November–December 2007

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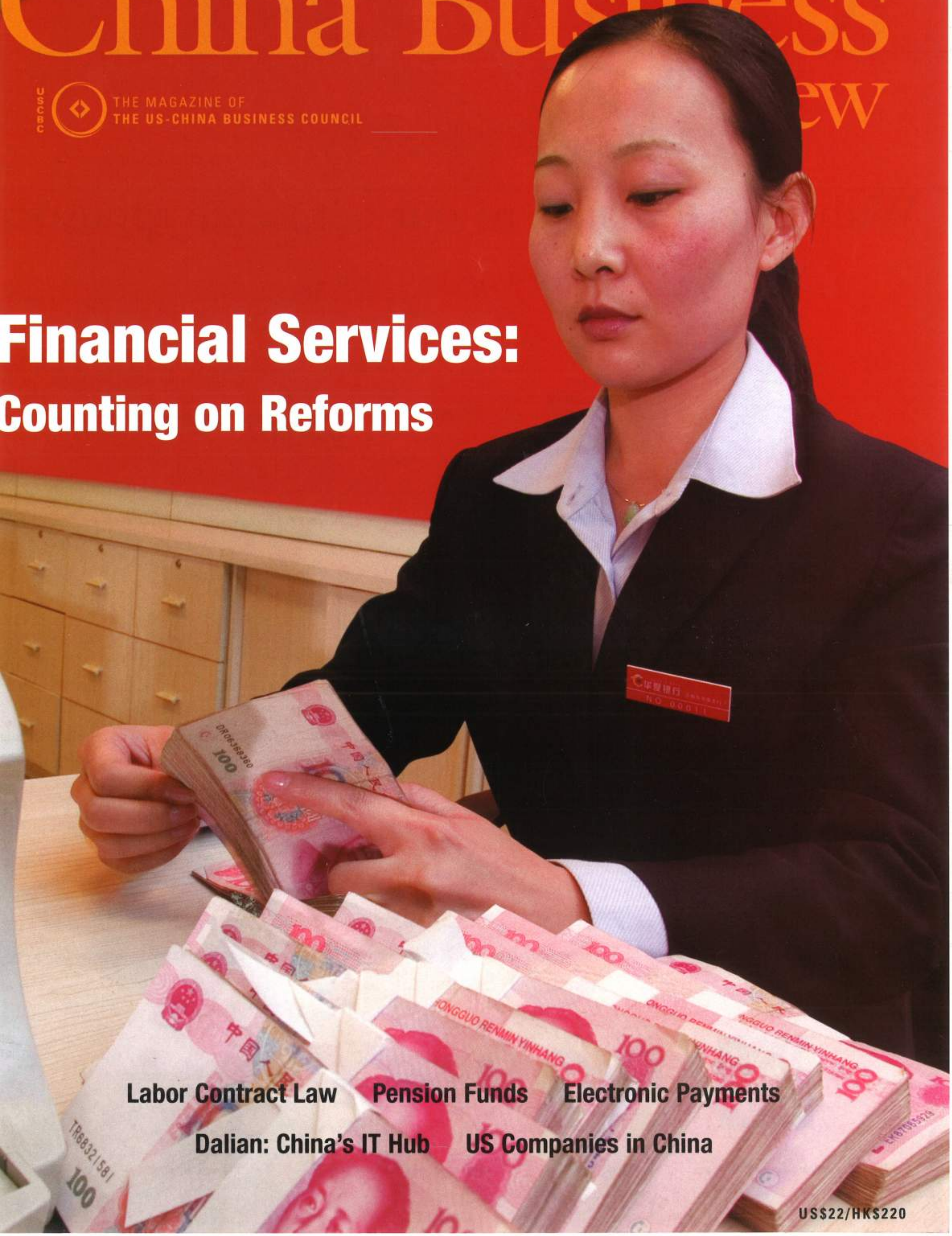

