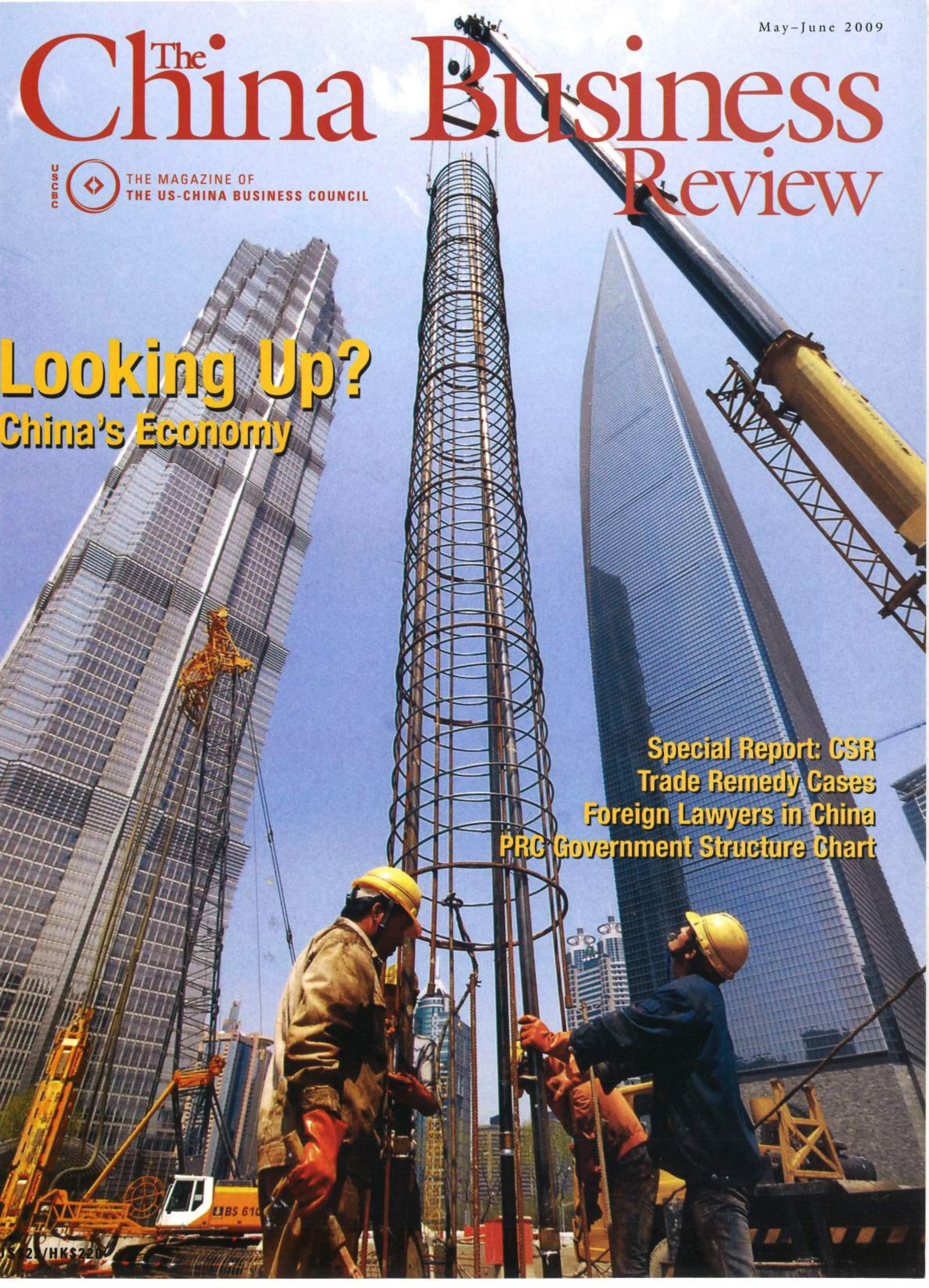
May–June 2009

The China Business Review

USCBC THE MAGAZINE OF THE US-CHINA BUSINESS COUNCIL



Looking Up?
China's Economy

Special Report: CSR

Trade Remedy Cases

Foreign Lawyers in China

PRC Government Structure Chart

China Foto Press

The China Business Review

USCBC THE MAGAZINE OF THE US-CHINA BUSINESS COUNCIL

Focus: Economy

Online Exclusives

- **Complete Interview: Economic Recovery in the Works?** With more on stimulus funding, whether rising unemployment will affect social stability, and private sector's access to credit.
- **Corporate Responsibiliy in China: Best Practices**

Special Report: Corporate Social Responsibility

Feature

Departments

Cover design by Jesse Marth
Cover photo: China Foto Press

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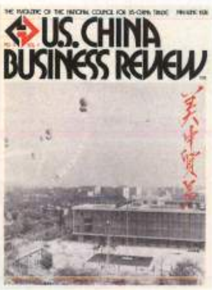
Letter from the Editor



This year, *CBR* celebrates its 35th anniversary, and we look back at the magazine's first year. Delving into the May-June 1974 issue, we find that some of the major topics then—food standards and labeling, for example—still resonate today, although with a slightly different emphasis.

The lead article of that issue, "Foodstuffs from the People's Republic of China," notes two barriers to importing food products from China: high tariffs and US Food and Drug Administration and US Department of Agriculture (USDA) requirements. Although US tariffs on goods made in China have fallen considerably since 1974, food quality and safety remain a major concern. As the *CBR* pointed out 35 years ago, "The onus and risk are ... firmly on the shoulders of the importer." Though the importer still bears responsibility for products it brings into the US market, many Chinese suppliers are working more closely with US buyers to ensure their products meet US standards particularly in the wake of the food safety scandals of the last few years (see p.38).

Labeling too was an issue in 1974. In some instances, imports were detained because of "inconspicuous or misleading labels." US importers also had trouble convincing Chinese suppliers to label products in a way that would appeal to the US market. For instance, US buyers thought many Chinese food products would be quite successful if sold under US brands. But as the *CBR* reported, Chinese officials refused, saying they hoped their products would become famous brands in their own right—foreshadowing today's drive to create Chinese brands with global recognition. Indeed, brands such as Hai'er, Lenovo, and Tsingtao are now fairly well recognized abroad. Few Chinese food products are well known abroad, however, and recent problems with food safety suggest that China must improve quality before its food brands will be widely accepted.

The *CBR*'s 1974 May–June issue carried a sector overview on the fashion and textile industry. Perhaps because so many US importers were new to China trade, the article covered the basics, including how to negotiate at the Canton Fair and communicate with Chinese factories. It also covered tariffs, textile shrinkage, packaging and delivery, and of course, labels. To ensure that the labels contained all the information required by US regulations, the *CBR* recommended that "[l]abels ... be printed in the US and sent in sufficient quantities to China." Again, branding was an issue:

> "Although the Chinese have been reluctant to sew in individual store names, some progress is being made in this area. For instance, they did offer to put in the name of an association but not the names of the department stores it represents. Another compromise made with an importer was an agreement to give his firm exclusive rights to a particular brand name. This name can be put on any article the company buys from China's Textile Corporation."

In the 35 years since these articles were written, standards for most products have risen dramatically on both sides of the Pacific. Moreover, US and Chinese companies, associations, and governments are working together more closely than ever to ensure that products made in China and imported to the United States meet these standards—and are appropriately and correctly labeled.

Virginia Hulme

The China Business Review

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Currency

Accelerated US deficit spending has generated concern among some PRC leaders that China's massive US debt holdings could decrease in value. In March, People's Bank of China Governor Zhou Xiaochuan argued that a new, "super-sovereign" global currency should replace the US dollar as the global reserve currency.

Separately, China and Argentina on March 29 signed a three-year, ¥70 billion ($10.2 billion) currency-swap agreement. The deal, made on the sidelines of the annual Inter-American Development Bank (IDB) meeting, will give Argentina more access to foreign currency reserves and more control over its exchange rate, according to Xinhua News Agency. Since mid-December, China has signed similar currency-swap arrangements with Belarus, Hong Kong, Indonesia, Malaysia, and South Korea.

Petroleum Pricing

In March, PRC National Development and Reform Commission (NDRC) Deputy Director Peng Sen revealed that China considers revising benchmark prices whenever international crude oil prices rise or fall by a daily average of 4 percent over 20 days. The announcement followed NDRC's raising of gasoline and diesel benchmark retail prices by ¥290 ($42) and ¥180 ($26) per ton, respectively—the second price adjustment and first price increase this year. China had previously announced that its domestic retail oil products, which have historically been slow to adjust to global trends, would be "indirectly linked" to global crude prices, taking into account domestic production costs, taxation, and oil producers' profits.

The China Petroleum and Chemical Association reported that China consumed 215 million tons of oil products in 2008, up 11.9 percent year on year. The association predicted that China's demand for gasoline and diesel would rise by 64.4 million and 144 million tons, respectively, this year.

Shanghai Free-Film Zone

China recently launched a cultural free-trade zone in Shanghai. The zone lies within the Waigaoqiao Free-Trade Zone and will serve as a testing ground for future cultural trade policies, according to Hong Kong-based Salon Films Group, which signed an agreement with city-backed Shanghai Oriental Huiwen International Cultural Services Trading Co. in September to establish the new zone.

The cultural zone will be exempted from China's cap of 20 on the number of foreign films allowed to be screened in China annually. Filmmakers within the zone will be encouraged to produce and export their films abroad.

Stock Exchange

The China Securities Regulatory Commission —China's regulator of markets for stocks, bonds, futures, and mutual funds—recently approved a new, long-awaited growth enterprise board. The new bourse, which was scheduled to launch on May 1, is aimed at helping smaller companies gain access to capital, and the listing requirements are much lower than those for the Shanghai and Shenzhen exchanges. Companies that seek a listing must possess net assets of at least ¥20 million ($2.9 million), have been conducting business

for more than three years, and have made a profit over the last two years (combined) of at least ¥10 million ($1.5 million) or report revenue for the most recent year of at least ¥50 million ($7.3 million).


Small Inputs , Large Outputs
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Event Wrap Up

WASHINGTON

March

Roundtable Discussion on Financial Reforms in China
Featured David Loevinger, minister counselor for Financial Affairs at the US Embassy in Beijing.

Luncheon Honoring Foreign Affairs Minister Yang Jiechi
(See p.11)

Issues Briefing on USTR & Commerce Engagement with China
Featured Assistant US Trade Representative (USTR) for China Tim Stratford and Deputy Assistant Secretary of Commerce for Asia Ira Kasoff.

April

China's Responses to the Global Economic Recession
Featured David Dollar, World Bank country director for China and Mongolia.

Breakfast Discussion with PRC Commerce Minister Chen Deming
Featured Chen and a delegation of Ministry of Commerce (MOFCOM) officials.

Briefing on Commercial Issues in China
Featured Lisa Rigoli, commercial officer, US Embassy, Beijing.

BEIJING

March

Discussion on China's Labor Regime and Employment Law
Featured Qiu Xiaoping, Labor Relations director at the PRC Ministry of Human Resources and Social Security.

Reception with US-China Business Council (USCBC) President John Frisbie
Frisbie gave brief remarks on current China policy developments in Washington, DC, and on USCBC's work.

SHANGHAI

March

Issues Luncheon on Shanghai's Response to the Financial Crisis
Featured Fang Xinghai, director general of the Shanghai Financial Service Office.

Briefing from USCBC President Frisbie
Frisbie discussed China-related developments in Washington, DC, and issues facing USCBC companies in China.

April

Issues Luncheon on Managing through the Downturn
Featured John Quelch, senior associate dean and marketing professor at Harvard Business School, and Pierre Cohade, Asia Pacific president of Goodyear Tire.

Issues Luncheon on Consumer and Industry Trends in the Downturn
Featured Atul Varhsneya, director, Consumer and Market Knowledge, Proctor & Gamble Asia and Greater China; and Collins Qian, partner and managing director, Boston Consulting Group Shanghai.

Upcoming Events

BEIJING

China Operations Conference
May 20, 2009

WASHINGTON

Issues Luncheons
May 21, 2009
June 19, 2009
July 16, 2009

36th Annual Membership Meeting
June 2, 2009
For more information, see p.17.

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

HEFEI, ANHUI

April

Investment Opportunities in Central China
At MOFCOM's request, USCBC led a delegation of member companies to Expo Central China 2009.

Luncheon in Honor of PRC Foreign Affairs Minister Yang Jiechi

The US-China Business Council (USCBC) and the Center for Strategic and International Studies (CSIS) co-hosted a luncheon in honor of China's Foreign Affairs Minister Yang Jiechi, who was in Washington for meetings with officials from the US State Department and President Barack Obama. More than 100 guests attended the luncheon, including USCBC board member companies; CSIS funders, trustees, and counselors; and officials from the State Department and Office of the US Trade Representative. Yang was accompanied by PRC Ambassador Zhou Wenzhong, a delegation of Ministry of Foreign Affairs officials, and embassy representatives. Photos, video, and a transcript of Yang's remarks can be found at www.uschina.org.


USCBC President Frisbie and luncheon co-host John Hamre, president and CEO of CSIS, greeted Minister Yang.


Frisbie and Ambassador Zhou

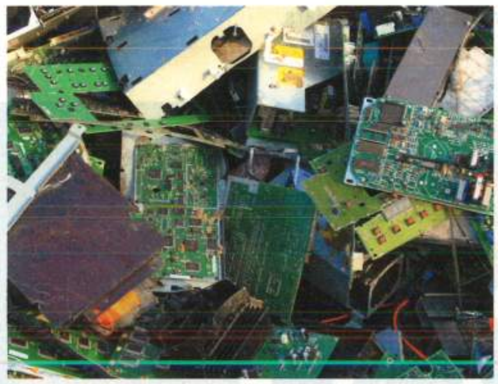

(From left to right) USCBC board member company representatives Richard Holwill of Amway and Charlie Abounader of Underwriters Laboratories Inc., CSIS Trustee Ambassador Carla Hills, Yang, CSIS Counselor and Trustee Zbigniew Brzezinski, and Harvard Distinguished Service Professor Joseph Nye.

sardari.com


Yang stressed the importance of maintaining a "strategic and long-term perspective" and "close dialogue" in US-China relations.

Electronic Waste Rules

China recently approved long-awaited electronic-waste rules, but a product catalogue is pending



The State Council in early March released long-awaited rules governing the recycling and disposal of waste electrical and electronic equipment (WEEE). The new regulations, which take effect January 1, 2011, contain several new requirements for producers and importers, including new label and management requirements for producers. They also require producers to contribute to a special fund designed to offset costs of WEEE disposal and recycling. Though the State Council approved the rules in August 2008, Premier Wen Jiabao did not sign them until February 25, 2009. The long delay was likely due to the economic downturn and concern about the additional requirements that these new regulations place on WEEE manufacturers.

These new rules are not China's first to address the disposal and environmental pollution of electronic products. In September 2007, the PRC State Environmental Protection Administration, precursor to the Ministry of Environmental Protection (MEP), released measures designed to prevent and control environmental pollution caused by the use and disposal of electronic waste. Regulations governing WEEE show China's efforts to establish a framework for controlling the use and disposal of products to prevent environmental pollution, a framework first launched with the PRC Administrative Measures on the Control of Pollution Caused by Electronic Information Products in 2007. China's developing regime for these products has many parallels with the European Union's rules for handling WEEE and restrictions on hazardous substances.

Full details of China's WEEE regime will not be finalized, however, until the release of the WEEE catalogue. Companies that produce, import, or use WEEE products should monitor the lead agencies involved for indications of the drafting or release of product catalogues.

WEEE requirements

China's new rules further delineate agency responsibilities and coordination, outline recycling and disposal requirements, add new labeling requirements, create a company-contributed disposal and recycling subsidy fund, and specify noncompliance penalties for WEEE.

■ **PRC agency responsibilities** Three PRC ministries will take primary responsibility for drafting and supervising the implementation of WEEE-related regulations: the National Development and Reform Commission (NDRC), MEP, and Ministry of Industry and Information Technology (MIIT). The Ministry of Commerce will manage other WEEE recycling work. Several other PRC agencies, such as the General Administration of Customs and the Administration of Quality Supervision, Inspection, and Quarantine, will handle work related to their areas of jurisdiction.

■ **WEEE catalogue** WEEE requirements will apply only to products listed in a catalogue, which the State Council, MEP, and MIIT will jointly release. The details and timing of the catalogue's release, and whether it will be open for comment, remain unclear.

■ **WEEE fund** The regulations authorize the establishment of a fund that subsidizes WEEE recycling costs with contributions from producers and recipients of imported goods. The Ministry of Finance, along with NDRC, MEP, and MIIT, will draft concrete measures for the levy, use, and management of this fund.

■ **Labeling and reporting** Producers and importers of WEEE products must label products with information about harmful materials content and suggested recycling or disposal means. Companies involved in WEEE disposal are required to report regularly to municipal-level environmental protection agencies and must maintain data and reports for at least three years.

■ **Qualification for enterprises that handle WEEE** Only enterprises that receive municipal-level environmental protection agency approval—based on prerequisites and timelines outlined in the new rules—will be able to carry out WEEE disposal and recycling.

■ **Penalties** The regulations establish penalties for illegal WEEE-related activities, including failing to label products (fines of up to ¥50,000 [$7,315]), carrying out WEEE disposal without proper qualifications (fines of between ¥50,000 and ¥500,000 [$73,154] and possible confiscation of proceeds from WEEE disposal), and failing to report to local authorities (fines of up to ¥50,000). 完

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

China Conference Calendar

China-related events near you

May–November 2009

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

China Import & Export Fair, Phase III

MAY 3–7

Location: Guangzhou, Guangdong: China Import & Export Fair Complex
Organizers: PRC Ministry of Commerce (MOFCOM); China Foreign Trade Center
Tel: 86-20-2608-8888
webmaster@cantonfair.org.cn
www.cantonfair.org.cn

China Tax: New Rules & New Opportunities

MAY 14

Location: Chicago, IL: Baker & McKenzie Conference Center
Organizer: ATLAS Information Group, Inc.
Contact: Lynne Strauss
Tel: 1-800-207-4432
lynne@atlas-sfi.com
www.atlas-sfi.com/ChinaTax/index.htm

China Airport Development & Operation Excellence Summit

MAY 14–15

Location: Beijing: Commune by the Great Wall Kempinski
Organizer: Noppen (Shanghai) Co., Ltd.
Contact: Randy Mao
Tel: 86-21-6085-1000
randym@noppen.com.cn
www.noppen.com.cn

International Water Forum

MAY 18–19

Location: Shanghai: Crowne Plaza Century Park
Organizer: Noppen (Shanghai) Co., Ltd.
Contact: Randy Mao
Tel: 86-21-6085-1000
randym@noppen.com.cn
www.noppen.com.cn

International Exhibition on Plastics & Rubber Industries

MAY 18–21

Location: Guangzhou, Guangdong: China Import & Export Fair, Pazhou Complex
Organizer: Messe Dusseldorf China Ltd.
Contact: Vivian Pan
Tel: 86-21-5027-8128
vivian@mdc.com.cn
www.chinaplasonline.com

Biotech China: International Trade Fair & Congress for Biotechnology

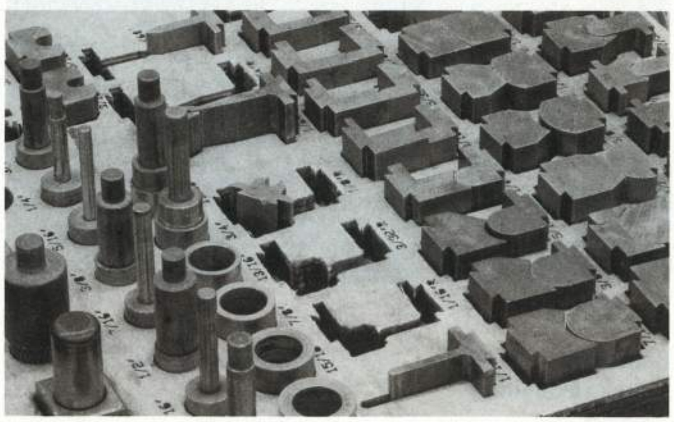
JUNE 1–3

Location: Intex Shanghai
Organizers: Deutsche Messe AG; World Expo (Group) Shanghai Modern International Exhibition Co., Ltd.; Shanghai Technology Convention & Exhibition Co., Ltd.
Contact: Maren Seidel
Tel: 49-511-89-34223
maren.seidel@messe.de
www.biotech-china.com

Die & Mold China

JUNE 2–5

Location: Shanghai New International Expo Center
Organizers: China Die and Mold Industry Association (CDMIA); Shanghai International Exhibition Co., Ltd.
Contact: CDMIA
Tel: 86-10-8835-6463
cdmia@cdmia.com.cn
www.diemouldchina.com



China International Equipment Manufacturing Exhibition, September 1–5

China International Consumer Goods Fair

JUNE 8–12

Location: Zhejiang: Ningbo International Conference & Exhibition Center
Organizers: MOFCOM; Zhejiang Provincial Government
Contact: Jency Tang
Tel: 86-574-8717-8075
trade1@cicgf.com
www.cicgf.com

China Advanced Coal Chemical Summit

JUNE 10–11

Location: Baotou, Inner Mongolia: Shangri-La Hotel
Organizer: Noppen (Shanghai) Co., Ltd.
Contact: Randy Mao
Tel: 86-21-6085-1000
randym@noppen.com.cn
www.noppen.com.cn

