and supply 300 high-speed rail turnouts to four Chinese companies. $159 million. 02/07.

INVESTMENTS IN CHINA

BWG GmbH & Co. KG, a subsidiary of VAE GmbH, a subsidiary of Voestalpine AG (Austria)/China Railway Shanhaiguan Bridge Group Co., Ltd. (Hebei)
Established joint venture to manufacture high-speed rail turnouts in Qinhuangdao, Hebei. (Austria:50%- China:50%). $28.5 million. 02/07.

Real Estate & Land

INVESTMENTS IN CHINA

GIC Real Estate Pte Ltd., a unit of the Government of Singapore Investment Corp. Pte Ltd.
Acquired a 2.8% stake in Shanghai Shimao Co., Ltd. from US-based Morgan Stanley. 03/07.

Hang Lung Properties Ltd. (Hong Kong)
Acquired a 52,600 m^2 site in Ji'nan, Shandong, to build a shopping center. $73.6 million. 02/07.

ING Real Estate, a subsidiary of ING Groep NV (the Netherlands)/Gemdale Corp. (Guangdong)
Will form joint venture to develop a residential project in Foshan, Guangdong. (the Netherlands:49%-China:51%). 02/07.

Cheung Kong (Holdings) Ltd., Hutchinson Whampoa Ltd. (Hong Kong)
Jointly acquired a 177,000 m^2 site in Putuo District, Shanghai, to build commercial and residential properties. $283 million. 01/07.

Henderson Land Development Co. Ltd. (Hong Kong)
Acquired a 300,000 m^2 site in Suzhou, Jiangsu, to build a high-end apartment complex. $111.3 million. 01/07.

Hong Kong Construction (Holdings) Ltd.
Purchased a 200,000 m^2 site in Huzhou, Zhejiang, to construct a distribution center. $16.6 million. 01/07.

Road King Infrastructure Ltd. (Hong Kong)
Acquired an additional 39.74% stake in Beijing-based Sunco Property. $167 million. 01/07.

Warburg Pincus LLC (US)
Acquired a 25% stake in Shanghai ZK Real Estate Development Co. Ltd. 01/07.

OTHER

Tokyo Tatemono Co., Ltd. (Japan)/China Vanke Co., Ltd. (Guangdong)
Formed partnership to boost communication, information, and personnel exchange. 02/07.

Research & Development

INVESTMENTS IN CHINA

Satyam Computer Services Ltd. (India)
Will establish a global delivery campus in Nanjing, Jiangsu, for research, development, and training. $64.5 million. 02/07.

Retail/Wholesale

INVESTMENTS IN CHINA

Commissionarre Riunite Alimentaristi Italiani Srl (Italy)
Will build and operate four supermarkets in Beijing and Shanghai. $11.9 million. 03/07.

Telecommunications

CHINA'S IMPORTS

UTStarcom, Inc. (US)
Will provide its IP television (IPTV) solution to Beijing-based China Telecom for an IPTV network in Shanxi. 01/07.

CHINA'S EXPORTS

Huawei Technologies Co., Ltd. (Guangdong)
Will provide universal mobile telecommunications service mobile equipment to France Telecom Group. 02/07.

ZTE Corp. (Guangdong)
Won contract to manufacture handsets for UK-based Vodafone Group plc. 02/07.

China TechFaith Wireless Communications Technology Ltd. (Beijing)
Will provide CDMA mobile phones to Poland-based Sferia SA. 01/07.

China TechFaith Wireless Communications Technology Ltd. (Beijing)
Will provide CDMA mobile phones to Taiwan-based Asia Pacific Telecom Group. 01/07.

China TechFaith Wireless Communications Technology Ltd. (Beijing)
Will provide CDMA mobile phones to Thailand-based Hutchison Cat Wireless Multimedia Ltd. 01/07.

Huawei Technologies Co., Ltd. (Guangdong)
Will provide a third-generation CDMA2000 telecom network for Telephone al Iraq. 01/07.

ZTE Corp. (Guangdong)
Will construct a national CDMA mobile network for Czech Republic-based MobilKom AS. 01/07.

CHINA'S IMPORTS

Sycamore Networks, Inc. (US)
Will provide its network management system to Shanghai Unicom. 03/07.

Siemens Communication Networks Ltd., a subsidiary of Siemens AG (Germany)
Will supply its Music2You mobile music download service to Beijing Digital Telecom Investment Co., Ltd. 01/07.

CHINA'S INVESTMENTS ABROAD

China Mobile (Beijing)
Will purchase an 88.86% stake in Pakistan-based Paktel Ltd. from Luxembourg-based Millicom International Cellular SA. $284 million. 01/07.

OTHER

picoChip Designs Ltd. (UK)/Wireless Signal Processing & Network Lab of Beijing University of Posts and Telecommunications
Signed cooperation agreement to develop fourth-generation and other new mobile technologies. 03/07.

NTT Communications Corp. (Japan)/Beijing Blue IT Technologies Co., Ltd.
Formed a strategic partnership to promote content distribution network services globally. 02/07.

NXP Semiconductors (the Netherlands)/Chipnuts Technology Inc. (Shanghai)
Formed partnership to launch a platform for GSM/GPRS smart phones based on Chipnuts' software. 02/07.

CounterPath Solutions, Inc. (Canada)/Huawei Technologies Co., Ltd. (Guangdong)
Will jointly provide IP multimedia subsystem services to telecom network operators. 01/07.

Textiles & Apparel

INVESTMENTS IN CHINA

Tai Ping Carpets International Ltd. (Hong Kong)/Weihai Shanhua Carpet Group Co., Ltd. (Shandong)
Will form joint venture to produce and sell carpets in China. (Hong Kong:49%-China:51%). $15 million. 01/07.

Tourism & Hotels

CHINA'S IMPORTS

Banyan Tree Holdings Ltd. (Singapore)
Will manage the Angsana Hotel Beijing for Beijing Blue Harbor Properties Co., Ltd. 02/07.

Banyan Tree Holdings Ltd. (Singapore)
Will develop, design, and manage the Banyan Tree Hotel Beijing for Beijing Zi Jin Century Zhi Ye Co., Ltd. 02/07.

Banyan Tree Holdings Ltd. (Singapore)
Will manage the Banyan Tree Hotel Hangzhou for Hangzhou Zijingang Tourism Co., Ltd. 02/07.

Mandarin Oriental International Ltd., a unit of Jardine Matheson Holdings Ltd. (Hong Kong)
Won contract to manage a hotel to be built in Guangzhou, Guangdong. 02/07.

INVESTMENTS IN CHINA

Kempinski Hotels SA (Switzerland), a subsidiary of Kempinski AG (Germany)
Will build a 500-room hotel, the Kempinski Hotel Hohhot, in Inner Mongolia. 01/07.

OTHER

Expedia, Inc. (US)
Will provide online reservation services for Shanghai Jin Jiang International (Group) Co., Ltd. 01/07.

Fastbooking (France)
Will provide online reservation services for Beijing-based Gloria International Hotels Ltd. 01/07.