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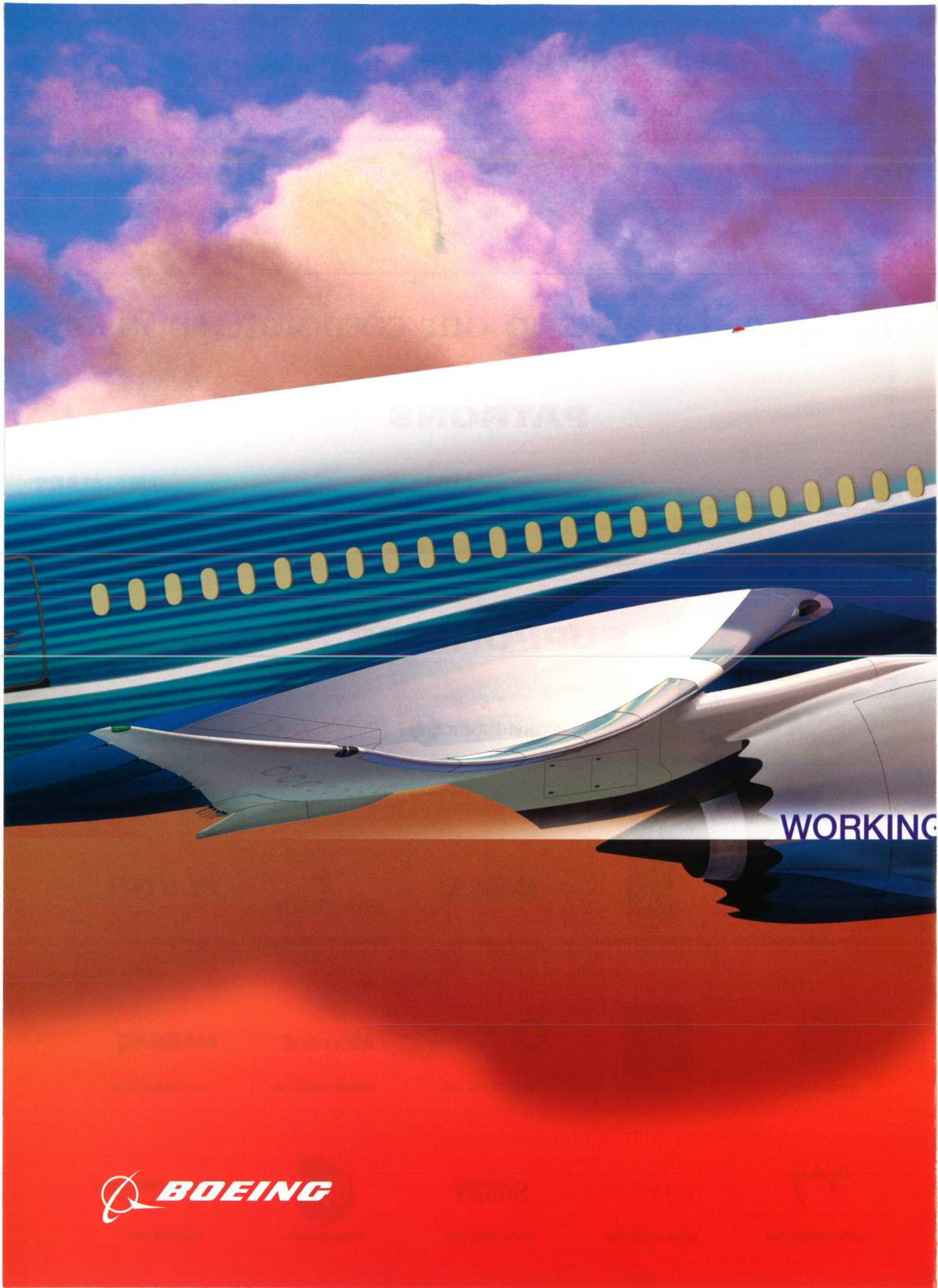
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Short Takes

World Trade Organization

The World Trade Organization (WTO) reported in September that China was the primary target of antidumping actions by various countries. Five of the seven countries that have submitted reports to date, including the United States, cited China as engaging in some form of dumping. Of the 17 cases reported by the United States, China was the target of more than half of the cases.

Challenging the US imposition of countervailing duties (CVDs) on its coated free sheet paper exports, China for the first time launched a WTO dispute case against the United States in September. Beijing claims that the CVDs violate WTO rules and has requested consultations with Washington to resolve the issue. If a resolution is not reached within 60 days, China may request the formation of a WTO dispute settlement panel to rule on the case.

In its testimony to the US Congress on China's year-five WTO commitments, the US-China Business Council (USCBC) stated that while China has generally met most of its obligations to date, lingering and emerging issues are of concern to US businesses operating in China. USCBC cited low transparency, barriers to government procurement, and a growing trend of protectionism as areas that must be addressed.

Economy

Up 10 places from last year, China ranked 83 in the World Bank's *Doing Business 2008* ease of doing business rankings; China is also listed as a top 10 reformer. Singapore took the top spot, and the United States came in third for the second consecutive year. Rounding out the top five were New Zealand, Hong Kong, and Denmark.

Despite the PRC leadership's desire to reduce income inequality and build a "harmonious society," China's Gini coefficient, a measure of a country's overall income inequality, rose to 0.473 in 2004, up from 0.407 in 1993, according to a 2007 Asian Development Bank report. In addition to the income gap between urban and rural China, uneven income distribution among urban households is also becoming a significant source of inequality, the report notes.

The PRC Ministry of Civil Affairs plans to extend the basic living allowance to another 10 million rural residents. Currently, 20.7 million rural Chinese residents receive these allowances, which average ¥28 ($3.68) per person per month. In rural areas, the average basic cost of living per capita stands at ¥71.4 ($9.39) per month.

Politics

As the *CBR* went to press, the 17th Chinese Communist Party (CCP) Congress, during which PRC President Hu Jintao was widely expected to cement his power and solidify his populist policy agenda, was under way. Although Hu is expected to remain at the helm for another five years, until the next CCP Congress, speculation on who his successor will be is rampant. Various reports have focused on a slate of five candidates, two of whom appear to have emerged as top contenders: Li Keqiang, Liaoning CCP secretary, and Xi Jinping, the newly appointed Shanghai CCP chief.

The Standing Committee of the Chinese People's Political Consultative Conference will meet in late October to review the results of the CCP Congress and its policy guidance.

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Event Wrap Up

WASHINGTON

September

Issues Luncheon: China and Consumer Product Safety

Featured Nancy Nord, acting chair of the Consumer Product Safety Commission.