International Exhibition on Textile Industry

JUNE 12–15

Location: Shanghai New International Expo Center
Organizers: Shanghai International Exhibition Co., Ltd.; Shanghai Textile Technology Service & Exhibition Center; Adsale Exhibition Services Ltd.
Contact: Stanley Dai
Tel: 86-21-6279-2828
shanghaitex@siec-ccpit.com
www.shanghaitexonline.com

China Summit on Anti-Corruption: Implementing Effective Corporate Governance, Transparency & FCPA Compliance Programs

JUNE 16–17

Location: Shanghai: JW Marriott Hotel
Organizer: American Conference Institute
Contact: Jeffrey Chan
Tel: 1-212-352-3220 x507
j.chan@americanconference.com
www.americanconference.com

China Laboratory Technology & Equipment Exhibition

JUNE 17–19

Location: Shanghai Everbright Convention & Exhibition Center
Organizer: Reed Sinopharm Exhibitions
Contact: Geoff Sauer
Tel: 1-203-840-6227
gsauer@reedexpo.com
http://en.expolab.com.cn

China Conference Calendar


Agrochemex, September 27–29

Beijing International Tourism Exhibition

JUNE 18–20

Location: Beijing Exhibition Center
Organizers: Beijing Tourism Administration; CEMS (Beijing) Conference & Exhibition Co., Ltd.
Contact: Helen Yang
Tel: 86-10-8447-6820
helen@cems.com.sg
www.bitechina.com.cn

International Green Building & Sustainable Cities Exposition

JUNE 18–20

Location: Beijing International Exhibition Center
Organizers: China Eco Expo; PRC Ministry of Housing and Urban-Rural Development
Contact: Marc Merson
Tel: 1-818-906-2700
marc@ecoexpo.com
www.ecoexpo.com

China International Software & Information Services Fair

JUNE 18–21

Location: Liaoning: Dalian World Expo Center
Organizers: Dalian Municipal Government; China Association of Trade in Services
Contact: Helen Xu
Tel: 86-411-8362-6908
xuw@dlbii.gov.cn
www.cisis.com.cn

Modern Railways

JUNE 22–25

Location: Shanghai Exhibition Center
Organizers: PRC Ministry of Railways, China Academy of Railway Sciences and Scientific & Technological Information Research Institute; China World Trade Center Co., Ltd.
Contact: Liu Wei
Tel: 86-10-5189-3514
wliu@modernrailways.com.cn
www.modernrailways.com.cn

China International Service Outsourcing Cooperation Conference

JUNE 23–24

Location: Jiangsu: Nanjing International Expo Center
Organizers: Nanjing Municipal Government; Jiangsu Provincial Government, Department of Foreign Trade and Economic Cooperation; China Council for the Promotion of International Trade (CCPIT), Economic and Information Department and Jiangsu Sub-Council
Contact: Liu Shuo
Tel: 86-10-8807-5766
liushuo@ccpit.org

CPhI, ICSE & P-MEC China

JUNE 23–25

Location: Shanghai New International Expo Center
Organizer: Shanghai CMP Sinoexpo International Exhibition Co., Ltd.
Contact: Mark Nee
Tel: 86-21-64371178
marketing@cmpsinoexpo.com
www.cphi-china.com

China Airfinance Conference

JUNE 25–26

Location: Beijing: Park Hyatt
Organizers: Euromoney Seminars; *Airfinance Journal*
Contact: Winnie Louie
Tel: 852-2842-6995
registrations@euromoneyasia.com
www.euromoneyseminars.com

Clean Energy Expo China

JULY 8–10

Location: Beijing: China International Exhibition Center
Organizers: Koelnmesse Pte Ltd.; Unique International Exhibition Ltd.; Beijing Jipeng Investment Information and Consultant Ltd.
Contact: Helen Chen
Tel: 86-10-6590-7766 x736
h.chen@koelnmesse.cn
www.koelnmesse.cn/fair/New_CleanEnergyExpoChina_E/index.html

International Exhibition on Electric Power Equipment & Technology

JULY 8–10

Location: Shanghai International Exhibition Center
Organizers: China Electricity Council; Adsale Exhibition Services Ltd.
Tel: 852-2811-8897
power@adsale.com.hk
www.2456.com/JasperWeb/Shows/sid-235/lang-eng/Details.aspx

China Medical Trials & Safety Surveillance

JULY 9–10

Location: Shanghai: Crowne Plaza Century Park
Organizer: Noppen (Shanghai) Co., Ltd.
Contact: Randy Mao
Tel: 86-21-6085-1000
randym@noppen.com.cn
www.noppen.com.cn

Work Boat China

JULY 9–11

Location: Liaoning: Dalian Xinghai Convention & Exhibition Center
Organizer: Baird Maritime
Contact: Kishore Navani
Tel: 61-3-9645-0411
marinfo@baird.com.au
www.baird-online.com

Business Development & Matchmaking Trip to China

JULY 11–21

Locations: Beijing; Changsha, Hunan; Chengdu, Sichuan; Shanghai
Organizer: Meetchinabiz
Contact: Shawn He
Tel: 1-617-606-3360
info@meetchinabiz.org
www.meetchinabiz.org

Shanghai International Disaster Prevention Security Technology & Equipment Fair

SEPTEMBER 1–3

Location: Shanghai East Asia Exhibition Center
Organizer: China Safety Protection Center
Tel: 86-21-6227-4445
egsh@dpschina.net.cn
www.dpschina.net.cn

China Conference Calendar

China International Equipment Manufacturing Exhibition

SEPTEMBER 1–5

Location: Liaoning: Shenyang International Exhibition Center
Organizers: Shenyang Municipal Government; CCPIT, Liaoning and Machinery Sub-Councils; Liaoning Provincial Economic Commission; Shenyang Renaissance International Exhibitions Co., Ltd.
Contact: Lee Kezhong
Tel: 86-24-6212-4054
cieme@zxexpo.com
www.zxexpo.com

China International Nuclear Power Industry Expo

SEPTEMBER 2–4

Location: Beijing: China International Exhibition Center
Organizer: Beijing Qifa Exhibit Service Co., Ltd.
Contact: Winder Wang
Tel: 86-10-8586-3866
winderwang@163.com
www.cine010.com.cn

Machine Tool & Mold and Plastics, Packaging & Rubber Technology Exhibition

SEPTEMBER 3–5

Location: Jiangsu: Suzhou International Expo Center
Organizers: Paper Communication Exhibition Services; CCPIT, Suzhou Sub-Council
Tel: 852-2763-9011
sz@paper-com.com.hk
www.szlinkage.com

China Incentive Business Travel & Meetings Exhibition

SEPTEMBER 8–10

Location: Beijing: China National Convention Center
Organizer: Reed Travel Exhibitions
Contact: Flora Liu
Tel: 86-10-8518-9070 x200
fang.liu@reedepo.com.cn
www.cibtm.travel

Medtec China

SEPTEMBER 8–10

Location: Intex Shanghai
Organizers: Canon Communications LLC; CCPIT
Contact: Keith Kwok-Ho Tsui
Tel: 852-2186-6939
keith.tsui@cancom.com
www.devicelink.com

China International Fair for Investment & Trade

SEPTEMBER 8–11

Location: Fujian: Xiamen International Conference & Exhibition Center
Organizers: Fujian Provincial Government; Xiamen Municipal Government; MOFCOM, Investment Promotion Agency
Tel: 86-592-266-9825
cifit@chinafair.org.cn
www.chinafair.org.cn

China International Tire Expo

SEPTEMBER 9–11

Location: Shanghai Everbright Convention & Exhibition Center
Organizer: Reliable International Exhibition Services Co., Ltd.
Contact: Wilko Fong
Tel: 86-10-8589-8181
citexpo@reliable.org.cn
www.citexpo.com.cn

China International Energy Saving & Environmental Products & Technology Exposition

SEPTEMBER 10–12

Location: Jiangsu: Suzhou SND International Expo Center
Organizer: Suzhou Municipal Economic and Trade Committee
Tel: 86-512-6667-9008
nwd@etccn.com
www.etc-expo.cn

International Exhibition & Conference for Pulp, Paper & Forestry Industry

SEPTEMBER 16–18

Location: Beijing: China International Exhibition Center
Organizers: E.J. Krause & Associates, Inc.; China Paper Industry Development Corp.
Contact: Phoebe Ding
Tel: 86-10-8451-1832
phoebe@ejkbeijing.com
www.chinapaperexpo.cn

Shanghai International Franchise Exhibition

SEPTEMBER 19–20

Location: Intex Shanghai
Organizer: China Chain Store & Franchise Association
Contact: John Ho
Tel: 86-10-5191-6852
2004@ccfa.org.cn
http://sh.ccfa.org.cn

Chengdu Motor Show

SEPTEMBER 19–25

Location: Chengdu, Sichuan: New International Convention & Exposition Center
Organizers: Hannover Fairs China Ltd.; Chengdu International Exhibition & Convention Center Ltd.
Contact: Karry Wang
Tel: 86-21-5045-6700
karry.wang@hfchina.com
www.cd-motorshow.com

China (Beijing) International Exhibition on Liquid Natural Gas, Gas Filling Stations & Hydrogen Technology & Equipment

SEPTEMBER 23–25

Location: Beijing: National Agriculture Exhibition Center
Organizers: China Industrial Gases Industry Association; AIT Events Co., Ltd.
Contact: Mark Liu
Tel: 86-10-8586-8930
lng.china@ait-events.com
www.lng-expo.com

Aviation Expo

SEPTEMBER 23–26

Location: Beijing: China International Exhibition Center
Organizer: China Promotion Exhibition Co.
Contact: Shirley Gao
Tel: 86-10-8773-0641
cpbj@cpbjlf.com
www.cpexhibition.com/aviation

Agrochemex

SEPTEMBER 27–29

Location: Shanghai Everbright Convention & Exhibition Center
Organizer: China Crop Protection Industry Association
Contact: Guo Wei
Tel: 86-10-8488-5907
ccpiagw@yahoo.com.cn
www.agrochemex.net

China International Pharmaceutical Industry Exhibition

OCTOBER 27–30

Location: Shanghai New International Expo Center
Organizer: Messe Dusseldorf China Ltd.
Contact: Vivian Pan
Tel: 86-21-5027-8128
chinapharm@mdc.com.cn
http://chinapharmex2.verycodes.com

Info Comm China

NOVEMBER 9–11

Location: Beijing: National Agricultural Exhibition Center (New Hall)
Organizer: InfoCommAsia Pte Ltd.
Contact: Richard Tan
Tel: 65-6841-7478
rtan@infocommasia.org
www.infocomm-china.com

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Navigating the Downturn

Godfrey Firth

With most of the world mired in recession, all eyes are on China's much-discussed and hoped-for potential economic recovery in the fall of 2009 or early 2010. Many multinational corporations seem to be pinning their hopes for positive results in 2009 on their China operations. For China-based managers, this hope brings increased scrutiny and intense pressure to deliver. The challenge of managing headquarters' expectations, especially during uncertain times, looms large in the meeting rooms of multinational firms in Shanghai.

Hunkering down

The China operations of most companies reacted rapidly and effectively to the emerging downturn in the last quarter of 2008. Travel fell to a minimum, bonuses were eliminated or cut, and salary increases were postponed or reduced. Many companies conducted minor reductions in force, pruning less-productive or non-essential staff. The empty desk across the hall represented a rude awakening to young Chinese professionals accustomed to a double-digit wage bump, a round of promotions, and crops of fresh-faced young graduates joining the team every year.

The drumbeat of negative news about disappointing earnings reports, falling share prices, and collapsing financial firms was matched by a sudden and wrenching drop in demand all along the global value chain, in which many Chinese companies play a major role. Thinning order books prompted many of these companies to cut to the bone, and some unfortunate ones folded. Dislocations were particularly pronounced in, but certainly not exclusive to, China's large export-oriented sector.

As local governments began collecting social insurance contributions from enterprises for November and December, the dramatic drop in employed staff at many foreign and private Chinese companies caused serious alarm in the corridors of power, from local governments all the way up to the central level. In every economy, cash is king for companies, but jobs trump all for governments. The PRC policymaking elite reacted quickly, and maintaining and creating jobs immediately became the top priority driving policy decisions.

Of stimulus and silver linings

Of all the policy responses rolled out in late 2008, none attracted more interest, analysis, and questions from US-China Business Council member companies than the ¥4 trillion ($585 billion) PRC stimulus package. The package is an amorphous amalgamation of existing policy priorities and pre-planned spending, rolled together into a large package with a single, eye-catching price tag, and presented to the public before President Hu Jintao's visit to the G-20 summit in Washington, DC. The package was a green light to ministries, provinces, and companies to move ahead quickly with projects and spending. The result has not been new projects, but accelerated implementation of existing policy directives and projects and the early launch of projects from the next five-year plan. The majority of project funding in China, for both public and private investment, comes from bank loans, and the government has placed enormous pressure on the banks to lend. The bankers have responded by throwing open the taps, with ¥4.5 trillion ($658.5 billion) in new bank loans in the first quarter of 2009 alone, a clearly unsustainable rate, given that the lending target for the full year is ¥5 trillion ($731.7 billion).

The business opportunities in the package vary from sector to sector, with those in infrastructure, especially rail, most plentiful. Companies have delved into the specifics of the package to track down the highly elusive project lists and information. This is a struggle, as transparency remains weak at best. Some companies are working on other key initiatives that are technically not part of the stimulus package but have gained momentum from the political imperative to spend. These initiatives include China's massive healthcare reform and the telecom network upgrades associated with the roll-out of third-generation (3G) telecom networks.

The early birds...

Cost controls are in place across the board, business remains weak, and forecasting even six months ahead can feel like tossing darts blindfolded. But in this environment, energetic managers in Shanghai are focused on mapping and targeting growth opportunities, whether related to government expenditure or the inevitable recovery. Regardless of when China emerges from the downturn, the long-term fundamentals and deep-seated optimism of companies operating here remain unchanged. Smart companies are planning for growth. 完

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

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Economic Recovery in the Works?

As the global economy contracted sharply in late 2008, the PRC government's massive response helped China remain one of the few relatively bright spots in a bleak economic landscape. Boosted by the ¥4 trillion ($585 billion) stimulus package and other measures, such as greater social spending, China may be able to recover more rapidly than other countries. *CBR* Editor Virginia Hulme and *CBR* Assistant Editors Arie Ernisse and Daniel Strouhal interviewed six prominent China economists in late March and early April (see p.19).

CBR: **In recent weeks, several economists have been quite optimistic about China's recovery. What is this optimism based on? What key indicators should we look for as signs that China's economy is recovering?**

Bottelier: China's recession may have bottomed out sooner than we had expected. The Purchasing Managers' Index (PMI) is improving, and recently we've seen a relatively sharp upturn in total construction activity. It is obvious that China has been hit hard by the crisis, but we should not forget that in China's case, the situation is a bit more complicated. The economic downturn started in 2007, well before exports began to tank. The decline in 2007 was due to deliberate government efforts to deflate the real estate bubble and cool down the economy more generally. If the construction sector can be revived, that could go a long way to compensate for the decline of exports in terms of total domestic demand. The other sign is the sharp upturn in new bank lending, even though much of that is bill discounting. Demand for raw materials has revived, so restocking has gone up.

Dollar: The optimistic forecasts are focusing on some recent good news: real retail sales have held up well, and the government's fixed-asset investment is rising rapidly. However, exports are likely to decline for the year, and a lot of related investment will be dampened. The best "bottom line" summary of what is going on is growth of real industrial value added: for January–February this was up 3.8 percent over the year before. It is hard to be too

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David Dollar is country director for China and Mongolia in the East Asia and Pacific Region, World Bank.

Albert Keidel is senior associate, Carnegie Endowment for International Peace.

Nicholas Lardy is senior fellow, Peterson Institute for International Economics.

Andy Rothman is China macro strategist, CLSA Asia-Pacific Markets.

Tao Wang is head of China Research, UBS Securities.

optimistic when half the economy starts the year with that kind of growth rate.

Keidel: Recent optimism has come from some initial construction activity in the downstream real estate sector that looks like the real thing, as well as a survey of purchasing managers in March that showed their expectations shifting into the expansion range of the index value, which is a big change from just a few months ago. Economists are also encouraged by the scale of the credit expansion, what looks like strong retail sales growth, reported healthy investment growth, and the continued flow of government announcements about expansions in and adjustments to the stimulus package.

Lardy: First, I'd follow closely what's happening in the housing sector. Are transactions picking up? Is the inventory of unsold property declining? Are new starts beginning to pick up? The property sector is important. China's property correction has been a big contributor to the slowdown.

Another thing to watch is how well private consumption holds up. Typically in previous downturns, employment growth slows, unemployment rises, and wage growth is much less rapid, so disposable income tends to rise relatively slowly. It's hard to get buoyant consumption growth in a downturn.

Rothman: I am optimistic, in part because many key indicators have begun to strengthen earlier than I had expected. CLSA's PMI—our survey of purchasing managers at more than 400 manufacturing firms across China—rose for three consecutive months before slipping slightly in March. Fixed-asset investment has held steady at a strong pace, due to heavy government spending. Production of steel, cement, and electricity has begun to pick up, and retail sales growth remains healthy. And housing sales have begun to pick up, as both prices and financing costs have come down.

Wang: Our 7.0–7.5 percent growth estimate for this year incorporates a rebound in growth. In the fourth quarter of last year, quarter-on-quarter annualized growth was close to 2.5 percent, so to reach 7.0 percent the economy obviously needs a rebound. We believe that rebound will not come from external situations improving but from the government's stimulus package, in terms of fiscal and credit (bank lending). The policy was announced in November, and the money has been disbursed quite rapidly. We think that it will come through in the economy starting in the second quarter of this year, especially in infrastructure-related investment, and will help to cushion the negative impact from the external shock and domestic housing downturn. We will therefore see a sequential rebound in growth momentum beginning early in the second quarter that will help to bring China's economy into a recovery process. But that does not mean that China will go back to the kind of growth it saw in the last few years; it just means recovery from the trough of the fourth quarter of last year.

CBR: **How much will the global drop in demand affect China's economy? Will the stimulus package be able to offset that effect?**

Bottelier: The sharp decline in exports, in absolute terms even, which is really unprecedented, is of course very serious. But we should not forget that many of China's exports are of a processing nature and that the domestic value-added on that portion of their exports is rather limited. So the GDP [gross domestic product] effects are not as great as the gross export numbers might lead one to expect. The stimulus package is really quite enormous. The ¥4 trillion [$585 billion] investment plan is largely aimed at infrastructure—capital formation. That is significant because there are still many bottlenecks in China's infrastructure that can be corrected as a result of this program. The extent to which China is now increasing spending on the social sector is often underestimated. The harmonious society objectives are being taken seriously by the government. In recent years, we've seen substantial increases in government spending for healthcare and education, and the rolling out of social safety nets. Just a few months ago, the central government increased the pension payments for all people covered by the official pension program by ¥110 [$16] a month. I understand that a similar increase is planned for next year. These are significant amounts; 55 million people are reported to be covered by that pension scheme.

Dollar: The drop in global demand is seriously affecting China's economy. China's exports have dropped by about one-third from their peak last fall. We expect exports to stabilize and slowly increase over the year, but for the whole year we forecast a 6 percent decline for China's exports. The stimulus package is limiting the decline but does not fully offset the shock, which is why industrial growth in the first two months is positive but low.

Keidel: The global drop in demand is clearly having a dramatic impact. Whether the stimulus can counterbalance it is the trillion-dollar question. If the drop in China's trade surplus (a surplus that was close to 10 percent of GDP last year) is limited to a 50 percent decline, and if investment and consumption growth are in the 10 to 15 percent range, then yes, the stimulus can counter the trade decline and deliver close to 8 percent growth—but these are all big "ifs."

Lardy: The decline in global demand in 2008 compared to 2007 took off about 1.5 percentage points of economic growth. But the external sector was still contributing to economic growth in 2008. There could be a further softening in the external side, which the stimulus would also have to partly offset if growth were not to fall further. The stimulus package is certainly sufficient to offset the decline we saw in 2008 compared to 2007, but whether it's sufficient to offset the decline we've seen in 2009 compared to 2008 remains to be seen.

Rothman: The global recession is having an impact on China but not as much of an impact as many think. China is not an export-led economy; it is a continental economy driven primarily by domestic investment and consumption. During a global slowdown, China cannot grow at the double-digit pace of recent years, but it can grow at 6–8 percent.

Wang: The drop in global demand will obviously affect China greatly, even though we think that China's economy is structurally not as export dependent as most people think. Cyclically, in the last few years, China's exports have been growing rapidly, and investment and job growth have been affected by the positive pull from global demand. So in this downturn, when global demand is falling, the immediate impact on China's economy is quite large—not just slowing exports but also affecting manufacturing investment and leading to increasing unemployment and therefore weaker consumption and so on. The stimulus package can do little to boost external demand, and we expect exports to be weak and manufacturing investment to decline. What the stimulus can do is create domestic investment demand that offsets part of the manufacturing investment decline. If you just look at the government target of 8 percent, it's clear that the government is not aiming to completely offset the impact but rather to cushion the impact.

