May–June 2008

The China Business Review

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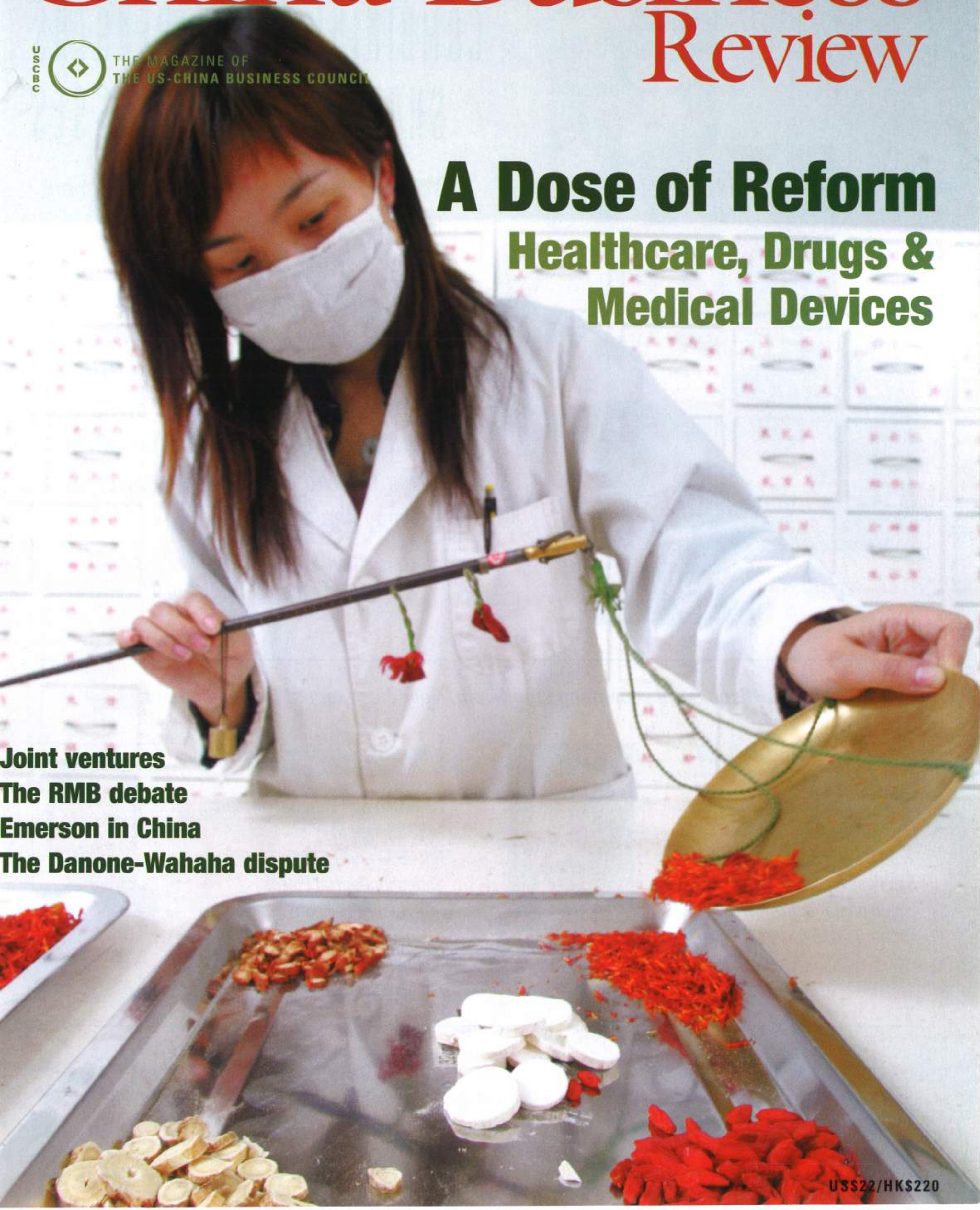

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The China Business Review

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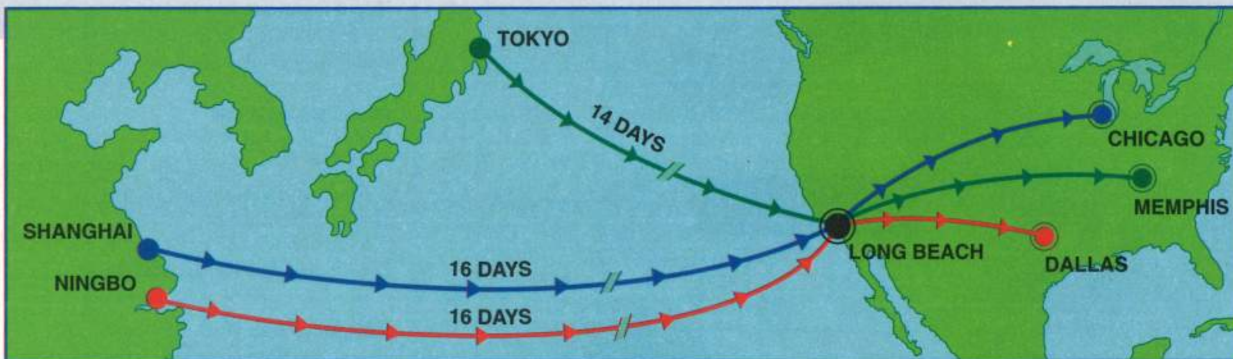

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National People's Congress

The highlight of the inaugural session of the 11th National People's Congress (NPC) was the unveiling of a much-anticipated government restructuring plan. The main aim of the plan is to streamline government and reduce the number of agencies with competing or overlapping responsibilities. The plan created the Ministry of Industry and Information, which will take over most industry approval functions; the National Energy Commission, which will coordinate energy policy; and four other new ministries.

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The NPC also appointed several new PRC leaders, including three new vice premiers: Li Keqiang, Zhang Dejiang, and Wang Qishan, who were assigned the macroeconomic management; industry, telecom, and energy; and trade and finance portfolios, respectively.

Intellectual Property Rights

Several developments in intellectual property rights (IPR) have occurred recently: The interagency IPR Working Group was disbanded as part of the government restructuring; China released a detailed plan to improve intellectual property protection; and the World Trade Organization appointed panelists in a case in which the United States is challenging China's restrictive market access for copyright-intensive industries.

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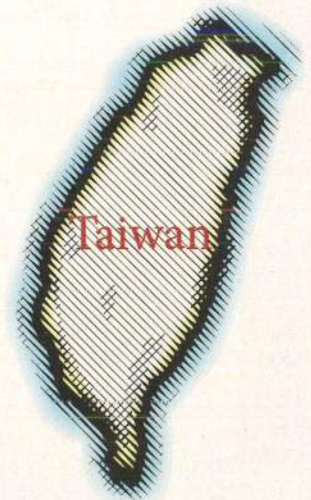
In addition, the State Council in April approved China's 2008 IPR Strategy Outline, which was expected to be released in May. The strategy aims to improve protection of, international cooperation on, and domestic awareness of intellectual property. The strategy also encourages innovation and the use of new technologies among PRC companies.

Two foreign companies recently won cases against PRC copyright infringers. First, Ferrero Group's three-year battle against PRC-based Montresor (Zhangjiagang) Food Co., Ltd. ended with a Chinese court ordering Montresor to stop producing its Tresor Dore chocolates and pay Ferrero €50,000 ($79,085) in "symbolic" damages. Second, Gucci Group's case, in which it claimed counterfeiters were using its interlocking "GG" logo on ladies' sandals, ended with a settlement of ¥180,000 ($25,734).

Taiwan

Despite reports of a close presidential race in Taiwan in the final days before voters went to the polls in late March, Nationalist Party candidate Ma Ying-jeou won by 17 points. Two referenda that called on Taiwan to apply for United Nations membership as an independent entity failed, perhaps signaling voters' desire for better relations with the mainland.



In line with Ma's campaign pledge of better cross-Strait relations, direct talks between Taiwan and mainland China, halted since 1999, seem likely to resume soon after Ma takes office on May 20. PRC President Hu Jintao and Taiwan Vice President-elect Vincent Siew met on the sidelines of the Boao Forum in Hainan in mid-April—reportedly the highest-level contacts between the two sides since 1949.

Economy

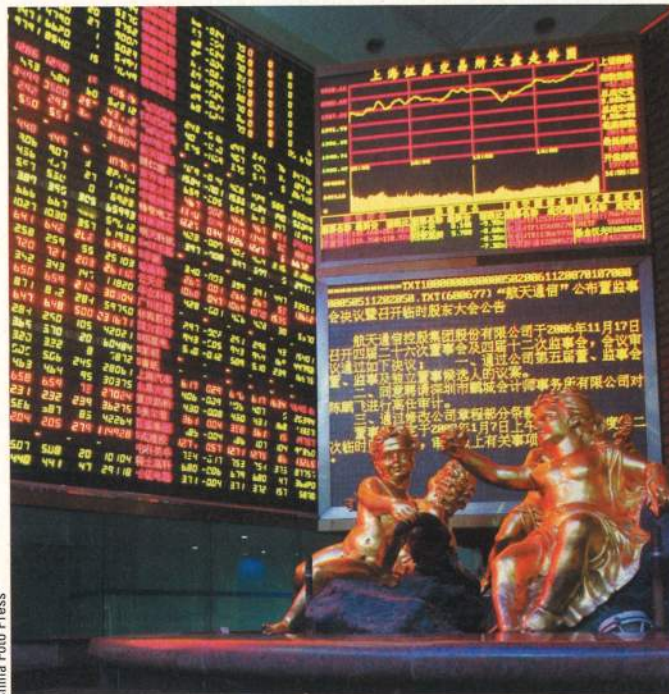
China's currency, the renminbi (RMB), passed the 7:1 threshold against the US dollar on April 9, marking a 4.3 percent rise against the dollar since January 1 (see p.36).

China's economy grew 10.6 percent in the first three months of 2008, slightly less than in the first quarter of 2007. Slower growth was likely due to severe winter weather in China and US economic woes.

China's first-quarter trade surplus fell 11 percent year on year, with the total value of imports rising 28.6 percent and the value of exports growing 21.4 percent. Meanwhile, rising food prices pushed the consumer price index to 8 percent for the first quarter of 2008, according to the PRC National Bureau of Statistics.

In other news, China revised its 2007 gross domestic product upward by ¥3.6 trillion to ¥25.0 trillion, increasing the year-on-year growth rate to 11.9 percent.

The World Bank named China the world's second-largest economy in terms of purchasing power, replacing Japan.



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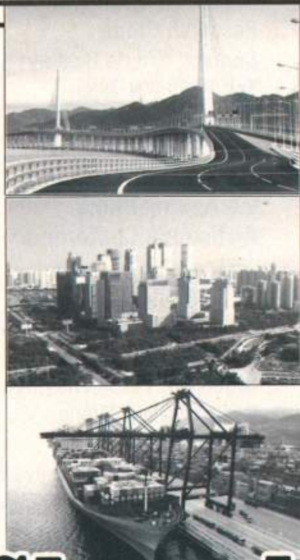

- Shenzhen is located in the seaboard Pearl River Delta of South China and neighbors Hong Kong
- Shenzhen is the first Special Economic Zone established in China
- Shenzhen 2007 GDP exceeds $94 billion, ranks 4th among mainland China cities; GDP per capita exceeds $10,628, ranks 1st in China; import and export exceeds $287.5 billion, ranks 1st in China
- The World Bank rates Shenzhen as the "Best Investment Environment" among 23 cities in China. 146 Global Fortune 500 companies have operations in Shenzhen

- Shenzhen's core industries include:
  - IT and telecom
  - Biomedical & medical device
  - Auto parts, electronic & electrical
  - Garments, gifts, toys, clocks & watches, furniture, gold & jewelry and more...
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China Conference Calendar

China-related events near you

May–October 2008

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

China Paper, September 17–19

Healthcare Information and Management Systems Society Asia Pacific Conference & Exhibition

MAY 20–23

Location: Hong Kong Convention and Exhibition Center
Organizer: Healthcare Infomation and Management Systems Society
Contact: Joanne Bartley
Tel: 1-312-915-9284
spalmer@himss.org
www.himssasiapac.org

China International Small and Medium Enterprises Fair

MAY 23–25

Location: Jiangsu: Suzhou International Expo Center
Organizer: Suzhou International Expo Center Co. Ltd.
Tel: 86-512-6280-4452
sme@suzhouexpo.com
www.chinasmefair.com/en/index.asp

MeetChinaBiz Business Development & Matchmaking Trip to China

MAY 25–JUNE 10

Locations: Beijing; Shanghai; Wuxi, Changzhou, Jiangsu; Xi'an, Shaanxi; Cixi, Ningbo, Zhejiang: Various venues
Organizer: MeetChinaBiz
Contact: Shawn He
Tel: 1-617-633-3806
info@meetchinabiz.org
www.meetchinabiz.org

Asia Society Asian Corporate Conference

MAY 28–30

Location: Renaissance Tianjin TEDA Hotel
Organizers: Asia Society; *Wall Street Journal Asia*; Tianjin Municipal Government
Contact: Asia Society
Tel: 1-212-288-6400
tianjin2008@asiasoc.org
www.asiasociety.org/conference08

China Summit on Anti-Corruption: Corporate Governance, Transparency, and Compliance

JUNE 5–6

Location: InterContinental Shanghai Pudong
Organizer: American Conference Institute
Contact: Stephen Clarke
Tel: 1-888-224-2480
s.clarke@americanconference.com
www.americanconference.com/AntiBriberyChina.htm

China International Consumer Goods Fair

JUNE 8–12

Location: Zhejiang: Ningbo International Conference and Exhibition Center
Organizers: Ningbo Municipal Government; Zhejiang Provincial Foreign Trade and Economic Cooperation Department
Contact: Chi Qiaoyu
Tel: 86-574-8717-8074
trade@cicgf.com
www.cicgf.com

China Retail Conference & Exposition Shanghai

JUNE 11–13

Location: Shanghai New International Expo Center
Organizers: Shanghai Commercial Information Center; VNU Exhibitions Asia
Contact: Jane Liang
Tel: 86-21-6247-7668 x 507
crc@vnuexhibitions.com.cn
www.crcexpo.com

Opportunity China II: Food and Beverage Executive Summit

JUNE 12–13

Location: Shanghai: Radisson Hotel Pudong
Organizer: IBG China
Contact: Fanny Wang
Tel: 86-21-6232-6090
fanny.wang@ibgintl.com
www.ibgintl.com/events/fb2008

Strategic Human Resource Outsourcing

JUNE 19–20

Location: Shanghai: Four Points by Sheraton
Organizer: Marcus Evans
Contact: Lim Am Mee
Tel: 60-3-2723-6763
lima@marcusevanskl.com
www.marcusevans.com

China International RFID Exhibition & Conference

JUNE 19–21

Location: Guangzhou Jinhan Exhibition Center
Organizers: Guangdong Science and Technology Exchange Center; Guangdong International Science and Technology Exhibition Co.
Contact: Crystal Tan
Tel: 86-20-8355-8396
scan@ste.cn
www.scan-china.com

Rethinking China: Understanding the New China and 1.3 Billion Consumers

JUNE 24–30

Location: Shanghai: Various venues
Organizer: Moving Target Research Group
Contact: Valerie Romley
Tel: 1-800-308-2899
china@movingtargetresearch.com
www.rethinkingchina.com

6th Annual China Airfinance Conference

JUNE 26–27

Location: Shanghai: The Westin Bund Center
Organizer: Euromoney Seminars
Contact: Olivia Wong
Tel: 852-2912-8099
registrations@euromoneyasia.com
www.airfinanceconferences.com/china08.html

Asia Nonferrous Metals Executive Summit 2008

JUNE 26–27

Location: Shanghai International Convention Center
Organizer: IBG China
Contact: Fanny Wang
Tel: 86-21-6232-6090
fanny.wang@ibgintl.com
www.ibgintl.com/events/anmes2008

China Conference Calendar

Cityscape China

JUNE 26–27

Location: Shanghai New International Expo Center
Organizer: IIR Middle East
Contact: Graham Wood
Tel: 971-4-407-2581
graham.wood@iirme.com
www.cityscapechina.com

China International Building & Decoration Fair

JULY 6–9

Location: Guangzhou International Convention and Exhibition Center
Organizers: China Foreign Trade Guangzhou Exhibition Corp.; Guangzhou Boya Exhibition Development Co. Ltd.; MEREBO Messe Marketing
Contact: Frank Bode
Tel: 49-40-6087-6926
contact@merebo.com
www.merebo.com/CBD/English english.html

China International Textile Machinery Exhibition

JULY 27–31

Location: Shanghai New International Expo Center
Organizers: Beijing Textile Machinery International Exhibition Co. Ltd. (BJITME); MP International Pte Ltd.
Contact: BJITME
Tel: 86-10-8522-9422
itmaasiacitme@ccpittex.com
www.citme.com.cn

NEPCON Microelectronics South China

AUGUST 26–29

Location: Guangdong: Shenzhen Convention and Exhibition Center
Organizers: Reed Exhibitions; China Council for the Promotion of International Trade (CCPIT), Electronics and Information-Industry Sub-Council
Contact: Mike Deng
Tel: 86-21-5153-5100
mike.deng@reedexpo.com.cn
www.nepconchina.com

China Electronics Fair West China 2008

AUGUST 28–30

Location: Shaanxi: Xi'an International Conference and Exhibition Center
Organizer: China Electronic Exhibition and Information Communication Co., Ltd.
Contact: Elaine Hao
Tel: 86-10-5166-2329 x56
cef@ceac.com.cn
www.icef.com.cn/summer_eng

China International Equipment Manufacturing Exposition

SEPTEMBER 1–5

Location: Liaoning: Shenyang International Exhibition Center
Organizers: Shenyang Municipal Government; CCPIT, Liaoning Sub-Council; CCPIT, Machinery Sub-Council; Liaoning Economic Commission
Contact: Lee Ke Zhong
Tel: 86-24-6212-4054
cieme@zxexpo.com
www.zxexpo.com

China International Fair for Investment and Trade (CIFIT)

SEPTEMBER 8–11

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

China Paper

SEPTEMBER 17–19

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

International Trade Fair for Water, Sewage, Refuse, Recycling, and Natural Energy Sources

SEPTEMBER 23–25

Location: Shanghai New International Expo Center
Organizers: Munich Trade Fairs International Group; China Association of Resources Comprehensive Utilization
Tel: 49-89-949-20284
info@ifat-china.com
www.ifat-china.com

International Wire & Cable Industry Trade Fair

SEPTEMBER 23–26

Location: Shanghai New International Expo Center
Organizers: Messe Düsseldorf China Ltd.; Shanghai Electric Cable Research Institute
Contact: Lily Chen
Tel: 86-23-6292-7728
lily@mdc.com.cn
www.wirechina.net

Guangzhou International Beauty & Cosmetic Import-Export Expo

SEPTEMBER 24–27

Location: Guangzhou, Guangdong: China Import and Export Fair, Liuhua Complex
Organizers: Guangdong Beauty and Cosmetic Association; Guangdong International Exhibitions Ltd.
Contact: Mr. Xu
Tel: 86-20-8754-9199
info@gzbeautyexpo.com
www.gzbeautyexpo.com

China Hi-Tech Fair

OCTOBER 12–17

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

VIV China: From Feed to Meat

OCTOBER 20–22

Location: Beijing: New China International Exhibition Center
Organizer: VNU Exhibitions Europe
Contact: Ruwan Berculo
Tel: 31-30-295-2879
ruwan.berculo@vnuexhibitions.com
www.viv.net

International Brew & Beverage Processing and Equipment Exhibition

OCTOBER 20–23

Location: Beijing: China International Exhibition Center
Organizer: China National Building Material and Light Industrial Machinery Group Corp.
Contact: Spencer Zhang
Tel: 86-10-6601-7874
spencer.zhang@chinabrew-beverage.com
www.chinabrew-beverage.com

China Fire: International Fire Protection Conference and Exposition

OCTOBER 28–31

Location: Beijing: National Agricultural Exhibition Hall
Organizers: China Fire Protection Association; PRC Ministry of Public Security, Fire Department
Tel: 86-10-8778-9261
info@fireexpo.cn
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Find more China-business events on the *China Business Review*'s website at www.chinabusinessreview.com/conference-calendar.php.

Advice for the Next Administration

John Frisbie

Complex issues and election-year rhetoric have a way of tripping up the later realities of good governing. With China's hosting of the Olympics already a flashpoint and the presidential campaign approaching its decisive stage, it is time to step back from the daily headlines and make sure that the United States keeps focused on building a smart China policy. China's growing importance makes abundantly clear the need for a carefully considered and long-term approach.

The United States and China soon will be the two largest economies in the world. China obviously sells a lot to us, but it is also our third-largest—and fastest-growing—export market. US companies have invested nearly $60 billion in China, primarily to reach the growing China market. China holds hundreds of billions of dollars in US government debt.

Beyond the economic sphere, China's role in the world and its importance to the United States is also growing rapidly. Its increasing political and military influence in its own Asian neighborhood, expanding global reach as it searches for secure sources of raw materials, and global environmental impact will not be wished away.

Put simply, we cannot ignore each other. Our economies are already greatly intertwined and will only become more so over time. It is our most important economic relationship, and one that we both must get right.

So the question for our presidential candidates is a simple one: Is the United States better served by a contentious relationship that assumes the worst of Chinese intentions, or by a carefully considered relationship that recognizes the mutual economic and political benefits of building on the growing array of contacts that have evolved in recent years, while holding China accountable when it fails to meet international standards?

The US-China Business Council (USCBC) has been active in China since 1973, well before formal diplomatic relations were established with the PRC, and our experience tells us that nothing achieves greater progress in dealing with Beijing than extended and focused engagement.

The United States needs more engagement with China, not less, in all fields—military, strategic, and, yes, economic and commercial. But it cannot simply be talk for talk's sake. US objectives and interests must be clear, and in the economic sphere that means open investment policies, transparency, rule of law, market-based reforms, and the establishment of a level playing field on which growth in trade and investment benefits both sides.