Luncheon Featuring Michael Dell

Dell, chair of the Board of Directors and chief executive officer of Dell Inc., discussed simplification and energy efficiency—the next challenges for information technology. The event, sponsored by the Center for Strategic and International Studies, was presented in partnership with the US-China Business Council (USCBC) and other organizations.

October

Roundtable Discussion on the PRC Antimonopoly Law

Featured Nathan Bush, Beijing-based associate at O'Melveny & Myers LLP.

Issues Luncheon: China Briefing

Featured Deputy US Trade Representative (USTR) Karan Bhatia, who debriefed USCBC members on his recent China trip, including on meetings with PRC officials on the Joint Commission on Commerce and Trade (JCCT) and Strategic Economic Dialogue (SED). He also introduced new staff members in USTR's China office.

CHICAGO

September

Program on Current Issues in US-China Trade

Sponsored by USCBC and the Chicago Council on Global Affairs, the breakfast program featured USCBC President John Frisbie and Beijing-based Vice President of China Operations Robert Poole, who discussed the US-China commercial relationship.

BEIJING

September

Luncheon on US-China Relations

Featured James A. Baker III, former US secretary of State (1989–92), of the Treasury (1985–88), and under secretary of Commerce (1975). Clark T. Randt, Jr., US ambassador to the People's Republic of China, delivered introductory remarks.

Financial Services Luncheon

Featured Xu Lin, director general of the National Development and Reform Commission's Fiscal and Financial Affairs Department, who explained the role of his department in fiscal and financial policy and the structure and direction of securities and corporate bond issuance in China.

October

Luncheon on US-China Trade Relations

Featured Deputy USTR Bhatia and US Department of Commerce Acting Under Secretary for International Trade Christopher A. Padilla, who spoke on the state of US-China trade relations in the run-up to December's JCCT and SED meetings. Cosponsored by USCBC and the American Chamber of Commerce-China.

Upcoming Events

SHANGHAI

China Operations Conference
November 2, 2007

WASHINGTON

Issues Luncheons
November 15, 2007
December 13, 2007

Gala 2007
December 5, 2007

Forecast 2008
Reception and Conference
January 30–31, 2008
For more information, see p.70

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

Photos courtesy of Baker Botts LLP

Secretary James A. Baker III

USCBC Vice President of China Operations Robert Poole and Baker

US Ambassador to China Clark T. Randt, Jr.

Time for Companies to Weigh In with the Facts

John Frisbie

Relations between the United States and China, though always complex, are entering a particularly sensitive period. As the pressure of US election-year politics is added to issues already on the table, US-China relations will require an even defter touch than the year we are closing out.

While strategic matters of great importance are still on the bilateral agenda, it is increasingly clear that relations between the two countries are being shaped by economic issues. Given China's growing global political role, it is even more important to reach the right balance on economic issues to maintain progress on both fronts.

Maintaining progress on economic issues will require many voices of reason to speak up, especially the voices of those in the corporate community who have the greatest experience dealing with China. Your representatives in Congress, your communities, and the media all need to hear from you—in face-to-face meetings and in letters from you and others in your companies.

The US-China Business Council (USCBC) is taking a leading role by preparing action materials for member companies' use and coordinating the voices of companies and others with extensive experience dealing with China. Included in these materials are studies, data, and handouts that make clear the benefits to the US economy of trade and investment with China. These materials are available at www.uschina.org/members/trade-toolkit.

The primacy of the trade relationship is underscored by the emphasis political leaders in both countries place on economic growth and the creation of jobs. PRC President Hu Jintao has made it clear that the benefits of his country's spectacular growth must be spread more evenly within the country's vast population. And in the United States, it is equally clear that issues of economic equity will play a significant role in the upcoming elections.

Echoes of these priorities can already be heard in nationalist sentiments being expressed in China and in protectionist sentiments being voiced in the United States. In both countries, these voices are finding their way into legislation that could have a long-term effect on a trading relationship that is of great importance on both sides of the Pacific. All too often, these sentiments are based on emotion. Yet many people believe they are based on fact, and these misperceptions can frequently drive a debate.

This places a premium on making sure the facts surrounding the issue are clear and widely disseminated. One of USCBC's top priorities is to ensure that the realities about trade between these two countries are available to political leaders, policymakers, opinion leaders, and members of the media in both countries.

Fighting the myth of one-way trade

One of the biggest misperceptions about US-China trade is that the relationship with China is a one-way street, with Chinese-manufactured goods coming into the United States at the expense of vast numbers of US jobs. This view ignores the fact that those same goods were coming from Taiwan, South Korea, or Japan a few years ago and likely would be coming from Indonesia, India, or another lower-cost producer if they were not coming from China. It also fails to take into account the rapid rise in exports of both goods and services from the United States to China—exports that support US jobs. As these exports continue to grow, so will the jobs linked to them.

Nor does this view take into account the US jobs that exist because companies have set up plants in China to sell products in the Chinese market—goods they probably could not sell if they were made in the United States because of longer delivery times or higher costs. These goods are still designed by engineers based in the United States and often contain US-made parts and components that are shipped to plants in China and make up part of the impressive export story.