CBR: **How effective will China's stimulus package be? What early signs, if any, are there that it is beginning to work?**

Bottelier: It is still early, but we are beginning to see some effects already, for example in construction. But not all of the pick-up in construction is the result of stimulus spending. There have also been policy changes aimed at stimulating demand for housing, such as a relaxation of mortgage terms (from a 30 percent to 20 percent down payment). The PRC Natural Bureau of Statistics' PMI number for March for manufacturing—52 (above 50 for the first time since September last year)—is another important indicator that some parts of the economy are picking up. [A PMI above 50 generally indicates an expanding economy, while a number below 50 could indicate contraction.]

Dollar: The stimulus package is definitely working. Steel production has stabilized at about the level of early last year, and cement production is up 17 percent from a year ago. Some specific components of investment, such as railway investment, show increases of more than 100 percent over a year ago. So, we know that activities have started, and we think that they are the reason that China's growth remains well above the rates of other major economies.

Keidel: The earliest signs include the "input" signs—has credit expanded? Yes, it has expanded enormously, even if one corrects for the large part of it that went into the purchase of corporate paper. Have government budgets expanded? Yes, by all accounts, strongly. Has the trade surplus decline been moderate? In fact, in January–February, the surplus increased because of the sharp decline in imports. Are there signs that investment and consumption are responding to the stimulus? Yes, but only in terms of retail sales, which is always a questionably useful statistic. Has the real estate sector begun to come out of its slump? A bit, according to early data on downstream development and construction activity and sales of cement. Are inventories building again after their sharp declines late last year? It is a bit early to know. In truth, the best signs will be GDP growth figures for the first two quarters along with a whole set of statistics on things like electric power consumption that point to an accurate and consistent growth figure. So we won't really have credible signs until first-half data come out in July.


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Lardy: It will be effective. I think the early signs are that the banks are increasing their lending quite significantly in response to the easing that began in September, which took the form of lowering interest rates, lowering down-payment requirements on mortgages, and reducing quantitative restrictions on lending. Even as early as November, we began to see much more rapid credit growth.

Some people look at the PMI, which has been in decline but has turned up a little. I'm not sure how much significance I attach to that but it's certainly a good sign that it's not dropping further; it's coming back up.

Rothman: There are three parts to China's stimulus package. The first was the November removal of the brakes on growth that Beijing put in place in 2007, when the government was worried about overheating. The second stimulus was the huge flood of credit and liquidity that began in December, when new lending rose by over 1,000 percent year on year. The third part is the massive infrastructure spending program that is just getting under way. We can see signs of the early impact of these programs in the improvement of the PMI index, strong investment growth, rising sales of excavators, and other indicators that construction is picking up. Most important, Chinese consumers have shown confidence in these stimulus programs, which is why retail sales are holding up and housing sales have begun to increase.

Wang: One thing to remember is that the stimulus package is not all fiscal; a huge portion of the stimulus is going to be financed by bank lending. Second, in addition to investment, the fiscal stimulus also includes various tax cuts and transfer payments. Because China's economy is still in transition from a command economy to a market economy the government has, compared to a lot of other countries, relatively good organization in terms of disbursing the funds. It already has a lot of projects lined up and medium-term plans in place so it can disburse the funds pretty quickly.

In terms of signs, fiscal funds were disbursed quickly and bank lending went out quickly as well. That boosted confidence, and metals traders especially started to restock materials in December and January, anticipating demand, which helped to bring back some production. Production cuts were quite severe in October and November, and production recovered in subsequent months. One can argue whether that is sustainable, and we think that sectors will be cautious in the next couple of months until final demand really shows up. But in terms of delivering liquidity to the system to keep the economy going and to help boost confidence, certainly there have been signs of that.

CBR: **What actions or policies does China need to take to become more consumption driven? How likely is it that rural consumption will become a major driver of domestic demand?**

Bottelier: I'm quite frankly impressed by what the government is doing to stimulate household disposable incomes, which is not the same as household consumption, of course, because people have to decide what to do with their money. There is a savings culture in China that will not fundamentally change anytime soon, so even if disposable household incomes rise, it's possible that the savings ratio will remain the same, or even increase temporarily. If the government can maintain the improvements in social safety nets that are now being made for two or three years, you will probably begin to see a change in savings behavior. I don't expect household savings to change significantly in the short-run.

But corporations are the largest single source of savings at the national level, not households or government. There, we also see some initial movement in the right direction by requiring profitable state-owned enterprises (SOEs) to begin paying dividends. That's new because they hadn't paid dividends since 1993. The initial levels have been set at either 5 or 10 percent of after-tax profits, which is a good start but much too low to make a difference. Changing the dividend culture for profitable SOEs and private enterprises would be significant.

It would also help address macroeconomic imbalances due to overinvestment, particularly in manufacturing. China created too much capacity in manufacturing, which contributed to the trade surplus. The trade surplus went through the roof from the second half of 2004. Tremendous productivity growth in the manufacturing sector and associated profitability growth allowed Chinese exporters to maintain lower prices on international markets and gain market share while increasing profits and raising real wages, an unusual combination of achievements. Furthermore, much of this excess manufacturing capacity resulted in import substitution, which was more important than export growth in explaining the exploding trade surplus.

But now, there are all sorts of new initiatives to promote consumption growth. In the finance minister's March 5 budget speech, we see new subsidies aimed at promoting rural consumption growth. People can get 13 percent price discounts on a range of consumer items, from televisions to motorcycles. There has been a significant increase in social spending in recent years. I believe that the government is serious about promoting household consumption.

Dollar: To continue to grow well in the next period, China will need more demand from consumption. But it is hard to change spending habits overnight. The best measure in the short run is to increase public spending on health, education, and the social safety net. Social services are recorded as consumption in the national accounts, and they are one item that the government controls directly. More social spending will also reduce household vulnerability and gradually lead to more private consumption spending. Right now, rural consumption is only 9 percent of GDP, so it cannot be a major macroeconomic source of demand in the near future, but efforts to raise rural consumption will be good for people now and help make the necessary adjustment to a more consumption-driven economy in the future.

Keidel: The key to more consumption growth is more and better-paying jobs. Hence, paradoxically, investment growth is one of the key ingredients in stronger consumption growth. An additional factor is the status of rural income and consumption spending. The increase in food prices that erupted in 2007, while looking like inflation, was also an improvement in rural-urban terms of trade and was accompanied by a rapid expansion in rural household consumption. This has been severely compromised by the absolute decline (5 percent) in rural income in the fourth quarter of 2008 because of the slump in migrant incomes and remittances. Government vouchers and other programs to subsidize household purchase of consumer appliances and other durable products might help temporarily, but ultimately it is rapid growth of jobs—which means continued high rates of investment—that will strengthen consumer demand. Rural household consumption has fallen to roughly one-third of total household consumption, as rural-urban migration has increased China's urban population in the last decade and as urban jobs have become more productive and more remunerative than rural employment. Hence, another major process that promises stronger consumption growth is continued permanent migration from rural to urban areas (see p.24).

Lardy: I think four sets of changes are required to put China on a more consumption-driven growth path. First, the government needs to build up the social safety net so individuals will not feel that they have to fully finance their education, healthcare, pensions, and so forth. On the tax side, China's manufacturing sector is too lightly taxed. Profits in the manufacturing sector have risen dramatically over the last seven or eight years. Most enterprises are not paying dividends to their owners; even those that are paying are paying an absolute pittance. As a result, businesses have a lot of retained earnings, all of which are reinvested. Some of that should be taxed away to reduce the rate of investment, which is an important part of rebalancing.

The second set of policies concerns interest rates. First, deposit rates should be higher, and there should be competition for deposits instead of central bank setting a ceiling on deposit rates. Household interest income is low relative to bank savings, because the returns on those savings have been declining in real terms over the last five or six years. Interest income has declined by more than half as a share of GDP over that period, because nominal interest rates are low, and in periods of inflation, real interest rates are frequently negative. Declining interest income has contributed to slower personal income growth over the last five years, which in turn leads households to spend less. Second, lending rates should be higher. Manufacturers and other borrowers generally pay low interest rates. Again, in many periods the interest rates are negative in real terms, and that contributes to an excess demand for capital and over investment.

The third set of changes is on the exchange rate. China has the world's biggest current account surplus at $440 billion last year, compared to $17 billion in 2001. The currency needs to appreciate more to slow down the growth rate of the surplus and eventually bring it down to a more sustainable level. This also would help on the interest rate side, because an undervalued exchange rate is usually accompanied by interest rates that are too low. If you allow the exchange rate to appreciate more rapidly, you have more flexibility on interest rate policy.

The fourth and final set of changes is price reform. Inputs that are used intensively in manufacturing—land, water, electric power, and until quite recently, gasoline and diesel—were underpriced in China. That constitutes a subsidy to the manufacturing sector, which has driven up the share of investment going to manufacturing, which has expanded the export sector to an overly large size. It has meant that the amount of investment as a share of the total going into services has declined significantly. Many people don't recognize that in China most of the electric power, and most of the gasoline and diesel fuel, is not used by households but by manufacturers. So the under pricing of certain inputs has tilted investment into manufacturing.

Rural consumption has grown significantly in recent years, and rural real incomes are rising but not as fast as the overall economy, so rural income as a share of GDP has been shrinking slightly. To move toward more rural consumption, rural incomes must grow more rapidly. There are a number of things which could be done, some of which the government has already done. For example reducing agricultural taxes tends to increase agricultural income, although that's not a big factor. China could accelerate rural land reform, so that land was an asset against which households could borrow, which would be a mechanism for increasing rural consumption expenditures and rural expenditures more generally. But the best thing is the rapid liberalization of migration, which allows rural people to move to the modern sector and earn much higher incomes. In other words, the long-term solution clearly has to be a continuation of the path of the last 25 years, the transformation of the labor force. As long as you have a large portion of the labor force bottled up in agriculture, it's difficult to raise farm incomes dramatically.


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Rothman: The answer is both simple and complex. Chinese households have been taxing themselves with a high savings rate to compensate for the absence of a formal social safety net. They save to ensure they have funds for education, healthcare, and retirement. Beijing has begun to work on creating the financial infrastructure to enable people to save a bit less, but it will take many years to establish a system that is well funded and trusted. At the same time, it is important to note that Chinese are consuming; the consumption share of GDP [ratio] just looks low because investment is growing at an even faster pace.

Wang: China's consumption as a share of GDP is relatively small. That is a structural issue for several reasons. One is that households tend to save a lot, because China does not have a good social safety net. Second, the credit market is not well established, so people save for large-item purchases, including houses. To address that issue China needs to build a better social safety net, which it has started to do with healthcare reform. The same is true with developing the credit market. These are medium-term policies that will take a while to bear fruit, especially in an economic downturn.

Another big reason why China's consumption is relatively weak is that corporate savings is very high. It is as large as household savings as a share of GDP. That means corporate profits are plowed right back into investments rather than distributed to households. It also means that China's growth has not been employment-driven, but more investment-driven. To change that, state-owned companies probably need to pay more dividends to help set up the social safety net system and corporate growth needs to be more employment-driven, focusing on services and labor-intensive industry rather than capital-intensive industry. To change all that you need to change the incentive structure. Even though China is trying to address this issue, to do so will take years.

Rural consumption has a lot of potential because it is relatively low, but the biggest growth will have to come from job creation and a social safety net for the rural area. Again, that will be difficult to achieve right now, so it's more of a medium-term goal.

CBR: **Are there any positives (or silver linings) that will come out of this economic crisis? For instance, will the crisis accelerate the rebalancing of China's economy?**

Bottelier: The big risk I see is that the measures taken to fight the recession will not rebalance China's economy. If the tremendous additional spending from the budget and through the banking system ends up in the wrong place, we could even see deterioration in overall macro-balances. But government economists I met in Beijing recently seem to be keenly aware of that and are doing everything possible to avoid that. If they do the right things, China could come out of this crisis stronger than when it entered it, with a more balanced economy, a lower external surplus, a higher proportion of GDP dependent on consumer spending, and lower overall investment and savings rates. That would be good for China and the rest of the world.

Dollar: The crisis does have a silver lining in that China will have to aggressively pursue a rebalancing agenda that is necessary for the long term. We can anticipate that US consumption and imports will grow slowly for years, so China

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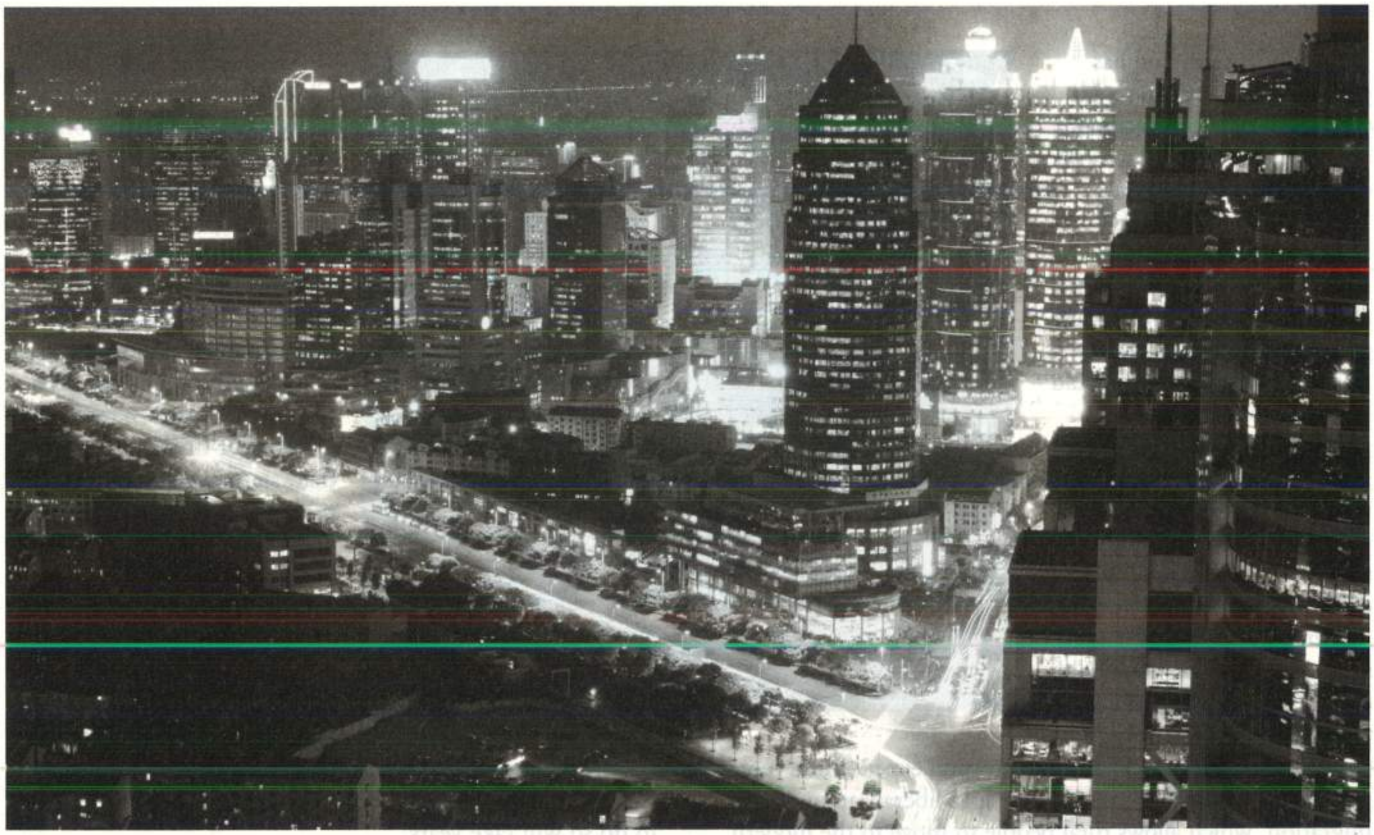


Off to the City

China's rapid urbanization promises a higher quality of life for millions of rural residents but only if urban governments implement and enforce the right policies

Shahid Yusuf

China's urbanization rate is not extraordinary. It is approaching 50 percent, which is the average for the world as a whole, but far less than the 78 percent rate reached by Latin America and 75 percent by the United States. Much more striking, however, is the sheer number of people involved and the anticipated rates of increased urbanization over the next two decades. If urban migrants are included, more than 650 million Chinese resided in urban areas in 2008, compared with 191 million in 1980. On average, 16.4 million people moved from rural to urban areas annually from 1982 to 2000, and barring a significant slowing of economic activity, this trend will add up to 240 million more to the urban population by 2020. (Even the current global recession and temporary return of many of China's migrants to the countryside are unlikely to change this trend over the long term.) With the urban sector accounting for 80 percent of China's gross domestic product (GDP) in 2007, and agriculture for just 11 percent, mass migration to urban areas is inevitable and will help fuel China's economic growth.

The transfer of workers from less productive jobs in rural areas to more productive jobs in cities adds value in urban areas, enhances productivity, and enlarges the purchasing power of the urban economy. According to research conducted by Barry Bosworth and Susan M. Collins, China's productivity averaged 4 percent growth annually between 1993 and 2004 and contributed roughly 40 percent of GDP growth. In recent years, six of the largest cities—Beijing, Chongqing, Shanghai, Tianjin, and Guangzhou and Shenzhen in Guangdong—have produced nearly 20 percent of China's GDP. If their productivity advantage and that of other large cities is sustained, the share of the major urban centers will continue to grow. Moreover, the influx of young workers into the urban job market has been a source of energy, entrepreneurship, and consumer demand that has contributed to economic momentum.

Dynamics of urban change

The number of China's cities climbed from just 69 in the late 1940s to 651 by 2007, according to the PRC National Bureau of Statistics. Most of China's cities are small (population under 1 million), but 119 have populations of more than 1 million. China's medium-sized and large cities—with populations of 1–4 million and more than 4 million, respectively—owe much of their growth impetus to the industrial sector. As was the case in Europe and the United States from the mid-nineteenth through the mid-twentieth century, China's manufacturing has driven growth and generated one-third or more of its urban GDP. Even in megacities with populations of more than 10 million, such as Shanghai and Tianjin, industry is a leading sector, though services are gradually expanding as a share of output. (For example, services contributed 50 percent of Shanghai's GDP in 2000 and 52 percent in 2007.) This economic composition is advantageous for China at its per capita income and development levels because technological assimilation tends to generate the greatest productivity increases in manufacturing. In China, manufacturing is registering the highest productivity gains and has the most promising export prospects. As many of China's industrial cities are discovering, however, certain lines of manufacturing are facing national and global market saturation. Moreover, manufacturing is subject to cyclical swings, and the global economic downturn is proving especially painful for subsectors dependent on exports.

Despite the speed at which China's largest cities have been expanding, all but a handful are well short of realizing the potential benefits from economies of scale and agglomeration (the concentration of activities in a city), which expand labor markets, induce technological spillovers, encourage innovation, and facilitate market and information exchanges among people and companies.

Quick Glance

- Mass urban migration will help fuel China's long-term economic growth.
- Most Chinese cities are still too small to realize the potential benefits of economies of scale and cross-fertilization from diverse industrial capabilities.
- Urbanization presents several challenges for policymakers related to the easing of migration restrictions, affordable housing, urban governance, resource use, pollution, and economic inequality.

As Chinese cities expand, many are diversifying their industrial base by attracting services companies. Such diversification will help them realize "urbanization economies," or cost savings that derive from the productive interaction of a mix of activities in a concentrated area. Some of the largest cities are already beginning to reap the benefits of cross-fertilization from diverse industrial capabilities and the range of skills and suppliers associated with them. Size and diversity will also stimulate innovation because international experience suggests that large cities with deep pools of expertise, many knowledge-producing entities, and the opportunities to absorb and exchange ideas are generally more innovative, particularly if they embrace a culture of openness.

Urbanization will fuel continued growth in the size of China's middle class, with significant implications for consumer demand. The middle class, defined here as those earning roughly $12,500 per year, numbered nearly 100 million people in 2006 and is the principal market for consumer goods of all types, from cars to cosmetics. It will also continue to generate demand for a wide range of business and personal services as incomes rise. Traditionally high urban household savings rates suggest that there is more room for urban consumption growth, and a more sophisticated, affluent middle class will offer domestic and foreign producers opportunities to expand their businesses well into the future. As consumption's share of China's total GDP, which is less than 40 percent, increases, China's urban markets should offer firms growth prospects that are drying up in the industrialized countries.

Improving quality of life

In recent years, China's urbanization has drawn momentum from vast expenditures on urban infrastructure and housing. Before the economic crisis, close to 10 percent of China's GDP was invested in housing and an equal amount into physical infrastructure annually. This outlay has helped accommodate urban population growth and enlarged the urban living area from 6.7 m^2 per person in 1978 to 27.1 m^2 in 2006. Urban inhabitants have access to better public transportation, and more can afford cars of their own. Compared to the early 1980s, or even the early 1990s, the quality of life as measured by per capita consumption has improved significantly.

In the early 1980s, China's cities lacked a modern retail infrastructure, business services were scarce, and recreational amenities were few. In the larger cities, and in many of the smaller ones, much has changed. Retail outlets and restaurants have proliferated; opportunities for recreation are plentiful; and cities have shed the gray, cheerless façade of two decades ago. Cultural activity is varied and brisk and buildings of considerable aesthetic distinction dot China's urban landscape. Cities are also taking to heart the importance of livability—for example, green areas in China's cities increased from 1.8 m^2 per capita in 1990 to 9.0 m^2 in 2007.