For the United States, the best approach is a mix of the policies that have emerged in the past few years, led by the forward-looking Strategic Economic Dialogue (SED), regular bilateral trade negotiations and, when necessary, judicious use of existing US trade remedies and World Trade Organization cases when appropriate and winnable.

On the political and military side of our relationship, we have already seen benefits from similar engagement, whether it is in Beijing's more active approach toward dealing with North Korea or the recently announced plan to establish a military hotline to avoid misunderstandings that could turn dangerous.

USCBC has been an early and firm advocate of a forward-looking dialogue to guide the development of this relationship at a time when protectionist pressures on both sides of the ocean threaten to impose policies that could harm US interests. A top goal for the new administration, whether Democratic or Republican, should be to sustain the SED or something like it. Rename it, restructure it—but make sure the new government keeps some sort of long-term, constructive forum.

Some critics point to the lack of dramatic results from the three SED meetings to date as a reason to disband it. USCBC argues that the dialogue has established important channels of communication in areas such as product safety, energy, and the environment. Indeed, these areas are ripe for further success at the upcoming SED in June and afterward, offering opportunities for big and bold ideas from the current administration, our presidential candidates—and the private sector.

Continued engagement on China's financial reforms and market openings, transparency, merger and acquisition policies, and intellectual property rights are also extremely important to the business community and to ensure the level playing field that will benefit workers and companies alike.

Nearly 30 years after the establishment of diplomatic relations, much distrust remains in this relationship. It should be obvious that China will only become more important to us. If we are to ensure that this relationship develops in ways that advance our interests, we need more dialogue, not less. 完

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

Event Wrap Up

SHANGHAI

March

Roundtable on Human Resources

Featured Chris Lin, counsel, Public Policy and Human Resources, General Electric (China).

April

Luncheon on the View from DC: US-China Trade Politics in 2008

Featured USCBC President Frisbie.

Frisbie in Shanghai

WASHINGTON

March

Issues Luncheon on National People's Congress Outcomes and the Taiwan Elections

Featured David M. Lampton, director of the China Studies program at Johns Hopkins University's School of Advanced International Studies and former president of the National Committee on US-China Relations.

April

Issues Luncheon on China in the Western Media

Featured John Pomfret, *Washington Post* Sunday Outlook editor and former Beijing bureau chief.

BEIJING

March

Discussion on the Potential US-China Bilateral Investment Treaty

Featured James Mendenhall, partner in the International Trade and Dispute Resolution group at Sidley Austin LLP in Washington, DC; cosponsored by the US-China Business Council (USCBC) and the American Chamber of Commerce in China (AmCham).

April

Membership Reception

Featured John Frisbie, USCBC president, who offered remarks on US-China trade.

Luncheon on China's Healthcare Sector

Featured US Under Secretary of Commerce for International Trade Chris Padilla; cosponsored by USCBC and AmCham.

Upcoming Events

BEIJING

China Operations Conference

May 21, 2008

For more information, see below.

WASHINGTON

Issues Luncheons

May 15, 2008

June 19, 2008

July 17, 2008

35th Annual Membership Meeting

June 3, 2008

For more information, see p.31

Reception for Incoming USCBC Board Chair Andrew Liveris and New USCBC Directors

June 4, 2008

For more information, see p.31

For more information on USCBC or its events, see www.uschina.org

USCBC

THE US-CHINA BUSINESS COUNCIL

美中贸易全国委员会

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Wednesday, May 21

Sofitel Wanda Beijing

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- Government Affairs Strategy and Practice in China
- Challenges to Expansion: Logistics and Human Resources
- Corporate Structures and Financial Planning
- Western Media and the Olympics

Luncheon address by Ambassador Clark T. Randt, Jr.

For more information, contact Sue Hao (suehao@uschina.org.cn) or visit www.uschina.org.

China's Energy Mix in 2008

As China's demand for energy soars, investment in the country's energy sector will remain strong in 2008. Beijing's desire to create a more diversified and sustainable energy supply mix is accelerating investment in nuclear and alternative energy, even as investors finance numerous fossil fuel projects. Power shortages in southern and eastern China earlier this year, however, demonstrated that China's energy sector still faces serious administrative, transport, and cost challenges.

Keeping pace with growth

In China, now the world's second-largest consumer of energy, the annual growth rate of electricity demand has exceeded the annual gross domestic product (GDP) growth rate since 2000, according to UBS AG. This trend will continue in 2008, although growth in consumption for the year is projected to slow, partly due to winter power shortages. The China Electricity Council estimates power demand growth of 12.5 percent in 2008, compared to 14.4 percent in 2007. Production capacity of several energy resources is being dramatically ramped up to meet this growth in demand.

■ **Coal** As a percentage of the overall energy mix, China's consumption of coal, which has long been its main source of power, dropped slightly from 76.2 percent in 1990 to 69.7 percent in 2006. With investment in the coal industry rising at an annual rate of 50 percent in recent years, China will retain its current position as the leading global consumer of coal, even as it endeavors to diversify.

Massive investment in coal has also been unable to prevent increased reliance on outside coal supplies. China possesses the second-largest coal reserves in the world, but distribution difficulties make imports a more attractive alternative for much of China. In recent years, China has shrunk from its historical role as coal exporter, exporting slightly more than 2 million tons of coal in 2007 in contrast to 90 million tons in 2001. Some experts believe that China may become a net importer in 2008.

■ **Oil** Oil constituted 20.3 percent of China's total energy consumption in 2006, a level the National Development and Reform Commission (NDRC) predicts will remain roughly constant through 2010. The International Energy Agency initially estimated China's 2008 oil demand growth at 430,000 barrels per day (bpd), up 5.8 percent from 2006, for a total of 7.9 million bpd. China met 46 percent of its total oil demand with imports in 2007, and this number is expected to rise to 47 percent in 2008.

In 2008, China will bring four new refineries into operation: China National Petroleum Corp. (Sinopec) in Qingdao, Shandong, and Quanzhou, Fujian; China National Offshore Oil Corp. (CNOOC) in Huizhou, Guangdong; and PetroChina Co., Ltd. in Dushanzi, Xinjiang. Overall, China's refineries will supply an additional 400,000 bpd of fuel, more than double last year's increase, according to a Reuters survey. China plans to expand its refining capacity by about one-third by 2010.

■ **Natural gas** China's production of natural gas rose 23.1 percent last year to 69.3 billion cubic meters, and output may reach 76 billion cubic meters this year. Major projects are also under way in 2008 to ensure gas reaches markets on China's coast. Most notably, earlier this year China launched its second west-to-east natural gas transmission pipeline, which will mainly carry natural gas from Turkmenistan and China's Xinjiang Uygur Autonomous Region to the Yangzi and Pearl River deltas upon completion in 2010. Natural gas will still account for less than 4 percent of China's electricity production in 2008, however, and is projected to reach only 5.2 percent in 2020—a level far below US and global averages, both of which exceed 20 percent.

■ **Nuclear** Although underdeveloped relative to other energy sources, nuclear power in China is growing far faster than originally planned. Senior officials have recently stated that China's nuclear power-generating capacity is expected to reach 60 gigawatts by 2020, a higher projection than earlier government estimates of 40 gigawatts. China has 11 nuclear power reactors in commercial operation, six under construction, and several more to start construction soon. All existing and planned reactors are located along China's coast. The world's first third-generation reactor technology plant is also now under construction in Sanmen, Zhejiang.

■ **Renewable energy** China has clearly indicated its intent to dramatically increase the role of renewable energy in its primary energy mix, with a goal of 10 percent in 2010 and 15 percent by 2020. Chief players are hydropower and wind, with biomass and solar also playing a role. Many of these projects are small, however, and China faces numerous challenges to alternative energy development.

Plentiful supply of energy challenges

Accelerated energy demand in recent years has placed considerable strain on China's power production and supply capacity. In addition to long-standing concerns about energy consumption growth exceeding GDP growth, international energy security, and broader environmental impacts, challenges such as domestic transport, pricing, and administration have now come under closer scrutiny.

Although China possesses plentiful coal reserves and abundant hydropower resources, transporting power generated from these resources from north-central and southwestern China to the coastal industrial belt presents a major structural challenge. During peak demand periods, limited coal transport capacity contributes to shortages, as

was dramatically demonstrated during this year's severe winter weather. Energy, passenger, and freight needs have stimulated a phase of massive rail investment.

Distortions caused by energy pricing mechanisms also help feed seasonal bottlenecks. Electricity prices are currently set by NDRC, which has kept prices low for residential consumers (industrial prices are reportedly on par with global averages, although payment opt-outs and defaults are common) even as market prices rise dramatically: In February, domestic oil prices rose 37.5 percent and coal 18.5 percent year on year. Power generators and refineries buying at market prices and selling at government-set prices are facing lower margins, and refineries receive substantial government subsidies to remain in operation. To meet this gap, a new ¥10 billion ($1.4 billion) reserve was recently announced to subsidize refiners, which claim to be losing more than ¥2,000 ($282) per barrel of gasoline at current prices. Likewise, late last year gasoline subsidies became available to some individuals, such as taxi drivers, to offset rising prices. The draft Energy Law stipulates a market-adjusted pricing mechanism but provides no details on transitioning toward that mechanism or implementing it.

A complex energy policy structure that disperses authority across numerous agencies with often competing institutional interests further complicates the government's attempts to address these practical problems. Recognizing China's need to streamline energy policy, the Draft Energy Law called for a single energy department to steer China's energy policy. Likewise, the government restructuring plan announced during the National People's Congress in March folded several energy agencies into a consolidated National Energy Commission under the NDRC. Specifics on its administrative power and structure may be unclear for some time to come, however. 完

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

China's Renewable Energy Plan

The National Development and Reform Commission (NDRC) recently released China's 11th Five-Year Plan (FYP, 2006–10) on Renewable Energy Development. US companies could benefit from some of the FYP's goals—such as granting tax preferences for renewable energy-related projects and increasing technology and equipment exports to China.

The FYP, which is a revision of the Renewable Energy Mid- and Long-Term Development Plan issued last August, says that China achieved some progress in hydropower, solar energy, and biofuels during the last FYP (2001–05) period but that problems remain with technology development and market safeguard mechanisms. Unlike the development plan, the FYP emphasizes China's firm resolution to develop renewable energy through targets and policy measures.

Goals

According to the FYP, by 2010 China's renewable energy sector should

- Account for 10 percent (equivalent to 300 million tons of coal annually) of overall energy consumption;
- Generate electricity in remote areas and provide additional clean fuels for rural areas; and
- Have a preliminary technology innovation system, strong research and development (R&D) ability, and various means of technology innovation, including domestic innovation; innovation based on imported technology; and participation in joint technology projects outside China.

Policy measures

To achieve these goals, NDRC recommends several regulatory measures and policies, including

- Enforcing the Renewable Energy Law, which took effect in January 2006, and tasking local governments with creating relevant regulations and policies;
- Creating regulatory measures and instruction manuals for specialized funds for renewable energy development;
- Providing preferential tax treatment to enterprises involved in renewable energy exploration, utilization, R&D, and equipment production;
- Supporting renewable energy R&D, pilot projects, exploration, and use in rural areas;
- Nurturing a sustainable market for renewable energy exploration and use through tax, fiscal, and price measures; requirements that give renewable energy a share of the energy market; government-invested projects; and franchise projects;
- Accelerating renewable energy technology and industrial system construction; and
- Making renewable energy development a key priority in the national science and technology development strategy.

—The US-China Business Council

China Foto Press

A Healthier China?

Cooperation between the public and private sectors can nurse China's ailing healthcare sector back to good health

Yuanli Liu

Is China becoming a wealthier and healthier nation? The answer to the first part of the question is unequivocally yes, while the answer to the second part requires more nuance. The PRC economy has grown at an average annual rate of 9.7 percent for nearly three decades, lifting more than 210 million people out of poverty. Chinese citizens now enjoy safer drinking water and better nutrition, housing, and healthcare, which, unsurprisingly, have led to overall health improvements. For instance, life expectancy at birth rose from 67.9 years in 1981 to 71.4 years in 2000; and from 1991 to 2005, the infant mortality rate dropped sharply from 50.2 per 1,000 live births to 19.0, while the maternal mortality rate fell from 80.0 per 100,000 to 47.7 over the same period, according to the PRC Ministry of Health (MOH). Yet amid the good news, self-reported health status such as morbidity rate and bed-ridden days increased remarkably from 1993 to 2003, according to China's three National Health Services Surveys (NHSS), conducted in 1993, 1998, and 2003.

The mismatch between the demand for, and supply of, safe and effective healthcare, escalating medical costs, misallocation of public resources, and the lack of adequate insurance coverage have led the general public to identify rising healthcare costs as a major social problem in several recent opinion polls. In the last NHSS, interviewers from MOH found that 52.6 percent of outpatient services users and 61.2 percent of inpatient services users were dissatisfied with the services they received, largely because medical costs were perceived to be too high.

Although China now faces major challenges in reforming the healthcare sector, particularly in cutting costs and expanding coverage, significant opportunities exist for a

fruitful public-private partnership in the reform and development process.

Double burden: Communicable and non-communicable diseases

China's rapid industrialization and profound social transformation have brought about significant changes in people's natural and social environments and lifestyles, many of which—pollution, migration, and the spread of HIV/AIDS—have increased risks to people's health. These factors, along with a rapidly aging society, have led to the evolution of disease patterns in urban areas, where the bulk of illnesses now take the form of non-communicable, chronic diseases. The World Health Organization (WHO) estimated that in 2002, 133,056 disability adjusted life years (DALYs; defined by the WHO as a measure of "time lived with disability and time lost due to premature mortality") out of 200,273 DALYs in China were attributable to non-communicable diseases. Of these, neuropsychiatric conditions accounted for 34,952 DALYs, more than cardiovascular diseases, which accounted for 25,233 DALYs. The prevalence rate of diabetes soared more than 300 percent between 1993 and 2003 (see Table 1).

Quick Glance

- China is growing wealthier but still faces serious public health risks and the growing prevalence of chronic diseases.
- Spending on healthcare has failed to keep pace with economic growth.
- To overcome major obstacles in China's healthcare sector, a robust public-private partnership is needed.

The transition from the prevalence of contagious diseases to the prevalence of chronic illnesses has taken place in China at a much slower rate in rural areas than in urban areas. By 1990, the leading causes of death for urbanites were malignant tumors, cerebrovascular conditions, heart and respiratory diseases, and injury and poisoning. In rural populations, however, respiratory diseases remained the leading cause of death from 1990 to 1995. Only in 2006 did respiratory diseases drop to third place—behind tumors and cerebrovascular diseases—as a cause of death for rural residents. Moreover, 5 million Chinese have tuberculosis, accounting for one-quarter of total cases worldwide. Tuberculosis is also responsible for 150,000 deaths per year in China. The prevalence rate of hepatitis B in China is 10 percent of the total population (20 percent in some regions), or about 130 million people—accounting for one-third of total global cases. Finally, emerging infectious diseases, such as severe acute respiratory syndrome (SARS), avian flu, and HIV/AIDS, still present imminent public health threats.

Needs unmet for safe and effective interventions

While perceived need for and the availability of medical products and services have increased significantly, healthcare utilization rates in China seem to have dropped between 1993 and 2003, according to NHSS. For example, the utilization rate of outpatient services fell for all income levels (see Figure 1).

In part because they do not trust the safety and quality of the services provided by small clinics, people tend to choose either to buy drugs from the nearby pharmacy (self treatment) or to go directly to tertiary hospitals (typically large and general hospitals), which has led to overcrowding in tertiary hospitals. Because government spending on healthcare covers less than 10 percent of a hospital's operational costs, government hospitals and doctors depend on revenue from services and drug sales under the current fee-for-services system. Such a system encourages excessive provision of healthcare services and products, especially drugs, which, on average, accounted for 45.6 percent and 44.3 percent of outpatient and impatient costs, respectively, in 2006.

Unnecessary prescription of expensive drugs is one of the major reasons for escalating drug costs. As a result, the Chinese public widely believes that healthcare providers are profit maximizers rather than vanguards of the patient's best interests. Mistrust is also a major reason for the worsening relationship between patient and doctor. For instance, *China Daily* reported on January 27, 2007 "... the policemen will train the hospital guards to quell violence, according to the agreement, which Shanghai Minhang District Central Hospital is to sign with Xinzhuang police station today. The move has been necessitated because of the rising number of violent incidents between hospital staff and patients, relatives and friends."

Escalating medical costs and lack of insurance coverage

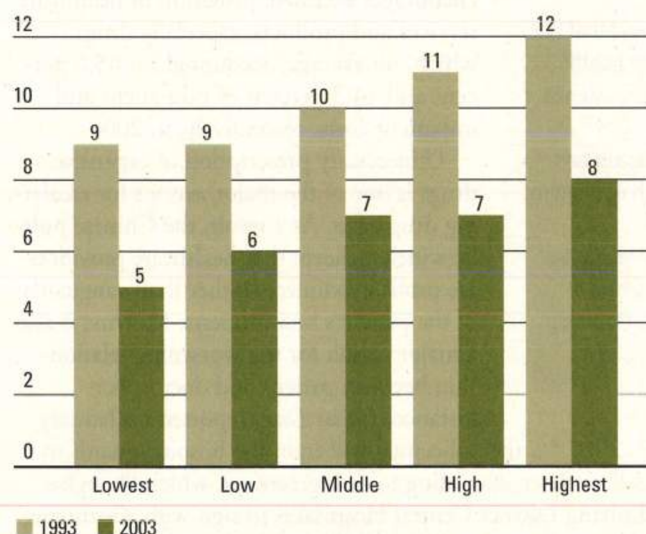
Between 1990 and 2003, the average per capita urban disposable income rose 5.6 times, while the average per capita net rural household income nearly quadrupled, according to the PRC National Bureau of Statistics. Average medical spending per capita, on the other hand, soared nearly 19 times for urban residents and six times for rural residents over that period, far outpacing the rate of income growth. The ratio of average hospital expenses to average annual per capita income rose for all rural income quintiles (see Figure 2).

Despite steep rises in medical costs, insurance coverage is inadequate. Though insurance coverage for rural residents only rose slightly from 1993 to 2003, the percentage of insured urban residents fell for all income quintiles (see Figure 3). In 2003, only about 55 percent and 21 percent of urban and rural residents, respectively, had any health insurance, according to the 2003 NHSS. Although China spent about ¥986 billion (about $141 billion) on healthcare in 2006, and total spending on healthcare as a share of

Table 1: China's Disease Prevalence Rate, 1993 and 2003 (per 10,000)

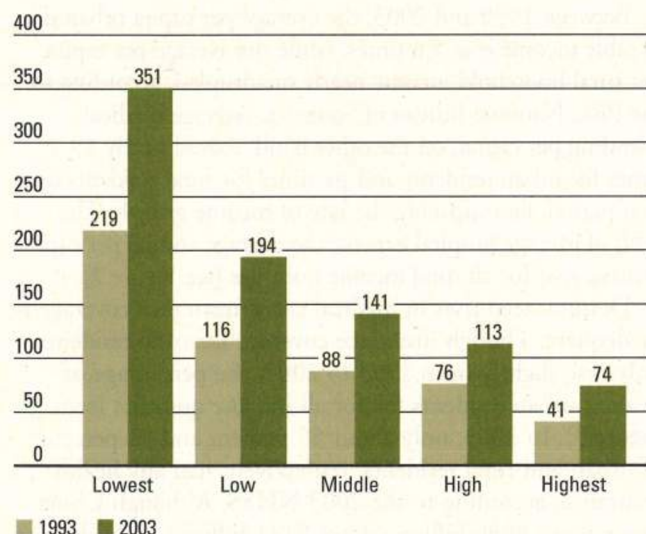
	1993	2003	% change
Diabetes	247	1,000	304.9
Hypertension	1,492	4,122	176.3
Cerebrovascular	496	1,020	105.6
Injury and poison	153	270	76.5
Cancer	115	184	60.0
Cardiovascular	1,639	2,285	39.4

Figure 1: Two-Week Outpatient Utilization Rates by Income Quintile, 1993 and 2003 (%)



Note: Based on 200,000 surveyed individuals.

Figure 2: Ratio of Average Cost of Hospital Visits to Average Rural Per Capita Income (%)



Notes: By income quintile; based on 200,000 surveyed individuals.

GDP increased from 4.0 percent in 1990 to 4.7 percent in 2006, individual out-of-pocket spending as a share of total health expenditures rose from 35.7 percent to 49.3 percent, indicating that the financial burden of medical care falls largely on individual patients, according to MOH's 2007 estimates.

Unaffordable healthcare prevents many people from accessing essential medical care and causes financial hardship for those who use the services. In 2003, among those who were ill but did not see a doctor, roughly two-fifths reported that they did not seek medical services because they could not pay. Among the hospitalized patients, 43 percent discharged themselves against doctors' advice. Nearly two-thirds did so because they ran out of money. In addition, 13.7 percent of urban households and 15.8 percent of rural households—about 184 million people—experienced financial catastrophe as a result of spending on medical services (defined by the WHO as spending more than 30 percent of household non-subsistence income on healthcare), according to the 2003 NHSS.

Major opportunities ahead

China's health sector is in a state of crisis. Resolving the complex healthcare emergency in the world's largest country will take contributions from both the private and public sectors. China's healthcare industry has been one of the fastest growing in the world, with healthcare spending tripling between 1997 and 2006. Despite this, healthcare spending in China accounts for less than 5 percent of its GDP, a level far below that of developed countries. (For example, healthcare spending among Organization for Economic Cooperation and Development countries is about 9 percent of GDP.) MOH estimated overall healthcare spending in 2007 at ¥1.1 trillion ($157 billion), but per capita healthcare spending stood at only ¥828 ($118.3), indicating enormous consumption potential in the coming decade.