These are stories that need to be told by companies and their suppliers all across the United States so that the American people and their representatives in Congress understand *all* of the facts before rushing to judgments that could lead to harmful legislation.

A balanced approach

If the goal is to bring balance to the debate over trade and investment with China, we cannot press China to do things that we are unwilling to do ourselves. For instance, if we encourage China to play by the rules of global trade, we must abide by those rules ourselves. Yet some of the legislation that the US Congress is considering would enact trade policies that violate US World Trade Organization (WTO) commitments. As we work to open China's markets, we cannot create unreasonable barriers to our own. Rather, the United States must focus on using bilateral forums such as the Strategic Economic Dialogue, and

Letter from Washington

Maintaining progress on economic issues will require businesspeople with experience dealing with China to speak up.

multilateral forums such as the WTO, to resolve the real and serious disputes that exist between the two countries. In short, we have an obligation to lead in a direction that benefits everyone because this is the path that has led us to our current position of economic strength.

Americans have never been afraid to compete. We became a great nation precisely because we were innovative and willing to venture out into the world to sell our goods and services. Now is not the time to shrink back into a shell. It is time to consider new approaches that maintain our competitive leadership. It is time to look at the facts and build on the principles that made us strong. 完

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

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(Signed) Jesse Marth, Business Manager, the China Business Review

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Business Manager Jesse Marth
Art Direction & Production Jon Howard/JHDesign, Inc.
Administrative Assistant Marcia Morrow
Research Assistants Catherine Hagbom, Yoko Uchida

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Northeast & Midwest: Ed Winslow
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West & Southwest: John McCarthy
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China Conference Calendar

China-related events near you

November 2007–December 2007

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Annual CEO Forum

NOVEMBER 6–7

Location: Beijing: China World Hotel
Organizer: *BusinessWeek*
Contact: Louisa Yuen
Tel: 852-2581-0140
louisa.yuen@dnmstrategies.com
www.dnmstrategies.com

China Mining

NOVEMBER 13–15

Location: Beijing International Convention Center
Organizer: BMC-TBG Ltd.
Contact: Andy Yu
Tel: 86-10-5022-1789
info@china-mining.org
www.china-mining.com

China Financial Markets Conference

NOVEMBER 13

Location: Hong Kong: Grand Hyatt
Organizer: *The Wall Street Journal Asia*
Contact: Marianne Bunton
Tel: 852-2831-2548
marianne.bunton@dowjones.com
www.wsj-asia.com/cfm

China International Recyclable Resources Trade Conference

NOVEMBER 13–16

Location: Shanghai: Pudong Shangri-La Hotel
Organizers: Recycle-China Co., Ltd.; International Congress and Marketing
Contact: Ms. Chin
Tel: 86-25-5238-9990 x 8103
recycle_china816@yahoo.com.cn
www.cjtr.com.cn

Cosmoprof Asia & the Natural Health Fair

NOVEMBER 14–16

Location: Hong Kong Convention and Exhibition Center
Organizers: CMP Asia; BolognaFiere
Contact: Ginnie Koay
Tel: 852-2827-6211
cosmasia@cmpasia.com
www.cosmoprof-asia.com

Franchising China Conference & Exhibition

NOVEMBER 15–16

Location: Beijing: China World Trade Center
Organizer: Global Sources
Tel: 86-10-6505-9911
wangyy@globalsources.com
http://franchise.ceconline.com

China International Automobile Exhibition

NOVEMBER 20–26

Location: Guangzhou International Convention and Exhibition Center
Organizers: China Foreign Trade Guangzhou Exhibition Corp.; CCPIT Automotive and Guangzhou Sub-Councils; Guangzhou Automobile Industry Group Co., Ltd.
Contact: Cao Yu-wu
Tel: 86-20-2608-1619
autoshow@fairwindow.com
www.autoshow-gz.com

China International Exhibition for Glass Technology

NOVEMBER 21–24

Location: Guangzhou, Guangdong: Chinese Export Commodities Fair-Pazhou Complex
Organizers: Messe Düsseldorf China Ltd.; China Foreign Trade Center (Group); Guangdong Provincial Glass Industry Association
Contact: Teddy Dong
Tel: 86-21-5207-8128
teddy@mdc.com.cn
www.allinglass.com.cn

Nurturing & Commercializing Online Communities (Web 2.0) Forum

NOVEMBER 28–29

Location: Shanghai: TBD
Organizer: Avail Corp.
Contact: Mark Nee
Tel: 86-21-6229-1717
mark@availcorp.com
www.availcorp.com

China International Auto Parts Expo

NOVEMBER 29–DECEMBER 1

Location: Beijing: China International Exhibition Center
Organizers: PRC Ministry of Commerce; China General Technology (Group) Holding, Ltd.; Genertec International Advertising and Exhibition Co. Ltd.
Contact: Mr. Meng
Tel: 86-10-6899-1656
ciape@exh.genertec.com.cn
www.iapechina.com

CONEXPO Asia

DECEMBER 4–7

Location: Guangzhou, Guangdong: Chinese Export Commodities Fair-Pazhou Complex
Organizer: Association of Equipment Manufacturers
Tel: 1-866-236-0442
info@conexpoasia.com
www.conexpoasia.com