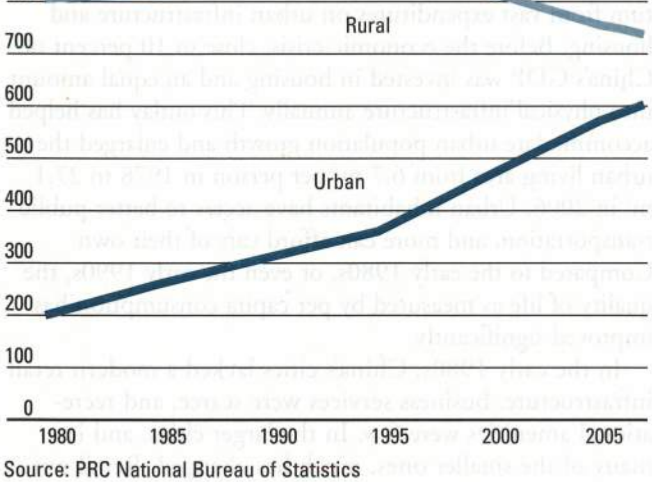
The face of urban China has been transformed in little more than 15 years, mostly for the better. The cities have experienced economic growth, while controls on migration and heavy investment in urban infrastructure have managed to limit or avoid the emergence of slums. Though the quality of housing varies and there is still not enough of it for migrants, much more exists than in the past. Because of the spread of mortgage finance, 85 percent of urban residents owned their homes in 2005, according to Gallup, Inc. New infrastructure and the quality of life for the average urban Chinese person are much superior to what they were only two decades ago.

Challenges for policymakers

Great strides in urban development notwithstanding, urbanization presents several serious challenges. Chinese policymakers at the national and sub-national levels must address these to ensure that the full measure of gains that normally accompany larger cities can be realized. None of the challenges can be addressed sufficiently by quick policy actions; instead, they require sustained attention supported by public investment.

■ **Migration restrictions** One key reason why Chinese cities have partially avoided the problems of overcrowding and slums is China's residential permit (*hukou*) system, which assigns each person an agricultural or nonagricultural *hukou* at birth. It is typically difficult for rural residents to change their *hukou* status to urban, especially in larger cities. This system of registration, monitoring, exclusion, and enforcement enables municipal authorities to restrict rural-to-urban migration by limiting the access of migrants to services available to registered urban residents and by regulating the length of time migrants can spend in the city. It has also checked flows and permitted cities to roughly match migration with the increase in absorptive capacity. The system has always been subject to leakage but has been enforced more rigorously in the larger cities. A gradual easing of *hukou* restrictions is expected as cities adjust to migration pressures, their own workforce requirements, and the demands of temporary residents. (For example, Shanghai lowered the hurdles to acquiring permanent residency in February 2009.) How cities balance the need to modify or abolish the *hukou* with their own capacity to absorb newcomers, while enhancing the quality of infrastructure and services, will be an important test. With millions of rural dwellers likely to seek permanent homes in urban centers, managing migration will be a priority for urban administrators.

China's Population by Residence, 1980–2007 (million)



Source: PRC National Bureau of Statistics

■ **Affordable housing** A related priority will be the provision of housing for urban newcomers. Low-income housing remains scarce in China's cities, especially in larger cities, and there is an urgent need to increase supply. The government's stimulus package, announced in December 2008, promises to provide a much-needed boost to urban housing. It allocates funds over a three-year period to construct affordable housing for 7.5 million low-income families and the 2.4 million who are currently living in the shantytowns that have appeared on the outskirts of major metropolitan centers. Once implemented, this program will ease the bottleneck, but the housing requirements of migrants will need continued attention for the foreseeable future.

■ **Urban governance** How responsive municipalities are to the needs of urban dwellers will profoundly affect the tenor of urban development and the quality of urban life. The verdict on governance to date is mixed, as it is in all developing countries. Municipal officials are regularly accused of corruption, squandering public funds on wasteful spending, dubious land deals that have displaced farmers as city limits expand, and inattention to the needs of the urban poor and the unemployed. Yet overall, an extensive survey conducted by the Horizon Research Consultancy Group from 2003 to 2005 shows that China's urban population is reasonably satisfied with the quality of municipal government, though the level of satisfaction with the central government is higher.

■ **Land use** By 2007, cities had annexed about 3 percent of China's land, much of it arable land. This is not high by comparison with countries that make up the Organization for Economic Cooperation and Development, but cities are expanding fast and urban sprawl is becoming worrisome. In recent years, well over 100,000 hectares of China's land, much of it prime agricultural land, adjacent to cities has been lost as suburbanization and ribbon development along main roads accelerates the spread of cities. Better planning and tightened land-use standards are urgently needed because the long-term costs of low-density urbanization are significant. In addition to higher energy costs—urban residents used 3.6 times more energy than rural dwellers per capita in 2002, a statistic that is unlikely to have changed significantly—and increased expenditures on transportation, water, and sanitation infrastructure, the growth of an automobile-based culture and vast dormitory suburbs would have severe consequences for health, as advanced countries are discovering. Modifying floor-area ratios to facilitate the vertical development of cities, creating mixed-use neighborhoods, providing adequate green spaces, and strictly enforcing zoning laws that manage the spread and character of cities will test the skills and authority of China's urban policymakers.

■ **Environmental factors** One rising concern, especially acute in urban centers where a concentration of industry or mining exists, is pollution. The air in China's cities is being fouled, the water polluted, and the groundwater rapidly depleted. In addition, the disposal of solid waste harms the environment. Air pollution from China's energy plants and auto emissions, which is growing because of more vehicular traffic and congestion, has been linked to premature deaths and increased urban morbidity.

Environmental issues are beginning to impinge upon urbanization in other ways as well. As the population has grown, agricultural production has intensified, industry has spread, and the pressure on China's limited water resources has worsened, especially north of the Yangzi River. This region contains 52 percent of China's population but only 14 percent of its available freshwater. Although water transfers from southern rivers and measures to economize on the use of water can ease shortages, the long-term solution is for China to encourage urbanization south of the Yangzi.

Climate change adds another wrinkle to the desirable geographical distribution of the urban population. As sea levels rise, low-lying coastal cities such as Shanghai and Tianjin will be imperiled, and sustaining them will require expensive manmade defenses. Though solutions will be painful and costly, require protracted effort, and be resisted by those who are adversely affected, delaying decisions will only make matters worse.

■ **Inequality** The incidence of urban poverty in China is low, with 2005 World Bank estimates of those living below the poverty line under 2 percent. Inequality in China's cities is also relatively low, with Gini coefficients for most large Chinese cities below 0.35 compared to around 0.50 and higher for Hong Kong, Sao Paulo, and Singapore. (Gini coefficients measure degrees of inequality in income distribution on a scale of 0 to 1, with 0 being complete equality and 1 being complete inequality.) This relatively low level of inequality exists because of legacy factors—wage and salary compression—and because cities that rely on industry generate many mid-level jobs. This could change if slower growth reduces the number of well-paying jobs for the swelling urban population. An increase in services sector growth as a share of GDP could lead to greater income inequalities, as is happening in cities across the post-industrialized world. Maintaining higher growth rates would lessen the risk of urban poverty, and expanding urban safety nets would help to support the aged, vulnerable, and unemployed. Industrial competitiveness and dynamism will be a means of sustaining an egalitarian urban society as the number of relatively well-paid services jobs increases.

Urbanization continues

China's urbanization has taken long strides in the past quarter century. No country has seen its urban population grow by 460 million in such a short period, and no country can claim to have compressed so much urban development into three decades. China can take pride in its achievement in urban industrialization, the creation of a modern services economy virtually from scratch, and in many cities, the construction of a world-class urban infrastructure.

Yet progress has been uneven, and there are areas where substantial improvement is badly needed. The future shape and geography of urbanization needs to be reassessed to reverse environmental degradation and address climate change and resource constraints, focusing on energy and water. Because China is urbanizing rapidly and urban investments are long lived, delays in modifying policies and deferring difficult choices that affect the efficiency, livability, aesthetics, and location of urbanization could be extremely costly. The country's future hinges on how cities navigate difficult challenges and profit from the opportunities unfolding before the urban economy.

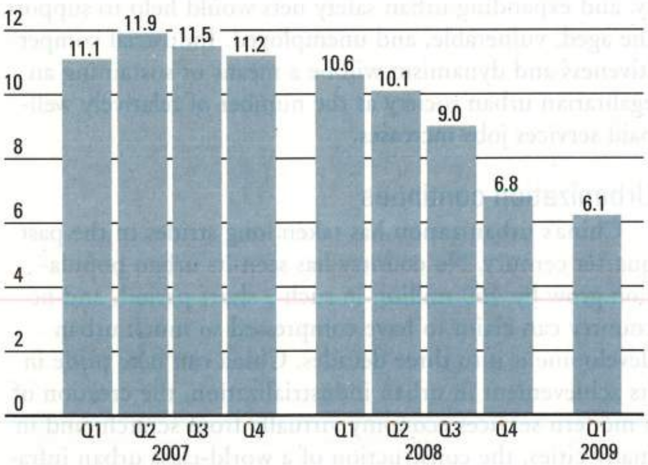
Though China's near-term economic growth is clouded by the global recession, prospects remain bright in the long run in part because much of China is still developing and has a vast pool of under-employed workers in rural sectors. Urbanization will continue for decades; along with technological catch-up, it will further spur economic growth. Growth will focus on urban sectors through industrial deepening and diversification into new areas, technological advances, maturing of business services, and building of infrastructure. China's cities will lead the economy forward as they have since the mid 1980s. 完

***Shahid Yusuf** is economic advisor, World Bank Institute, the World Bank. This article was adapted from* Urban China: Trends and Challenges, *by Shahid Yusuf, copyright 2008, The International Bank for Reconstruction and Development/The World Bank, with permission.*

The Slow

China's economic growth rate has dropped by nearly half since the second quarter of 2007.

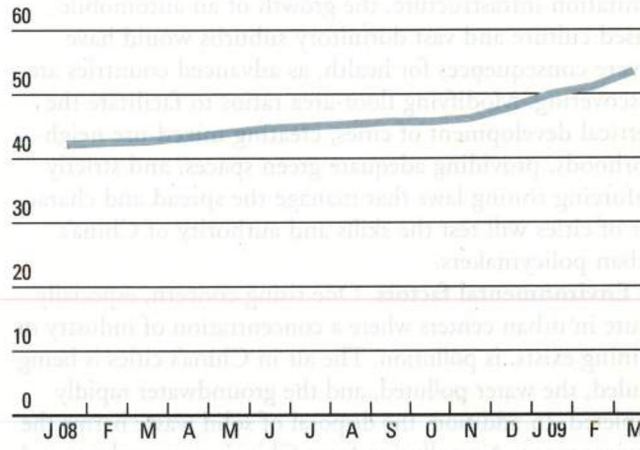
GDP Growth (%), 2007–09



Source: PRC National Bureau of Statistics (NBS)

Money supply rose in late 2008 and early 2009 as measures to stimulate the economy kicked in.

Broad Money Supply (M2, ¥ trillion)



Source: People's Bank of China

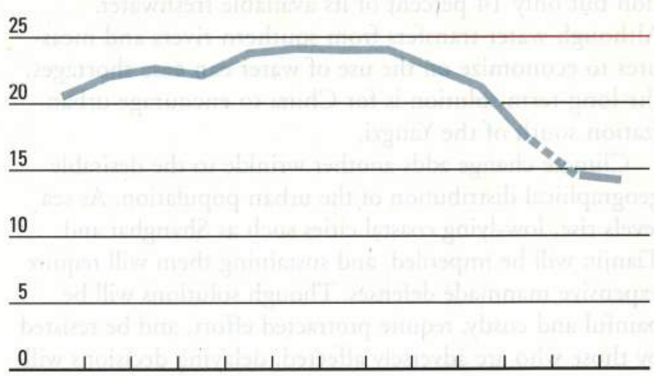
Inflation worries dissipated as the crisis deepened.

Consumer Price Index, 2008–09

Source: NBS

Retail sales growth has remained surprisingly strong.

Retail Sales Growth (%), 2008–09

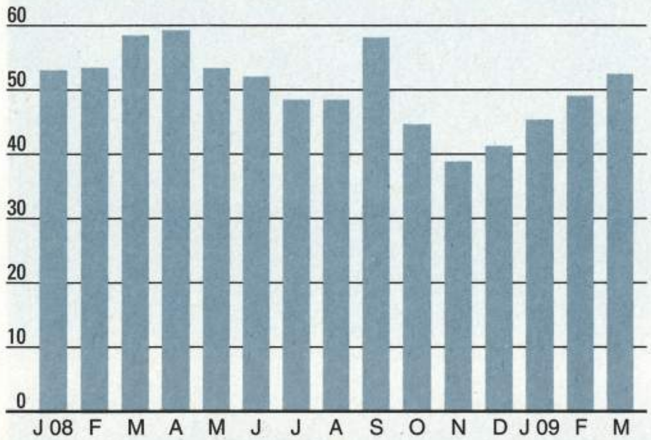


Notes: January and February are combined because of the Spring Festival holiday. NBS did not release a figure for December 2008.
Sources: *China Daily*, NBS

down Hits

The purchasing managers' index, after dipping below 50 for several months, reentered positive territory in March.

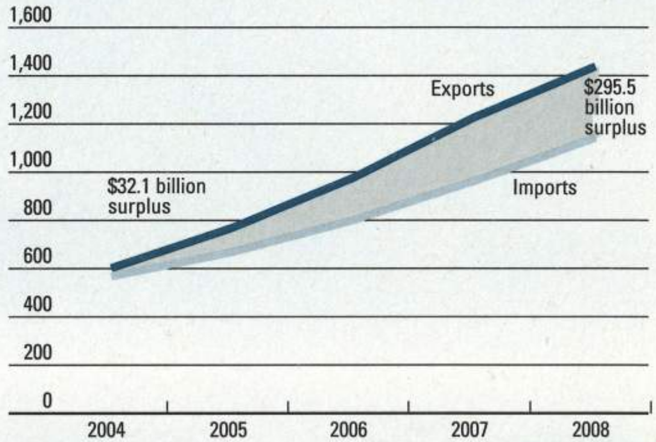
Purchasing Managers' Index, 2008–09



Note: A PMI of above 50 indicates expansion in manufacturing; a value below 50 may indicate contraction.
Source: China Federation of Logistics & Purchasing

China's exports have risen faster than imports for several years, resulting in a massive increase in the trade surplus.

China's Trade with the World ($ billion), 2004–08



Note: PRC exports reported on an free-on-board basis; imports reported on a cost, insurance, and freight basis
Sources: NBS; PRC General Administration of Customs, *China's Customs Statistics*

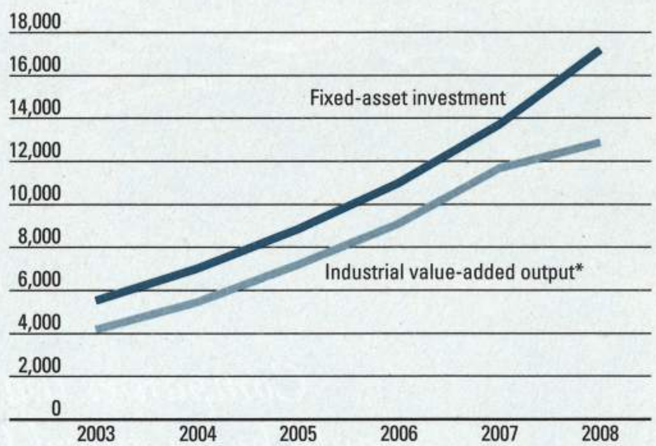
GDP Growth Estimates, 2009

Source	Month of estimate	GDP growth (%)
The Royal Bank of Scotland	January	5.0
Morgan Stanley	February	5.5
Goldman Sachs	February	6.0
Organization for Economic Cooperation and Development	March	6.3
World Bank	March	6.5
International Monetary Fund	February	6.7
Deutsche Bank	April	7.0
Asian Development Bank	March	7.0
UBS	April	7.0–7.5
Standard Chartered	March	7.0–8.0
Official PRC government target	March	**8.0**
CLSA	April	8.0
J.P. Morgan Chase & Co.	January	8.0
Merrill Lynch	January	8.0
United Nations Development Program	January	8.4

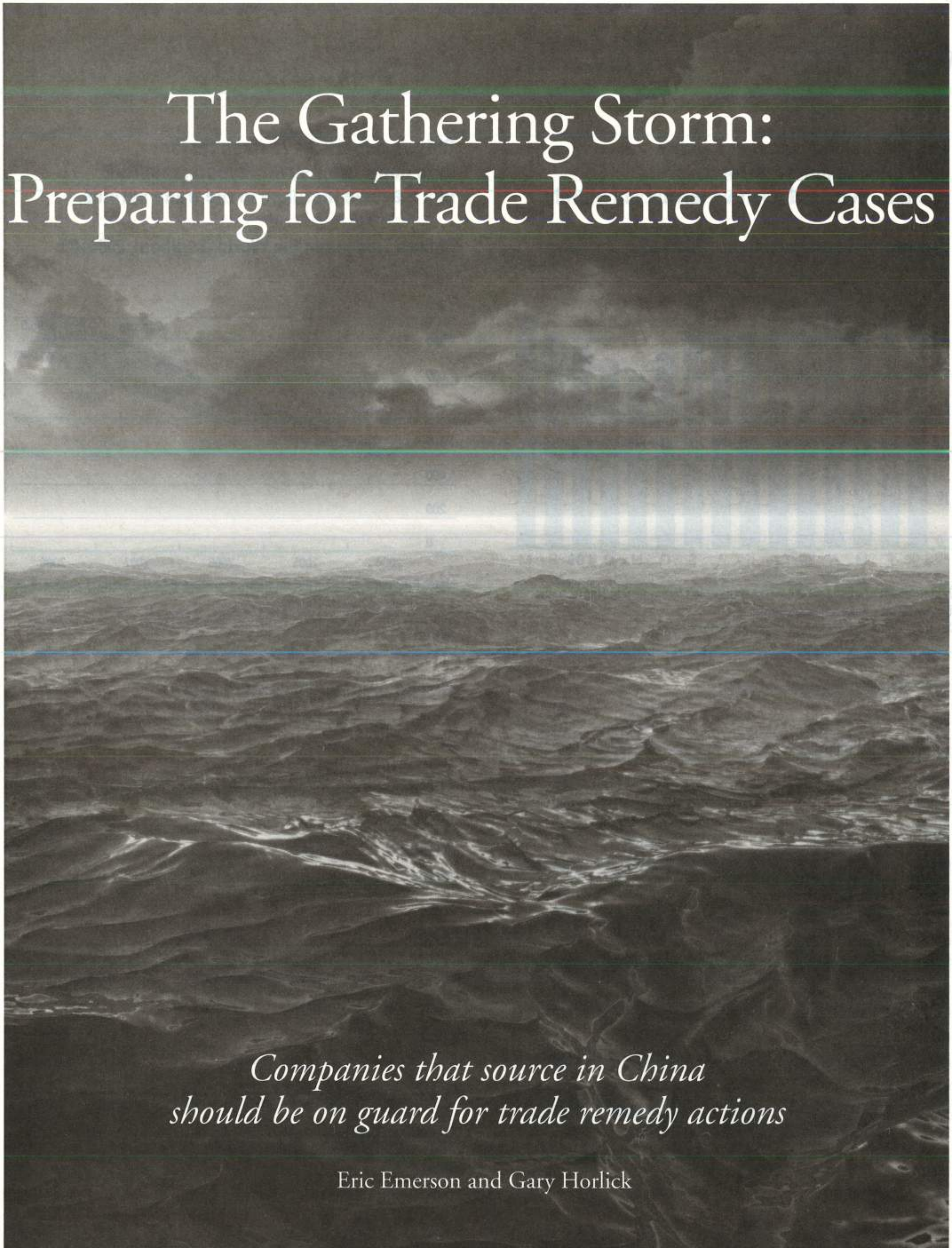
Sources: News reports, bank and organization reports

Strong investment growth was one of the main drivers of China's recent boom.

Industrial Value-Added Output and Fixed-Asset Investment (¥ billion), 2003–08



* All state-owned enterprises and all nonstate industrial enterprises with revenue from principal business of more than ¥5 million.
Source: NBS



The Gathering Storm: Preparing for Trade Remedy Cases

Companies that source in China should be on guard for trade remedy actions

Eric Emerson and Gary Horlick

Recessions have historically brought sharp increases in trade remedy cases—antidumping (AD), countervailing duty (CVD), and safeguard proceedings—and there is no reason to think that this one will be any different. Indeed, World Trade Organization (WTO) statistics suggest that trade remedy cases have already begun to increase. After several years of decline, the number of AD proceedings filed worldwide in the first half of 2008 jumped 39 percent over the same period in 2007.

As the number of trade remedy cases increases, manufacturers in China and importers that rely on their products are particularly at risk. Of the 10 AD and CVD petitions filed in the United States in 2008, nine included Chinese imports; globally, more than half of the AD cases initiated in the first six months of 2008 were against China. In addition to AD and CVD cases, Chinese companies that export to the United States face an additional risk: Section 421 of the Trade Act of 1974 permits the United States to limit imports from China if those products are being imported into the United States in such increased quantities or under such conditions as to cause or threaten to cause market disruption to a competing US industry, even without an allegation of unfair pricing or subsidization. Though no measures to limit imports have been taken in the six cases filed to date under Section 421, which was added to the Trade Act in 2000, the Obama administration may find itself under pressure to do so.