Growing demand for medical technology innovations

The demand for technological innovation, particularly new and appropriate technologies to address disease outbreaks and medical information, is growing. For example, after SARS, China quickly developed a national online reporting system to help rapidly detect emerging epidemics and pandemics, and the market for similar medical information technologies has much room for growth. Many hospitals and clinics must integrate their management and clinical information systems to become preferred providers for patients covered under social insurance schemes. The development of standards comparable to international standards for, and the wider use of, patients' electronic health records are another goal of healthcare reform policies, according to PRC policymakers. China can and should draw upon international expertise and experiences in medical information technologies in its efforts to upgrade the medical information system.

Private hospitals and other services

Market opportunities for modern medicines and medical services are also expanding for both foreign and domestic companies. For example, despite a rapidly aging population and significant rises in the incidence of chronic diseases, China still lacks decent nursing homes and effective disease-management programs. According to MOH, China had 18,703 hospitals in 2005, only 2,027 of which were private, relatively small hospitals. To expand the role of the private sector, China's Health Minister Chen Zhu said at the 2008 China Development Forum in Beijing that the government would allow more private investment in the country's health system, including in for-profit and non-profit organizations, to meet citizens' demands at different levels and may even purchase health services from private providers. The Beijing municipal government announced in March 2008 that some government-run hospitals will be privatized, according to the *Beijing Daily*. These efforts underscore the central government's determination to create a more level playing field for the public and private sectors to compete on quality, services, and price.

Expanding the insurance market

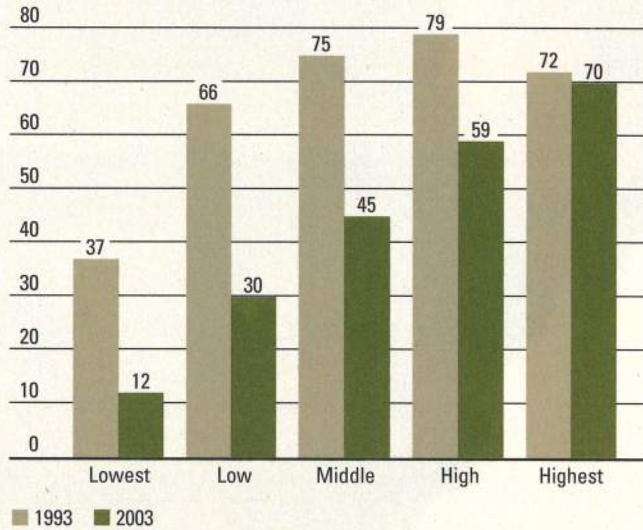
Behind China's escalating medical costs and inadequate insurance coverage lie opportunities for foreign and domestic players in the insurance industry, including the managed care industry. Private insurance is beginning to complement social insurance schemes with a range of healthcare plans from which people with sufficient purchasing power may choose. In fact, the PRC government has already made it clear that public insurance schemes will provide universal access only to basic medical benefits, with restrictions on essential drugs, high co-payments, and low ceilings. Consumers will thus be encouraged to buy private insurance for supplementary coverage.

Healthcare reform

China now has a historic political opportunity to significantly reform and improve its healthcare system. Perhaps as an indication of the seriousness of the reform effort, China's top leaders recently decided to include such reforms as part of the effort to build "a harmonious society." In September 2006, China formed the State Council Healthcare System Reform Coordinating Group, which involved 16 ministries, to establish a more effective and equitable healthcare system.

The major objective of the new reform policies is to improve access to healthcare services by strengthening community health services and expanding insurance coverage through the Basic Medical Insurance (BMI) schemes for urban workers. The BMI scheme, funded by employer and employee contributions, does not cover children and elderly parents, however. Policies such as the New Rural Medical Cooperative Medical System and medical assistance programs are aimed at rural residents and seek to establish full coverage in 2008. In September 2007, the central government announced that it will roll out voluntary insurance schemes, subsidized by the government, for children, the elderly, and informal sector workers who live in urban areas and lack health insurance. To be effective and sustainable, these policies must be rigorously evaluated after their implementation, adjusted based on the evaluation results, and complemented by the private sector.

Figure 3: Urban Insurance Coverage by Income Quintile, 1993 and 2003 (%)



Note: Based on 200,000 surveyed individuals.
Source: PRC Ministry of Health, *National Health Services Survey* 1993, 2003.

Although China's long-awaited and much-debated reform plan will likely be revealed soon, it is unlikely that China will implement the plan nationwide without first conducting pilot projects in selected provinces and cities. The overall theme of the reform seems to emphasize a stronger government role. For example, the government will divert more money from the central budget into the provision of public health services and universal basic medical services at a reasonable cost. At the March 2008 National People's Congress session, Premier Wen Jiabao pledged that his government would allocate ¥83.2 billion ($11.9 billion), up 25 percent from 2007, to support the healthcare sector.

Nevertheless, China is too big a country, and the healthcare demands of 1.3 billion people too diverse, for the public sector to act alone. After much debate, China's top policymakers now recognize the need for a public-private partnership to improve access to modern medicines and encourage the private sector to play a more active role. Now it is up to the leaders in both the public and private sectors to create a booming healthcare industry that can improve the health of all Chinese citizens. 完

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China Foto Press

China's Rising Importance in Pharmaceuticals

Although regulatory hurdles remain, new policies and an expanding domestic market are luring drug giants to China

James J. Shen

As China's pharmaceutical market grew and advanced on many fronts in 2007, its global importance and influence became clear. In fact, sales of all Chinese and Western drugs in China hit $50 billion at the end of 2007, according to *Pharma China*, and China's market is approaching the size of Japan's market, the world's second largest. In addition to being the dominant global supplier of active pharmaceutical ingredients (APIs) and intermediates, Chinese companies in the past year have invested heavily to expand production of generic drug formulations.

For many pharmaceutical multinational corporations (MNCs), China is becoming a leading overseas market and will likely become their largest foreign market within a decade. Moreover, several pharmaceutical MNCs, including GlaxoSmithKline plc (GSK), have increasingly relocated some of their research and development (R&D) operations to China, including some of the core and integrated research functions. MNCs are also outsourcing more R&D and manufacturing projects to China.

Stunning growth

The Chinese pharmaceutical market has grown at double-digit rates over the past three decades. Sales of drugs, including Western medicines, biopharmaceuticals, and traditional Chinese medicines, rose 61 times between 1980

and 2007, according to the PRC State Food and Drug Administration (SFDA). In 2007 alone, drug sales rose more than 20 percent.

China's total trade in medicine and health products hit $38.6 billion in 2007, up 25.6 percent over 2006. Medicine and health product exports totaled $24.6 billion, up 25.1 percent. At $13.6 billion, APIs led exports, followed by pharmaceutical formulations at roughly $780 million. Imports stood at $14 billion, up 26.6 percent, with APIs and pharmaceutical formulations again leading the way at $6 billion and $2.8 billion, respectively, according to the China Chamber of Commerce for Import and Export of Medicines and Health Products. Finally, pharmaceutical R&D work outsourced to China—usually received by contract research organizations (CROs)—was worth about ¥4 billion ($550 million) in 2007, according to a recent Xinhua News Agency report.

Long-term goal: An innovative drug industry

The PRC government has long wanted to build an innovative domestic pharmaceutical industry led by large and research-based companies. At the same time, the government has consistently welcomed foreign investment and encouraged the integration of local industry with international companies.

To achieve these goals, the PRC government has adopted industrial and regulatory policies, such as preferential drug pricing and hospital drug procurement policies, that favor research-based MNCs and large domestic enterprises. At the same time, it has improved market access for foreign companies and taken steps to strengthen intellectual property (IP) protection to foster innovation, including signing an agreement with the US Food and Drug Administration (FDA) last winter to jointly combat counterfeit drugs. In 2006, SFDA, which has been at the center of recent food and drug safety issues, embarked upon a six-month campaign to beef up supervision of all aspects of drug production. China has also stepped up its effort to regulate and approve APIs and audit drug production facilities.

Because of these efforts, China seems to be winning the trust and confidence of foreign companies. Most notably, R&D-based MNCs are boosting their investments in China not only to expand manufacturing and marketing operations, but also to transfer some of their critical business operations and core technologies to the country.

Today, China's pharmaceutical industry is developing in tandem with foreign R&D-based pharmaceutical companies. Thus, China will likely implement a two-pronged, long-term strategy that will support new drug innovation, the growth and development of R&D-based MNCs in the country, and the rise of its own large and innovative companies. For instance, more than a dozen Chinese drug companies have listed in the US stock market, according to ChinaBio Stock Index, and the resulting financial strength of these companies will help facilitate their rapid growth in China and globally. Moreover, PRC companies are beginning to acquire foreign companies—WuXi PharmaTech Co., Ltd.'s takeover of US-based AppTec, Inc. in March 2008, for example—in an effort to expand market share more rapidly and acquire researchers and technologies.

Quick Glance

- China's rapidly growing pharmaceutical market expanded 20 percent in 2007.
- Government policies that encourage innovation and have improved protection of intellectual property have spurred research and development in the sector.
- Regulatory changes and reforms are creating some uncertainty in the short term but should provide a more stable environment for the industry's development in the long term.

A string of new regulations

China issued numerous pharmaceutical regulations in 2007, following a slew of policy adjustments in the previous year. SFDA issued more than 50 regulations related to food, drugs, and medical devices last year, among which Administrative Measures for Drug Registration, Management Measures for Prescription, and rules on false drug advertising were the most noteworthy. These rules sought to improve transparency and increase scrutiny of drug approvals, standardize prescription procedures to prevent price manipulation and over-prescription, and evaluate companies' credibility by the number of misleading advertisements. Several draft regulations dealing with issues such as IP protection, contract manufacturing, counterfeit drugs, environmental conservation, recalls, and pharmacy management were also released for public comment in late 2007. All of these draft regulations, if passed, will have far-reaching impacts on the future of the pharmaceutical industry in China.

The PRC government is also likely to intensify and broaden its regulatory control over drug prices. Not only do regulators hope to control prices of all prescription drugs, they also plan to step up control of drug prices by setting ex-manufacturer prices and regulating profit margins from factory to retail. The National Development and Reform Commission, the central-level agency responsible for price control, among other functions, is studying a strategy that would make patients pay for the price difference between generic drugs, largely made by Chinese companies, and originator drugs, largely produced by MNCs—a policy that would likely reduce MNC sales in China.

Another recent regulation will affect exports. In January 2008, under pressure from foreign governments, particularly the US FDA, the PRC government introduced an export-licensing system to regulate, on a trial basis, 10 categories of drug exports, including direct and ancillary mate-

rials used in manufacturing drugs. Companies producing the listed drugs must receive export approval from the relevant authorities.

Business prospects improve for R&D-based MNCs

After a slew of new drug rules in 2007, growth in China's pharmaceutical sector resumed in a big way. Although most large and medium-sized domestic pharmaceutical companies fared much better in 2007, anecdotal evidence indicates that R&D-based MNCs experienced significantly sharper growth, largely a result of hospital drug procurement policies favorable to MNCs and a cleaner market environment with less chaotic competition.

Responding to positive market environments and mounting opportunities, MNCs are strengthening their sales and marketing networks, expanding manufacturing facilities, and accelerating R&D relocations (see the *CBR*, March–April 2008, p.42). For example, in late 2007, German pharmaceutical giants Bayer AG and Novartis AG announced ambitious plans to expand their over-the-counter (OTC) drugs businesses in China, while Wyeth decided to expand its facility in Suzhou, Zhejiang; Sandoz (part of Novartis) acquired a new manufacturing facility in Zhongshan, Guangdong; and Sanofi-Aventis began construction on a new vaccine plant in Shenzhen, Guangdong. Meanwhile, Eli Lilly and Co. and GSK expanded their R&D operations in China, and Merck KGaA and Novo Nordisk AS signed major research deals with Chinese research institutions.

In addition to business expansion, three other trends seem to have developed in 2007. First, because of the more favorable regulatory climate and pro-R&D policies, MNCs are increasingly willing to relocate some of their key R&D functions to China, as indicated by GSK's bold move to relocate its entire neurodegenerative diseases research component to China. A second trend appears to be that MNCs have taken an interest in exploring traditional Chinese medicines (TCMs) to find new drug leads. For instance, Merck and Hutchison China Meditech Ltd. joined forces to find cancer cures among TCMs, and GSK also announced its interest in finding leads from TCMs. The third trend—expected to intensify in the coming years—is on the outsourcing front. MNC R&D outsourcing to China has risen sharply in recent years, with major CROs, such as Wuxi PharmaTech, recording triple-digit revenue growth. In addition, MNCs such as AstraZeneca plc, Pfizer Inc., and GSK

Healthcare Reform: Impact on Pharmaceuticals

The rising cost of healthcare ranked as a top concern among the Chinese public in recent polls conducted by the National Bureau of Statistics and Xinhua News Agency. This concern is unsurprising: In 2007, Chinese individuals spent more than ¥1 trillion ($144 billion) on healthcare, up 11.3 percent from 2006, and the average healthcare expenditure per capita was ¥828 ($118.6), up 10.4 percent, according to PRC Ministry of Health (MOH) estimates. In addition, total healthcare spending as a percentage of China's gross domestic product (GDP) has fallen slightly between 2003 and 2007, according to MOH. This suggests that healthcare spending has grown more slowly than GDP in the past few years, thus leaving considerable room for the future expansion of healthcare consumption.

Jolted by the severe acute respiratory syndrome outbreak in 2003, the PRC government began to seriously reconceptualize public healthcare over the next two years, culminating in the publication of a lengthy report on the state of healthcare in China in 2005. Jointly released by the State Council Development Research Center and the World Health Organization, the report concluded that China's healthcare reform in the past two decades had been largely unsuccessful and triggered a heated public debate. As a result, China in 2006 formed an interagency group, the Healthcare System Reform Coordinating Group, to develop a new healthcare reform plan. Unable to settle disputes among various government agencies within the group, the PRC government contracted nine external organizations to help develop healthcare reform plans in 2007 (see p.16). The external organizations presented separate proposals to the government in June 2007, but the officials and scholars involved in the process disagreed on major issues such as the model for hospital financing and how government funding should be funneled.

Minister of Health Chen Zhu delivered an official report on healthcare reform to the National People's Congress in late 2007. The report outlined the framework and basic ideas of China's healthcare reform and set the objective of establishing a healthcare system that provides safe, effective, convenient, and low-cost public health and basic medical services for all urban and rural residents.

Healthcare reform in China will significantly affect the pharmaceutical industry and will likely cause the industry to restructure. As the country's economy grows and healthcare and other reforms strengthen China's social safety net, the demand for new medicines and high-quality healthcare could rise. Although large domestic companies are best-positioned to fulfill essential healthcare needs of the public in the short and medium terms, innovative MNCs are well-suited to satisfy demand for higher-end products and services.

Despite short-term regulatory corrections, administrative changes, and healthcare reform uncertainties, the long-term direction and present development path of China's pharmaceutical sector are unlikely to be significantly impeded.

—*James J. Shen*

announced major reorganization initiatives that led them to outsource more manufacturing to China. Even small foreign companies, such as AlphaRx Inc., Helicon Group Ltd., Organogenesis Inc., and Novelos Therapeutics, Inc., began to move aggressively into China through various licensing and collaborative research deals in 2007.

companies are looking toward potential public listings and the overseas market for APIs and generic drugs for growth. But most Chinese companies are still only just preparing to expand drug exports by upgrading their formulation manufacturing facilities to meet international standards. In addition, new environmental regulations for the pharmaceutical industry, rising raw material and energy costs, and an appreciating Chinese currency could raise export prices and erode the low-cost advantage of China's API sector.

China's recent IP policies benefit companies dedicated to innovation and help explain pharmaceutical MNCs' eagerness to expand in China.

More emphasis on IP protection

Over the last decade, the PRC government has gained a greater understanding of the importance of IP protection to innovation and economic growth. As a result, it has instituted various policies that encourage the development of IP. These policies have benefited pharmaceutical companies that are dedicated to new drug innovation and explain, in part, pharmaceutical MNCs' eagerness to expand in China. Despite such policies, however, foreign companies remain concerned with certain areas of IP protection in the pharmaceutical sector.

Specifically, the central government has not

- Clearly defined "new chemical entity" in a drug (which would make ensuring data exclusivity during drug registration difficult);
- Adequately protected against unfair commercial use of undisclosed test and other data submitted by pharmaceuticals companies;
- Developed a more robust system of patent linkage under which the filing of a lawsuit will automatically suspend the registration process of a product suspected of infringement; or
- Adopted a system of patent-term restoration to help innovative companies recover patent-term losses due to long development time and regulatory delays.

Overseas generic drugs market: Growth area for PRC companies

Compared with their MNC counterparts, large Chinese companies generally achieved less impressive growth in 2007. Although their revenues grew at a reasonable clip, profit margins were nonetheless squeezed, in part by rising costs and government-mandated price cuts. Medium-sized local companies face even more pressure for both revenue and profit growth, and many small pharmaceutical companies are being driven out of the market by recent regulatory corrections, stringent product registration requirements, and repeated government price cuts.

These challenges and falling profit margins in the domestic market are forcing companies to re-evaluate their growth opportunities and strategies. The more successful local drug companies are looking toward potential public listings and the overseas market for APIs and generic drugs for growth.

Outlook: Continuing high growth

The Southern Medical Economic Research Institute forecast that in 2008, the total output of the Chinese pharmaceutical industry will grow 18 percent to reach roughly ¥710 billion (about $100 billion). In another projection, IMS Health Inc. predicted that the combined pharmaceutical markets of Brazil, China, India, Mexico, Russia, South Korea, and Turkey will grow 13 percent this year to nearly $90 billion. Prescription drug sales in Brazil, China, Mexico, Turkey, and other emerging economies will account for 25 percent of the global market in 2008, according to IMS. IMS also suggested that oncology is becoming the single most important therapy area driving China's pharmaceutical market growth. Another area of high growth in China is diabetes drugs, with sales of this therapeutic class expected to reach $700 million by 2010, according to IMS. (IMS's data on China reflect only the urban hospital market.)

The three biggest drivers for increasing future drug consumption in China are sharp hikes in government spending on healthcare; continued expansion of the rural, suburban, and urban community healthcare markets; favorable government policies for R&D; and recent policies and regulations that offer incentives for well-positioned large and innovative companies to expand.

Despite anticipated growth, the Chinese pharmaceutical industry in 2008 will continue to be heavily influenced by new government policies in areas such as healthcare reform, drug pricing, drug registration, basic medical insurance, and healthcare administration. As China's pharmaceutical industry grows in importance and fortifies its bond with the world, it will no longer develop in isolation and will have far-reaching impacts on the global pharmaceuticals market. 完

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Xu Xiaolin/China Foto Press

Shaping Up China's Medical Device Industry

After a series of safety scares, new rules and regulatory changes are helping to clean up China's medical device industry

Chen Yang

A slew of regulatory changes made last year historic for China's drug and medical device industries. Spurred by several shocking incidents related to the quality of drugs and medical devices produced in China and with growing international concern about the quality of Chinese-made products, the State Food and Drug Administration (SFDA), the agency responsible for the safe production and use of drugs and medical devices in China, has been reviewing its regulatory systems to identify and address loopholes in current regulations.

Because they were developed at different paces, China's regulatory regime for medical devices lags behind the regime for drugs. Also, the tremendous range of medical devices raises far more complex regulatory and enforcement challenges than do pharmaceuticals.

China urgently needs to build a complete regulatory chain for medical devices, both pre-market (product

development, manufacturing, packaging, and labeling) and post-market (after-sale obligations, such as monitoring product use and posting safety alerts). The regulatory chain would ensure that devices on the market are safe and effective and that regulators can hold identifiable parties, such as manufacturers and distributors, accountable for safety and effectiveness. In 2007 and 2008, SFDA has taken steps to achieve these goals.

2007 in review

In 2007, SFDA markedly improved its drug regulatory systems, the most significant step being the revision of its 2005 Administrative Measures for Drug Registration. The revised provisions, which took effect in October 2007, tightened supervision, increased transparency, and raised penalties for companies that submit false information on their drug registration applications. At the same time, SFDA began to handle problems—such as irregularities in granting market approval and safety control—in the medical device market.

Quick Glance

- China needs a more complete regulatory framework for medical devices to ensure product safety.
- In 2007 and 2008, the State Food and Drug Administration ramped up its efforts to better regulate medical devices.
- Some of these regulations may significantly affect the industry, and companies may need to change some of their processes and procedures.

Authenticity audits

Since June 2006, SFDA and provincial food and drug administrations (FDAs) have conducted authenticity audits of the materials submitted by companies to receive device market approvals. The audits, which cover approved devices and those pending approval, began with the domestic Class I and II devices (low- and medium-risk devices, respectively) and four types of Class III (high-risk) products, including cardiac pacemakers, cardiac valves, vascular stents, and artificial articulations. In the last quarter of 2007, SFDA expanded the audits to include imported devices. By the end of 2007, SFDA and provincial FDAs had audited about 2,600 types of approved devices. The agencies are expected to continue the audits in 2008, focusing on Class III devices.

Good manufacturing practices (GMP) for devices

Though China began implementing GMP regulations for drugs in 1999, the formulation of GMP regulations for medical devices followed much later (see the *CBR*, November–December 2004, p.16). The Measures on the Supervision and Administration of Medical Device Manufacturing, issued by SFDA in July 2004, required the production of Class II and III devices to be subject to GMPs. SFDA, however, did not finish drafting the GMP regulations until the end of 2006. Before implementing GMPs on all Class II and III products nationwide as the 2004 measures required, SFDA launched a pilot program from December 2006 to July 2007 to apply GMPs to 45 manufacturers that produce high-risk sterile and implantable devices (see Table 1). For this purpose, SFDA issued implementing rules on GMPs specifically for each product category subject to the pilot program. After completing the program, 39 of the manufacturers, or 86.7 percent, were found in compliance with the relevant device GMPs. Although it is unclear when SFDA will mandate national implementation of GMPs on all relevant products, it will likely extend the pilot programs to more device products in 2008.