International Printed Circuit & Electronics Assembly Fair

DECEMBER 5–7

Location: Shenzhen Convention and Exhibition Center
Organizers: Hong Kong Printed Circuit Association; Association Connecting Electronics Industries; CCPIT, Guangzhou Sub-Council
Contact: Manda Wang
Tel: 852-2155-5099
secretary@hkpca.org
www.hkpca-ipc-show.org

Mergers & Acquisitions in China Symposium

DECEMBER 10–11

Location: New York: The Westin Times Square
Organizer: American Conference Institute
Tel: 1-888-224-2480
customercare@americanconference.com
www.americanconference.com

Legal, Tax & Financial Strategies for Doing Business in China

DECEMBER 12–13

Location: New York: Doubletree Metropolitan
Organizer: Alliance for Tax, Legal, and Accounting Seminars and Structured Finance Institute
Contact: Lynne Strauss
Tel: 914-946-4010
jaclyn@atlas-sfi.com
www.atlas-sfi.com

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Financial Services

Financial sector reform has proceeded steadily in recent years—but still has some way to go

US-China Business Council staff

Modernizing the financial sector is the most important of China's unfinished economic reforms. A rational, sound, and competitive financial system lies at the heart of a market economy, channeling capital to its most efficient and productive uses. Consumers benefit from better savings, investment, and credit systems. Financial sector reforms are critical to China's sustained economic growth, which is important not only to China but also to the rest of the world.

China's leaders understand the importance of financial sector reform and have made much progress in a relatively short time. The PRC government has established financial laws and regulatory institutions where, in essence, none had existed before. PRC policymakers began this work in earnest in the late 1990s with the establishment of a host of new regulators and continued the transformation through China's World Trade Organization (WTO) entry agreement in 2001. Their efforts have affected all sectors of the financial services industry, including banking, securities, insurance, credit rating services, consumer finance, electronic payments (see p.24), asset and fund management, and leasing services. At the same time, regulations govern, or are under development for, an ever-increasing number of new or sophisticated financial instruments, including financial derivatives, securitizations, and other modern capital markets products.

Though the pace of China's financial reforms has not been as fast as many observers would like, China has recently taken notable steps in a number of areas.

Banking

China's top leadership and foreign industry participants alike consider banking a pivotal sector when addressing potential areas of macroeconomic instability such as capital misallocation and excessive investment. Banking sector reforms also address microeconomic challenges such as developing new credit and investing options, developing healthy businesses in rural areas, and aiding small and medium-sized enterprises.

Since its WTO entry in late 2001, China has gradually granted foreign banks somewhat greater powers and market access. Perhaps the most important example is the permission foreign banks gained in 2006, consistent with China's fifth-year WTO commitments, to set up operations across China to offer services to domestic consumers.

For the most part, the China Banking Regulatory Commission (CBRC) has been the principal authority for regulations related to banking. In some cases since 2006, however, elements of China's financial system development were beyond CBRC's scope. In 2007, for example, the National People's Congress passed the Enterprise Bankruptcy Law; the People's Bank of China (PBOC) sought to further develop China's credit information database, and the NPC pushed for a related privacy law; and PBOC, China Insurance Regulatory Commission (CIRC), China Securities Regulatory Commission (CSRC), and CBRC took further steps to authorize crossover shareholdings. Finally, the government recapitalized several Chinese banks, and some banks began to prepare for stock market listings.

Since 2006, CBRC has made several reforms in its own areas of responsibility. These include releasing new bank-owned leasing company regulations, proposing a scheme for deposit insurance, and reviewing more than 100 city commercial banks and four large city-based banks for listing. CBRC has also reviewed branching regulations for city commercial banks, officially opened the individual consumer banking sector to foreign companies on December 11, 2006, produced local incorporation regulations for foreign banks as well as accompanying implementation details, and approved 12 foreign banks in the first step toward full registration in China to conduct renminbi (RMB) business with all individuals. Several have been fully approved (see p.40)

Though CBRC retains the lead role in implementing banking reforms, PBOC, SAFE, CSRC, and CIRC have some overlapping authority in this sector. China has floated the idea of a new super-regulator for the financial sector, but discussions have not yet yielded concrete plans. The creation of such a regulator could affect the division of work among ministry-level regulators. Though the clear demarcation of roles and jurisdictions would be a welcome development, any lack of transparency in a new chain of command for decisionmaking could pose challenges for market participants.

Overall, foreign banks have reported strong growth in revenue and expansion of their customer bases and business scopes, stemming largely from domestic economic growth, energetic marketing, and high-quality service offerings. Nevertheless, regulatory restrictions remain heavy: Foreign banks face high capital requirements, limitations on their business scopes, and burdensome branching requirements, and must incorporate in China (rather than rely on branches to conduct business on behalf of foreign headquarters) if they wish to provide the full array of banking services to domestic PRC customers. Only a small number of foreign banks have established a long-term presence in China, and these banks have set relatively modest near-term goals. Foreign banks could contribute substantially to China's economic and financial development, however, as they bring valuable skills and services to the market. Their presence also encourages an efficient, competitive banking environment that benefits corporate and individual Chinese customers alike.