Because trade remedy cases proceed quickly, early preparation can pay handsome dividends. In US AD and CVD cases, the US International Trade Commission (ITC) sends questionnaires to parties almost immediately after a petition is filed, holds a merits hearing 21 days later, and calls for substantive briefs just a week after that. If the ITC determines that imports have not harmed the domestic industry (a negative determination), the case is terminated at this preliminary stage. If the ITC determines that the domestic industry has been harmed, the foreign producer(s) and US importer(s) are condemned to roughly a year of commercial uncertainty, lost sales, and the payment of provisional duties as the remainder of the investigation takes its course. Though the likelihood of a negative preliminary determination is low, minimal preparation can improve a party's chances of success. Even if a victory at the preliminary phase is unobtainable, early preparation can lay the groundwork for ultimate success in the final phases of the case. Companies that import from China or whose supply chains stretch through China would be well-advised to determine whether trade actions are likely to be filed against their key products and, if so, to take steps to increase their chances of success.

Quick Glance

- Chinese manufacturers and their US importers are particularly at risk of trade remedy proceedings being brought against them during economic downturns.
- Companies should pay attention to rumors about trade remedies, scour trade publications for evidence of industry-wide support, monitor exporters' activities, and follow trade actions in other jurisdictions.
- Depending on the risk of a trade action being filed, companies should take various steps to prepare for a possible case.

Assessing the risk of trade action

Predicting exactly which products will be subject to future trade action is extremely difficult. Nearly any product can be subject to a trade remedy proceeding; the only real prerequisite is that there be a domestic industry producing something "like" the imported good. In the United States, the principal targets for trade remedy cases have been steel, chemical, and processed-food products, but in recent years, cases that involve paper, agricultural, and aquacultural products have become more common. Petitions filed in the United States in 2008 covered products as diverse as kitchen appliance shelving racks, electrodes, matchbooks, and lawn groomers—none of which fall into any of the traditional categories. To determine whether a particular product is at risk of a trade remedy, the best information usually comes from the industry itself.

Examine trends in the marketplace for indications of possible trade action Trade cases are often filed when import volume—either absolute or relative to domestic consumption—increases as import prices fall. This trend is not uncommon in a recession, as sales from inventories of previously imported products continue while domestic production declines. This pattern can suggest that foreign producers are expanding their market share by undercutting market prices, thus potentially injuring a domestic industry.

Monitor the closure or scaling back of domestic production and workforce reductions One indicator used by the ITC to determine material injury is whether the domestic injury has reduced employment. In the current economic climate, plant closures and layoffs are common, and not every one is a harbinger of trade action. If "import competition" is mentioned in a company's press releases or securities filings as a factor in the company's decision to reduce production or employment, that industry may be laying the groundwork for trade remedy action.

Pay attention to the rumor mill Petitioners in trade cases typically want to maintain the element of surprise, particularly because the ITC's preliminary investigation period is so short. For that reason, formal announcements that AD/CVD cases will be filed are rare. At the same time, potential petitioners often need to determine the level of industry-wide support for a trade action before it is filed, as investigations can proceed only if certain thresholds of support are met, so some degree of industry chatter is almost inevitable. Sales personnel are often the first to hear of possible trade cases through informal conversations with their customers and competitors, and they should be advised to pass that information back quickly to the company's inside counsel.

■ **Monitor trade publications** Scour trade publications for statements blaming the poor state of a domestic industry on "unfair" import competition. Though these comments can sometimes be dismissed as saber rattling or scare tactics, they can also signal that a domestic industry is trying to explain to its customers—who will likely object to trade action that raises their prices and limits their supplier choices—why such action is necessary.

■ **Monitor the activities of all exporters in the domestic marketplace** Some trade cases have been filed after a small number of foreign competitors with aggressive, high-profile sales strategies have "stolen" business from a domestic industry. Because AD, CVD, and safeguard cases are filed on a country-specific (not a company-specific) basis, the actions of a small group of exporters could give rise to a trade action against an entire country, so companies should consider the actions of the country's exporters in their industry as a whole, not just those from which they source their products.

■ **Monitor trade actions in other jurisdictions** A trade action filed in one country will frequently be followed by similar trade cases in other countries, as producers in those jurisdictions react to concern that exports that would otherwise go to the first country to file will be diverted to their markets. This domino effect can particularly devastate exporters that seek alternative markets for their goods after their principal markets are effectively closed to their products.

Preparing for trade action

Once a possible trade action has been identified, what should a company do? The answer depends on various factors, such as the strength of the evidence that a trade action will be filed, the importance of the product to the company's business, and the amount of resources that a company can reasonably commit to the task. Taking all of these factors into account, a company can decide how to proceed.

When the risk of a trade remedy case is relatively small, a company might simply want to watch developments in the marketplace more carefully and consider potential alternative commercial strategies in case a trade action is filed. A domestic importer should notify and remain in close contact with its foreign suppliers about the possibility of trade action so that information can be shared to develop a more complete picture of the domestic industry's intentions. A company should also scour all sources of publicly available information for potentially relevant statements made by domestic industries or other indications of coming trade action. Foreign producers should refrain from making statements that could be used against them in an injury proceeding.

> Nearly any product can be subject to a trade remedy proceeding; the only real prerequisite is that there be a domestic industry producing something "like" the imported good.

If the risk of a case is perceived to be somewhat more serious, a company will need to take more concrete steps. Importers must be particularly active. Under US law, importers of record are responsible for all AD and CVD liability and cannot seek reimbursement for this liability from their foreign suppliers. For this reason, importers should first ensure that their foreign suppliers are taking the risk of trade action seriously. Importers should ask their foreign suppliers to make some back-of-the-envelope estimates of their dumping liability and identify whether they have received any government subsidies that could give rise to countervailing duty liability. In addition, importers should take some preliminary steps to identify or even pre-qualify alternative suppliers in other countries in case a principal supplier becomes unavailable. At the same time, importers should be aware that trade actions are often filed against imports from multiple countries simultaneously and that it would do no good to qualify suppliers in other countries that are at equal risk of increased duty liability. Another possibility is to form an ad hoc coalition of like-minded companies to develop factual and legal defenses, and perhaps even a public relations strategy, that could be used if a case were filed.

Where the likelihood of a trade action is high and the product of concern is at the core of a company's activities, China-based producers and their US importers need to take decisive action. This may include altering sales or production activities, foregoing benefits under certain government programs, restructuring corporate or supplier relationships, or taking other actions to reduce AD and CVD liability. Determining which of these steps to take will require a detailed analysis of potential AD and CVD liability and may even require the company to draft responses to standard questionnaires issued by ITC and the US Department of Commerce in these investigations to identify specific areas where action is needed.

China-based producers and their US importers should consider developing their legal case on an industry-wide basis. They may want to identify potential expert witnesses who could provide meaningful testimony in the proceeding. China-based producers or their industry associations can also begin conversations with both Commerce and ITC about potential issues in the case. One of the great advantages for petitioners is the lengthy "pre-clearance" petition process, during which they may meet with Commerce and ITC staff. Commerce and ITC's doors are equally open to foreign producers and their importers, and it is highly advantageous when a foreign industry can present its side of a case before a petition is filed. Another possibility is to try to avoid the case altogether by dissuading potential plaintiffs—who may also be suppliers to the potentially affected importers—from bringing the action, or reaching some other type of settlement.

Many of these actions can only be undertaken with the assistance of counsel well-versed in trade remedy proceedings. Even where the risk of a trade remedy case is low, foreign producers and domestic importers can greatly improve their chances of success simply by identifying and retaining trade counsel so that they can mount a vigorous defense immediately if a case is filed. Any conversations with competitors about marketplace conditions, especially pricing, entail serious antitrust risks and should only be undertaken with the close involvement of counsel.

As production stalls in economies around the world, and domestic producers seek to protect their own markets and shore up prices, an uptick in trade remedy proceedings appears inevitable. Foreign producers reliant on exports and their importing counterparts would be well-advised to quantify their exposure to such actions and consider what steps they can take to reduce it. 完

US importers of record are responsible for all AD and CVD liability.

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Chine Foto Press

Setting Up International Nonprofit Organizations in China

International nonprofits have a growing presence in China, but they still face an uphill battle to gain state approval and acceptance

Matthew Erie, David Livdahl, Jacelyn Khoo, and Henry Li

In light of China's encounter with the current global economic crisis, the types of services that international nonprofit organizations (INPOs) offer are now more vital than ever. INPOs—defined broadly as foreign charitable organizations, private foundations, trade and industry associations, business leagues, and educational organizations—contribute to the needs of the rapidly developing country in disaster prevention and relief, education, environmental protection, HIV/AIDS, labor and migration, rural development, and animal welfare but have also encountered many bureaucratic hurdles. There is a growing need for INPOs—whether charitable organizations that wish to provide aid, or INPOs set up by corporations to extend their corporate social responsibility (CSR) efforts—to have a greater presence in China, yet their efforts are often hampered by a system that lacks efficient mechanisms for charity because of the limitations on the establishment of transparent, independently registered charities and nonprofit organizations. As China develops, INPOs can help China foster greater public awareness on issues that are fundamental to a developing society, such as environmental protection. Trade and industry associations give Chinese industries a platform to connect with other global industry players, and other INPOs can help multinational investors establish effective CSR activities in China.

The absence of mechanisms that would allow nonprofits to work effectively in China was felt in the aftermath of the 2008 Sichuan earthquake. Though the PRC Ministry of Civil Affairs reported on November 10, 2008 that total donations from domestic and overseas sources for earthquake relief following the 2008 Sichuan earthquake reached ¥59.5 billion ($8.7 billion), some overseas donors reported difficulty sending donations to China. The tragedy exposed existing problems in the framework of PRC laws that regulate charitable donations and nonprofit work more generally. In the aftermath of the earthquake, entrepreneurs and international businesses have called for reforms of the system that governs donations, charity, and nonprofit organizations in China. Such businesses seek new ways of accomplishing their CSR goals in China, and some have found means through alternative structures that have allowed them to establish their own INPOs in China.

Nonprofits in China

Nonprofit organizations are relatively new to China. In the 1950s, several types of social service organizations supplemented government administration. Most of these organizations maintained close ties to the government and served as a model for the later, so-called "government-organized nongovernmental organizations" (GONGOs). That the most recent wave of nonprofits has primarily consisted of private entities explains, in part, their lack of status under PRC law. It was not until the 1990s that nonprofits became the subject of public discourse by the media and intellectuals. The first domestic nonprofit, Friends of Nature, began operating in 1994. Apart from a 1993 PRC Law on the Red Cross Society of China, the first regulations on nonprofits were not issued until the late 1990s (see Table). These regulations covered only domestic organizations and only partly regulated the forms under which nonprofits were organized in China.

The PRC Ministry of Civil Affairs (MCA), one of the most conservative ministries in China in terms of approval procedures, regulates and approves the establishment of foreign and domestic nonprofits in China. According to MCA, there were 386,916 registered nonprofits in China in 2007, though many of these were still organized as GONGOs and operated only semi-autonomously. The number of INPOs in China is harder to assess as many are unregistered. Unofficial reports put the number at around 200 in 2007. MCA currently categorizes nonprofits into three groups that range from state-controlled entities that have top-down management and use public funds to grassroots-based organizations that rely on private capital.

- **Popular non-enterprise work units** (*minban feiqiye danwei*) are organizations that carry out social service activities of a nonprofit nature and are run by enterprise and institutional work units, social groups, and individual citizens using nonstate assets. The ThinkTank Research Center for Health Development (Xin Tan Jiankang Fazhan Yanjiu Zhongxin), which focuses on healthcare system reform, is one example.
- **Social organizations** (*shehui tuanti*) are voluntary groups formed by Chinese citizens to achieve a shared objective—according to the social organization's rules—and to develop nonprofit activities. The China Medical Information Association (Zhongguo Yiyao Xinxi Xuehui), which was established in the 1980s and conducts research on using information science in the field of medicine, is one such example.
- **Foundations** (*jijinhui*) are corporate bodies limited to domestic and foreign associations, nongovernmental and nonprofit institutions, and other organizations that are funded by donations from individuals. The Narada Foundation (Nandu Gongyi Jijinhui), created by Nandu Group, a property developer in Zhejiang, is one example of a successful foundation that provides quality education to children of migrant laborers.

These PRC legal categories differ significantly from those in the United States, where the tax code provides a typology of tax-exempt organizations. These include 501(c)(3) charitable organizations, 501(c)(4) civic organizations, 501(c)(5) labor organizations, and 501(c)(6) business leagues. In some cases, US nonprofits obtain government funding but, in contrast to their PRC counterparts, are otherwise relatively autonomous.

The PRC official designations warrant several observations. First, the regulations that establish popular non-enterprise work units and social organizations are now more than a decade old. They have failed to keep up with the social and economic needs of a quickly modernizing China in areas related to the environment, labor, natural resources, and disaster relief. Second, the 2004 regulation that allows for the establishment of foundations is the only one that mentions foreign associations. By law, only PRC nationals or entities may establish popular non-enterprise work units and social organizations.

For this reason, only INPOs that are foreign foundations may establish a legal presence in China—through the establishment of a representative office of that foreign founda-

Quick Glance

- China has a growing need for the services that nonprofits provide, such as those that focus on environmental protection and emergency response.
- Companies can establish international nonprofit organizations (INPOs) to achieve their corporate social responsibility goals in China.
- INPOs must register with the government to lease space, hire employees, or open bank accounts in China, but many obstacles and bureaucratic hurdles to registration remain.

tion. To do so, foreign foundations are required to meet several conditions, including, among others, obtaining the sponsorship of a "leading professional unit" (*yewu zhuguan danwei*). Registering as a foundation has been difficult, however, and only a limited number of high-profile international foundations, such as the Bill & Melinda Gates Foundation, William J. Clinton Foundation, and World Wildlife Fund, have successfully done so to date.

The registration process

INPOs have encountered difficulty registering under the existing PRC regulations. Not only does the registration process pose significant barriers, but INPOs that register successfully face subsequent restrictions on their operations. For example, a representative office of a foreign foundation may not raise funds or receive donations in China. Several aspects of the registration system also run counter to INPO interests. Domestic nonprofits must register under a dual-management system that includes strict approval procedures and investigation, supervision, and periodic review. INPOs are also subject to these restrictions, which are generally much more stringent than most business approval procedures.

The two main entities responsible for nonprofits are MCA and the leading professional unit, which is often a ministry whose jurisdiction includes the activity in which the nonprofit engages. The leading professional unit is the sponsoring institution and is known colloquially as the "mother-in-law" by nonprofit workers. Article 35 of the 2004 regulation outlines three primary duties for the leading professional unit of a foundation:

- Provide guidance and monitor the activities of the foundation to ensure that it benefits the public and follows the foundation charter and the law;
- Grant preliminary approval of annual inspections conducted by MCA. The annual report of a foundation must first be submitted to its leading professional unit for review and approval before the report can be submitted to MCA. In addition, any change in the registered details of a foundation, such as changes to location, charter, or council members, must be approved by its leading professional unit before submitting the change for MCA approval; and
- Coordinate with the agency in charge of foundation registration and other law enforcement agencies to investigate illegal activities.

The nonprofit may apply for formal registration with MCA only after the leading professional unit agrees to serve as its sponsor. Because the leading professional unit is liable for the nonprofit but does not necessarily benefit from its partnership, the system creates disincentives for the leading professional unit to agree to sponsor a nonprofit. (Though there are no legal provisions that subject a sponsor to fines and other punishments, the sponsoring organization vouches for the nonprofit's credibility and is responsible for the actions and activities of the nonprofit.) In fact, it is understood that certain PRC ministries are not interested in serving as a sponsor because they view this task as carrying only risk and no reward. As some ministries have jurisdiction over more sensitive areas than others, nonprofits also exercise some "forum shopping" in their selection of sponsoring units. Subject to rules and scrutiny of MCA and its sponsor, the nonprofit faces double approval, double supervision, and double liability.

The nonprofit must also meet capitalization requirements to be approved. For example, a nationwide public foundation must have a minimum capital of ¥8 million ($1.2 million), paid in cash, to receive registration approval. Currently, however, China has not released a threshold for the registration of a representative office of a foreign foundation, except that such an office must conduct activities in line with public welfare and for the benefit of Chinese society.

Why register?

Given China's complicated regulatory regime and lack of registration mechanisms, some INPOs have postponed or abandoned their efforts to operate there. Meanwhile, other INPOs have resorted to entering China without an established PRC legal entity, which effectively limits their scope and ability to carry out their intended purpose.

Even the basics of operation—opening bank accounts, employing personnel, obtaining tax benefits, entering into cooperative arrangements, and establishing contracts

Subject to rules and scrutiny of MCA and its sponsor, nonprofits face double approval, double supervision, and double liability.

China's INPO-Related Laws and Regulations

Law or regulation	Took effect
PRC Law on the Red Cross Society	10/31/1993
Provisional Regulations for the Registration and Management of Popular Non-Enterprise Work Units	10/25/1998
Regulations for Registration and Management of Social Organizations	10/25/1998
PRC Law on Donations to Public Welfare Undertakings	09/01/1999
Regulations on the Management of Foundations	06/01/2004
PRC Enterprise Income Tax Law	01/01/2008

Note: INPO=international nonprofit organization
Source: Paul, Hastings, Janofsky & Walker LLP Beijing Office

enforceable in PRC courts—are beyond an INPO's reach in the absence of registered status. Most INPOs are dependent on funding from bilateral donors, development banks, and governmental agencies such as the US Department of State, as well as supragovernmental organizations such as the United Nations and European Union. Many of these organizations fund only nonprofits that are registered in the country in which they operate. Without registration, INPOs must depend on personal bank accounts. In 2007, the consequences of non-registration intensified when the People's Bank of China and the State Administration of Foreign Exchange issued a regulation that limited the amount of foreign currency an individual can exchange for renminbi to the equivalent of $50,000 annually. Such caps severely limit the daily functions of INPOs.

In contrast, a registered INPO has greater security in terms of both cash flow and fund management. Registration enables nonprofits to open a corporate bank account, which allows unlimited transfer, conversion, and withdrawal of funds. The ability to enter into employment contracts and offer employment benefits is essential to the daily operation of any organization. Without an on-the-ground presence in the PRC, INPOs are severely limited in carrying out their operations in China. Registration also gives INPOs formal legal status, allowing them to retain local staff and network in China more effectively. For example, within one year of its registration approval, one North American INPO garnered more corporate members in China than it has in North America.

Difficulties in obtaining the necessary approvals from ministries responsible for nonprofit organizations have prompted some INPOs to consider new avenues and entity structures. The entity structure needs to be tailored to meet INPO tax, employment requirements, funding, organizational structure, and activity needs. Establishing a representative office of a foreign foundation might not be the ideal route for an organization that is not a foundation or does not focus on grantmaking—including nonprofit educational institutions, trade associations, or registered charities—because it could limit the nonprofit's scope.

For an entity that needs to be able to lease its own space, hire its own employees (directly or indirectly), and open its own bank accounts, there may be no single perfect solution to setting up in China. Depending on its institutional identity in its home country (such as range of activities and tax status) and its requirements for its China entity, existing PRC entity forms may be able to facilitate the INPO's entry into China.

Future developments

Recent events in China have caused domestic and foreign businesses to call for a more transparent and supportive system for charity and donation within the PRC. Members of the Chinese business community have been particularly vocal about shortcomings in the charity system and their inability to achieve CSR objectives. For example, when official charities were found to lack transparency, the co-founders of the popular Chinese website Bull Blog collected ¥1 million ($146,340) for donations to victims of the Sichuan earthquake. Zhang Xin, chief executive of Soho China (a Beijing-based real estate developer), and Michael Yu, chair of New Oriental Language School, have also called for reform of the existing charity system. Even before the earthquake, the Chinese business community had joined efforts with foreign businesses at high-level international symposia on charity reform.

Whether the PRC government and lawmakers will relax current regulations on nonprofit organizations or take other steps in the nonprofit sector is unclear. Since 2004, China has been considering revising its social organization laws to allow foreign social organizations to register in China. The Draft Law on the Promotion of Charities was finished in 2006 and was expected to be presented to the National People's Congress for approval in 2007. It was postponed because of disagreement among different government departments on the degree to which charitable organizations will be autonomous. After the December 2008 China Charity Conference, officials said that the draft law would soon be promulgated. Though there was no timetable for the draft law's release as *CBR* went to press, MCA released a statement in late March 2009 noting that it had solicited feedback from certain individuals and charities.

Discussions among public interest-minded businesspeople, academics, legal experts, and nonprofits suggest that the new charity law will fill in the gaps in China's charity system, but many experts expect that China will have to reform its nonprofit regulatory regime before INPOs can register en masse. 完

A registered INPO has
greater cash flow and fund management security.

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China Foto Press

Ethical Supply Chain Management

Last fall's melamine scandal illustrates the dangers of a less-than-rigorous approach to quality assurance

Teresa DeLaurentis

Companies doing business in China have had difficulty maintaining quality throughout the supply chain, as illustrated by recent food and product safety scandals. For example, in last year's melamine-tainted milk scandal, inherent problems in manufacturing processes and supply chains led to a breakdown of quality assurance. The scandal severely damaged China's dairy industry; it took more than six months from the time the scandal broke for dairy-product sales to recover 70–75 percent of their pre-scandal value, according to one Beijing dairy analyst. To salvage consumer confidence, companies must place new importance on quality assurance. And to achieve good quality control, managers must build more accountable, transparent, and ethically managed supply chains.