Regulation of *in vitro* diagnostic (IVD) products

Unlike other medical devices, *in vitro* (in a test tube or culture dish) diagnostic products in China have been regulated by SFDA, either as drugs or as devices, since 2002. While most have been regulated as devices, seven types of IVD reagents were regulated as drugs until last year. As a result, the applicable rules for market access, manufacturing, and distribution have differed. Since most IVD products are regulated as devices, the manufacturers and distributors of such products must be qualified device manufacturers and distributors, as the State Council Regulations for Supervision and Administration of Medical Devices mandate. If companies want to manufacture or distribute drug IVD products to offer a complete product portfolio, however, they must also be qualified as drug manufacturers or distributors and comply with drug GMP and good supply practices (GSP), respectively. Since licensing requirements for drug manufacturers and distributors are completely different, complying with both sets of requirements simultaneously is quite onerous for device manufacturers and distributors.

In response to the rapidly growing market for IVD products inside and outside of China, and harmonizing with the international standards that often regulate IVD products as devices, SFDA in 2007 narrowed the scope of IVD products regulated as drugs. As a result, only state-mandated blood screening reagents and radionuclide labeled reagents remain regulated as drugs, while other IVD products are regulated as devices. SFDA also issued additional rules on registration, clinical studies, insert sheets, and distribution for device IVD products. Thus, though they are regulated as devices, device IVD products could be subject to rules that differ from those applicable to other medical devices.

Harmonization of technical review standards

Whereas SFDA has the sole authority to grant market approval for drugs, the authority to grant market approval for different classes of medical devices manufactured in

China is vested in provincial- and central-level FDAs. (Provincial FDAs approve Class I and II devices, and SFDA approves Class III devices.) As a result, the standards used to grant market approvals may vary locally.

To harmonize the technical review standards that provincial FDAs use to grant market approval to domestically produced devices, SFDA has been publishing technical review guidelines on a product-by-product basis since the fourth quarter of 2007. Thus far, SFDA has issued three product-specific guidelines (one per product type) for Class II hard tube endoscope products, Class II fiber endoscope products, and intermediate frequency electrotherapeutic products; more product-specific guidelines are expected in 2008.

Reaffirming SFDA's authority to regulate devices

Perhaps the most controversial event in the device industry in 2007 was the Administration of Quality Supervision, Inspection, and Quarantine's (AQSIQ) June release of the Administrative Measures on Examination and Supervision of Imported Medical Devices, which reflected the "turf war" between SFDA and AQSIQ over imported devices. The measures prohibited donated second-hand devices from being imported to China. They also classified imported medical devices into three categories based on their potential risks and classified device importers into three categories based on their import records and internal control systems. Accordingly, the measures imposed different compliance requirements on devices and importers in each category, especially in terms of AQSIQ quality inspections.

In the measures, AQSIQ attempted to claim authority over all imported devices, even though AQSIQ is only authorized to inspect and certify certain types of imported devices under PRC law. Furthermore, the measures attempted to create systems that could impose additional compliance burdens on importers and manufacturers—thus overlapping with SFDA's authority to determine the safety and effectiveness of imported devices. Presumably because of such overlapping authority, and intervention by the State Council, AQSIQ suspended the implementation of this regulation last November.

International collaboration

SFDA and the US Department of Health and Human Services (HHS) entered into the Agreement on the Safety of Drugs and Medical Devices on December 11, 2007. Under the agreement, each government designated a certain number of devices that have the highest risk of being counterfeited and that require regulatory cooperation with the other government. In the first phase of the cooperation, SFDA designated intraocular lenses and cardiac pacemakers, and HHS designated glucose test strips and condoms.

In addition to reciprocal agreements made by both agencies, SFDA agreed to register all manufacturers of HHS-designated devices and to keep records of any reviews, inspections, tests, recalls, compliance, and other assessment information on HHS-designated devices. From a PRC legal perspective, fulfilling these commitments requires more legislative and enforcement efforts from SFDA and collaboration with other PRC government agencies.

What lies ahead in 2008

Though the March 2008 PRC government restructuring placed SFDA under the PRC Ministry of Health (MOH), many observers do not believe the restructuring will significantly affect the regulatory systems that have been established for the drug and device industry over the past 10 years. Rather, the restructuring could improve coordination and efficiency between the two agencies, especially for the regulation of food safety. Even with the restructuring, a few new device-related regulations, which will further reform the current pre- and post-market regulatory systems for devices, remain on the 2008 legislative agenda.

Table 1: China's Most Significant Medical Device Regulations in 2007

Document	Issued by	Date issued
Implementing Rules on Good Manufacturing Practices for Sterile and Implantable Medical Devices*	State Food and Drug Administration (SFDA)	12/06
Interim Administrative Measures on Registration of *In Vitro* Diagnostic Reagents	SFDA	04/19/07
Technical Guidelines for Clinical Research of *In Vitro* Diagnostic Reagents; Principles Guiding the Compiling of Instruction Manuals for *In Vitro* Diagnostic Reagents	SFDA	04/28/07
Inspection Criteria for *In Vitro* Diagnostics Distributors (Wholesale); Application Process for Setting Up *In Vitro* Diagnostics Distributing Companies (Wholesale)	SFDA	05/23/07
Guidelines for Biological Evaluation and Review of Medical Devices	SFDA	05/15/07
Administrative Measures on Examination and Supervision of Imported Medical Devices	Administration of Quality Supervision, Inspection, and Quarantine	06/18/07 (Suspended 11/30/07)
Notice on Publishing Technical Review Guidelines for Medical Device Registration**	SFDA	10/16/07

Notes: * For pilot program use only. ** Guidelines for the three products published so far; more product guidelines are expected in 2008.
Source: SFDA

Regulatory revisions

Assisting the State Council in revising the Regulations for Supervision and Administration of Medical Devices—the overarching regulations governing medical devices that the State Council originally issued in January 2000—tops SFDA's agenda this year. SFDA circulated a draft of the amended regulation last September for public comment, and the State Council will likely issue the revised regulations, by the end of 2008 (see Table 2).

The current draft includes rules on clinical studies, manufacturing, market access, distribution, use, import and export, and advertising of medical devices. If the draft amendments are implemented, the regulations would create some new concepts and rules. For example, the draft would

■ **Name "ultimate responsible parties"** The draft clearly states that manufacturers and distributors would be ultimately responsible for the safety and effectiveness of medical devices on the market. Though manufacturers and distributors had been responsible in the past, no regulations explicitly stated this responsibility before.

■ **Implement a stricter market approval process** The regulations would impose more scrutiny on the market approval process. SFDA would remove the authority to approve Class I devices from city-level FDAs and re-direct this authority to provincial FDAs. For Class II and III devices, SFDA would have more discretion to conduct authenticity audits of application documents and would also have the authority to audit the research and development of devices pending approval.

■ **Give SFDA power to approve more imported devices** At present, China does not grant market approval to imported Class II and III medical devices that have not received market approval elsewhere. The amended regulations would give SFDA the authority to approve devices that have never been marketed anywhere in the world, as long as SFDA is confident in the devices' safety and effectiveness and there is an urgent clinical demand for such products in China.

■ **Relax distribution licensing requirements** Device distribution licenses would no longer be required of all medical devices—only for certain products designated by SFDA, which would issue a catalogue of such devices. In addition to GMP protocols for manufacturers, SFDA would also be authorized to formulate GSP protocols for device distributors.

■ **Send imports to SFDA-approved ports and testing centers** Approved foreign devices would be imported only into SFDA-designated Chinese ports, and testing would be conducted only by SFDA-designated testing institutions after Customs clearance. SFDA would be authorized to create a catalogue of imported devices subject to such import testing. If issued, these rules would likely remove AQSIQ's authority over device imports, except for those subject to compulsory inspection or certification under existing regulations on import inspection and compulsory product certification.

■ **Give SFDA authority on device quality** The amended regulation would give SFDA (not AQSIQ) authority over the quality control of devices and would set up national and local medical device quality inspection institutions and testing centers. Both institutions would be affiliated with SFDA and provincial FDAs. SFDA would also approve any donation of medical devices—including imported ones.

■ **Better monitor exports** Device exporters would have to file with SFDA before exporting, and exported devices would have to comply with the requirements of the importing countries.

■ **Implement post-market safety measures** The regulation would stipulate new post-market safety measures—including device recall, adverse event monitoring and reporting, and device pedigree systems. Because the regulation would be a central-level document, these new measures would grant SFDA the authority to formulate implementation rules for these systems on its own or jointly with other agencies.

■ **Impose the same liability on import distributors and domestic manufacturers** The amended regulation would impose the same liability on PRC sales agents and distributors of imported devices as it does on domestic device manufacturers. This issue may have critical implications for foreign device manufacturers because it will place higher requirements on local distributors. This would mean that agents and distributors would assume SFDA regulatory obligations for foreign device manufacturers and would assume the responsibilities of product recall and patient compensation on behalf of the foreign

Continued on page 48

Table 2: Medical Device Regulations in the Pipeline

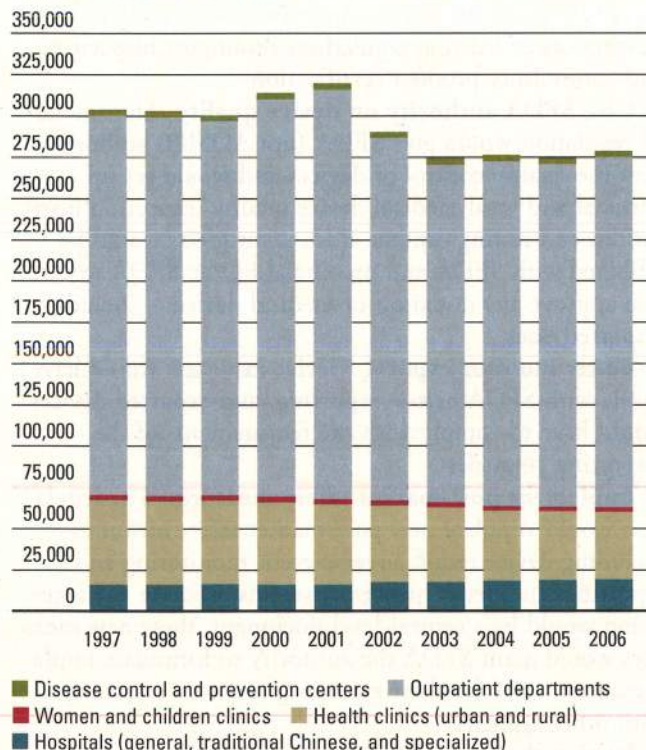
Document	To be issued by	Date current regulation issued	Date latest draft circulated
Revised Regulations on the Supervision and Administration of Medical Devices	State Council	01/04/00	09/24/07
Administrative Measures on Supervision of Medical Device Distribution	State Food and Drug Administration (SFDA)	None	11/15/07
Revised Measures on the Examination of Medical Device Advertisements	SFDA	03/08/95	01/03/08
Administrative Measures on Medical Device Recall	SFDA	None	03/18/08

Source: SFDA

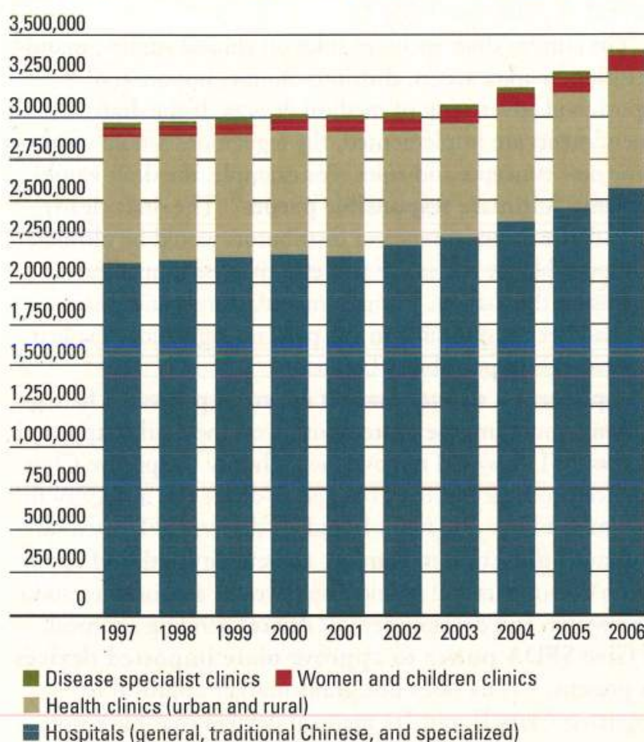
China's V

As the number of larger, general hospitals rose, health clinics saw a corresponding decline.

Healthcare Services Institutions, 1997–2006

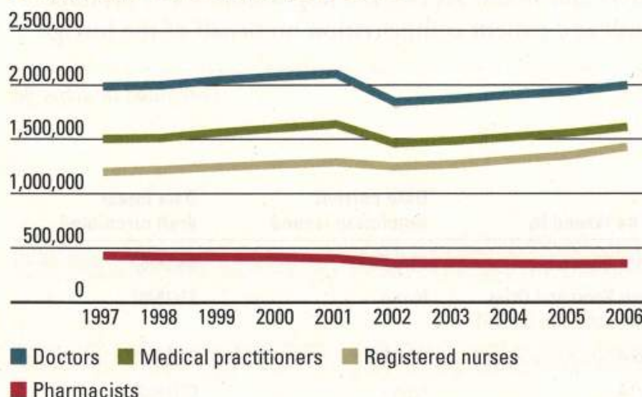


Beds in Healthcare Services Institutions, 1997–2006



At the end of 2006, China had one doctor for roughly every 660 people...

Healthcare Personnel, 1997–2006



...but the number of medical graduates has risen sharply as more students go on to higher education.

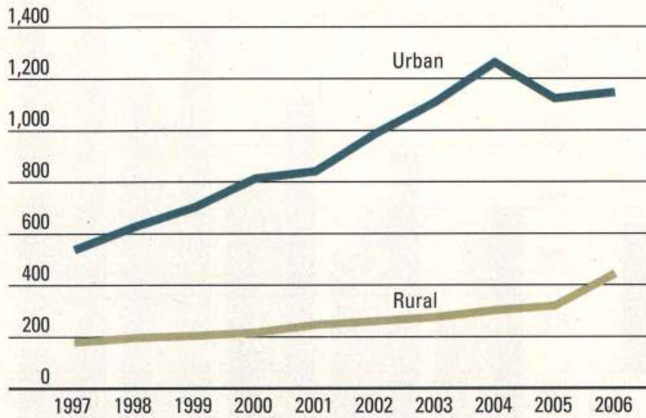
Medical Graduates

	1994	1998	2002	2006
Total graduates of general higher-education institutions	637,000	829,833	1,418,150	4,845,773
Medical graduates	47,090	61,379	88,177	279,667
Total graduates of occupational institutions	729,000	1,293,000	1,441,539	2,223,174
Medical graduates	81,718	127,608	161,151	350,700

al Signs

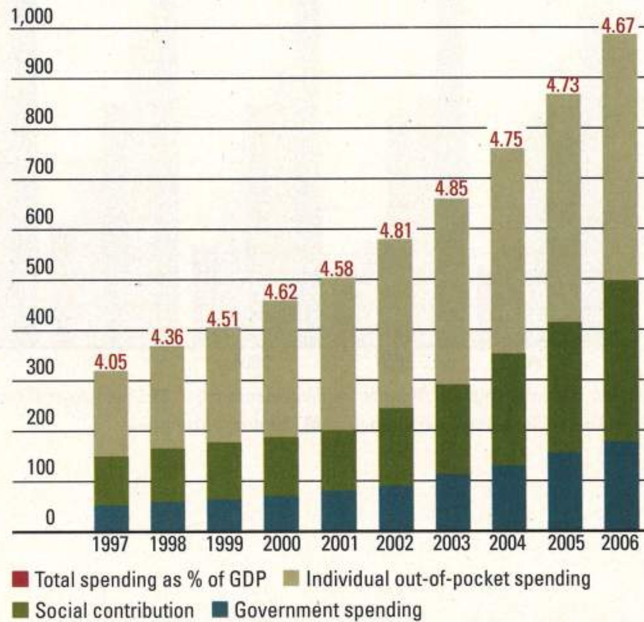
While urban and rural residents' spending on healthcare has more than doubled...

Per Capita Spending on Healthcare, 1997–2006 (¥)

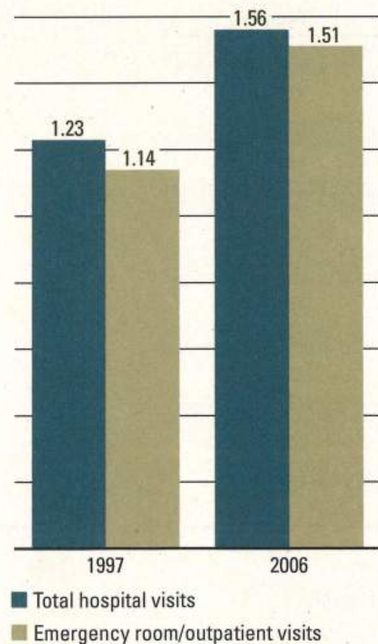


...China's total healthcare spending as a portion of GDP has dropped in recent years.

Government, Public, and Personal Spending on Healthcare, 1997–2006 (¥ billion)

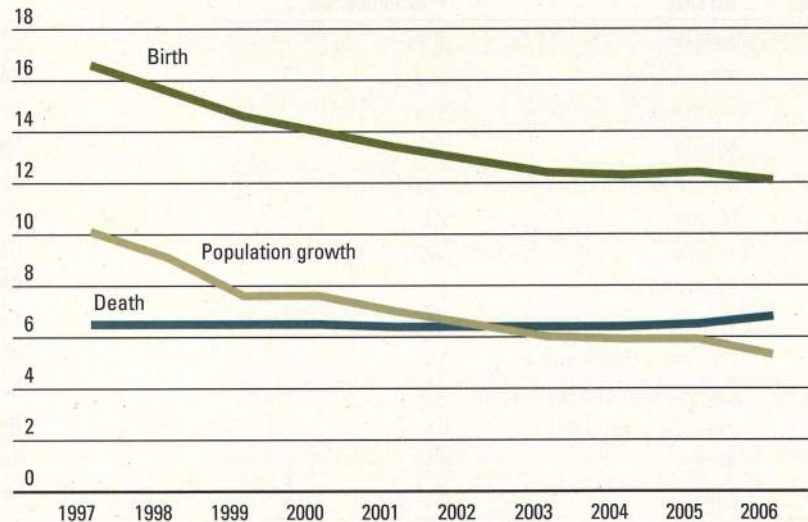


Hospital Visits (billion)



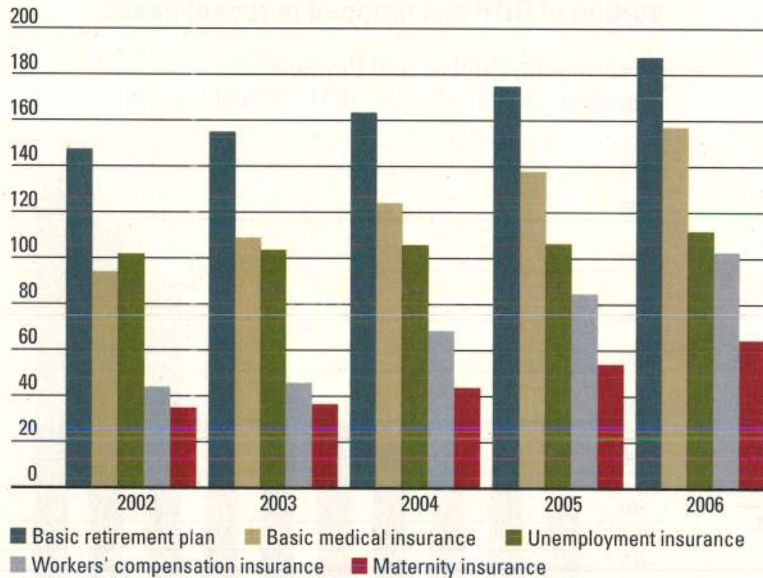
In the last decade, China has cut its population growth in half.

Birth, Death, and Population Growth Rates, 1997–2006 (per 1,000)



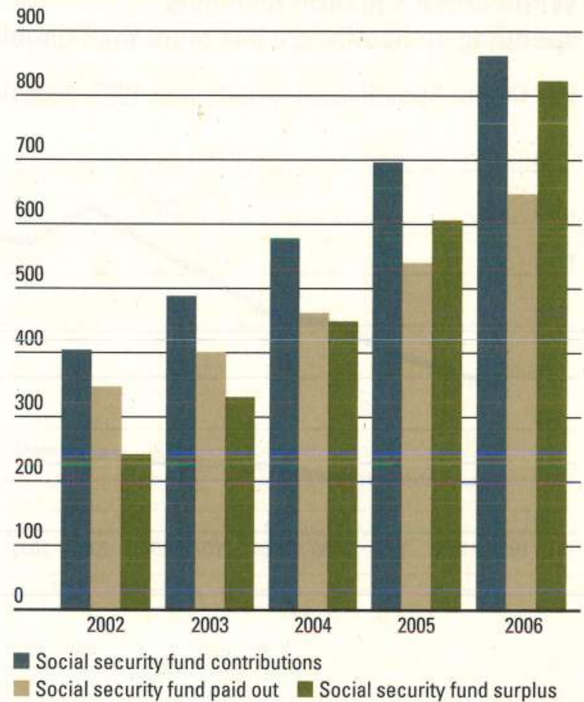
The PRC government has pledged to cover all rural residents under some form of insurance in 2008...

Citizens Covered by Insurance, Retirement, and Social Security Plans, 2002–06 (million)



...and safeguard social security for an aging population.

Social Security, 2002-06 (¥ billion)



Hepatitis cases in China—about one-third of the global total—are a serious public health issue.