Recommendations

The efficiency and depth of China's banking sector would improve greatly if PRC regulators were to:

- Eliminate or relax foreign ownership restrictions in Chinese banks;
- Reduce the lengthy approval process for opening new branches and offering new products and services;
- Clarify regulator responsibilities as they apply to overlapping duties, multiple approvals, and other administrative jurisdictional issues; and
- Harmonize capital requirements for foreign bank branches with those for domestic banks.

Regulators would also benefit the sector as a whole by allowing foreign banks greater access to China's debt and equity markets and allowing foreign banks to offer customers more products and services, such as online banking and credit and debit cards supported by brands of their choice.

Securities

China has made progress over the past several years in building its stock exchanges and gradually allowing greater

The US-China Business Council (USCBC), publisher of the CBR, *is a nonprofit membership organization that has been serving US companies doing business in and with China since 1973. USCBC is headquartered in Washington, DC, with offices in Beijing and Shanghai. This article is adapted from a longer USCBC paper,* Financial Services in China: An Overview and Assessment of Reforms and Market Openings with Recommendations for Further Progress.

Improving Transparency

Transparency is an important part of a robust financial sector. Though PRC regulators have attempted to increase transparency by involving industry in the review process for new regulations, draft regulations are often released for a week or two, or a month—insufficient time, given the complexity and detail of the regulations involved. Improved transparency will serve all sides by allowing regulators a more steady dialogue with affected industries, thus making it more likely that outcomes reflect established, international best practices. As authorities move toward financial stability facilitated by foreign cooperation, having a transparent road map and agreed-upon timetable to provide securities firms with the ability to engage in a full range of securities activities will be necessary for these authorities to make the most out of the openings they provide in good faith.

Financial services-related laws and regulations that should be released for adequate public comment periods prior to finalization include the insurance and pension laws and pending bank card regulations. These are just three of the pending laws and regulations in many financial services subsectors that would benefit from improved transparency.

—USCBC staff

domestic access to individual and institutional investors. In response, China's securities markets have expanded rapidly: the Shanghai Economic Composite index for the Shanghai Stock Exchange rose 67 percent between January and July 2007, and total market capitalization on the Shanghai and Shenzhen stock markets grew by 176 percent in 2006 and 123 percent in the first seven months of 2007 to surpass $2.7 trillion. Moreover, since June 2006, when CSRC lifted its moratorium on the listing of new domestic initial public offerings, 115 domestic companies have listed on the A-share market.

China has also increased investment opportunities for domestic investors in other areas, including corporate bonds, derivatives, and investment funds. CSRC, the State Administration of Foreign Exchange (SAFE), and CBRC introduced a joint effort to expand the qualified domestic institutional investor (QDII) and qualified foreign institutional investor (QFII) programs. Notable developments over the past year include PRC approval of foreign entities such as the International Finance Corp. and the Asian Development Bank to issue RMB-denominated bonds on the China market to finance development projects and regulations that lowered the threshold for participation in QFII—though not for commercial banks or securities firms—from $10 million of managed securities assets and 30 years of experience to $5 million and 5 years. QFII investors may also contract with up to three domestic brokerage firms and hold multiple brokerage accounts. In addition, CSRC approved 18 new QFIIs in 2006, bringing the total to 52.

PRC leaders also pledged to increase the number of corporate bond offerings and to transfer oversight of most types of corporate bonds from the National Development and Reform Commission to CSRC, thus bringing corporate bonds under the same regulatory umbrella as other securities offerings.

At the same time, China has taken small steps toward expanding the ownership roles and activities available to foreign firms in the domestic securities sector. At the second Strategic Economic Dialogue (SED) meeting in May 2007, China confirmed its intent to lift the moratorium on approving new foreign-invested securities firms and to resume licensing securities companies by the end of 2007. In addition, China agreed that before the third SED meeting in December 2007, it would permit foreign securities firms to conduct a broader range of activities in China, including brokerage services, proprietary trading, and fund management. CSRC and SAFE also agreed to increase the quota cap for QFIIs' investment from $10 billion to $30 billion by the third SED meeting. PRC officials at the second SED meeting also committed to allow the New York Stock Exchange and NASDAQ to set up offices in China and did so under regulations that were implemented on July 1.

QDII programs, which allow domestic institutional investors to access a variety of financial instruments and capital markets outside of mainland China, are an important step in China's liberalization of investment opportunities. Yet these programs have been, to date, small relative to the potential pool of Chinese funds that are now legally allowed to invest in these programs. The *Financial Times* reported in April 2007 that only 5 percent of China's $18.5 billion QDII quota had been invested abroad and the vast majority of that amount was in the form of Hong Kong-listed H shares. Since then, however, several sets of measures have been released to reform the QDII program to allow a greater number of domestic investors to invest in a broader range of overseas investment products.

Recommendations

As China's securities sector expands, the country's ability to manage this growth can be aided by:

- Removing or raising the 33 percent cap on foreign ownership in joint-venture securities firms and the 49 percent cap on foreign ownership of asset management firms;
- Eliminating ownership restrictions on foreign banks trading RMB and RMB-linked products;
- Expanding the role of foreign institutions in investing in sophisticated financial products such as asset-backed securities and futures and allow foreign brokerages to participate in the derivatives market;
- Lowering capital requirements for securities firm participation and for participation in the futures market;
- Allowing foreign firms to sell and trade A shares; and
- Increasing transparency and establishing a transparent road map, on an agreed timetable, to allow foreign securities firms to engage in a full range of securities activities.