The melamine scandal provides lessons on how companies can better control their supply chains. Melamine, a chemical used to produce plastics and fertilizer, can appear to heighten the protein levels of milk so that the milk is erroneously identified as a higher grade and yields a higher price. PRC authorities found that melamine was added to roughly 70 milk products from 20 companies in China last year; the chemical sickened nearly 300,000 infants and caused the death of at least six children, according to press reports. Leading dairy company Sanlu Group, a partially state-owned enterprise that is now defunct, sat at the heart of the scandal. Investigations determined that some Sanlu staff were aware that third parties had added melamine to milk used for its baby formula, but that Sanlu continued to produce and distribute the formula for months after the discovery. The scandal forced New

Zealand dairy company Fonterra Cooperative Group Ltd., which at the time owned a 43 percent stake in Sanlu, into the international spotlight. Meanwhile, Beijing Sanyuan Foods Co. Ltd., another state-owned Chinese dairy company, managed to keep fairly free of the scandal, and its business is booming—2008 net profits rose 87 percent over 2007.

Transparency, accountability, and ethics

An analysis of the quality assurance management and financial performance of Sanlu and Sanyuan illustrates the importance of accountability and ethical management in the supply chain. The lack of accountable supply chain partners—specifically the lack of training and monitoring of business partners—allowed Sanlu's suppliers to taint milk with melamine. Ultimately, weaknesses in Sanlu's supply chain destroyed the company. Though other companies' products tested positive for melamine, all of the publicly reported deaths (as of spring 2009) and most of the controversy in the milk scandal were linked to Sanlu.

By contrast, Sanyuan's business model—with an integrated, company-owned and operated supply chain—has contributed to a boost in sales following September 2008 product tests that confirmed the quality of its products. According to a November Xinhua News Agency report, the company said that its sales had tripled in Beijing, "panic buying" was reported in other cities, and machines ran 18 to 20 hours a day. (At an auction in March 2009, Sanyuan bought Sanlu Group's core assets for ¥616.5 million [$90.1 million]—less than half of its peak worth. Fonterra has written off its investment in Sanlu.)

Quick Glance

- To ensure quality control, companies must build more accountable, transparent, and ethically managed supply chains.
- Companies should be aware of various supply chain pitfalls in China, such as weak regulations and attempts to use cheaper substitutes to reduce costs.
- Companies can take several steps to reduce supply chain risks, including stressing the importance of ethical supply chain management with partners, subcontractors, and employees.

Supply chain management pitfalls

Companies investing in China should be aware of several potential pitfalls when trying to build and manage supply chains ethically in China. Though the examples below are discussed in the context of the dairy industry and the melamine scandal, many industries in China face similar problems.

Weak regulations and enforcement

The PRC Administration of Quality, Supervision, Inspection, and Quarantine (AQSIQ)—China's primary quality watchdog—launched a food and toy recall system in August 2007. Under the system, if a food manufacturer becomes aware of a defective or unsafe food product, it must halt production and sales, notify vendors and customers, and report problems to AQSIQ and other quality-control authorities. If the manufacturer does not voluntarily recall its product, the government will order a recall. Prior to the melamine scandal, China's recall rules were not strictly followed or enforced, and the country had inconsistent standards for food additives. China's new Food Safety Law, which the National People's Congress Standing Committee passed on February 28 and takes effect June 1, will toughen China's recall rules and food safety standards, improve monitoring and supervision, and increase fines and punishments.

Without strong local, provincial, and national product safety laws and consistent, transparent enforcement, Sanlu missed or even ignored melamine product safety issues. Sanlu received consumer complaints about its baby milk formula as early as December 2007, according to Xinhua News Agency reports. In her court testimony, former Sanlu Chair Tian Wenhua said that by May 2008 she knew the company was selling contaminated formula. Having learned of the melamine problem in August, Fonterra CEO Andrew Ferrier said in September that Fonterra would have preferred the public recall to have occurred earlier but had to follow the procedures of the local authority and that Sanlu followed local regulations.

Weak oversight of local dairy production due to corruption was another contributing factor to the melamine scandal. According to an October 2008 *New York Times* article, dairy experts say that local regulators are "known to take bribes or favor companies that are partly owned by a local government entity," which could mean that the regulator and the regulated are the same entity. This conflict of interest and lack of accountability in the industrial inspection system allows quality assurance breaches to go undetected or unreported. Furthermore, before the scandal broke, AQSIQ had exempted certain dairy companies—including some state-owned enterprises—from quality assurance tests. AQSIQ revoked this exemption on September 17, 2008, about a week after the scandal became public.

Low-cost, low-value substitutes

The product safety scandal illustrated how operators, managers, and owners at some milk-collection stations tainted milk to mitigate rising costs. Government food price controls that took effect in 2007 and feed price hikes created pressure on farmers and the industry, prompting some actors in the dairy industry to add cheaper chemical substitutes, such as melamine, to milk. In trials related to Sanlu's case, more than 31 individuals were accused of selling, procuring, and using melamine to taint milk.

Unskilled labor force, low entry barriers

In China, almost anyone can become a dairy farmer or milk station collection agent without quality assurance training or a background check. As Xiang Zhikong, an agricultural economist at Renmin University in Beijing, explained in an October 2008 *New York Times* article "The problem was and still is that anyone can become a dairy supplier, and anyone can own or invest in third-party dairy stations." Compounding the problem, farmers often raise cows without the knowledge or channels to protect the quality of their milk.

Scattered and unreliable tracking information

Milk collection stations do not necessarily regulate or organize the process of milk collection according to source. For example, farmers may bring their cows to the same milk collection station but be directed to a different pump each day. Therefore milk mixes in the same container with milk from other farmers. Limited collection documentation prevents the identification of a problem's source and reduces the ability to hold perpetrators accountable for quality assurance breaches.

Tips for ethical supply chain management

To reduce risks stemming from miscommunication, cultural differences, and logistical challenges while improving accountability and quality assurance in the supply chain, companies investing in China should consider taking one or more of the following steps.

Focus on ethical supply chain management early

When considering a JV, the potential foreign and domestic partners should emphasize the importance of establishing an ethical supply chain management process early in the contractual negotiation stage—when trust is being built between the two companies. Once the partners agree on a set of values, the values become the foundation on which the partnership builds its supply chain and quality assurance management systems. Foreign investors should also use their negotiating power to set high ethical standards for a subcontractor's supply chain management in their business agreements and contracts—including by making subcontractors' adherence to a contractual clause related to quality assurance and supply chain management mandatory. Companies may want to establish financial consequences for breaches of these contractual commitments.

Integrate ethical considerations into technical solutions

Companies may wish to discuss supply chain management best practices with consulting companies that focus on ethics and corporate social responsibility (CSR). Such consultancies can help foreign companies locate partners with strong corporate values and find districts and zones that maintain legal policies and training programs that uphold high standards in employee relations, supply chain management, and environmental sustainability. Consultation on ethical criteria facilitates the building of trust between JV partners and emphasizes the importance of ethical considerations in business decisions.

The global network Business for Social Responsibility, which has been operating for more than 15 years and has offices in Beijing and Guangzhou, Guangdong, helps its member companies develop more sustainable supply chains by moving beyond policing of the supply chain and looking at holistic solutions. Such solutions involve working with suppliers to improve labor and environmental conditions, among other things (see the *CBR*, May–June 2007, p.26).

Smaller and newer companies also offer innovative ethical consulting solutions. For example, Norark Management Consulting Co., based in Beijing, develops ethical criteria that companies and development zones can use to assess partners. This is a new area of consulting in China in which a small group of Chinese and expatriate pioneers have set out to assess the needs of potential Chinese JV partners and preliminarily address their main ethics-related questions.

The Center for International Business Ethics (CIBE), a Beijing-based nonprofit, suggests that companies use ethical principles—such as those in the United Nations Global Compact—and corporate social performance measures—such as those used by Beijing University or the investment research firm KLD Research and Analytics, Inc.—when establishing and conducting business.

Grow sustainably

With more than 45 years in the milk industry, Sanyuan was cautious about enlarging distribution beyond its base in northern China. This strategy allowed Sanyuan to focus less on market growth and more on the effective management of its infrastructure, with a huge payout in the long term. In contrast, Sanlu's relatively quick expansion after its founding in 1995 led to a shortage of milk sources, the collection of milk without close supervision of quality, and ultimately the company's demise. Sanyuan's March 2009 takeover of Sanlu's dairy farms and distribution infrastructure poses a challenge to its sustainable growth and has opened an online debate among consumers about the future of Sanyuan and the quality of the company's products as operations expand.

Invest in greater integration and ownership of supply chain channels

Sanyuan's integrated, company-owned supply chain focuses on quality assurance. A November 2008 Xinhua News Agency article explained that Sanyuan "escaped the scandal because of its nearly self-sufficient production chain. Its raw milk came largely, or 80 percent, from dairy farms that the company owned or had a stake in." The company built secure milk sources by using dairy farms run with strict quality-control systems for animal feed procurement, veterinary care, milking, and delivery of raw milk to processing plants. With strong ownership in the supply chain, Sanyuan directly participated in the establishment of these quality-management systems.

Go beyond compliance training to develop a stronger ethical culture

Companies should consider training programs and quality assurance processes that link product safety, consumer safety, and profit in employees' minds and thereby encourage employees to identify quality as a company hallmark. For example, Sanyuan's workers test-drank every batch of milk before it left the factory, according to Xinhua's interview with Sanyuan. Companies can also consider conducting training seminars in leadership and business ethics. The dairy company Inner Mongolia Yili Industrial Group Co., Ltd. delivered leadership and business ethics training seminars to help develop a deeper ethical sense among its employees. These efforts created a stronger ethical culture at Yili, which survived the product safety scandal, though it too had to recall melamine-tainted products.

Focus talent recruitment efforts on candidates who value business ethics

For entry-level positions, companies can attract talented individuals devoted to ethical supply chain management by participating in student organization and nonprofit initiatives. For example, companies can attend conferences on CSR or innovation that are run by business school students. Companies can also reach out to university students interested in business ethics through research competitions.

To recruit managerial-level candidates or executives, companies can tap local CSR and nongovernmental organization (NGO) networks to find skilled professionals who are spearheading CSR projects. Contacting local NGOs to explore whether they have board members with related experience in the same industry or with the desired functional specialization is another option. Recruiters may attend community service events and communicate their hiring needs to attendees.

Once a company finds suitable senior-level candidates, it can use behavioral interviewing to assess how the candidates think and react to conflicting ethical issues. For example, companies can ask questions about moral and business dilemmas related to the candidates' target responsibilities to better understand the candidates' thinking. In addition to investigating a candidate's technical skills and achievements, human resources personnel should ask the candidate deeper questions about his or her character, including about his or her ethical acumen and professional and personal integrity.

Share best practices with other companies

Companies can learn more about supply chain best practices by joining CSR-related groups. For example, the Beijing Ethics Network, a group of about 15 CSR practitioners from the business and nonprofit sectors, holds a monthly roundtable to discuss CSR best practices. In a meeting that focused on labor rights and ethical supply chain management, human resources and compliance officers shared ethical supply chain management problems and best practices with colleagues from various industries. One discussion centered on how contracting companies in the technological and financial services sectors handle subcontractors that stand out as high ethical performers. Participants described their companies' preferential policies in which subcontractors that excel receive more business from the contracting companies. Some managers explained that their companies took initial steps toward this type of reward policy, while others require that ethical performance clauses be added to every contract signed with a subcontractor.

> Consultation on ethical criteria helps build trust between JV partners and emphasizes the importance of ethical considerations in business decisions.

China's future: quality assurance as goal of supply chain

Ensuring quality throughout the supply chain will become more critical for businesses in China, as the food and product safety scandals of the last few years have strengthened regulatory enforcement there. In addition, higher expectations among consumers have increased corporate awareness of the importance of quality assurance. Quality assurance concerns will push corporations to address product safety more effectively with their JV partners, suppliers, and distributors. By harnessing internal and external resources and skills, these committed firms and their employees will collaborate with CSR-focused consulting firms, research organizations, NGOs, and social enterprises to respond to product safety challenges. Dynamic, innovative companies and individuals that collaboratively, strategically, and resourcefully apply ethical best practices to supply chain management are best poised to ensure product safety and achieve long-term business success in China. 完

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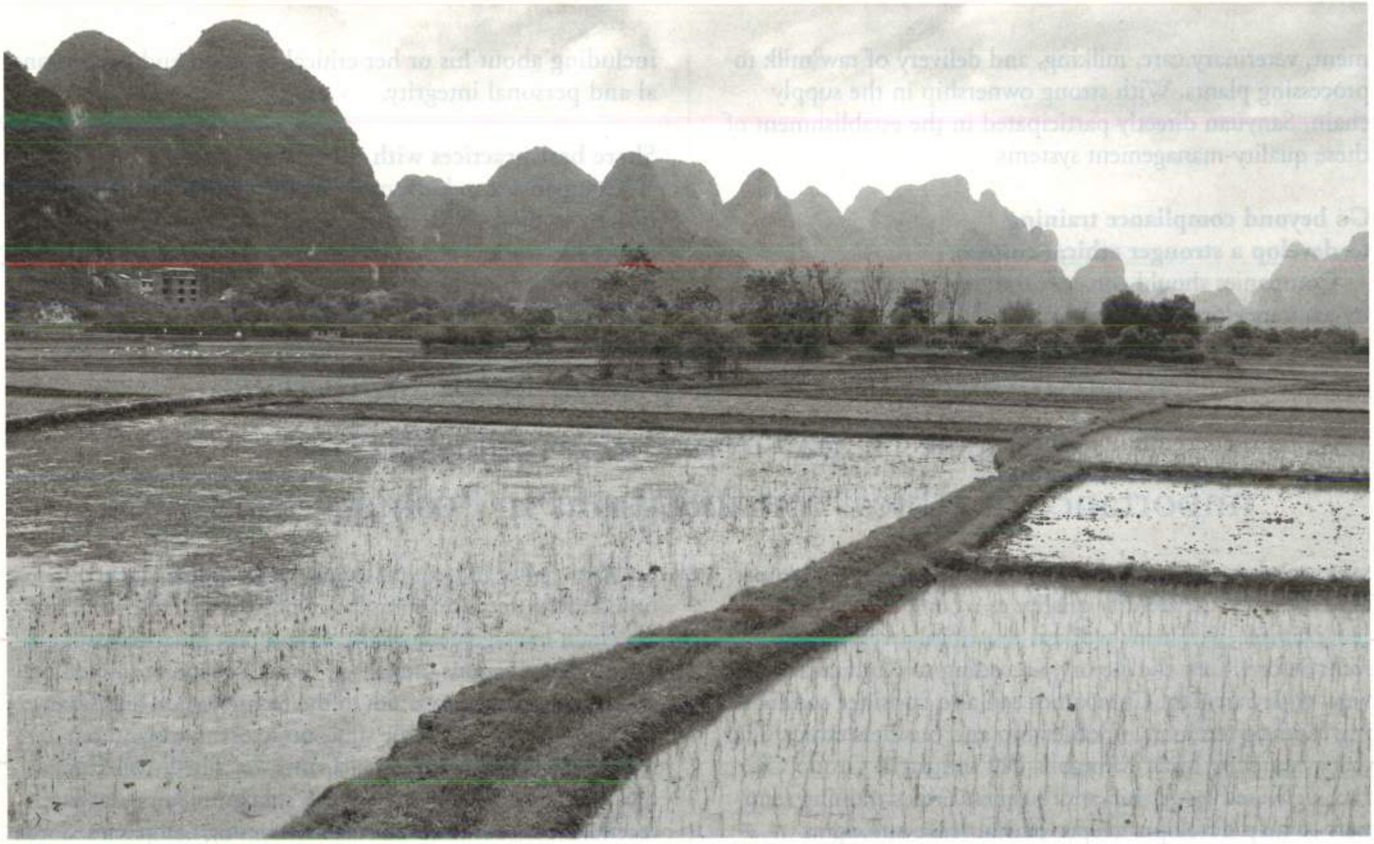

Supporting Rule of Law in China

US businesses are helping China improve its legal system

US-China Legal Cooperation Fund staff

A unique effort to strengthen the rule of law in China, the US-China Legal Cooperation Fund is a charitable program supported by leading US companies engaged in trade and investment with China. The fund solicits project proposals from US and Chinese partners, most of which are educational institutions or legal services organizations, that are planning cooperative efforts in legal education, improvement of legal services, protection of legal rights, legislative and judicial procedure, and related areas. Members of the US-China Business Council (USCBC), publisher of the *CBR*, established the fund in late 1998, soon after the US and PRC presidents committed to enhance bilateral cooperation in the field of law.

With the help of 44 US companies that have invested more than $1 million in the fund since 1999, the fund has made 102 grants that support a wide variety of rule of law projects in China. The fund's trustees selected the projects from among more than 300 requests. Many of the fund's grants are used as seed money to leverage larger grants from others.

The fund's board of trustees consists of executives of businesses that support the fund and prominent China scholars. The board is co-chaired by Herbert J. Hansell of the law firm Jones Day and R. Michael Gadbaw of Georgetown University Law Center.

Latest grants

The latest approved grants, announced in February 2009, provide full or partial support for projects dealing with freedom of government information, migrant worker training, criminal defense lawyer training, prevention of sexual harassment in the workplace, and other important legal topics. The projects supported aim to

- Establish an annual forum on government information publishing, dissemination, and disclosure in Beijing to promote government information freedom (sponsored by Washington University School of Law, St. Louis, Missouri, in cooperation with the National Library of China, Beijing);
- Provide pre-employment training on labor law and worker rights to minority Tibetan and Qiang people in Ma'erkang, Sichuan (sponsored by the Council of Overseas Chinese Services, New York City, in conjunction with Southwest University for Nationalities, Chengdu, Sichuan);
- Establish a pilot electronic-learning platform for training criminal defense lawyers in China (sponsored by the University of Montana, Missoula, Montana, and International Bridges to Justice, Boston, Massachusetts, in cooperation with Peking University Law School);
- Initiate a distance-learning, Internet-based course on international human rights and mental disability law at Shanghai Jiao Tong University School of Law (sponsored by New York Law School in cooperation with Shanghai Jiao Tong University);
- Provide legal resources to low-income female workers in China with a particular emphasis on prevention of sexual

US Supporters of the Fund

The following companies are recent financial contributors to the US-China Legal Cooperation Fund:

- GE Foundation
- ExxonMobil Corp
- Time Warner, Inc.
- FedEx Express
- Motorola, Inc.
- Cargill, Inc.
- CIGNA Foundation
- Dewey & LeBoeuf
- Mary Kay Inc.
- Robert A. Kapp & Associates, Inc.
- Jones Day

Case Study: Rural Development Institute

The Rural Development Institute (RDI)—an international nonprofit organization that helps the rural poor in developing countries obtain legal rights to land—launched an effort in 2008 to establish China's first independent legal aid and education center to strengthen farmers' land rights in Guangxi. The World Bank supplied a grant for the operation of the center, but RDI and its partner—Guangxi University Law School—did not have the funding to publish the lessons learned at the center and to share them broadly with practitioners and the academic community.

In November 2008, the US-China Legal Cooperation Fund (LCF) provided a $17,500 grant to RDI to develop a practical guidebook that would help legal aid practitioners replicate legal services throughout rural China. According to RDI, the guidebook "will provide the nuts and bolts of a functioning legal aid service" and will include information on how to establish and run an independent legal aid center for farmers' land rights, approach farmers in various situations, stimulate farmers' interests in their land rights, reach rural women, and mitigate political risk. The information will be available in print and on the RDI website.

The LCF grant will also help RDI design a website to raise awareness among law schools, legal aid practitioners, and international development professionals about ways to provide legal aid to farmers. The website, which will be in Chinese and English, will host an electronic version of the guidebook as well as other legal aid resources and news on upcoming trainings, discussions, and events.

LCF has awarded RDI grants for other projects in the past. For example, in 2006, LCF granted RDI and Guangxi University Law School $9,000 to train Guangxi-based legal aid lawyers and staff on the protection of rural women's land rights. RDI and the law school completed the training in January 2007.

To prepare for the training seminar, RDI and Guangxi University Law School compiled a 37-page training manual. Nearly 30 legal-aid lawyers—including 17 women—attended the seminar, which featured presentations and group discussions. The training attempted to answer several questions common in rural areas, such as how one can protect a daughter's land rights when she marries and moves to a different village, ensure that a woman's land rights will be preserved after divorce or abandonment, and ensure equal inheritance rights for women concerning land.

After the seminar, RDI reported that the trainees would likely serve as advocates and train colleagues when they returned to their jobs, extending the seminar's reach to benefit many more women in years to come.