Top 15 Most Prevalent Diseases, 2006 (per 100,000)

Rank	Disease	Prevalence rate
1	Hepatitis	102.1
2	Tuberculosis	86.2
3	Dysentery	32.4
4	Syphilis	12.8
5	Gonorrhea	12.1
6	Measles	7.6
7	Malaria	4.6
8	Scarlet fever	2.1
9	Typhus	2.0
10	Brucellosis (Malta fever)	1.5
11	Ebola hemorrhagic fever (EHF)	1.2
12	Japanese encephalitis	0.6
13	AIDS	0.5
14	Rabies	0.3
15	Schistosomiasis	0.2

For a developing country, China's life expectancy is relatively high.

Life Expectancy: China and Select Countries, 2004 (years)

	Male	Female
Japan	79	86
Canada	78	83
Italy	78	84
Sweden	78	83
France	76	83
United States	75	80
China	**70**	**74**
Colombia	68	77
India	61	63
Russia	59	72
Haiti	53	56
Kenya	51	50

Note: Ranked by male life expectancy

Source: PRC Ministry of Health

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For more details and registration information, see www.uschina.org
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The Re-Emergence of the Joint Venture?

In the changing investment climate, foreign investors may want to take a second look at the joint venture

Jan Borgonjon and David J. Hofmann

Why would a company that has operated several successful wholly owned units in China for more than 15 years defy conventional wisdom by setting up a new and potentially risky joint venture (JV)? The CEO of a foreign foods manufacturer explains: "It is not possible to compete with Chinese players under the same rules as in the USA and Europe. We need to change our structure in this volatile market to be flexible and competitive.... The problem is that we do not know how to do this alone."

PRC regulatory restrictions in the 1980s and early 1990s limited the role foreign investors could play in many sectors of the economy. For instance, wholly foreign-owned enterprises (WFOEs) were not permitted in many sectors, so foreign investors had to form JVs with local partners. China's business and cultural environments during this period also differed drastically from those of more developed markets. To overcome these hurdles and gain a foothold in China, many foreign companies invested through JVs.

The same business and cultural differences that compelled foreign investors to adopt a JV model, however, often caused major operational difficulties, ending in the dissolution of many partnerships. Nearly 30 years of experience has taught foreign investors that, when possible, it is better to go it alone. The lifting of restrictions on foreign investment, especially after China's World Trade Organization entry in 2001, facilitated this trend. In addition, foreign companies' success

in finding suitable local partners has been uneven, contributing to the decline in the number of overall JVs.

But the winds are beginning to change direction again. Rising government protectionism, a more domestically driven economy, and the difficulties of organic growth (company growth excluding mergers and acquisitions) are making the JV model more attractive and useful to many foreign investors. Based on InterChina Consulting's recent experience with clients and changing market realities, InterChina expects the number of new JVs in China to increase this year and in the years ahead. This could mark a reversal of the five-year decline in the number of JVs approved each year (see Figures 1 and 2).

It has become more difficult to establish a JV, however. Foreign investors that choose this route now face stronger, more business-savvy Chinese counterparts, and the relative bargaining power of foreign suitors has weakened considerably. Some potential Chinese partners are less likely to want to form JVs because they already have strong market position, knowledge, and distribution networks; faster speed to market; and cost leadership—generally Chinese enterprises have a lower cost structure. Regulations also restrict foreign investment in JVs and restrict the formation of WFOEs in certain sectors.

Quick Glance

- Changing investment policies and market conditions mean that, in many sectors, a joint venture is the only way a foreign investor can gain a foothold in the China market.
- Stronger Chinese companies, however, are not as eager to enter into partnerships with foreign investors as they once were.
- In any joint venture, both sides must clearly define their goals, needs, and exit strategies.

China's changing investment landscape

Recent PRC government policies and regulations signal a dramatic shift in the country's attitude toward foreign investment. Changes in the corporate income tax law, strengthened land management policies, and revisions to the Catalogue Guiding Foreign Investment in Industry indicate Beijing's preference for "quality" over "quantity" in foreign investment.

For nearly 30 years, all government levels supported foreign investment. That support now comes with substantial qualifications. As part of PRC President Hu Jintao's goal of building a "harmonious society," the PRC leadership has turned inward, focusing on Chinese companies and consumers (see the *CBR*, March–April 2008, p.24). Local officials no longer score points or win promotions merely by attracting foreign investment. Instead, officials are evaluated on issues such as success in introducing advanced technology and environmentally friendly investment.

China's efforts to rebalance the economy and provide a more sustainable growth model rely on the increasingly prosperous Chinese consumer. PRC leaders expect higher government spending on healthcare, education, and social security to boost consumer confidence and reduce China's savings rate. If the government succeeds in stimulating domestic demand, and most measures indicate that it will, the Chinese economy will change drastically in the next five years (see the *CBR*, September–October 2007, p.28).

Equally important, China's business environment is becoming inexorably tougher because of the evolution of China's domestic champions, the increased technical competency of Chinese producers, a greater emphasis on local sourcing, and shortages of qualified labor. In short, competition has intensified. Foreign investors no longer have room to make mistakes, and with each passing day, market entry becomes more difficult.

Reevaluating the case for JVs

This new environment calls for a re-evaluation of the JV structure's potential value. The shift in the government's attitude toward foreign investment, increased focus on the domestic market, and vague references to national economic security in both the new mergers and acquisitions and anti-monopoly laws indicate increased likelihood of economic nationalism. Direct government protection of strategic sectors such as auto and steel through regulation and legislation, and indirect protection in the form of local government preferential treatment for key companies, suggests that outright acquisition of domestic companies will not always be possible.

Nevertheless, in markets driven by domestic demand rather than investment and exports, a JV partner can provide local business and cultural insights, established workforces, distribution channels, brand recognition, and a strong existing client base. Because local knowledge is so important in the China market, only firms with localized management are likely to succeed in the future.

WFOEs are an increasingly untenable option in many sectors given the above trends. In sectors facing overcapacity, such as dairy and steel, it makes little sense for a foreign investor to build a new factory. In the banking sector, where WFOEs are allowed, vast and well-established Chinese retail networks preclude the formation of WFOEs. Foreign investors in the chemical sector will likely find that Chinese control over raw material supplies enables local companies to dominate markets for many downstream products. In many cases, a foreign company will need to find a strong Chinese partner to access those materials. As a result, even in sectors where no government restrictions on investment exist, JVs are becoming the only feasible investment vehicle for many foreign investors (see p.35).

The paradigm shift among Chinese companies

Unfortunately for foreign companies hoping to set up JVs, finding suitable Chinese partners has not become easier over the years. In general, Chinese businesses are not as inter-

ested in forming JVs as they once were and have become more demanding. Because Chinese companies are stronger now, the need to team up with a foreign partner for management, technology, finance, personnel, marketing, and distribution has been greatly reduced. Chinese companies are optimistic about their prospects and less willing to share future profits with others. Thanks to higher profitability, private equity investments, and stock listings, they have ready access to capital. Local companies thus no longer blindly pursue foreign cooperation but evaluate cases objectively. Foreign parties are generally perceived as slow, inflexible, and lacking an understanding of local realities.

As a result of this paradigm shift, foreign investors that once relied on a Chinese partner to provide only land, fixed assets, and labor—and consequently had many partners to choose from—will discover that finding a Chinese partner can be extremely difficult now. Though plenty of successful Chinese companies exist, few are willing and able to establish successful JVs.

Further complicating the situation, the motivations of Chinese partners in forming JVs have changed and often contradict the interests and intentions of Western partners. For example, the Chinese side may want technology and overseas market access, while the foreign side may wish to protect its intellectual property and existing markets.

Figure 1:
Number of Approved JV and WFOE Projects,1998–2007

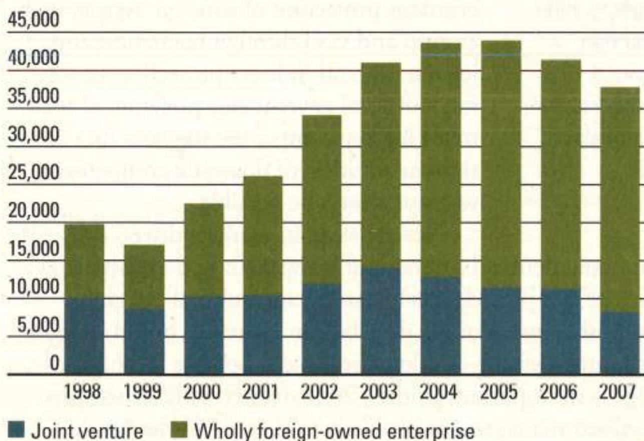
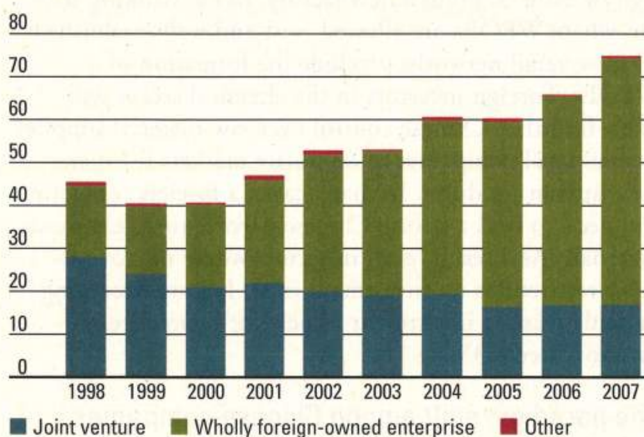


Figure 2:
Utilized FDI by Structure, 1998–2007 ($ billion)



Notes: JV = joint venture; WFOE = wholly foreign-owned enterprise; FDI = foreign direct investment
Source: PRC Ministry of Commerce

Keys to success

Clearly, forming a successful JV is not easy. In many cases, however, foreign investors will have no choice but to seek local partners. These investors should take into account the lessons learned by foreign-invested enterprises over the past 30 years. Most important, they must view a JV as a tool, rather than a strategy in itself.

First, foreign investors pursuing a JV need a clear and realistic idea about why they want such an alliance. They should understand the bigger picture—including China's political climate and investment trends. They should also understand the current and potential future motivations of the partner and what the partner can contribute in the short and long run. To do this, foreign investors must conduct thorough due diligence on the potential partner; analysis will require more expertise, time, and effort than is common in more developed markets.

Second, foreign investors must determine what they intend to contribute to the JV, what must be protected (for example, overseas market access and intellectual property), and what they want to get out of the JV (for example, short-term learning or long-term market positioning). Though a JV contract is essential, legal agreements do not offer full guarantees in China. Successful cooperation, therefore, depends on other leverage points, such as controlling technology, access to markets, and large purchasing volumes from the JV. Foreign companies should also understand that if the partner really wants to end a JV, it can always find a way to do so, for example, by decreasing its commitment, causing board of director delays, and bringing in the local government.

Third, in terms of operations, investors should try to strike the right balance between Chinese and Western ways of doing things. Foreign investors should keep in mind that Chinese shareholders will expect to make more money by cooperating with a foreign partner than they would on their own for the venture to be worth their while. Sometimes this implies compromises and the acceptance of processes and procedures uncommon in the West. Though unethical practices obviously must be avoided, it might be necessary, for instance, to adjust to fast decisionmaking cycles without going through the lengthy due process common back home.

Finally, once a foreign company sets up a JV, it must assess the operation regularly to determine whether the JV requires restructuring or whether the foreign company should acquire the Chinese partner. Since a JV is primarily a

tool used to reach a specific goal, companies should establish exit and contingency plans from the beginning.

Whether and how to establish a JV are complex questions that require analysis at the individual company level. Though the issues discussed above are fairly common, each company is unique and thus may face different challenges. Contrary to conventional wisdom, JV operations in China are not inherently deficient. When structured correctly and given appropriate attention by the foreign investor, a JV can be an effective way to begin or expand one's China operations. 完

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Case Studies

Food manufacturer

A leading, global foreign foods manufacturer that began its China operations in the 1980s as a wholly foreign-owned enterprise (WFOE) held a commanding market share in the China market by 2006. Yet the manufacturer's sales over the past four years grew by only 5 percent annually, compared to an industry average of 15 percent.

After analyzing the market, the multinational corporation (MNC) found that the food business in the low-to-medium price segment of the market was growing rapidly, while the high-end segment in which the company specialized was saturated by other global players. Meanwhile, local players were moving in, leveraging their traditional sales and distribution channels (such as wet markets, restaurants, and wholesalers) and proficiency in researching and developing products tailored for the China market.

Clearly, the MNC needed to invest in the low-to-medium segment to ensure its long-term profitability. To do so, the company planned to acquire 100 percent or majority ownership of a local player. After detailed due diligence on the top choices, however, it became apparent that the competitive advantage of these companies lay with their managers. Furthermore, these companies' production processes were very "Chinese"—intensively based on variable costs, such as subcontracting, leasing of assets, and use of distributors or agents. Local managers used those tactics to ensure maximum flexibility.

The MNC's acquisition strategy was to acquire a majority stake in the local partner and keep several key Chinese managers as major stakeholders through the implementation of a strong incentive scheme. The foreign-invested enterprise (FIE) and target company remained completely independent in their daily management and did not integrate product, marketing, or brand. To combine their strengths in the medium and high-end market segments, however, the companies integrated research and development. Though it has taken some time to adapt the FIE's internal methods and convince headquarters to become more flexible in its China decisionmaking, the overall trend has been quite positive.

Dairy company

In another example, an MNC in the dairy industry—with six years of experience distributing in China via its own distribution network, coordinated by a sales representative office—decided to tackle the China market on a more structured, long-term basis. The company began analyzing the market situation in 2006, seeking to set up local production and a national distribution network.

In the 1980s and 1990s, foreign players generally dominated the higher value-added segment of the dairy industry, holding a 15 percent market share in 2000. But during the past seven years, when the market grew at a rate of more than 25 percent a year, FIEs continuously lost ground to local manufacturers. At the end of 2007, foreign players held only 5 percent of the market, according to InterChina market surveys and the PRC National Bureau of Statistics.

To compete successfully in China, dairy companies must control the milk supply chain. They need access to traditional sales channels in China, such as small shops; the capacity to maintain wide, cost-efficient distribution channels; and the ability to launch products adapted to local tastes.

After analyzing domestic competitors' internal corporate structures and daily practices, the MNC determined that it could not achieve the level of flexibility and adaptability necessary to succeed in the market on its own. Consequently, the MNC abandoned its usual strategy of investing in international markets via WFOEs and sought a strategic alliance with a top national player. After starting a commercial relationship with such a player, the MNC is currently negotiating to establish a joint venture (JV) with that company.

Parts supplier

In a third example, a foreign supplier to specialized power equipment parts manufacturers was intent on moving to China. Its goal was to meet MNC customer demands and to cut its costs to counter competition from Chinese companies that were expanding into its lower product ranges. To establish cost leadership and accelerate its move into China, the foreign supplier decided to establish a JV with a local partner. The Chinese partner was keen to acquire technology and gain access to global clients in China and overseas. The compromise they finally reached was a 50-50 JV in which some—not all—technology was transferred to the Chinese side, which maintained control over management. The foreign partner appointed a permanent financial controller to the JV and handled market access, meaning that all sales to international clients would go through the foreign supplier's headquarters. Each side made clear exit arrangements in case problems arose.

—*Jan Borgonjon and David J. Hofmann*

The Great Currency Debate

The lively debate on China's currency regime reflects competing views of China policy

Arie Eernisse and Tom Meehan

A March 26 letter to President George W. Bush, signed by 15 of the 24 Democratic members of the powerful House Committee on Ways and Means, makes the claim that "China's undervaluation of the yuan makes US exports to China more expensive and Chinese exports to the United States cheaper, contributing to massive US trade deficits, lost jobs, and a suppression of US economic growth." Claims such as these have pit those who view China as shirking its international obligations and deserving of punishment against those who want to avoid unnecessary tension in the increasingly important US-China relationship.

Against a backdrop of rising economic uncertainty and a gradually appreciating renminbi (RMB), a wide variety of participants have joined the debate, including economists, members of Congress, the Bush administration, US industry, and associations, like the publisher of this magazine.

Though basic economics says that an undervalued Chinese currency lowers the price of imports from China and makes it harder for US manufacturers in low-skilled sectors to compete, the question remains: Does an undervalued RMB significantly harm the US economy? And equally important, would the currency-focused legislation and other

punitive actions that some in Congress have called for, such as a World Trade Organization (WTO) case against China, actually speed China's currency reform?

The economic debate

As the *CBR* went to press in late April, the dollar-RMB exchange rate was $1 per ¥7, a 15.5 percent increase from July 2005, when China revalued the RMB 2.1 percent and moved from what was effectively a fixed exchange rate against the dollar to a "managed float" pegged to a basket of currencies. (The 15.5 percent increase includes the initial 2.1 percent revaluation.) Even after the switch, however, the RMB has appeared to use the dollar as its main currency of reference. From July 2005 to May 2007, the RMB fluctuated daily within a ±0.3 percent band and has since fluctuated within a ±0.5 percent band. In 2007, the RMB strengthened 6.54 percent against the dollar, almost double the 3.3 percent pace of 2006 but not necessarily because of the widened band. In the first quarter of 2008, the RMB rose nearly 4 percent, and UBS AG estimates that the RMB will gain another 8 percent by next April. (The RMB's standing against other currencies, such as the Euro, will not be explored here.) Given the faster appreciation recently and other economic factors, some economists have questioned the utility of even faster appreciation at this time.

Quick Glance

- With the renminbi (RMB) appreciating against the dollar and the impact of China's exchange rate on the US economy unclear, Congressional efforts to force China's hand on currency reform should be reevaluated.
- Efforts to pressure China on its currency are also hampered by widely varying estimates of RMB undervaluation and legal questions about bringing a currency-related WTO case against China.
- Disagreement between the US Congress and executive branch in their approaches to currency reform has turned the RMB debate into a political issue.

Undervalued? By how much?

It is commonly accepted that, as US Under Secretary of Commerce Christopher Padilla has said, five different economists would give "five different opinions about the value of the RMB." An October 2007 study by William Cline and John Williamson of the Peterson Institute for International Economics found that the average of 16 estimates—ranging from 7 to 100 percent—made between 2000 and 2007 was 40 percent.

On the issue of what form appreciation should take, most economists fall into two camps. The first generally favors gradual, but quick annual appreciation—much like what is happening now—while the second group favors a bold, immediate revaluation of 10–25 percent, usually coupled with other measures that would allow market forces a greater role in determining the RMB's value.

Effects on the US economy

The claim made in the recent Ways and Means Committee letter that the undervalued RMB "contributes" to the US trade deficit, job losses, and suppression of economic growth is misleading because the RMB contributes only marginally, if at all, to these problems.

In evaluating the effect of the undervalued RMB on the US global trade deficit, a few key points should be noted. Nonpartisan studies such as the October 2007 Congressional Research Service report, "China's Currency: Economic Issues and Options for US Trade Policy," have concluded that low US savings, low PRC consumption, and other structural problems are more important than RMB undervaluation in explaining the $256 billion US trade deficit with China, which made up 32 percent of the global US trade deficit in 2007. In addition, it is crucial to note that East Asia's proportion of the $708.5 billion US global trade deficit (minus China) fell precipitously from 51 to 17 percent in the past 12 years, strongly suggesting that the transformation of the Asian trading landscape—with producers from countries such as South Korea and Japan moving their manufacturing facilities to China—is largely responsible for the bloated US trade deficit with China.

Projections have indicated that the US trade deficit and current account deficits would be affected minimally by a one-off 20–25 percent RMB revaluation. A January 2006 Oxford Economics study commissioned by the China Business Forum estimated that a 25 percent RMB revaluation would only reduce the US global trade deficit by $10–$15 billion after two years because US imports from other Asian economies would correspondingly increase and result in higher US deficits with those countries. Likewise, because the RMB constitutes just 15 percent of the trade-weighted dollar, in 2006, a 20 percent appreciation of the RMB would have resulted in only a 3 percent depreciation of the trade-weighted dollar, which would have cut the US global current account deficit of $857 billion by just $40 to $55 billion, according to a June 2007 article by Morris Goldstein of the Peterson Institute. (Goldstein and other Peterson Institute economists base their support for immediate RMB appreciation partly on the appreciation they say would occur in other undervalued Asian currencies, which in turn would help reduce the US global current account deficit.)

On the question of job losses, although China's exchange rate policy has accelerated manufacturing job losses in some sectors, US productivity gains are far more important in explaining job losses. In a March 2006 Federal Reserve Bank of New York report, Richard Deitz and James Orr show that while employment in low- and mid-skilled manufacturing jobs fell by 3.3 million from 1983 to 2002, high-skilled manufacturing jobs rose by 1.2 million, up 37 percent. This transformation has created a manufacturing workforce that is "leaner and more skilled" and therefore capable of higher

output. Consistent with this finding, data from the US Bureau of Economic Analysis show that the decline in manufacturing employment in the United States from 1998 to 2007 occurred at the same time that the US share of global manufacturing output rose from 22.3 to 24.7 percent, suggesting that the smaller manufacturing workforce is more productive. China's share of global manufacturing output, meanwhile, remained well below that of the United States at 11.4 percent in 2007, according to estimates from the United Nations Industrial Development Organization.

The claim that China's currency regime has suppressed US economic growth must be evaluated in light of the dramatic increase in US exports to China and the beneficial aspects of Chinese imports. Despite an undervalued RMB, US exports to China have quadrupled since 2000, rising from $16.3 billion to $65.2 billion in 2007, and, just this year, China surpassed Japan to become the third-largest US export market. Chinese imports have supported many US jobs in services, wholesale and retail trade, and other sectors and have given US businesses and consumers access to less expensive goods for inputs and consumption.

Effects on China's economy

Economists who acknowledge the limited effect of RMB revaluation on the *US* economy often frame the currency debate in terms of the potentially significant negative impact of a bold revaluation on *China's* economy. The Oxford Economics report mentioned above predicted that, in the event of a 20 to 30 percent RMB revaluation, "Chinese exporters to the United States are likely to do their best to protect their market share...even if that means cutting their profits and/or squeezing their costs, including labor costs." Jonathan Anderson of UBS has noted that "a large, unannounced revaluation would...catch exporters off-guard, with potentially devastating near-term effects on profits and earnings." Yet Anderson and other economists who oppose bold, immediate revaluations, such as Pieter Bottelier of Johns Hopkins University-School of Advanced International Studies, do not necessarily oppose steady appreciation. Bottelier has argued that faster appreciation would help China to address macroeconomic imbalances, such as overdependence on exports and investment.