Moreover, the activities foreign firms may conduct are limited. Foreign securities firms should be able to offer a full range of financial activities, including trading in and underwriting all tradable classes of securities, including A, B, and H shares. Foreign firms should also be allowed to participate on an equal footing in China's less-developed financial sectors, including futures and derivatives markets. Foreign expertise and capital have the potential to play a pivotal role in accelerating the development of these markets, and foreign players can also assist in creating new products and services while demonstrating the benefits of high corporate governance standards. This would benefit issuers, investors, and markets in China's economy, as well as provide competition that would strengthen domestic securities companies.

Insurance

Since the third quarter of 2006, CIRC has rolled out a series of regulations aimed at increasing guidance and monitoring of the domestic insurance industry. In June 2007, CIRC released a draft of the Provisional Measures for Insurance Fund Management for comment. Though CIRC allowed only one month for comment, the release was a step toward more transparency in the regulatory process. Insurers hope that the significant laws that are currently in the pipeline—namely the draft insurance and pension laws—will also be released for comment.

Since 2006, some of the most important regulations that CIRC has drafted strengthen oversight of the issuance of insurance licenses; bolster transparency and corporate governance in the insurance industry and define disclosure requirements; detail oversight procedures and requirements for the administration of life insurance products; and emphasize supervision and corporate governance. In February 2007, the Ministry of Labor and Social Security and PBOC announced that annuity funds from non-bank corporations would be allowed to invest in China's inter-bank bond market.

Observers are keeping a close eye on PRC authorities' moves to issue licenses for wholly foreign-owned insurance subsidiaries that offer nonlife insurance (including insurance for vehicle, enterprise property, cargo, casualty, liability, and other areas). China made this commitment as part of the 2003 Joint Commission on Commerce and Trade (JCCT) and 2007 SED insurance dialogues.

Recommendations

Several insurance-related concerns remain, including:

- National treatment in approval processes including concurrent, rather than consecutive, issuance of branching licenses for both life and nonlife foreign insurers;
- Fulfillment of 2003 JCCT and 2007 SED commitments to approve and issue licenses for wholly foreign-owned nonlife insurance subsidiaries;
- Permission for all qualified companies to provide political risk insurance for Chinese companies with exposure abroad; and
- Release of draft regulations for comment.

Several important insurance sectors remain closed to foreign investment. These include the so-called "statutory insurance" sectors, such as mandatory third-party auto liability insurance. In light of the growing number of vehicles on the road, liberalization of this sector will ensure the inflow of expertise and quality products and services that will help forestall a rise in insurance claims and premium costs. Sudden increases of claims and premium could overwhelm the capital resources of Chinese insurance companies. In sum, further liberalization will ultimately benefit China's companies and society.

Futures and asset-backed securities

PRC regulators have also gradually begun to develop other investment and risk management markets. CSRC issued several draft measures in April 2007 designed to regulate the futures market. These measures included a risk warning index for futures companies, as well as high capital requirements for participation in the markets—¥15 million ($2 million) in net capital, ¥45 million ($6 million) for exchange settlement net capital, and ¥90 million ($12 million) for comprehensive settlement net capital. A revision of earlier rules governing certification and activities of brokers in the futures market was issued in July 2007.

Unfortunately, high capital thresholds and other regulations have deterred many investors. Stipulations that require comprehensive settlement net capital to exceed ¥90 million ($12 million) automatically exclude most futures companies from participating, considering that the average registered capital of such companies in China is about ¥30 million ($4 million).

Though China has seen a few high-profile issuances of asset-backed securities—including China Development Bank's 2005 issuance of ¥4.3 billion ($573.3 million) in securities backed by unsecured corporate loans—it limits the number of issues, range of issuers, and the variety of assets used to back securities.

Recommendations

PRC regulators should follow through on publicly stated intentions to liberalize and diversify their financial markets. CSRC, PBOC, SAFE, and other regulators should develop regulations that will promote the growth of the corporate bond, futures, asset-backed securities, and other derivatives sectors and encourage Chinese investors to invest in these new markets. The proliferation of investment and lending options for individuals and financial institutions will contribute to the more efficient allocation of capital and provide new market opportunities for Chinese and foreign firms.

Opening investment in financial derivatives and in a greater variety of bonds, including asset-backed securities, will expand investors' options and China's capacity to manage increasingly sophisticated financial instruments. Foreign firms with proven expertise in these areas can facilitate this process. Lifting capital requirements and raising ownership limits would allow this expertise to grow in China.

Rating agencies

CSRC promulgated measures in August 2007 that govern credit rating services in China. The measures, which took effect September 1, require agencies planning to apply for a securities rating license to meet certain requirements, such as possessing legal entity status and registered capital or net assets that exceed ¥20 million ($2.6 million).

These new regulations are an important step in establishing some ground rules for credit rating agencies (CRAs), though a number of issues remain. Foreign investors face a 49 percent cap in ownership in PRC CRAs. Moreover, the law imposes liabilities on CRAs for their opinions by requiring them to verify the accuracy of the information received from issuers. This requirement could have a marked effect on the willingness and ability of CRAs to issue ratings efficiently. In addition, a lack of regulatory clarity threatens to prevent open competition. Matters regarding foreign ownership requirements also remain unclear for acquisitions. Unless resolved, these concerns may make it impossible for US CRAs to issue ratings in China.