—Paula M. Miller

Paula M. Miller is the CBR's *associate editor.*

harassment in the workplace (sponsored by the Legal Aid Society-Employment Law Center, San Francisco, California, in cooperation with Peking University Women's Law Studies and Legal Aid Center);

■ Create China's first course in AIDS law and establish a national hotline to provide AIDS law counseling services (sponsored by Asia Catalyst, New York City, in cooperation with China Orchid AIDS Projects, Beijing);

■ Conduct a study on the effects of recent labor legislation on industrial relations in China (sponsored by the International Labor Rights Forum, Washington, DC, in cooperation with the Shenzhen Spring Wind Labor Dispute Consultation and Service Center);

■ Create and disseminate a practical guidebook for legal aid in rural China with a particular focus on assisting farmers with issues related to their land rights (sponsored by the Rural Development Institute, Seattle, Washington, in cooperation with Guangxi University Law School, Nanning, Guangxi);

■ Teach US commercial space law at the Harbin Institute of Technology School of Law and China University of Political Science and Law (sponsored by the National Center for Remote Sensing, Air, and Space Law, University of Mississippi School of Law, University, Mississippi);

■ Conduct a study on outsourcing to civil society organizations for social services, including international experiences, lessons, and recommendations for China (sponsored by the International Center for Civil Society Law, Crownsville, Maryland, in cooperation with the PRC Ministry of Civil Affairs, Beijing); and

■ Conduct a policy dialogue on the development of legal institutions in China (sponsored by the Maureen and Mike Mansfield Foundation, Washington, DC, and New York University School of Law in cooperation with Peking University Law School). 完

Since 1999, the fund has made 102 grants that support a wide variety of rule of law projects in China.

Case Study: Carnegie Endowment for International Peace

In 2004, the US-China Legal Cooperation Fund (LCF) provided a $15,000 grant to the Carnegie Endowment for International Peace, which was working with the Shanghai Academy of Social Sciences (SASS) Institute of Law, to assess the performance of PRC courts in commercial litigation. The study, which examined the experience of litigants in civil lawsuits in Shanghai through surveys, aimed to enhance knowledge of China's legal system and help investors and Chinese policymakers identify the strengths and weaknesses in China's current judicial system. Prior to the study, relevant empirical studies based on systematically gathered evidence were rare.

For the study, Carnegie and SASS surveyed roughly 200 corporate litigants that were plaintiffs or defendants in commercial disputes in Shanghai's courts and more than 200 individual litigants to examine whether, by taking legal recourse, they were able to protect their property rights and enforce contracts. The survey of corporate litigants showed that small and medium-sized companies used courts more actively to protect their interests than large firms did, 25 percent of litigants tried to resolve disputes earlier through other means but were unsuccessful, and companies' chief executives made the decision to sue in 54 percent of cases. A large percentage of respondents (47 percent) admitted trying to influence their judges before the trial by giving gifts or holding banquets. Regarding the trial process, most respondents (63 percent) rated the presiding judges highly in terms of conduct and professionalism, and 83 percent of respondents said that the trial procedures formally complied with legal procedures.

In terms of outcome and enforcement, 53 percent of respondents in the corporate litigant survey said that their company won the lawsuits and that the court met all or nearly all of their claims, and 10 percent said their company won but that the court only met part of their claims. Of the winning respondents, most said they won because their argument had legal merits (47 percent) or abundant evidence (49 percent). The survey also found that 77 percent of winning plaintiffs asked the court to enforce the judgment because the losing party failed to carry out the court's judgment voluntarily. Nearly 80 percent of judgments enforced by the court were successfully enforced within one year.

Through a seminar and write-ups in SASS and Carnegie publications, the two institutions shared the survey results with audiences in China and the United States. The LCF grant helped support work that was part of a multi-year study on Shanghai's modern legal system. Carnegie hopes to use the Shanghai results "as benchmarks to evaluate the performance of courts in other provinces and jurisdictions."

—Paula M. Miller

Economic Recovery in the Works?

Continued from page 23

needs a new growth model based less on exports and investment and more on consumption and quality of life. China can stimulate its economy in the short term and prepare for the long term through increased expenditure on education, health, passenger rail, urban public transport, energy efficiency, and environmental clean-up.

Keidel: I am not so concerned about the "rebalancing" issue. China's trade surplus interpreted as excess savings is not really an accurate analysis in my mind. What happened was that China's investment levels dropped below domestic savings levels at a time when extraordinary export demand from the United States and Europe contributed to overheating of China's economy. Consumption growth has actually been pretty good in recent years. As for a silver lining, I see restructuring of industry and China's labor force in the direction of more productive jobs and hence higher earnings as benefits. A considerable share of the stimulus package is going to investments that will benefit Chinese productivity in the next economic acceleration. I am thinking of railroads and light rail, which will help reduce dependence on automobiles, pump-priming of China's evolving national health insurance program, increased spending on education and pollution abatement, an emphasis on affordable housing, and strengthening of rural infrastructure and quality-of-life features that should facilitate migration of rural family members to more productive and better-paying urban jobs.

China Foto Press

Lardy: It has got the potential to accelerate rebalancing. We've already seen the dramatic expansion of health insurance programs—China plans to cover an additional 400 million people in the next two and a half years. There's been a big increase in transfer payments to low income people under various schemes. That will help boost private consumption. What we're seeing is an increase in government consumption as a share of GDP, and that is an important turnaround, since government consumption as a share of GDP has been falling fairly continuously since 2001. As the government begins to provide more of these services, household precautionary savings will eventually come down, which means that people will spend a larger share of their disposable income. That will add to aggregate demand, but it will be of domestic origin and lead to much less dependence on exports. I believe that we will see, if not this year then next year, not just a plateauing of China's large external balance but even shrinkage, which would be the first time in eight or nine years.

Rothman: I expect Beijing to accelerate its investments in soft infrastructure begun in recent years under the "harmonious society" campaign. This means more money for healthcare and education.

Wang: Right now, we think there are two imbalances in the Chinese economy. One, of course, is that exports have been a significant driver. Second is the focus on investment rather than consumption. In the short term, export demand has collapsed, and China has had to resort to domestic demand; this year, all growth will come from domestic demand, and external demand will contribute negatively. Next year won't be much better. So in the short term, there is a forced rebalancing. China can put itself on a better footing for sustainable growth. One thing, of course, is to build a better social safety net. The government is moving ahead with healthcare reform and has announced plans to extend the coverage of minimum allowance for the poor. Second is to address some of the distortions in the economy. Certain prices may not be right and they can correct that by, for example, raising the prices of previously controlled products—of energy, grain, and so on—so that when growth picks up, resources are allocated more efficiently.

CBR: **Once China's economy begins to recover, what types of growth rates can we expect? Will it return to double-digit growth?**

Bottelier: It's unlikely that China will go back to the turbo growth rates of recent years, because it has a fairly significant

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The Role of Foreign Lawyers in CIETAC Arbitration Proceedings

When considering arbitration in China, it helps to know what foreign lawyers may and may not do under PRC law

Daniel Arthur Laprès

There is general, though not unanimous, agreement that foreign lawyers may represent clients in proceedings before the China International Economic and Trade Arbitration Commission (CIETAC) in disputes that do not involve "Chinese legal affairs." Debate arises because pleading a case on Chinese territory, even in foreign law, might amount to practicing law in China without a local license. Violations of mandatory local rules or criminal laws that govern the involvement of foreign lawyers in legal disputes could expose practitioners to difficulties in recovering legal fees and—in cases of malpractice—rejections of insurance claims, as well as administrative and professional sanctions.

The CIETAC framework

According to CIETAC's constituting documents, "Parties may appoint attorneys to defend their interests during the proceedings of a case before the Arbitration Commission. Such attorneys may be citizens of the People's Republic of China or foreign citizens." Under CIETAC's Arbitration Rules, the parties may act through designated "representatives," who may be either Chinese or foreign citizens.

At several stages of the proceedings, the parties are entitled to the services of their designated "representatives," who may file applications and defenses on their behalf, accompany them at oral hearings, and receive communication of their decisions and documents. Once an application is complete, the commission decides whether CIETAC has jurisdiction before setting up an arbitration tribunal to handle the matter.

According to Article 3 of the CIETAC Arbitration Rules, the cases over which CIETAC arbitration tribunals may accept jurisdiction are classified into three categories: domestic disputes; those related to Hong Kong, Macao, or Taiwan; and international or foreign-related disputes. This threefold distinction may explain why the rules governing the qualifications of the parties' representatives in arbitration proceedings vary depending on whether the dispute is domestic. In domestic cases, foreign lawyers may not intervene on behalf of their clients, but in non-domestic disputes they may. According to the Supreme People's Court, international or foreign-related disputes are those in which:

- At least one of the parties is a foreign or stateless individual or a foreign legal person;
- A civil relationship is created, modified, or terminated outside China; or
- The subject matter of the dispute is outside China.

China's Supreme People's Court has stated that in some "international or foreign-related disputes" PRC law could apply. An example is a dispute between a Chinese and a foreign party over an object located in the foreign country under a contract in which the parties have chosen to apply PRC law. In such a scenario, foreign lawyers would, under China's regulations, be unable to represent their foreign clients in arbitration proceedings in China. In short, the domestic and non-domestic dichotomy is not a fully functional criterion for determining when foreign lawyers may represent clients in arbitration proceedings in China.

In the end, arbitral tribunals decide whether to recognize the parties' representatives during the proceedings. According to Article 29 of the Arbitration Rules, a CIETAC arbitration tribunal may "examine the case in any way that it deems appropriate unless otherwise agreed by the parties." The major specified constraint on arbitration tribunals is that they must act "impartially and fairly and afford reasonable opportunities to all parties for presentations and debates." If a foreign lawyer introduces an argument based on PRC law in his or her oral or written pleadings, the arbitrators in CIETAC proceedings would consider whether the foreign lawyer was acting jointly with a Chinese practitioner and whether the arguments based on PRC law were supported by opinions of Chinese legal practitioners.

Quick Glance

- PRC rules about who is qualified to practice "Chinese legal affairs" help define who may represent parties in arbitration proceedings.
- There is general agreement that foreign lawyers can represent clients in China International Economic and Trade Arbitration Commission (CIETAC) disputes that do not involve "Chinese legal affairs."
- Practitioners who violate mandatory local rules could encounter difficulties in recovering legal fees and—in cases of malpractice—rejections of insurance claims.

The PRC regulatory framework

CIETAC's rules are clear on the role of foreign lawyers, but uncertainty arises from other rules that limit the scope of foreign lawyers' work in China. The PRC Law on Lawyers, which was adopted in 1996 and most recently revised in 2007, defines the practice of law to include "acceptance of authorizations by parties to participate in mediation and arbitration activities." This definition appears to exclude all persons not qualified in PRC law from representing clients in arbitrations in China, regardless of the subject matter or the origins of the parties. (To qualify in PRC law, one must have passed the PRC bar exam and have met other requirements, as defined in Article 5 of the Law on Lawyers. Only PRC citizens may take the bar exam, however.)

Article 29 of the Arbitration Law states that the "parties and their legal representatives may appoint lawyers or engage agents to handle matters relating to arbitration proceedings." Though this provision could be interpreted to mean that all lawyers, not just Chinese lawyers, may represent clients in all respects in arbitration proceedings, such an interpretation would probably be overly broad, as it would allow foreign lawyers to represent clients in all arbitrations in China. In the end, the provision is probably best read as meaning that only "qualified" lawyers may be appointed.

In connection with China's World Trade Organization accession commitments (see p.48), the State Council in 2001 issued Rules on the Administration of Foreign Law Firms' Representative Offices in China (the Foreign Law Firm Rules). These rules apply to the establishment of offices in China by foreign law firms and to the provision of legal services from those offices. They do not appear to apply to the provision of legal services in China from foreign legal bases. The Foreign Law Firm Rules reiterate China's WTO commitments but add that foreign lawyers in China may conduct those activities only when they do not encompass "Chinese legal affairs." The implementing regulations for the Foreign Law Firm Rules, issued by the Ministry of Justice on July 4, 2002, state that practicing in Chinese legal affairs includes

■ Engaging in any litigation in China as a lawyer;
■ Giving legal opinions or certifications for specific issues in contracts, agreements, articles of association, or other written documents on the application of PRC law;
■ Providing legal opinions or certifications for acts on the application of Chinese law;
■ Processing, on behalf of a client, any registration change, application filing, or other procedure with PRC government authorities or with other organizations that are authorized by laws or regulations to carry out administrative functions; and
■ Providing opinions on the application of PRC law in the capacity of attorney in arbitration proceedings.

The language in the last point above arguably targets only the provision of "legal opinions" on PRC law in an arbitration proceeding in China. Implicitly, foreign lawyers would be entitled to plead arbitration cases involving "Chinese legal affairs" as long as a duly qualified Chinese lawyer had provided an opinion on any PRC law questions. (According to unofficial reports, Beijing's municipal-level bureau of the Ministry of Justice in 2005 investigated foreign lawyers under the 2002 regulations for representing clients in arbitration proceedings that concern PRC law. There have been no reports of the imposition of sanctions.)

Foreign lawyers' role in practice

Anecdotal evidence suggests that PRC arbitration tribunals usually accept foreign lawyers' representation of parties in disputes that do not involve "Chinese legal affairs," which in practice most often means matters not governed by PRC law. Given CIETAC arbitrators' customary liberal attitude toward the parties' freedom to influence the conduct of the proceedings, and given that CIETAC's practice reflects that general attitude, the main disincentives to foreign lawyers' participation in CIETAC arbitrations are more likely to arise in their countries of origin in the context of debates over collection of legal fees, honoring of insurance claims, and enforcement of awards.

Meanwhile, at least for CIETAC arbitration proceedings, foreign lawyers are generally entitled to plead cases that do not involve "Chinese legal affairs," regardless of whether the lawyers and their firms are established in China. 完

Daniel Arthur Laprès is avocat in France, barrister and solicitor in Canada, and listed on CIETAC's panel of international arbitrators. He is also co-editor and co-author of Business Law in China, *Second Edition, International Chamber of Commerce, Paris, 2008.*

Legal Services in China's WTO Agreement

During the negotiations that led to China's World Trade Organization (WTO) entry, the access of foreign professionals to the PRC legal market was a subject of spirited discussion. The Council of the Bars and Law Societies of the European Union called upon China to allow foreign law firms to advise on home country, any third country, and international law as well as to allow Chinese lawyers working for foreign law firms to advise on PRC law. US negotiators also attempted to obtain the right for their professionals to advise on PRC law.

The WTO accession agreement authorizes foreign lawyers in China to

■ Provide clients with counsel with respect to the laws of the countries where they are qualified to practice law and on international conventions and international practices;
■ Handle legal affairs in the country where the lawyers of the firm are qualified to practice law when entrusted to do so by clients or Chinese law firms;
■ Entrust Chinese law firms to deal with Chinese legal affairs on behalf of foreign clients;
■ Enter into contracts to maintain long-term entrustment relations with Chinese law firms for legal affairs; and
■ Provide information on the impact of China's legal environment.

The Rules on the Administration of Foreign Law Firms' Representative Offices in China (the Foreign Law Firm Rules), issued in 2001, contain a qualifier not written into the WTO accession agreement: Authorized activities may be conducted only when they do not encompass "Chinese legal affairs."

Whether the exclusion of "Chinese legal affairs" from foreign law firms' scope of activities is consistent with China's WTO commitment is controversial. In other WTO-member countries, Chinese lawyers may be admitted to practice if they qualify under local rules. Because only PRC citizens may take the bar exam, however, foreign citizens cannot access the PRC market for legal services, and Chinese law firms and practitioners have enjoyed exceptional protection from other WTO-member countries' law firms and practitioners.

Also, the wider scope of activities granted to foreign law firms' representative offices in China compared with that granted to foreign law firms offering their services in China without a representative office is inconsistent with the WTO principles that ban discrimination against foreign enterprises. Representation rights enjoyed by lawyers attached to the representative offices of foreign law firms must also be considered to accrue to foreign law firms without establishments in China.

Although one could argue that Chinese legislators have added "Chinese legal affairs" to the Foreign Law Firm Rules—a phrase absent from the WTO accession agreement—the rules seem to conform to the terms accepted by China's WTO partners. In the absence of explicit prohibitions of access for foreigners to take the national bar exam, individuals who acquire the language and technical skills may one day be able to obtain exceptional permission to take the Chinese bar exam, join Chinese law firms, and practice "Chinese legal affairs."

—Daniel Arthur Laprès

Economic Recovery in the Works?

Continued from page 45

overhang in the property sector. Commercial real estate and high-end residential housing are significantly overbuilt. That was the destination of a lot of investment activity. It will be awhile before that overhang has been worked off.

It's possible, of course, that China will begin to focus more seriously on subsidized low-cost housing. In the past, low-cost housing programs, though mandated by the central government, were always the financial responsibility of local government. Now, China is beginning to put money into the central government budget for low-cost housing. It will take awhile to figure out the best way to do that without distorting markets. But that has the potential to be an enormous growth engine. Although China's population will peak in the next few decades and the labor force will peak in the next five or six years, urbanization will continue for decades and that's why the need for residential housing, including low-cost housing, will remain very large for a long time to come. The commercial markets have taken good care of the higher end of the market, but typically—and China isn't alone in this—the lower end of the market doesn't get adequately supplied because it's less profitable. A scheme to use the central government budget to boost the market for low-cost housing has significant potential for sustaining high growth.


China Foto Press

If China can institute a policy with subsidies—but on market-based principles—that would supply adequate minimum standard housing to all the migrants in the next 30 years, that will be a significant achievement, both socially and economically.

Dollar: Even without the crisis it was unlikely that China could continue double-digit growth now that it is a middle-income country. Other fast-growing economies of the past have usually slowed down to growth in the 7 percent range at this stage of development. With the right policies and investments China has the potential to grow at this kind of healthy rate for years to come.

Keidel: I expect that growth rates will fluctuate in the 8–11 percent range from 2010–15. Anything faster risks inflation—which is not to say China will avoid inflationary pressures. It may not. With China's revision of 2007 GDP growth to 13 percent, China will now easily reach the 2010 GDP output level I predicted last summer ($4 trillion in constant 2005 dollars), even if GDP performance in 2009–10 is below pessimistic expectations.

Lardy: Economic policy should be geared toward an evaluation of China's long-term potential growth. We were in a supercharged period of economic growth in 2005–07, but that was because the growth of the external surplus was so large, and there was huge additional demand coming from the growing trade surplus that added 2–2.5 percentage points to the growth rate. I don't think that's sustainable on a long-term basis. I think a more balanced growth pattern that relies more on domestic demand, particularly consumption demand, would result in growth of about 9–10 percent, rather than the 11, 12, or even 13 percent that we saw on an annual basis in recent years.

Rothman: A return to double-digit growth is highly unlikely, as that was driven by very high net export growth. With more of a focus on domestic consumption and investment, China can grow at a 6–8 percent rate over the coming five years.

Wang: We think it will be really difficult to get to double-digit growth without the United States and the other major economies recovering very strongly. In the past five years or so when China had double-digit growth, it coincided with a period of global economic growth that was faster than at any time since the late 1960s. The domestic economy, even in those best circumstances, was growing more like 8–9 percent, so we're not looking for double-digit trend growth. I think the last few years were not really a trend, but more of an exception. 完

PRC Government Structure

CENTRAL COMMITTEE OF THE CHINESE COMMUNIST PARTY

General Secretary
Hu Jintao

Central Military Commission Chair
Hu Jintao

Politburo Standing Committee Members (by rank)
Hu Jintao
Wu Bangguo
Wen Jiabao
Jia Qinglin
Li Changchun
Xi Jinping
Li Keqiang
He Guoqiang
Zhou Yongkang

President Hu Jintao

Vice President Xi Jinping

NATIONAL PEOPLE'S CONGRESS

Standing Committee

Chair Wu Bangguo

Vice Chairs (by rank)
Wang Zhaoguo
Lu Yongxiang
Uyunqimg
Han Qide
Hua Jianmin
Chen Zhili
Zhou Tienong
Li Jianguo
Ismail Tiliwaldi
Jiang Shusheng
Chen Changzhi
Yan Junqi
Sang Guowei

Secretary General Li Jianguo

NPC Committee Directors

Agriculture and Rural Affairs Wang Yunlong

Education, Science, Culture, and Public Health Bai Keming

Environmental and Resource Protection Wang Guangtao

Financial and Economic Affairs Shi Xiushi

Foreign Affairs Li Zhaoxing

Internal and Judicial Affairs Huang Zhendong

Legal Affairs Hu Kangsheng

Ethnic Affairs Ma Qizhi

Overseas Chinese Affairs Gao Siren

CHINESE PEOPLE'S POLITICAL CONSULTATIVE CONFERENCE

Chair Jia Qinglin

Supreme People's Court
President Wang Shengjun

Supreme People's Procuratorate
President Cao Jianming

STATE COUNCIL

Premier
Wen Jiabao

Vice Premiers
Li Keqiang, Hui Liangyu, Zhang Dejiang, Wang Qishan

State Councilors
Liu Yandong, Liang Guanglie, Ma Kai, Meng Jianzhu, Dai Bingguo

Secretary General
Ma Kai

Offices of the State Council*
Legislative Affairs Office Cao Kangtai
Research Office Xie Fuzhen

MINISTRIES AND COMMISSIONS

- **Ministry of Agriculture** Sun Zhengcai
- **Ministry of Civil Affairs** Li Xueju
- **Ministry of Commerce** Chen Deming
- **Ministry of Culture** Cai Wu
- **Ministry of Education** Zhou Ji
- **Ministry of Environmental Protection** Zhou Shengxian
- **Ministry of Finance** Xie Xuren
- **Ministry of Foreign Affairs** Yang Jiechi
- **Ministry of Health** Chen Zhu
  - **SFDA** Shao Mingli
- **Ministry of Housing and Urban-Rural Development** Jiang Weixin
- **Ministry of Human Resources and Social Security** Yin Weimin
- **Ministry of Industry and Information Technology** Li Yizhong
- **Ministry of Justice** Wu Aiying
- **Ministry of Land and Resources** Xu Shaoshi
- **Ministry of National Defense** Liang Guanglie
- **Ministry of Public Security** Meng Jianzhu
- **Ministry of Railways** Liu Zhijun
- **Ministry of Science and Technology** Wan Gang
- **Ministry of State Security** Geng Huichang
- **Ministry of Supervision** Ma Wen
- **Ministry of Transport** Li Shenglin
- **Ministry of Water Resources** Chen Lei
- **National Audit Office** Liu Jiayi
- **National Development and Reform Commission** Zhang Ping
  - **NEA** Zhang Guobao
- **National Population and Family Planning Commission** Li Bin
- **People's Bank of China** Zhou Xiaochuan
  - **SAFE** Hu Xiaolian
- **State Ethnic Affairs Commission** Yang Jing

OTHER KEY ORGANIZATIONS DIRECTLY UNDER THE STATE COUNCIL*

- **Administration of Quality Supervision, Inspection, and Quarantine** Li Changjiang
- **China Banking Regulatory Commission** Liu Mingkang
- **China Insurance Regulatory Commission** Wu Dingfu
- **China National Tourism Administration** Shao Qiwei
- **China Securities Regulatory Commission** Shang Fulin
- **Development Research Center of the State Council** Zhang Yutai
- **General Administration of Customs** Sheng Guangzu
- **General Administration of Press and Publications** Liu Binjie
- **General Administration of Sports** Liu Peng
- **National Bureau of Statistics** Ma Jiantang
- **State Administration for Industry and Commerce** Zhou Bohua
- **State Administration of Radio, Film, and Television** Wang Taihua
- **State Administration of Taxation** Xiao Jie
- **State Administration of Work Safety** Luo Lin
- **State Asset Supervision and Administration Commission** Li Rongrong
- **State Electricity Regulatory Commission** Wang Xudong
- **State Forestry Administration** Jia Zhibang
- **State Intellectual Property Office** Tian Lipu
- **Xinhua News Agency** Li Congjun

Sources: PRC government websites

* Not comprehensive

Notes: NEA = National Energy Administration; SAFE = State Administration of Foreign Exchange; SFDA = State Food and Drug Administration. This chart reflects appointments as of April 8, 2009.