Currency Bills in Congress

	Senate Finance Bill (S. 1607) Baucus-Grassley Schumer-Graham	Senate Banking Bill (S. 1677) Dodd-Shelby	House Bill (H.R. 782) Hunter-Ryan
Reforms to the annual Treasury report	Treasury must determine whether a currency is "fundamentally misaligned," defined as "significant and sustained undervaluation of the prevailing real effective exchange rate, adjusted for cyclical and transitory factors, from its medium-term equilibrium level." If misalignment is driven by explicit government policy, then it must be designated for "priority action."	If it causes unfair trade advantage, excessive US dollar reserves, or prevents balance of payment adjustments, Treasury must determine whether a country "manipulates" its exchange rate, regardless of intent.	Adds the determination of "fundamentally misaligned" to the existing standard of defining a country as a "currency manipulator" and creates the designation of "fundamental and actionable misalignment," which would initiate enforcement actions.
Key enforcement provisions	If a country is designated for priority action, Treasury must engage the International Monetary Fund (IMF) for advice and support. If, after 180 days, there are no results, the United States should: ● Adjust antidumping (AD) calculations to reflect "misalignment;" ● Ban Federal procurement from the designated country; ● Request the IMF to consult the designated country; and ● Oppose Overseas Private Investment Corp. and multilateral bank financing to US companies operating in that country. If the country does not comply after 360 days, the United States should initiate a World Trade Organization (WTO) case and consider possible remedial intervention in markets with the IMF.	If a country is designated as a "manipulator," Treasury must within 30 days request consultations with that country in the IMF under article IV and use its voting power against that country if necessary. Treasury must also submit a plan of action with specific benchmarks for correcting manipulation. If the country does not comply within 300 days, Treasury has the authority to initiate action at the WTO under General Agreement on Tariffs and Trade Article XV.	Considers exchange rate misalignment a countervailable subsidy for both market and nonmarket economies. In the case of "fundamental and actionable misalignment" the United States should: ● Adjust AD calculations to reflect "misalignment;" ● Request the IMF to consult the designated country; and ● Oppose Overseas Private Investment Corp. and multilateral bank financing to US companies operating in that country. If the country does not comply after 360 days, the United States should initiate a WTO case and consider possible remedial intervention in markets with the IMF.

Source: The US-China Business Council

Congressional attempts to legislate Chinese currency

Despite the uncertainty surrounding the RMB's valuation and the effects of RMB appreciation on the US economy, Congress has become increasingly active on the issue, with 10 currency-related bills introduced since the 110th Congress convened in January 2007. The surge of legislation targeting the RMB started in 2003 when Sens. Chuck Schumer (D-NY) and Lindsey Graham (R-SC) introduced a bill that would have imposed a 27.5 percent tariff on all Chinese goods imported into the United States unless China allowed significant and lasting RMB appreciation. (The 27.5 percent was the average of two economists' estimates, 15 percent and 40 percent.) Schumer and Graham then reintroduced the bill in 2005 and stepped up their efforts to bring it to a vote. While political pressure, including a direct appeal from President Bush, kept both of the bills from the Senate floor for a vote, the wave of attention stirred by the controversial bills showed that legislation attacking China's exchange rate regime could gain traction with members of Congress, the press, and, most important, voters.

This, and a new Democratic majority, set the stage for China's currency to become a prime legislative target in the new Congress. Of the 10 bills directed at China's currency, one House bill and two Senate bills merit discussion (see Table). In the Senate, Schumer and Graham were joined by Sens. Charles Grassley (R-IA) and Max Baucus (D-MT), the Republican and Democratic leaders, respectively, of the Senate Finance Committee, in introducing their third attempt at currency legislation, S. 1607 (the Finance bill). Sens. Chris Dodd (D-CT) and Richard Shelby (R-AL), chair and ranking Republican, respectively, on the Senate Banking Committee, also introduced their own currency bill, S. 1677 (the Banking bill). Meanwhile, in the House, Reps. Tim Ryan (D-OH) and Duncan Hunter (R-CA), who have joined together on China-focused currency legislation in the past, introduced H.R. 2942.

All three bills include provisions that would reform the US Department of the Treasury's semiannual report on international economic and exchange rate policies (see Box). Each bill revises the standards and language in the current authorizing statute for the report to force Treasury to designate China as a "currency manipulator"—an important step in bringing China to the World Trade Organization (WTO) over its currency, a provision in all three bills. In its 2007 report, published in December, Treasury refrained from designating the RMB as manipulated because it found no "intent" on the part of China to manipulate its currency for the benefit of trade. The bills' drafters aim to remove the intent requirement and expand congressional oversight, thus making it easier for Treasury to designate the RMB as either "manipulated" (the language in the Banking bill), "fundamentally misaligned" (the Finance bill), or "fundamentally and actionably misaligned" (the House bill).

The administration's view on currency legislation

The Bush administration has so far rejected calls from Congress to take punitive action against China. Rather, it has advocated an approach of open dialogue and constructive engagement to encourage China to allow the RMB to appreciate. Treasury, which, along with the Federal Reserve, has authority over exchange rate issues within the administration, leads these efforts.

The administration has not been shy in opposing currency legislation. Mark Sobel, deputy assistant Treasury secretary, has said that proposed legislation could harm the US economy by increasing the cost of consumer goods, lowering US exports to China, and cutting off the inflow of capital on which the United States so heavily relies. Padilla has referred to the pending legislation as a "blunt instrument" that would simply reduce imports from China rather than address the underlying root causes of the US trade deficit and other financial woes.

Treasury does not deny that the RMB is undervalued and noted in its most recent report on international economic and exchange rate policies, published in December 2007, that the "substantial undervaluation of the renminbi" is harming the PRC economy and contributing to China's growing trade surplus, leading to rising tensions among

Continued on page 49

Treasury's Exchange Rate Report

The Omnibus Trade and Competitiveness Act of 1988 requires the US Department of the Treasury to analyze the exchange rate policies of foreign countries and consider whether countries manipulate the exchange rate between their currencies and the US dollar to prevent balance of payments adjustments or gain unfair competitive advantage in international trade.

Treasury must submit two reports annually—on October 15 and April 15—to the House Financial Services Committee and the Senate Banking, Housing, and Urban Affairs Committee. The report analyzes the relationship between the US dollar and the currencies of its major trading partners, developments in bilateral trade and capital flows, and currency intervention or other actions undertaken to adjust the actual exchange rate of the dollar. It then recommends changes to US economic policy to attain a more appropriate and sustainable balance in the current account.

If the report designates a country as a "manipulator," the secretary of Treasury must initiate negotiations with the country at the International Monetary Fund or in a bilateral forum. Treasury, however, already maintains open and regular dialogue with China on its currency. A "manipulator" designation therefore would only be a political move, likely to strain relations between the two countries.

—Tom Meehan

Sara Yang Bosco, President, Asia Pacific, Emerson. Ccurtesy of Emerson.

Emerson

The engineering technology company stresses its reliance on innovation as a growth strategy, thus aligning itself with a main PRC government objective

***Sara Yang Bosco** became president, Asia Pacific, Emerson, in January 2008. She joined Emerson in 2005 as general counsel, Asia Pacific. Prior to that, she was a partner with Baker & McKenzie, Hong Kong, and then Perkins Coie LLP, Hong Kong, where she worked on Emerson's acquisition of Avansys from Huawei Technologies. She recently spoke to* CBR *Editor Virginia Hulme about Emerson's China operations and plans.*

CBR: For most of your career, you've been a practicing lawyer. Why do you think Emerson chose you to be Asia Pacific president?

Bosco: Lawyers, especially those coming out of private practice, are very client focused. Because we provide a service, our clients expect us to be customer-driven and results-oriented. And Emerson values those same qualities. The company expects its managers and employees to think about what customers are looking for and try to find solutions. That's similar to what lawyers do in private practice and why Emerson considered me for this new role.

There are three characteristics that describe Emerson. I think these are reflected in how the company has invested in China and in the selection of me for this particular role. First is innovation—Emerson sees China as an innovation center for leadership in manufacturing, technology development, and product development. Second is the way that Emerson sees opportunity where it may not be obvious. When I ask people around the company what they think is different about Emerson, they say it is the ability to look outside of the box and see a person, opportunity, product, or business platform outside of where it currently is. That distinguishes us from other companies.

The third aspect is the absolute highest ethical standards that Emerson's OCE [the Office of the Chief Executive], board, and shareholders expect. Putting someone like me, who has been responsible for compliance in a legal role, into a top management position is not a coincidence.

Emerson has always had an extremely high reputation for ethics, and one of the messages to take away from this leadership transition is that ethics will remain a top priority for the company.

CBR: What plans do you have for Emerson in Asia Pacific and China in particular?

Bosco: Immediately, one of my main goals is to learn more about the broader range of issues the company faces in China and Asia Pacific, which is my territory. China is a major center for us and will remain so. We intend to maintain it as our center for innovation—innovation for leadership, technology, production and manufacturing processes, and management process. Over the years, Emerson has established a foundation in China for these areas, and we will continue to focus on them and invest in China. So over the next five to ten years, I don't see any decrease in our commitment, engagement, or presence in China. We will continue to expand in China by investing in engineering, product development, and business platforms that bring solutions to our customers.

CBR: Emerson has expanded rapidly in the last few years—how much has the company expanded, and what are its plans for future expansion?

Bosco: Currently, we have more than 40 entities in China—over 30 wholly foreign-owned enterprises, plus joint ventures and engineering centers. Those have all been set up since 1993. When we opened our investment vehicle, a holding company in 1993, we were one of the first US multinationals to set up a holding company. It was an interesting time, as I understand, because there was no legal framework to do that. I think that was an early example of Emerson being innovative.

Now we have more than 35,000 employees in China alone and over 51,000 employees in Asia Pacific. Certainly this is one measure of how much we've grown over the last 15 years.

And we've tracked how China has grown. China launched its reform and opening policy 30 years ago, and we came to China 30 years ago with our first technology license for pressure transmitters through the Rosemont division. So, in a way, we've grown up with China.

CBR: Among Emerson's 40-plus entities in China are several engineering centers. What do they do?

Bosco: The engineering centers [located in Suzhou and Nanjing, Jiangsu; Shanghai; Qingdao, Shandong; Shenzhen, Guangdong; and Xi'an, Shaanxi] engage in a wide range of projects. We really see China as a center of innovation and product development, and we design and develop product in Asia for Asia, in China for China, in China for the rest of the region, and in China for the rest of the world. So as you can imagine, the need for engineering and investment is enormous. We find the pool of talent in China to be fantastic and the key to finding the people with the local perspective that we need for the company's growth.

CBR: Do the engineering centers focus on certain areas?

Bosco: Yes, they are generally affiliated with our business platforms (see above). For instance, the engineering centers for Emerson Climate Technologies are focused on air conditioning or climate control technology. We also have engineers working on appliance motor products, which would be our MAC [motors and appliance components] group, while Emerson Network Power in Shenzhen focuses on power supply and precision cooling. The centers have a large pool of engineers who are developing the next product, the next kind of technology that changes the way people operate, what we call game-changing technology. For instance, our Smart Wireless technology is helping drive efficiency in processing plants in Asia and around the world. The centers also work together with customers' engineers on joint projects.

Emerson in Brief

Emerson is a Fortune 500 industrial engineering and technology company headquartered in St. Louis, MO, and organized around eight business platforms: Emerson Process Management, Emerson Climate Technologies, Emerson Network Power, Emerson Storage Solutions, Emerson Professional Tools, Emerson Appliance Solutions, Emerson Motor Technologies, and Emerson Industrial Automation. Founded in 1890, the company now employs more than 140,000 people in 150 countries, with roughly 265 manufacturing locations worldwide, and had global revenue of $22.6 billion in 2007. Emerson reeled in $361 million, or 16 percent of its global sales, in the Asia Pacific region last year. In China, by the end of 2007, Emerson had more than 35,000 employees and boasted more than 40 legal entities, of which more than 30 are manufacturing facilities. These entities include 33 wholly foreign-owned enterprises, 8 joint ventures, 6 engineering centers, and 3 advance materials characterization centers.

Driven by innovation, the company launched 577 new products, between 2004 and 2006, including some created in China for the local market and for export. For example, Emerson engineers are currently working on wind turbine technologies in Xi'an, Shaanxi, and a team of engineers based in Suzhou, Jiangsu, developed Emerson's Digital Scroll technology, which increases heating capacity by 30 percent and reduces electricity costs by up to 40 percent. To fund this level of innovation, Emerson has invested $800–$900 million per year worldwide in recent years.

The other focus of the engineering centers and of the company generally, of course, is energy efficiency. We're focused on developing technologies that use energy much more efficiently. We think it's the right social thing to do, and we think it's the right business focus to have. For example, our engineers in Emerson Network Power and Emerson Industrial Automation are trying to create more efficient wind turbine parts. The other area of focus for energy efficiency is Digital Scroll technology for our compressor business. Compressors take a chemical, like a refrigerant, and compress it down into a form that can then be used to cool a room. Scroll technology is a way for the parts to work together using less energy. It slows down or modulates the machine without turning it off, like putting a computer into sleep mode. We also educate customers about data center efficiency through our Network Power platform.

CBR: Emerson also has a joint engineering facility with Wuxi Little Swan Co. Ltd. What does it do, and how does it differ from the other engineering centers?

Bosco: We set up the Little Swan Emerson Appliance Controls Engineering Center in July 2006, at Little Swan's base in Wuxi, Jiangsu. There, Emerson and Little Swan engineers work together to develop customized motor controls for their washing machines, dryers, and dishwashers. This kind of cooperation with our customers reflects what Emerson does globally—we have joint engineering arrangements or programs with major customers in other parts of the world. Developing products with customers helps us better serve the customer and be better partners with the customer.

CBR: Emerson also has a few materials characterization centers in China. What are these, and what do they do?

Bosco: The materials characterization centers exist because we have large procurement operations in Asia Pacific and in China. The materials characterization centers help source raw materials and components, but most important, they test the quality of materials. These three centers in China help us make sure that we get the best quality raw materials and components possible. Testing and assessing raw materials at the source is far more efficient than sending them to a plant and testing there. It also makes our supply chain more efficient for the customer because they're getting something that's already been tested.

CBR: Tell me about Emerson's shared services center in Xi'an, Shaanxi.

Bosco: We established it in December 2007, though it's not our first shared services center in Asia—we have one in Manila. But we felt we needed to be in Xi'an to serve the Chinese market. And it's been fantastic for us. It allows us to put some added weight on our team by letting us put resources in a lot of areas that we would not be able to in a higher cost area. Another reason to locate such a center in Xi'an is the quality of human resources there. Xi'an has many outstanding universities in the immediate area—the local talent pool is just fantastic. The ability to find people who can speak other languages, not just English and Chinese, to serve the Asia Pacific market is great.

CBR: Now I'd like to turn to some broader issues. Human resources (HR) is a huge issue facing all companies in China. Emerson has just expanded greatly. How has Emerson dealt with HR issues and found good staff? Also, you have programs with several universities—how have these programs worked?

Bosco: The senior management at Emerson spends about 30–40 percent of its time on HR issues. And that's the whole range of HR issues—identification, retention, leadership development, education—needed to maintain a stable and productive workforce. I am impressed with the amount of time members of the OCE spend in China and in Asia Pacific. The OCE has only five members, and every month or every other month, one of them is in Asia. This indicates how important China and Asia Pacific is to the company. They are visiting our factories, plants, and research centers, and they also meet with customers.

We have developed internal leadership programs specific to Asia Pacific and China. We have a China-specific program for developing leadership in China, and we have another program focused on developing leadership for Asia Pacific. At these sessions, it's the top business leaders and OCE not the HR person from the factory—giving the programs. So this is another tool that we use to meet all those HR objectives. There's no question about it, HR is an issue for all of us. And we invest significant time and resources in finding and developing talent to support our business growth.

In terms of university programs—and that's another aspect of identification and retention—not only do we have scholarship programs, but we also send our employees back to school to get a degree to help them advance their career in our company. That's a key part of our HR program. The scholarship programs identify the kind of students we would like to support—people who are intelligent, think outside of the box, have a desire to succeed, and can communicate or have the desire to learn to communicate well. They don't necessarily come to work for us after they get a scholarship from us. We support them because they're doing things that we'd like to encourage.

CBR: Are these scholarships targeted mostly at science and engineering students?

Bosco: Most of our scholarships are for MBA programs. Many of the students are already engineers, but we put them into an MBA program because we want them to develop a skill set that includes not only technical aspects, but operational, financial, and communications skills.

Emerson Network Power, Shenzhen. Courtesy of Emerson.

CBR: Two other big issues for our members are intellectual property (IP) rights and standards. Emerson develops a lot of its own products, and IP is a core asset for the company. How do you protect your IP?

Bosco: Our engineers create products, technology, and processes, which are part of our core assets. Innovation drives our growth, so we need to protect our IP. We protect our IP quite aggressively, and we have an IP team based in Asia. The small-scale nature of an infringement does not deter us from taking action because it's so important to us to protect our IP. We're pleased to see China's legal system developing around IP protection.

The specific actions we take depend on the type of IP infringement. We have successfully litigated for patent infringement against a company that had copied our technology. In counterfeiting cases, we obtain as much information as we can collect ourselves and then request the appropriate PRC authorities, typically the local or regional administration for industry and commerce (AIC), to take action to stop the infringement. Throughout the process, we work closely with the authorities, including by formally identifying counterfeit products for them. In serious cases, we seek the involvement of the Public Security Bureau [police]. In one recent case, criminal charges were brought and the owner of the counterfeiting factory jailed.

Emerson also participates actively in the Quality Brands Protection Committee, an association of 178 multinational companies and their subsidiaries committed to working cooperatively with the Chinese central and local governments to improve IP protection in China and to share best practices in IP protection.

I also think that the environment for IP protection in China has changed over time. You know, I was in private practice in the early days, when IP infringement was ridiculously obvious. That type of infringement still exists, but Chinese companies have come to view IP as a key component of their assets' value, and I think that view, in turn, has helped the government understand the need to protect IP. We will always protect our IP aggressively, but we are not alone in our goal, and the combined effort is really improving the climate for IP protection.

On standards....We develop standards for efficiency and capacity, as well as technical specifications for our products, so we are quite enthusiastic about monitoring standards development in China. The best example of our standards work is the efficiency standards for air conditioning in China. Years ago, we started to work with the Chinese government to help them determine where they wanted to go on air conditioning standards. Then, in December 2004 we signed a memorandum of understanding with the Standardization Administration of China about creating a higher energy-efficiency standard for air conditioning. We hope that legislation will raise the energy-efficiency standard for air conditioning from the current level five (level five being low and level one being the highest efficiency), to level three or two. This would be a huge change because it would mean that new systems would all need to meet the new standard. If the change comes about, Emerson will be ready since we already have products that meet those high efficiency standards.

Another example is standards for food waste disposers. Our InSinkErator brand is a market leader in the US, and we can provide our experience to the Chinese government as they consider efficiency standards for garbage disposers.

We were also very active on China's ROHS [restriction of hazardous substances] standards. When China's ROHS regulations [Administrative Measures on the Control of Pollution Caused by Electronic Information Products] first came out in 2006, we worked with the government to try to help it figure out how best to implement the new standards, because it was—and is—a huge project. We also had our experience in the EU to draw upon, as the EU was the first to implement ROHS standards. Emerson has a working committee to monitor its ROHS content and implementation. The committee is made up of technical experts at our working companies as well as engineering and legal experts at the corporate level. We also have a company representative on the government working committee to determine how to implement ROHS more broadly. 完

A Tale of Two Companies

The Danone-Wahaha partnership once seemed ideal, but the companies' relationship has deteriorated. What lessons can be learned from the dispute?

Jingzhou Tao and Edward Hillier

The Danone-Wahaha dispute is a story of the relationship between two very different entities against a backdrop of incredible change. The dispute reveals many questions that China faces as it integrates into the world economy, such as what to do when rule of law leads to an unpopular result or harms a valued Chinese company.

The players

Group Danone SA, a Paris-based multinational corporation (MNC), is a giant in the global dairy product and bottled water markets. The MNC employs roughly 90,000 staff across five continents.

Though it is a beverage giant in China, the Hangzhou Wahaha Group Co., Ltd. is much smaller than Danone. Since its founding in the late 1980s, the company has grown from three people selling drinks to school children to become the largest Chinese bottled-water company today. This growth is mainly the result of the drive and talent of founder Zong Qinghou, who expanded the company by satisfying Chinese consumer demand and aligning his business strategy with government policy.

Danone and Wahaha formed their first joint venture (JV) in China in 1996. Over the years, the number of JVs grew from 5 to 39, and annual sales rose from a few hundred million renminbi to more than ¥14 billion ($2 billion) in 2006. Danone held a 51 percent stake in the JVs and appointed Zong chair of the JVs' board.

In the 12 years since the first JV's formation, China has taken a leading role on the world stage. Hong Kong and Macao returned to mainland China, China entered the World Trade Organization (WTO), and Beijing won its bid to host the 2008 Summer Olympics. Moreover, continuing reform and strong economic growth have dramatically changed not only China itself, but perceptions of the country, both at home and abroad. Finally, China's business environment has changed tremendously in the last 10 years. In many ways, China in 2008 is a world away from China in 1996.

News of the Danone-Wahaha dispute—in which Danone accused Zong of setting up mirror companies that illegally used the Wahaha trademark—burst into the public arena in April 2007. Since then, Chinese and foreign media have covered the dispute extensively. At times, both parties in the dispute have been unusually outspoken and vitriolic. Though many details are unclear, and much information remains private, the dispute illustrates issues that foreign-invested enterprises may face in China and the direction of China's development. The following summary of the dispute is based on media reports.