China Deals

Sales and Investment

February–March 2009

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). The full list of deals will no longer be printed in each issue; *CBR* subscribers with online access and members of the US-China Business Council can now access complete China Deal Database listings from 2000 to present at www.chinabusinessreview.com.

Nicholas Chu and Arie Eernisse

Advertising, Marketing & Public Relations

OTHER

Li Ning Co. Ltd. (Beijing)
Signed sponsorship deal with Russian pole vaulter Yelena Isinbayeva. $7.5 million. 03/09.

Agriculture

OTHER

US Department of Agriculture/China Fiber Inspection Bureau (Beijing)
Signed MOU to establish a framework for collaboration on cotton classification methods and standards. 03/09.

Architecture, Construction & Engineering

CHINA'S EXPORTS

China State Construction Engineering Corp. (Beijing)
Signed a preliminary agreement with Bahamas-based Baha Mar Resort to build a multi-billion-dollar resort in Nassau. 03/09.

China Wuyi Co., Ltd. (Fujian)
Won project to construct a 41.5 km road between Iloilo and Antique in the Philippines. $16.2 million. 03/09.

CHINA'S INVESTMENTS ABROAD

George Forrest International SA (Belgium)/Sinoma International Engineering Co., Ltd. (Beijing)
Signed contract to develop a cement production line with daily capacity of 3,300 tons in the Congo's Lukala area. $138 million. 03/09.

Automotive

CHINA'S IMPORTS

Wabco Holdings Inc. (Belgium)
Will supply Shandong-based China National Heavy Duty Truck Corp. Co., Ltd. with parts through 2016. 03/09.

INVESTMENTS IN CHINA

General Motors Corp. (US)/China FAW Group Corp. (Jilin)
Won approval from State Administration for Industry and Commerce to form JV, FAW GM Light Commercial Vehicles Co., Ltd. 02/09.

General Motors Corp. (US)/Harbin Light Truck Factory Co., Ltd. (Heilongjiang)
Will form JV to produce SUVs and pickup and light trucks. (US:49%-PRC:51%). 02/09.

OTHER

Chrysler LLC (US)/Great Wall Motor Co. Ltd. (Hebei)
Terminated their joint venture. 03/09.

Aviation/Aerospace

CHINA'S IMPORTS

Rolls-Royce plc (UK)
Will supply HNA Group with jet engines for 20 planes and provide long-term service. $1.2 billion. 03/09.

Banking & Finance

CHINA'S INVESTMENTS ABROAD

CCB (Beijing)
Won UK Financial Services Authority approval to open a subsidiary in London. 03/09.

INVESTMENTS IN CHINA

F&C Asset Management plc (UK)/Hua Xia Bank Co. (Beijing)
Will form fund management JV in China along with a yet-to-be confirmed third party. (UK:19.5%-PRC:80.5%). $36.6 million. 03/09.

JPMorgan Chase & Co. (US)
Raised stake in China National Building Material Co., Ltd. to 23.02%. $8.1 million. 03/09.

JPMorgan Chase & Co. (US)
Raised stake in Guangzhou R&F Properties Co., Ltd. from 6.91% to 7.68%. $7.7 million. 03/09.

UBS AG (Switzerland)
Raised stake in Guangzhou R&F Properties Co., Ltd., from 14.9% to 15.75%. $7.6 million. 03/09.

OTHER

Evercore Partners (US)/CITIC Securities, a subsidiary of CITIC (Beijing)
Will form JV, CITIC Securities International Partners, to advise on cross-border China mergers and acquisitions and manage investments. 03/09.

Export-Import Bank of China (Beijing)
Offered Australia-based Rio Tinto plc an unlimited line of credit pending government approval of Aluminum Corp. of China's investment in the company. 03/09.

Hong Kong Monetary Authority/PBOC
Signed MOU to establish multi-currency cross-border payment arrangements between the Mainland and Hong Kong. 03/09.

SK Securities Co., Ltd., a subsidiary of SK Group (South Korea)
Opened a representative office in Shanghai. 03/09.

NYSE Euronext (US)/Shanghai Stock Exchange
Signed agreement to expand MOUs to include development of indexes and exchange-traded funds tied to global stocks. 03/09.

CCB (Beijing)
Obtained license from the New York State Banking Department to set up a branch in New York. 02/09.

Mizuho Corporate Bank (Japan)
Won CBRC approval to set up a branch in Wuhan, Hubei. 02/09.

Chemicals, Petrochemicals & Related Equipment

CHINA'S IMPORTS

Praxair (China) Investment Co. Ltd., a subsidiary of Praxair Technology, Inc. (US)
Signed a contract to supply Huizhou BYD Electronics Co., Ltd. with liquid nitrogen for its light-emitting diodes manufacturing facility. 03/09.

INVESTMENTS IN CHINA

Exxon Mobil Chemical Co., a subsidiary of Exxon Mobil Corp. (US)
Will build a technology center in Shanghai to research and showcase new products and applications. $70 million. 03/09.

OTHER

BASF Construction Chemicals (China) Co., Ltd., a unit of BASF SE (Germany)
Opened new branch in Foshan, Guangdong, which will integrate the concrete admixture business acquired from Guangzhou-based Kejie Admixture Science & Technology Co., Ltd. 03/09.

Consulting

INVESTMENTS IN CHINA

IBM Global Business Services, a unit of IBM Corp. (US)
Will open four offices in Shenyang, Liaoning; Xi'an, Shaanxi; Wuhan, Hubei; and Jinan, Shandong within the year to meet the demands of local firms. 03/09.

Defense/Military

CHINA'S INVESTMENTS ABROAD

Pakistan Aeronautical Complex/China Aviation Import & Export Corp., a subsidiary of AVIC (Beijing)
Signed agreement to jointly produce 42 JF-17 Thunder fighter jets for the Pakistan Air Force. $600 million. 03/09.

Distribution, Logistics & Related Services

OTHER

Government of Hong Kong SAR, Government of Macao SAR/Government of the PRC, Government of Guangdong
Signed a contract for the preliminary design of the Hong Kong-Zhuhai-Macao Bridge. (Hong Kong:42.9%-Macao:12.6%-PRC:44.5%) $2.3 billion. 03/09.

Electronics, Hardware & Software

INVESTMENTS IN CHINA

Metro Group (Germany)/Foxconn Technology Group (Taiwan)
Signed MOU to establish an electronics store JV, Media Markt, in China in 2010. 03/09.

Fujitsu (China) Holdings Co., Ltd., a subsidiary of Fujitsu Ltd. (Japan)
Signed MOU with the local government of Nanhai District, Foshan, Guangdong, to build a financial data center. 02/09.

OTHER

Hengtong Group (Jiangsu)
Opened a branch in Rio de Janeiro, Brazil, to explore the new cable market. 03/09.

Energy & Electric Power

CHINA'S EXPORTS

Sinohydro Corp. (Beijing)
Won project from Benin-based Communaute Electrique du Benin to construct a 45 m high hydroelectric dam and a hydropower station with total installed capacity of 147,000 KW on the Togo-Benin border. $370.8 million. 03/09.

INVESTMENTS IN CHINA

Flowserve Corp. (US)/SUFA Technology Industry Co., Ltd. CNNC (Beijing)
Will form JV, Flowserve-SUFA Nuclear Power Equipment Company Ltd., headquartered in Suzhou, Jiangsu. 03/09.

Vestas Wind Systems A/S (Denmark)
Increased investment in its wholly owned subsidiary, Vestas Wind Technology (China) Ltd., to $363 million to expand production capacity of wind turbine blades. $90 million. 03/09.

Environmental Equipment & Technology

CHINA'S INVESTMENTS ABROAD

3rd Rock System and Technologies, Inc. (US)/SunTech Power Holdings Co., Ltd. (Jiangsu)
Formed strategic cooperation to develop solar systems in the United States with initial capacity of 7.2 MW. 03/09.

INVESTMENTS IN CHINA

Genoil Inc. (Canada)/ Tangshan Port (Hebei)
Signed MOU to introduce and implement Genoil's oil-water separation system at Tangshan Port. 03/09.

Genoil Inc. (Canada)/Tianjin Port
Signed MOU to introduce and implement Genoil's oil-water separation system at Tianjin Port. 03/09.

Food & Food Processing

INVESTMENTS IN CHINA

The Coca-Cola Co. (US)
Will invest in new plant and distribution infrastructure in China over the next three years. $2 billion. 03/09.

Philippine Liwayway Holdings Co., Ltd.
Signed investment framework agreement to establish a snack food production base in Sichuan's Chongzhou Development Industrial Zone. $146 million. 03/09.

China Resources Snow Breweries Ltd., a JV between SABMiller plc (UK) and China Resources Enterprise, Ltd. (Hong Kong)
Will acquire three breweries in Anhui, Liaoning, and Zhejiang. $109.6 million. 02/09.

Forestry, Timber & Paper

CHINA'S INVESTMENTS ABROAD

Shandong Sun Paper Industry Joint Stock Co., Ltd.
Will form JV in Vietnam with a local property firm to build a wood chip processing workshop with annual capacity of 2 million tons and to purchase, process, and trade wood products. (Vietnam:5%-PRC:95%). $15 million. 03/09.

Media, Publishing & Entertainment

INVESTMENTS IN CHINA

Intage Inc. (Japan)
Entered into a conditional agreement to buy Shanghai Hyperlink Market Research Co. Ltd., a subsidiary of Beijing-based Xinhua Finance Ltd. $10.7 million. 03/09.

Metals, Minerals & Mining

CHINA'S IMPORTS

Atlas Iron Ltd. (Australia)
Signed three-year offtake agreement with a medium-sized steel mill in China. 03/09.

PT Kaltim Prima Coal, a subsidiary of PT Bumi Resources Tbk (Indonesia)
Signed agreement to supply thermal coal to China for five years. 03/09.

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: Civil Aviation Administration 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; LOI: Letter of intent; MIIT: Ministry of Industry and Information Technology; 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.

Petroleum, Natural Gas & Related Equipment

CHINA'S EXPORTS

CNOOC (Beijing)
As leader of a consortium, signed agreement with Iran LNG Co. to construct two liquefaction trains with total capacity of 10.5 million tons/year of LNG in Iran's South Pars field. $3.4 billion. 03/09.

CHINA'S IMPORTS

GE Oil & Gas, a subsidiary of General Electric Co. (US)
Won bid from Beijing-based PetroChina to supply compression equipment for the western section of China's second west-to-east gas pipeline. 03/09.

OTHER

Pacific Oil & Gas Ltd. (Hong Kong)/Jiangsu Guoxin Investment Group Ltd., PetroChina (Beijing)
Will form JV to operate LNG terminal to provide 4.8 billion cu m of LNG annually on reclaimed land in the Yellow Sea, in eastern China. (Hong Kong:35%-PRC:65%). $877.4 million. 03/09.

Petróleos de Venezuela SA/PetroChina Co. Ltd. (Beijing)
Won PRC regulators' approval to build a refinery in southern Guangdong in 2009 to process more than 200,000 barrels/day of heavy crude. (Venezuela:49%-PRC:51%). 03/09.

Total SA (France)
Signed MOUs with Beijing-based China University of Petroleum and Shanghai-based East China University of Science and Technology to enhance scientific cooperation and build wide-ranging partnerships. 03/09.

Pharmaceuticals

INVESTMENTS IN CHINA

Royal DSM NV (the Netherlands)/North China Pharmaceutical Group Corp. (Hebei), North China Pharmaceutical Co., Ltd., a subsidiary of North China Pharmaceutical Group Corp.
Signed cooperation agreement to buy 9.77% stake in NCPC and form three JVs to produce nutrition products and anti-infectives. 03/09.

OTHER

Immtech Pharmaceuticals, Inc. (US)/Beijing Pharmaceutical Group Co. Ltd.
Signed MOU to explore a strategic alliance. 03/09.

Bayer Schering Pharma AG (Germany)
Will set up a global R&D center in Beijing. $128.9 million. 02/09.

Rail

CHINA'S IMPORTS

Siemens AG (Germany)
Won order to supply 100 high-speed trains for the Beijing-Shanghai high-speed railway line. $985 million. 03/09.

CHINA'S INVESTMENTS ABROAD

China Railway Construction Corp. (Beijing)
Won contract to collaborate with two Saudi firms on construction of a 450-km-long high-speed rail section from Jeddah to Medina, Saudi Arabia. (Saudi Arabia: 78.75%-PRC:21.25%). 03/09.

Real Estate & Land

INVESTMENTS IN CHINA

Lotte Group (South Korea)/Weihai Jiulong Real Estate (Shandong)
Signed a contract to build a new Lotte Mart in Shandong. $30 million. 03/09.

Research & Development

OTHER

Australian Commonwealth Scientific and Industrial Research Organization/Beijing University of Posts and Telecommunications
Jointly established the Sino-Australian Wireless Communication Technology R&D Center in Sydney, with support from the PRC and Australian governments. 03/09.

Rolls-Royce plc (UK)/Chinese Academy of Social Sciences (Beijing)
Signed MOU to jointly research manufacturing techniques and new materials for use in Rolls-Royce's low-pressure turbine blades. 02/09.

Telecommunications

CHINA'S EXPORTS

Alcatel-Lucent (France)/China Mobile Pakistan Ltd., a subsidiary of China Mobile
Won contract to expand GSM/EDGE network in northern Pakistan. $52.9 million. 03/09.

Huawei Submarine, a JV between Global Marine Systems (UK) and Huawei Technologies Co., Ltd. (Guangdong)
Won contract to build a 170 km undersea cable project linking Tunisia to Italy. 03/09.

CHINA'S IMPORTS

Alcatel Shanghai Bell Co., Ltd., a subisidiary of Alcatel-Lucent (France)
Will supply 3G network solutions to China Unicom (Hong Kong) Ltd. in 14 provinces and cities in China. 03/09.

Infineon Technologies AG (Germany)
Signed LOI with Guangdong-based Huawei Technologies Co., Ltd. to provide solutions for Huawei's wireline and wireless communications phone systems business. $68 million. 03/09.

Telefonaktiebolaget LM Ericsson (Sweden)
Will supply China Unicom with systems for its WCDMA networks in 15 provinces and cities in China and upgrade GSM networks in 10 provinces. 03/09.

CHINA'S INVESTMENTS ABROAD

Huawei Technologies Co., Ltd. (Guangdong)
Will set up an interoperability testing center for WiMAX products in Taiwan. 03/09.

INVESTMENTS IN CHINA

Fujikura Ltd. (Japan)/FiberHome Telecommunication Technologies Co., Ltd., a subsidiary of FiberHome Technologies Group (Wuhan)
Will form JV, Fujikura FiberHome Opto Electronic Material Technology Co., Ltd., to develop optoelectronics products. (Japan:60%-PRC:40%). $60 million. 03/09.

OTHER

Nokia Siemens Networks (Finland), a JV between Nokia Oyj and Siemens AG
Will supply Beijing-based China Mobile Ltd. and China Unicom (Hong Kong) Ltd. with 2G and 3G equipment and help set up WCDMA networks in 11 provinces. $1.1 billion. 03/09.

Textiles & Apparel

INVESTMENTS IN CHINA

The Carlyle Group (US)
Will invest in Shenzhen Ellassay Fashion Industry Co., Ltd., a high-end women's fashion house. $20 million. 03/09.

Tourism & Hotels

INVESTMENTS IN CHINA

Kerry Properties Ltd. (US)
Signed agreement with the government of Gulou District of Nanjing, Jiangsu, to build a Shangri-La hotel. $90 million. 03/09.

OTHER

Carlson Hotels Worldwide (US)
Signed agreement with Sanya Zhong Gang Real Estate Co. to manage a new 415-room Radisson hotel in Sanya, Hainan. 03/09.

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Beijingers' Views of Americans

Isaac Stone Fish

James Wasserman

Though it is difficult to generalize about Beijing's roughly 17 million residents, in the seven years I've been traveling to and from China, I have noticed similarities in the way Beijingers discuss international relations with strangers and acquaintances from the United States. For instance, cabbies, street sweepers, and businesspeople standing next to me in an elevator tend to employ stock lines when our conversation veers to the United States. In 2004, people would look at me strangely and ask, "What do *you* think about Little Bush attacking Iraq?" In 2006, conversation oddly centered on whether I was accustomed to Chinese food. In 2008, the Beijing Olympics and the environment monopolized the conversation. Many of these conversations had the undertone of "America is good" and "Why do you live in China when the United States is so rich?"

But lately a new tone has crept into conversations. It's a mixture of pride, pity, and condescension, and it's a result of the growing view that the US economy is going to hell in a hand basket. "Twenty percent of American homeowners [with mortgages] are facing foreclosure or are late on their payments," a Shanghainese former banker told me, shaking his head. "Twenty percent," he repeated. (The actual number was 12 percent in 2008, according to statistics the Mortgage Bankers Association released in March.) A Chinese scrap collector I interviewed last October for an article complained about the collapse of Lehman Brothers driving down the price of oil barrels. Standing outside her shack in a Beijing suburb, she reasoned that China would come out of the economic downturn unscathed. I've even met old ladies at fruit stands who, in the process of overcharging me for apples, have lectured me about the credit crisis debilitating the United States.

That's not to say that the economic crisis hasn't hit Beijing. In March 2009, a Chinese Academy of Sciences researcher stated that Beijing's real estate prices will likely drop 15–20 percent this year. The same month, the World Bank revised China's 2009 growth forecast from 7.5 percent to 6.5 percent, well below its official 13 and 9 percent real growth rates in 2007 and 2008, respectively.

But 6.5 percent growth is still fast, and the Chinese seem to be relishing their role as survivors. In a speech this March, PRC Premier Wen Jiabao said, "We have lent a huge amount of money to the United States. Of course we are concerned about the safety of our assets. To be honest, I am definitely a little worried." That a US Treasury Department spokesperson had to respond to these comments must have tickled some Chinese, who see the US attempt to placate China as a return to China's rightful place in the center.

Many Chinese feel as though they've been fed a steady diet of foreign condescension ever since the First Opium War (1839–42) pried open the country. The Chinese who still revere Mao Zedong often do so because they believe he made China "stand up."

Perhaps that is why many Chinese seem to feel more pride in China than pity for the United States as the US faces its worst economic crisis in decades. While in a coffee house, I sat next to a group of teenagers—China's so-called "angry youth" (*fenqing*)—who giddily discussed how the United States is finished as a world power. A concierge at a fancy office building once pointed to a Rolls Royce in the parking lot and told me, "See? Chinese people are rich too!"

Maybe China has become the new land of opportunity. A common refrain I've heard from Americans here is, "I'm glad I'm not in the States." Though some international companies have frozen hiring, there is still plenty of opportunity in a land expected to grow at 6.5 percent this year. And I imagine that teaching Chinese kindergartners the ABC's for $20 an hour beats waiting tables in any US city. Twenty dollars in Beijing still goes a long way, especially when you consider that the average annual salary in Beijing hovers around $6,500. If the fruit-stand ladies ever give me a discount for being American, then I'll know it really is a different era.

***Isaac Stone Fish** is a freelance journalist who concentrates on Chinese media and culture issues. He is based in Beijing.*