Brief outline of the dispute

By 2005, Danone had discovered that Zong had established "mirror" companies that were producing and selling products almost identical to those of the Danone-Wahaha JVs. The mirror companies allegedly rode piggy-back on the JVs' advertising and sales networks, in clear breach of the JV agreement.

Danone and Zong negotiated over several months to resolve the conflict. In December 2006, the two parties reportedly reached an agreement to integrate the mirror companies into the JVs, in return for a payment of ¥4 billion ($566 million) by Danone. Zong, however, allegedly reneged on this agreement, claiming that he had been "forced" to sign. According to Zong, in 2006, the mirror companies were worth ¥5.6 billion ($792.3 million) in assets, far more than Danone's offer, and had annual profits of ¥1.04 billion ($147.2 million).

After negotiations failed, Danone requested arbitration in Stockholm, Sweden, and filed lawsuits in Los Angeles and other cities, mainly over trademark infringement and non-compete obligations (see Table).

Zong and his supporters responded in kind, requesting arbitration in Hangzhou, Zhejiang, to confirm that Hangzhou Wahaha Group—not the Danone-Wahaha JV—owned the Wahaha trademark. In a huge loss for Danone, the Hangzhou Arbitration Commission found that China's Trademark Office had never approved the original transfer of the Wahaha trademark and that an exclusive license agreement for the trademark (meant to replace the original trademark transfer) had never been registered. Thus, ownership of the Wahaha trademark had never been transferred to the JV. Further fueling the dispute, several Wahaha companies initiated proceedings against Danone-nominated JV directors—accusing them of breaching non-compete obligations by serving simultaneously on the boards of the Danone-Wahaha JVs and other Chinese companies that were competitors of Wahaha.

The novel feature of the Danone-Wahaha dispute is the geographic and legal range of the various litigation. To date, the parties have initiated at least 12 lawsuits and arbitration cases within China and six other jurisdictions. With a dozen lawsuits initiated, the dispute has escalated into an international issue and has become one of the biggest JV disputes in China's history. The dispute has been so high-profile that PRC President Hu Jintao and French President Nicolas Sarkozy discussed it at a meeting in November 2007.

In December 2007, Danone and Wahaha jointly announced a truce and that both sides were committed to resolving the dispute by negotiation. The parties originally planned to negotiate through February 2008 but extended negotiations until the end of March. Wahaha rejected a mid-March proposal by Danone to merge the two companies' China assets and list 20 percent of the new JV's shares. Even after the PRC Ministry of Commerce (MOFCOM) and French Embassy facilitated talks on April 4, Danone and Wahaha failed to reach a settlement by April 10, the last day of an agreed courtroom truce. As the *CBR* went to press in mid-April, the partners had not yet agreed to continue negotiating.

Quick Glance

- The Danone-Wahaha dispute highlights the intersection of public opinion, nationalism, and the rule of law in China.
- Disputing companies should pay close attention to their public relations efforts.
- In disputes with Chinese companies, foreign companies should be careful to avoid sparking a nationalist backlash.

What can Danone do now?

With the benefit of 12 years' hindsight, it is easy to give advice on what Danone should have done in 1996. Current knowledge on how to do business in China is light years ahead of where it was then, and the investment environment has changed substantially. Since many JVs created in the 1990s may face similar problems, perhaps a more relevant question is, what else could or should Danone do to manage the situation now and regain control of the JVs?

First, Danone should have a clear public relations strategy to manage how it appears in the Chinese media. Danone risks jeopardizing its future in China if Chinese consumers turn against it—Chinese nationalism should not be underestimated. Though Danone holds a majority stake in the Danone-Wahaha JVs, the Chinese public generally regards Wahaha as a national treasure and Zong, in some respects, as a national hero. Zong commands tremendous loyalty among his workers, the Chinese media, and the general population. Since the dispute became public, the Chinese blogosphere has repeatedly discussed boycotting Danone products. Chinese media and business circles have discussed how Danone may be damaging its reputation in China and how Danone's other Chinese JV relationships, such as its recently ended JVs with Mengniu Dairy Co. and Bright Dairy & Food Co., may have been affected by the dispute. On the other hand, critics point out that Zong has played the nationalist card masterfully in the past to protect his own personal and family interests. Recent news that Zong is under investigation for tax evasion has drawn futher criticism of Zong's nationalist credentials in the Chinese press and blogosphere.

A recent move by Danone demonstrates that the company may be on the right track. According to press reports, on January 16, 2008, Emmanuel Faber, the Danone-nominated chair of the JVs and a key actor in the dispute who replaced Zong in June 2007 against the wishes of employees loyal to Zong, resigned from his position in the JV. (Faber subsequently became chief

operating officer of Danone and vice president of the Danone-Wahaha JV.) The personnel change could help reduce tension between Danone and Wahaha by de-personalizing the dispute, which would help resolve the impasse with Zong (who remains co-owner of the JV but is no longer on the board), and easing the stand-off within the company.

Broader implications of the dispute

Though this dispute makes a great case study for MNCs doing business in China, it also illustrates some bigger issues about public opinion, nationalism, and the rule of law.

Within China, the public generally holds one of two views about the dispute. Holders of the first view give unconditional support to Wahaha and view the company as a victim; they view Danone as a foreign "wolf" that intends to control the beverage market in China. Holders of the second view sympathize with Wahaha but believe the dispute should be resolved according to law and due process, however painful this may be, in the interest of China's development as a market economy. These two views represent China's central dilemma with regard to law and regulation of the marketplace. Many Chinese support the rule of law but believe that exceptions should be made when an issue has emotional appeal, especially if

Publicly Known Arbitrations and Court Actions in the Danone-Wahaha Dispute

Month that case was filed or accepted	Tribunal	Claimant	Respondent	Type of Dispute	Claim	Status
05/07	Arbitration Institute of the Stockholm Chamber of Commerce, Sweden	Danone Asia Pte Ltd. and its wholly owned subsidiaries	Hangzhou Wahaha Group Co. Ltd.; three Wahaha mirror companies; Zong Qinghou	Joint venture (JV) disputes	Violation of JV contract; violation of service agreement	Pending
06/07	California courts	Group Danone SA; Danone Asia	Two Wahaha mirror companies; Zong's wife and daughter	Unfair competition	Illegal sales of same products and illegal use of Wahaha JVs' resources	Pending
06/07	Hangzhou Arbitration Commission, Zhejiang	Hangzhou Wahaha Group Co., Ltd.	Danone-Wahaha JVs	Trademark transfer	The trademark transfer was invalid	Claimant successful
06/07	French courts	Danone Asia	French equipment suppliers of Wahaha	Unfair competition	Supplying Wahaha with equipment in violation of non-competition duties	Claimant unsuccessful
07/07	Shenyang Intermediate People's Court (IPC), Liaoning	Chinese shareholder of Shenyang Wahaha Drinks Co. Ltd.	Danone-nominated directors of JVs	Directors duties: non-competition obligations	Scope of non-competition duty	Pending
07/07	Jilin IPC	Jilin Wahaha Drinks Co. Ltd.	Danone-nominated directors of JVs	Directors duties: non-competition obligations	Scope of non-competition duty	Pending
07/07	Italian courts	Danone Asia and its three subsidiaries	Italian subsidiary of French equipment suppliers of Wahaha	Unfair competition	Supplying Wahaha with equipment in violation of non-competition duties	Claimant unsuccessful
07/07	Italian courts	Danone Asia and its three subsidiaries	Italian equipment suppliers of Wahaha	Unfair competition	Supplying Wahaha with equipment in violation of non-competition duties	Claimant unsuccessful
11/07	Guilin IPC	Wahaha Group; Guilin Xiang Sheng Industrial and Commerce Co., Ltd.	Danone-nominated directors of JVs	Directors duties: non-competition obligations	Scope of non-competition duty	Claimant successful
11/07	British Virgin Islands courts	Danone Asia and its three subsidiaries	Eight Wahaha offshore companies	Unfair competition	Jointly owning the shares of Wahaha mirror companies and impairing the claimants' interests	Mirror companies placed in receivership and assets frozen
Fall 2007	Samoan courts	Danone Asia and its three subsidiaries	Two Wahaha offshore companies	Unfair competition	Conducting business activities in direct competition with Wahaha JVs	Mirror companies placed in receivership and assets frozen
Fall 2007	Xinjiang IPC	Jinjia Investment Co. Ltd.	Zong Qinghou	Director's fiduciary duties: conflict of interest	Scope of fiduciary duties	Claimant unsuccessful

Sources: Jingzhou Tao and Edward Hillier

it concerns major Chinese companies or famous Chinese brands. This view fits the concept of PRC law as an instrument of policy (rule by law)—instead of policy implemented within the law, as is in classical Western conceptions of the rule of law. Interestingly, Chinese sympathies lie almost universally with Wahaha, regardless of whether courts and arbitral tribunals judge that it acted wrongfully.

maintaining the support of the domestic population. Even resolution of the dispute by legal procedure could be a no-win situation for China. If Wahaha wins the dispute, the decision could have negative repercussions internationally; if Danone wins, the outcome could have negative consequences domestically. Any legal decision will likely be interpreted as an unequivocal indication of China's current business environment. The PRC government, therefore, must do everything it can to encourage the dispute to be resolved as quietly and privately as possible without recourse to legal procedure.

In fact, this is exactly what seems to be happening. The December talks in which Danone and Wahaha called a truce were presided over by MOFCOM officials. The government appears to have realized what is at stake—China's image—and is attempting to help resolve the situation.

Companies should have a clear public relations strategy to manage how they appear in the Chinese media.

The big question for China is whether it should reward old-style entrepreneurs—complicated characters who may use dubious measures to achieve their aims and manipulate nationalist sentiment for personal ends—or bite the bullet, reinforce the supremacy of the law, and ensure that disputes are dealt with on a strictly legal basis. The answer mainly depends on how the PRC government wishes China to be perceived by the international and domestic business communities and the Chinese public. In the last year and a half, the foreign press has discussed the rise of economic nationalism and protectionism in China. The PRC government's official policy, however, is to focus on encouraging the types of investment that will help China move up the value chain and meet environmental and other goals.

The Danone-Wahaha dispute lies at the heart of this PRC government policy dilemma—how to present China as a positive environment for international business while

The importance of corporate governance and rule of law

Many observers have said that the Danone-Wahaha JV dispute likely occurred in part because Danone seems to have considered profits more important than good corporate governance. Reportedly, Danone did not involve itself in the daily management and operation of its China JVs, a strategy that seems to have backfired in many respects. The MNC may have missed out on acquiring crucial commercial expertise in China and may have lost customers because of bad press.

This dispute is a reality check for China. It represents the current challenge to China's integration into world markets—that internationalization of business entails the separation of national and commercial interests. The crucial question is whether China will take the next step toward world markets and continue to strengthen its legal environment. Chinese companies, the media, and the PRC government should be careful not to exaggerate every commercial dispute between Chinese and foreign companies into a nationalist issue. If nationalism plays a role in more commercial disputes, more people around the world will believe that China is a country where the rule of law comes second to vested interests. 完

Dispute Resolution Tips in China

Companies in a joint venture may face ups and downs in their relationship. But because news—whether accurate or inaccurate—travels fast, it pays for companies to focus on their public relations efforts. Here are a few basic tips:

- Stay calm and do not get involved with personal invective. This will nearly always backfire in the PRC media.
- Say as little as possible about the dispute. Any comment can be counter-productive.
- Lobbying high-level government officials may not help resolve a dispute because it can give lower-level officials an excuse to do nothing.
- Any strategy must be carefully and pragmatically planned based on the circumstances of the dispute. There is no magic formula.

—Jingzhou Tao and Edward Hillier

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Shaping Up China's Medical Device Industry

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manufacturer if adverse events were to occur in China. If issued, these requirements could seriously challenge local distributors' financial capacity and ability to comply, especially those dealing with high-risk products.

Regulating the medical device distribution chain

SFDA began drafting its own working rules to regulate the device distribution chain early last year and published a draft of the rules for comment last November. If approved, the draft would be the first SFDA legislation to regulate the device distribution chain and would pave the way for post-market device safety surveillance and product recall. The promulgation of this regulation, however, must be coordinated with the revised Regulations on Supervision and Administration of Medical Devices, to avoid discrepancies. According to SFDA's draft:

- Device manufacturers, distributors, and medical institutions would be responsible for the quality of devices they manufacture, distribute, and use. Domestic manufacturers and sales agents for imported devices would be responsible for post-market quality monitoring and after-sales services.
- Manufacturers would not be approved to sell devices they have produced under contract manufacturing arrangements.
- Manufacturers and distributors would need to conduct due diligence on their suppliers and maintain complete records for sales and supplies for the entire term of the market approval for each product, plus two years.
- Manufacturers, distributors, and medical institutions would need to set up a system to trace implanted devices (or maintain a "pedigree" for each device), including detailed information on the products and each entity in the distribution chain for these products. Medical institutions would need to include information on patients with implants in the pedigree.

Device recall and adverse event reporting

SFDA issued rules for drug recalls in December 2007 and released draft regulations on medical device recalls for public comment in March 2008. Under the draft device recall regulations, marketed devices should be recalled when a safety risk is found. (Safety risk is defined as a risk created from the research and development or production phase of a device that may endanger human health and life.) Manufacturers should voluntarily recall their products once they identify safety risks in such products and should report such recalls to SFDA. SFDA may also mandate manufacturers to recall their products if it believes, based on SFDA's own investigation and evaluation, that the products present safety risks. In addition, SFDA may mandate a recall if a manufacturer should have recalled its products but failed to do so. Recalls would be classified into three levels, depending on their urgency. First- (most urgent), second-, and third-level recalls would need to be launched within 24 hours, 48 hours, and 72 hours, respectively. If an imported device is recalled in China, the local distributor of the device manufacturer would handle the recall. If an exported device is recalled overseas, SFDA should be informed in a timely manner by the local agent of the foreign manufacturer.

SFDA's other major tasks this year may be to finalize the draft device adverse event reporting regulations, which are significant because China currently relies on a few short SFDA notices to regulate such reporting. In January 2004, SFDA released a draft regulation on monitoring and reporting adverse device events but never finalized the draft. SFDA may also start drafting rules on post-market re-evaluation for devices.

Keep an eye on new developments

Undoubtedly, SFDA's various efforts in the last year and a half will shape the pre- and post-market regulatory framework for China's medical device industry. Although SFDA is carefully analyzing rules and practices in the United States and European Union, it will always weigh the needs of domestic manufacturers more heavily than the needs of foreign companies. With more international device manufacturers relocating to China or localizing their manufacturing activities in China, the systems SFDA builds will affect the global market. Foreign companies would do well to keep a close eye on medical device regulatory developments and to get involved by sharing their experience and expertise with PRC regulators by contacting them directly, through a trade association, or by submitting comments on draft regulations. 完

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The Great Currency Debate

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China and its major trading partners. The same report, however, concludes that neither China nor any other major trading partner met the requirements for designation as a "currency manipulator." In fact, no country has received this designation since China, Taiwan, and South Korea were cited in 1994 by the Clinton administration.

Taking a currency case to the WTO

All of the punitive provisions in the three bills would almost certainly lead to a WTO dispute settlement case. Some of the provisions call directly for a WTO case, but others, such as the antidumping and countervailing duty (CVD) provisions in the Senate Finance and Hunter-Ryan bills, would likely wind up before a WTO dispute settlement panel eventually. Three different routes could lead to a face-off between the United States and China at the WTO over currency, though most observers believe the likelihood of success for the United States in any of these cases is small.

First, the United States could bring a case to the WTO under Article XV(4) on exchange arrangements of the General Agreement on Tariffs and Trade (GATT). Article XV(4) states that "Contracting parties shall not, by exchange action, frustrate the intent of the provisions of this Agreement...." Several experts, such as Arvind Subramanian of the Peterson Institute believe the wording of the provision is too vague to predict with any certainty how a WTO dispute settlement panel would rule. According to Subramanian "it is highly unlikely that WTO dispute settlement panels would be willing to rule against undervalued exchange rates on this tenuous basis."

Moreover, because the WTO defers to the judgment of the International Monetary Fund (IMF) on exchange rate issues, a ruling against China in a GATT Article XV(4) case would almost certainly require the IMF to first designate China as a currency manipulator. In past staff reports, the IMF has acknowledged that the RMB is undervalued but has refrained from using the term "manipulator." In addition, according to Michael Mussa of the Peterson Institute, of the roughly 50,000 consultations held since Article IV—which states that the IMF shall ensure that its members "avoid manipulating exchange rates"—was ratified over 30 years ago, the IMF Executive Board has never concluded that a "member was out of compliance with its obligations regarding its exchange rate policies...."

Second, the United States could bring a case to the WTO under Article 3 of the Agreement on Subsidies and Countervailing Measures (ASCM), which would require the United States to prove that an undervalued RMB is a "prohibited export subsidy." To be characterized as a subsidy under the ASCM, a public measure must represent a "financial contribution" from the government that is "specific" to an enterprise or industry, or a group of enterprises and industries. Proponents of currency legislation argue that an undervalued RMB confers a direct benefit to PRC exporters and harms US exporters, but it would be difficult to prove that national exchange rates are specific policies designed to boost the exports of one company or even one industry.

The third route—requiring the US Department of Commerce to consider an undervalued RMB a subsidy for the purposes of calculating countervailing or antidumping duties—would not immediately launch a WTO case. First, an affected US industry must prove to Commerce (which makes subsidy determinations) and the International Trade Administration (which makes injury determinations) that an undervalued RMB is a "prohibited export subsidy" under the same "specificity" and "financial contribution" guidelines as those of the ASCM. Though this would initially be a domestic case, China can, and almost certainly would, challenge any countervailing and antidumping duty determinations involving currency at the WTO. For example, when Commerce announced in 2007 that it would reverse a decades-long policy of not applying CVDs to nonmarket economies such as China, Beijing filed a WTO case against the first CVD determination the United States released. This case concerned coated free sheet paper, a good commonly subject to CVD laws. China's response to a CVD determination on a topic as controversial as currency would almost certainly be a WTO case.

Padilla has spoken out against the antidumping and CVD provisions in currency legislation, citing several technical and operational obstacles to implementing them, specifically the difficulty determining the actual amount of undervaluation. He has also voiced his concern that legislative attempts to address currency undervaluation would require Commerce to consider only how currency affects the final price of products from China, without taking into account the fact that a weak currency increases the price of imported inputs for those same products. Moreover, the bills consider currency undervaluation to be a foreign problem and provide no offsetting effect when the dollar is relatively weak compared to foreign currencies. All of these factors, Padilla says, would leave the United States vulnerable to appeals and retaliatory cases in the WTO and US Court of International Trade.

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Sales and Investment

January 16–March 15, 2008

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

Compiled by Yoko Uchida

Agriculture

OTHER

BASF Plant Science, a unit of BASF SE (Germany)/National Institute of Biological Sciences (Beijing)
Signed cooperation and license agreement in biotechnology to increase yield in corn, soybeans, and rice. 01/08.

Architecture, Construction & Engineering

CHINA'S EXPORTS

Sinoma International Engineering Co., Ltd. (Beijing)
Will build seven cement plants for Nigeria-based Dangote Group. $1.6 billion. 03/08.

CHINA'S IMPORTS

Beijing Sound Environmental Engineering Co., Ltd., a subsidiary of Epure International Ltd. (Singapore)
Will build a wastewater treatment system for Hubei-based Jiayu Jiaqing Water Co., Ltd. $34.3 million. 03/08.

Beijing Sound Environmental Engineering Co., Ltd., a subsidiary of Epure International Ltd. (Singapore)
Will build a tap water supply system for Hubei-based Xianning Qingquan Water Co., Ltd. 03/08.

Beijing Sound Environmental Engineering Co., Ltd., a subsidiary of Epure International Ltd. (Singapore)
Will supply equipment and materials to Jiangsu-based Nanjing Metallurgy Co., Ltd. for the construction of a wastewater treatment system. 03/08.

Beijing Sound Environmental Engineering Co., Ltd., a subsidiary of Epure International Ltd. (Singapore)
Will build and supply equipment for a wastewater treatment system for Inner Mongolia-based Hohhot Zhongran City Gas Development Co., Ltd. 03/08.

INVESTMENTS IN CHINA

CRH plc (Ireland)
Will acquire 26% stake in Jilin Yatai (Group) Co., Ltd.'s cement operations and finance the expansion of production capacity. $297.6 million. 01/08.

Automotive

CHINA'S IMPORTS

Metaldyne Corp. (US)
Will supply key powertrain and chassis components to Anhui-based Chery Automobile Co., Ltd. for the production of a new vehicle. 02/08.

Modine Manufacturing Co. (US)
Will supply exhaust gas recirculation coolers for 2-liter diesel engines to Hebei-based Great Wall Motor Co. Ltd. $14 million. 02/08.

INVESTMENTS IN CHINA

American International Group Inc. (US)
Acquired 25% stake in Chongqing Lifan Industry (Group) Co., Ltd. 02/08.

Guangxi Yulin Yuchai Engineering Machinery Co. Ltd., a unit of China Yuchai International Ltd. (Bermuda)/ Zhejiang Geely Holding Group Co., Ltd., Zhejiang Yinlun Machinery Co., Ltd.
Formed two JVs in Jining, Shandong, and Tiantai, Zhejiang, to develop, produce, and sell proprietary diesel engines and parts for passenger vehicles. (Bermuda:52%-PRC:40%) 02/08.

Aviation/Aerospace

CHINA'S EXPORTS

China National Aero-Technology Import & Export Corp., a jointly owned subsidiary of AVIC I and II (Beijing)
Will deliver two MA60 regional jets to Bolivia. 01/08.

CHINA'S IMPORTS

Airbus SAS (France)
Will supply five A330-200F aircraft to Singapore-based BOC Aviation, a wholly owned subsidiary of Beijing-based BOC. 02/08.

CHINA'S INVESTMENTS ABROAD

Grand China Airlines Holding Corp. Ltd. (Hainan)
Acquired Hong Kong Airway Express Ltd. and obtained the rights to a Hong Kong-Taiwan route. 01/08.

INVESTMENTS IN CHINA

Satair A/S (Denmark)
Acquired 49% stake in Sichuan Ruibo Hydraulic Component Services, Inc. $1.1 million. 02/08.

SERVAIR, a subsidiary of Air France (France)
Acquired 25% stake in Guangzhou Nanlian Inflight Food Co., a subsidiary of Guangdong-based China Southern Airlines Ltd. $11.3 million. 02/08.

Banking & Finance

CHINA'S INVESTMENTS ABROAD

ICBC (Beijing)
Acquired 20% stake in South Africa's Standard Bank Group Ltd. $4.8 billion. 03/08.

INVESTMENTS IN CHINA

NabCapital, a subsidiary of National Australia Bank Ltd.
Acquired 20% stake in Fujian-based Union Trust & Investment Ltd. $50 million. 03/08.

Compagnie Financière Tradition SA (Switzerland)/China Ping An Trust & Investment Co. Ltd., a unit of Ping An Insurance (Group) Co. of China, Ltd. (Guangdong)
Will form brokerage JV, Ping An Tradition International Money Broking Co. Ltd. in Shenzhen, Guangdong. $7.1 million. (Switzerland:33%-PRC:67%). 01/08.

Hang Seng Bank Ltd. (Hong Kong)
Will acquire 20% stake in Shandong-based Yantai City Commercial Bank Co., Ltd. $113.5 million. 01/08.

Wing Lung Bank Ltd. (Hong Kong)
Will acquire 4.99% stake in Shandong-based Yantai City Commercial Bank Co., Ltd. 01/08.

OTHER

Sumitomo Mitsui Financial Group, Inc. (Japan)
Signed strategic alliance agreement with Beijing-based ICBC for shipping finance and advisory services. 03/08.

Mizuho Corporate Bank (China), Ltd., a wholly owned subsidiary of Mizuho Corporate Bank, Ltd. (Japan)
Will open branch in Guangzhou, Guangdong. 01/08.

Chemicals, Petrochemicals & Related Equipment

CHINA'S INVESTMENTS ABROAD

Kiri Dyes & Chemicals Ltd. (India)/Zhejiang Lonsen Group Stock Co.
Formed JV to manufacture reactive dyes in Gujarat, India. (India:60%-PRC:40%). $10 million. 03/08.

INVESTMENTS IN CHINA

BP plc (UK)
Signed MOU with Beijing-based Sinopec to add a new 650,000-ton acetic acid plant at their JV, Yangtze River Acetyls Co. Ltd., in Chongqing. 01/08.

Saudi Arabian Basic Industries Corp. (Saudi Arabia)/Sinopec (Beijing)
Will form JV to build an ethylene derivatives complex in Tianjin. $1.7 billion. (Saudi Arabia:50%-PRC:50%). 01/08.

OTHER

Flowserve Corp. (US)/Sinopec (Beijing)
Signed strategic cooperation agreement to develop low-cost sourcing initiatives and aftermarket programs to improve parts and services support. 02/08.

Distribution, Logistics & Related Services

CHINA'S IMPORTS

Secured Digital Applications, Inc. (US)
Signed contract to install a radio frequency identification-enabled warehouse management system in Guangdong. $825,000. 02/08.

Secured Digital Applications, Inc. (US)
Signed agreement to supply, install, and maintain a fleet-tracking management system for Fujian-based New Alliance (China) Ltd. $1.9 million. 01/08.

INVESTMENTS IN CHINA

Rexel SA (France)
Acquired 73.5% stake in Jiangsu-based Suzhou Xidian, an electrical supplies distributor. 02/08.

International Consolidated Companies, Inc. (US)
Signed letter of intent to acquire Hebei Jiasheng Pharmaceutical & Chemical Ltd. Co. and its subsidiaries. 01/08.

Nippon Express Co., Ltd. (Japan)
Opened two distribution centers for auto parts in Guangzhou, Guangdong. 01/08.

Electronics, Hardware & Software

CHINA'S EXPORTS

Yucheng Technologies Ltd. (Beijing)
Will provide online banking platforms for Bank of East Asia (China) Ltd., a subsidiary of Hong Kong-based Bank of East Asia Ltd. 01/08.

Yucheng Technologies Ltd. (Beijing)
Will provide online banking platforms for Hana Bank (China) Co., Ltd., a subsidiary of South Korea-based Hana Bank Co., Ltd. 01/08.

CHINA'S IMPORTS

Imaging Dynamics Co. Ltd. (Canada)
Will supply digital radiography systems to the Physical Examination Center at the Beijing Capital International Airport Terminal 3. 02/08.

VeriFone Holdings, Inc. (US)
Will supply 16,000 wireless and countertop payment systems to Beijing-based BOC. 02/08.

CHINA'S INVESTMENTS ABROAD

Lenovo Group Ltd. (Beijing)
Will acquire US-based Sanmina-SCI Corp.'s manufacturing facilities in Monterrey, Mexico, to cut production costs. 02/08.

Spreadtrum Communications, Inc. (Shanghai)
Acquired US-based Quorum Systems, Inc. $76 million. 01/08.

INVESTMENTS IN CHINA

3i Infotech Ltd. (India)/Yucheng Technologies Ltd. (Beijing)
Signed MOU to form JV to promote 3i Infotech's products and services in China. (India:51%-PRC:49%). 02/08.

OTHER

Freescale Semiconductor, Inc. (US)/Comtech Group, Inc. (Guangdong)
Will collaborate to design and manufacture semiconductors for various markets. 02/08.

Lightscape Technologies Inc. (Hong Kong)/CEInet Data (HK) Co. Ltd., a subsidiary of the China Economic Information Network (Beijing)
Signed MOU to develop economic information broadcasting systems in Hong Kong and China. 02/08.

Energy & Electric Power

CHINA'S IMPORTS

CTC Cable Corp., a subsidiary of Composite Technology Corp. (US)
Will supply 260 miles of aluminum conductor composite core conductor to Far East Composite Technology Co., a subsidiary of Jiangsu New Far East Cable Corp. $2.8 million. 02/08.

INVESTMENTS IN CHINA

AEI (Cayman Islands)
Acquired 70% stake in Beijing Macrolink Gas, Ltd. from Beijing-based Macrolink Group. 01/08.

BP plc (UK)/Beijing Tianrun New Energy Investment Co., a subsidiary of Xinjiang Goldwind Science and Technology Co., Ltd.
Signed agreement to form JV to build and operate three 49.5 MW wind power plants. 01/08.

Hanwei Energy Services Corp. (Canada)
Signed MOU to acquire Heilongjiang-based Daqing Deta Electric Co. Ltd. $85.6 million. 01/08.

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

OTHER

BP plc (UK)
Signed agreement with Beijing-based Chinese Academy of Sciences to conduct a feasibility study on forming a clean energy commercialization center. 01/08.

Shaw Group Inc. (US)
Opened new office in Shanghai to support four AP1000 nuclear-reactor projects in Sanmen, Zhejiang, and Haiyang, Shandong. 01/08.

Environmental Equipment & Technology

CHINA'S EXPORTS

Jupiter Corp., Ltd., a sales office of Qingdao DTK Industries Co., Ltd. (Shandong)
Will supply polysilicon to US-based SunPower Corp. for six years. 02/08.

Yingli Green Energy Holding Co. Ltd. (Hebei)
Will supply photovoltaic (PV) modules to US-based Recurrent Energy, Inc. 02/08.

Yingli Green Energy Holding Co. Ltd. (Hebei)
Will supply 11.56 MW of PV modules to Spain-based Iberdrola Ingenieria y Construcción SAU. 01/08.

CHINA'S IMPORTS

Fuel Tech, Inc. (US)
Signed contract to supply nitrogen oxide reduction systems to coal power-generating plants in China. 03/08.

DC Chemical Co., Ltd. (South Korea)
Will supply polysilicon to Hebei-based Yingli Green Energy Holding Co. Ltd. from 2008 to 2013. $215 million. 02/08.

INVESTMENTS IN CHINA

Aleo Solar AG (Germany)/Sunvim Group Co., Ltd. (Shandong)
Will form JV to manufacture solar modules. (Germany:50%-PRC:50%). $25.9 million. 02/08.

Norwin A/S (Denmark)/Liaoning GaoKe Energy Group, a subsidiary of A-Power Energy Generation Systems, Ltd. (Liaoning)
Will form JV to produce and sell Norwin's wind turbines in China. (Denmark:20%-PRC:80%). $3.5 million. 02/08.

OTHER

Petromin Resources Ltd. (Canada), Enviro Energy International Holdings Ltd. (Hong Kong)/China United Coalbed Methane Corp. (Beijing)
Signed cooperation agreement to jointly evaluate and implement carbon dioxide sequestration in deep coalbeds and enhanced coalbed methane production in China. 01/08.

Food & Food Processing

INVESTMENTS IN CHINA

Asahi Breweries Ltd., Marubeni Corp. (Japan)/ Jiangsu Dafuhao Beer Co., Ltd.
Will establish JV, Jiangsu Saint Fruit Winery Co., to produce wines in China. (Japan:60%-PRC:40%). $13.9 million. 02/08.

PBM Holdings, Inc. (US)
Formed WFOE, PBM (Guangzhou) Nutritionals Co., Ltd., in Guangdong to sell infant formulas and other nutrition products in China. 02/08.

Tyson Foods, Inc. (US)/ Jiangsu Jinghai Poultry Industry Group Co. Ltd.
Will form JV in Haiman, Jiangsu, to raise, process, and sell chickens. (US:70%-PRC:30%). 02/08.

Bakkavör Group (Iceland)
Acquired Shandong-based Yantai Longshun Foods. 01/08.

In the July–August issue of

The China Business Review

Human Resources, the number one issue for US-China Business Council members in China, with articles on

- Responding to compensation trends
- Noncompete agreements

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Healthcare Services & Investment

INVESTMENTS IN CHINA

Weight Watchers International, Inc. (US), Groupe Danone SA (France)
Will form JV in China in 2009 to provide weight-management services. 02/08.

Insurance

OTHER

SCOR SE (France)
Received CIRC approval to operate a property and casualty insurance branch in Beijing. 02/08.

Taiwan Life Insurance Co., Ltd./Xiamen C&D Inc. (Fujian)
Will form life insurance JV in China. (Taiwan:50%-PRC:50%). $33.4 million. 02/08.

Internet/E-Commerce

OTHER

Plenware Oy (Finland), a subsidiary of Cybercom Group Europe AB (Sweden)
Opened new office in Chengdu, Sichuan, for IT consulting. 02/08.

Light Industry/Manufacturing

CHINA'S IMPORTS

Nova Measuring Instruments Ltd. (Israel)
Will supply stand-alone and integrated metrology solutions to a large foundry in China. 03/08.

INVESTMENTS IN CHINA

Denso Corp. (Japan)/Yangzhou Jiexin Auto Air-Conditioner Co., Ltd. (Jiangsu)
Will form JV, Yangzhou Jiexin Denso Air-Conditioner Co., Ltd., to manufacture bus air conditioning systems. (Japan:50%-PRC:50%). $2.5 million. 02/08.

Toshiba Carrier Corp., a unit of Toshiba Corp. (Japan)/Guangdong Midea Electric Appliances Co., Ltd.
Will form JV to manufacture refrigerator compressors. (Japan:5%-PRC:95%). $70.2 million. 02/08.

EnPro Industries, Inc. (US)
Acquired Shanghai-based Sinflex Sealing Technologies Co. Ltd. 01/08.

LightPath Technologies, Inc. (US)/CDGM Glass Co., Ltd. (Sichuan)
Formed JV, LightPath CDGM Chengdu Optical Co., Ltd., to manufacture aspheric lenses for cell phones, digital cameras, and video equipment. (US:50%-PRC:50%). $5 million. 01/08.

Media, Publishing & Entertainment

OTHER

ROK Entertainment Group Inc. (UK)/China Central Television International Network Co. (Beijing)
Jointly broadcast the Spring Festival Evening Gala to mobile users. 02/08.

ROK New Net, a unit of ROK Entertainment Group Inc. (UK)
Signed cooperation agreement with Beijing Fone Net Information & Technology Co. Ltd. to distribute television content to China Mobile customers. 01/08.

Metals, Minerals & Mining

CHINA'S EXPORTS

ABB Ltd. (Switzerland)
Will supply electrical equipment to Yunnan Aluminium Foil Co., Ltd. for a cold-rolling mill project. 02/08.

CHINA'S INVESTMENTS ABROAD

Alcoa Inc. (US)/Aluminum Corp. of China Ltd. (Beijing)
Will jointly acquire 12% stake in UK-listed Rio Tinto plc. 02/08.

Guangdong Yudean Group Co., Ltd.
Will acquire 7.5% stake in Narrabri Coal Pty. Ltd., a wholly owned subsidiary of Australia-based Whitehaven Coal Mining Ltd. $63.9 million. 02/08.

Visa Steel Ltd. (India)/Baosteel Group Corp. (Shanghai)
Formed JV, Visa Bao Ltd., to build a ferrochrome plant in India. 02/08.

INVESTMENTS IN CHINA

China Direct Inc. (US)
Established new entity Baotou Changxin Magnesium Co., Ltd. in Inner Mongolia to increase magnesium production. 02/08.

China Natural Resources, Inc. (Hong Kong)/Jiangxi Province Coal Group Co.
Will form JV, Guizhou Puzheng Mining Co. Ltd., to explore for and mine coal and other mineral resources. (Hong Kong:64%-PRC:36%). 02/08.

Kobe Steel Ltd. (Japan)
Will form WFOE, Kobe Welding of Qingdao Co., Ltd., to produce flux-cored welding wire for welding carbon steel used in shipbuilding in Qingdao, Shandong. $29.3 million. 02/08.

Ulba Metallurgical Plant, a subsidiary of Kazatomprom (Kazakhstan)/Ningbo Xingye Electronic Copper Strip Co., Ltd. (Zhejiang)
Formed JV, Yingtan Ulba Shine Metal Materials Co. Ltd., to produce beryllium copper strips. 02/08.

OTHER

Anglo American plc (UK)/CDB (Beijing)
Signed MOU to form strategic relationship to identify and develop various natural resources projects in China and Africa. 02/08.

UC Rusal (Russia)/China Power Investment Corp. (Beijing)
Signed MOU to construct an aluminum smelter in Qinghai and a bauxite-alumina complex in Guinea. 02/08.

Olympics

CHINA'S IMPORTS

Europcar, a wholly owned subsidiary of Eurazeo SA (France)
Will provide daily chauffeur services and transportation from the Beijing Capital International Airport during the Olympics. 02/08.

ThyssenKrupp Elevator, a unit of ThyssenKrupp AG (Germany)
Will supply 318 passenger transportation systems, including elevators, escalators, and moving walks for the Beijing Olympics. 01/08.

Petroleum, Natural Gas & Related Equipment

CHINA'S INVESTMENTS ABROAD

Sinopec (Beijing)
Will acquire 60% stake in Australia-based AED Oil Ltd. $577.2 million. 03/08.

OTHER

Capstone Turbine Corp. (US)
Signed distributor agreement with Shanghai Tech-Steel Petroleum & Natural Gas Technology Development Co. Ltd. 01/08.

Pharmaceuticals

CHINA'S IMPORTS

Jiangxi Jiezhong Pharmaceutical Co. Ltd., a subsidiary of AMDL, Inc. (US)
Will supply domperidone, a medicine for treating nausea and vomiting, to the PRC military. 01/08.

INVESTMENTS IN CHINA

Hovione Farmaciencia SA (Portugal)
Acquired 75% stake in Zhejiang Hisyn Pharmaceutical Co. Ltd. 03/08.

BioMerieux SA (France)/ Shanghai Kehua Bio-Engineering Co. Ltd.
Will form JV to manufacture microplate immunoassay in Shanghai. 01/08.

OTHER

NovaSecta Ltd. (UK)/HD Biosciences Co., Ltd., Sundia MediTech Co. Ltd. (Shanghai)
Formed strategic alliance to provide drug discovery solutions for European pharmaceutical and biotech companies. 02/08.

Jiangxi Jade Bio-Chemical Pharmacy Co. Ltd., a subsidiary of AMDL, Inc. (US)
Signed strategic cooperation agreements with more than 100 health spa clinics in China. 01/08.

Pharmaceutical Product Development, Inc. (US)/Peking Union-Lawke Biomedical Development Ltd. (Beijing)
Signed agreement to provide biopharmaceutical central lab services to clients in China. 01/08.

Ports & Shipping

CHINA'S EXPORTS

Shanghai Waigaoqiao Shipyard
Will supply two 177,000-deadweight ton ships to Italy-based Rozzo-Bottilieri-De Carlini Armatori SpA. $180 million. 02/08.

Zhoushan Jinhaiwan Shipyard Co., Ltd. (Shanghai)
Will supply two Kamsarmax vessels to Bermuda-based Golden Ocean Group Ltd. by 2011. $110 million. 02/08.

Rail

CHINA'S EXPORTS

China Railway Construction Corp. (Beijing)
Signed contracts to build a 352-km and an 800-km railway in Libya. $2.6 million. 02/08.

CHINA'S IMPORTS

Alstom Transport, a unit of Alstom SA (France)/Nanjing SR Puzhen Rail Transport Co., Ltd., a JV between CSR Nanjing Puzhen Rolling Stock Works and Midas Holdings Ltd. (Singapore)
Will jointly supply 126 metro cars to Nanjing Metro Co. for Nanjing Metro Line 1. $124.8 million. 01/08.

Nice Systems Ltd. (Israel)
Will supply its advanced video IP-based surveillance system to the PRC Ministry of Railways for the Beijing-Tianjin passenger line. 01/08.

Standards, Licensing & Inspections

INVESTMENTS IN CHINA

Nemko AS (Norway)
Established WFOE, Nemko Shanghai, to provide certification of electronic products. $5 million. 03/08.

Telecommunications

CHINA'S EXPORTS

Huawei Technologies Co., Ltd. (Guangdong)
Will supply 3G wireless equipment to Brazil-based Tele Norte Leste Participações SA to build wireless infrastructure across Brazil. 01/08.

CHINA'S IMPORTS

724 Solutions Inc. (Canada)
Will provide messaging and content-management solutions to China Mobile Group Guangdong Co. Ltd., a unit of Beijing-based China Mobile. 02/08.

Mitec Telecom Inc. (Canada)
Will supply mobile wireless interference mitigation filters to a PRC telecom provider. $2.7 million. 02/08.

Sigma Kudos, a unit of Sigma AB (Sweden)
Signed contract with a leading PRC telecom company to supply documentation for securing high quality in repair process deliverables and for providing technical support. 02/08.

Nortel Networks Corp. (Canada)
Will supply its GSM-R mobile communication railway technology to the PRC Ministry of Railways for seven switching centers. 01/08.

INVESTMENTS IN CHINA

Motorola Inc. (US)
Acquired Zhejiang Dahua Digital Technology Co., Ltd. 02/08.

Telefónica, SA (Spain)
Acquired 2.22% stake in Beijing-based China Netcom. 01/08.

OTHER

Nokia Corp. (Finland)/China Postel Mobile Communication Equipment Co., Ltd. (Beijing)
Formed strategic partnership agreement to strengthen ties, especially for channel development, resource investment, and marketing management. 03/08.

Sagem Mobiles, a division of Safran Group (France)
Will acquire remaining 50% stake in its JV, Zhejiang-based Ningbo Bird Sagem Electronics Co. Ltd., from Ningbo Bird Co., Ltd. $22.5 million. 03/08.

Textiles & Apparel

CHINA'S IMPORTS

Sports Direct International plc (UK)
Will supply Sports Direct-branded merchandise to Guangdong-based ITAT Group Ltd.'s large stores. 02/08.

The Great Currency Debate

Continued from page 49

An end to the debate in sight?

Proponents of currency reform legislation and currency-related WTO cases would do well to consider several factors that significantly weaken their case. First, the RMB is already appreciating at about 8 percent per year against the dollar, and faster appreciation might prove hazardous to the US and PRC economies. Second, the RMB undervaluation's impact on the US economy is far outweighed by other factors, including US manufacturing productivity gains, a dramatic shift in the Asian trading landscape, and growing US exports to China. Third, the uncertainty surrounding the RMB's exact amount of undervaluation against the dollar and the likely unsuccessful outcome of a currency-related WTO case against China undermine the ability of congressional legislation to elicit any real change in China's exchange rate policy. Last, and perhaps most important, attempts to force China's hand on currency reform would likely do more harm than good by incurring possible retaliatory actions against Washington and damaging bilateral relations. 完

***Arie Eernisse** is manager, Publications, and **Tom Meehan** is manager, Government Affairs, at the US-China Business Council.*

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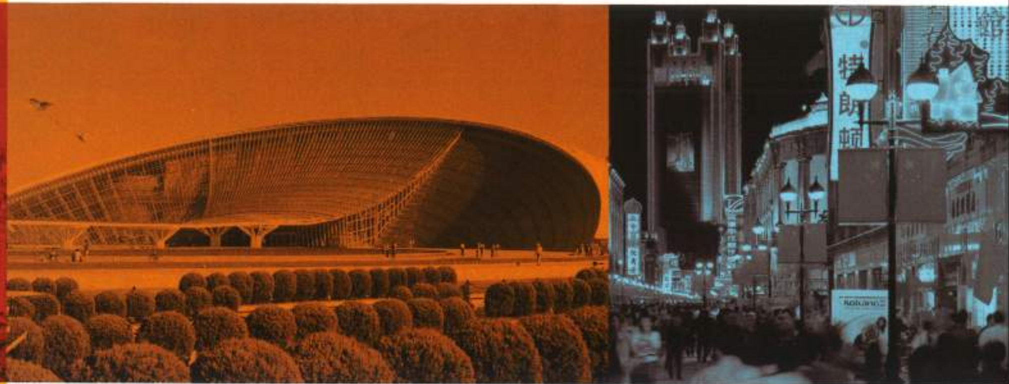

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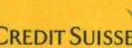

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