Recommendations

Despite PRC regulatory efforts to lay out a clear foundation for the operating landscape of CRAs in China, the process is incomplete. The flow of accurate financial information would be facilitated if authorities:

- Lift the restriction on 49 percent foreign ownership of established credit rating institutions and clarify rules relating to foreign ownership requirements; and
- Adjust or ease regulatory burdens and verification requirements for CRAs.

A new chapter begins

In concluding its WTO commitments roadmap, China has partially opened the door to foreign financial service providers. Yet several commitments remain unresolved and some broader, structural questions remain unanswered. To gain the full benefits that the presence of foreign financial companies can bring to China's economy, China must not only complete its WTO commitments but move beyond them. Such progress and market openings would benefit both China and its commercial partners. 完

Zhao Jing/China Foto Press

Modernizing China's Electronic Payments System

More competition in the electronic payments market can benefit Chinese consumers and lead to a more consumption-driven and services-based economy

J. Robert Vastine

China's leadership has made clear its intention to strengthen the country's services sector, which, at roughly 40 percent of gross domestic product, lags behind the global average of 67 percent. In a demonstration of its resolve to tackle the issue, the central government in April 2007 created the National Leading Group for the Development of the Services Industry, an interagency body under the State Council. Chaired by Vice Premier Wu Yi, the new leading group will guide and coordinate policies for the development of the services sector. Developing the services sector—including a modern electronic payments system—is critical if China wishes to achieve its objective of balancing the economy and increasing consumption.

Roughly $500 billion in foreign direct investment (FDI) has flowed into China over the past decade, according to the PRC Ministry of Commerce. This investment, coupled with China's entry into the World Trade Organization (WTO) in 2001, has, on the one hand, driven the country's spectacular growth, and on the other, raised concerns that Chinese companies could be marginalized in their home market. As a result, the government has taken several steps to protect Chinese brands, including issuing laws that permit only Chinese firms to operate in specific industries; setting local content and joint venture requirements and regulatory standards that are impossible for foreign companies to meet; and engaging in political favoritism when granting contracts and licenses.

The challenge for China's leadership will be to balance the population's demand for continually rising living standards—which will likely require more foreign investment—with the rise of protectionist and nationalist sentiments (see the *CBR*, November–December 2006, p.44). A case in point is the electronic payments industry, in which the interests of a domestic monopoly threaten to slow progress toward greater consumption and economic opportunity.

An underdeveloped market

Like many other sectors of the PRC economy, the electronic payments industry has grown rapidly over the past five years. The number of debit and credit cards issued has leapt from virtually zero in 2001 to about 1.2 billion cards, according to July 2007 figures from the People's Bank of China. These numbers are misleading, however, as the electronic payments industry and infrastructure in China remain relatively underdeveloped compared to other countries with a strong consumption-driven economy. The 1.2 billion cards in circulation translate into fewer than one per person, in contrast to the roughly 1.5 billion debit and credit cards in circulation in the United States (5.2 per person) and the 839 million cash and debit cards in Japan (6.6 per person), according to Bank of International Settlements 2005 statistics.

Of course, a consumer base with electronic payment cards is only half of the equation. For an electronic payment system to function efficiently, automated teller machines (ATMs) must be in place to allow for easy withdrawals, and merchants must accept these cards as a form of payment. In this area, China lags even further behind other markets. While more than 99 percent of US merchants in the United States accept some form of electronic payment, China's roughly 500,000 card-friendly retail outlets represent only 2.5 percent of the total in the country. China currently has only about 100,000 ATMs, which amounts to just one for every 13,000 people, compared to nearly 400,000 ATMs in the United States, or roughly one for every 750 people, according to industry estimates.

Moreover, the People's Bank of China estimates that of the 1.2 billion cards in China, only about 55 million—roughly 5 percent—are credit cards tied to a personal line of credit; the rest are debit cards tied to an individual's savings account. In contrast, about 70 percent of all cards in the United States are tied to some line of personal credit, according to the Nilson Report.

Even in countries where debit cards are highly preferred over credit cards, the ratio is not as lopsided as that in China. For example, in Germany, where debit cards are generally preferred, cards with some credit functionality account for roughly one-fifth of all cards in circulation, according to the Bank of International Settlements and other industry estimates. One reason for the relative dearth of credit cards in China is that the country has a cultural bias toward savings, exacerbated by the scarcity of formal health care and retirement savings vehicles (see p.32). Another factor is the absence of a centralized, modern credit risk reporting system. Although China is developing such a system, it still lags behind most developed countries.

A protected monopoly

The lack of a healthy, advanced payments industry in China, including a robust consumer credit card market, stems primarily from the fact that China UnionPay Co., Ltd. (CUP) has been granted a government-protected monopoly. Since it was established in 2002, CUP has expanded rapidly in tandem with the overall Chinese economy and has become not only a popular brand but also a source of national pride. Despite China's WTO commitments to the contrary, China's central bank continues to deny licenses to other electronic payment providers to operate fully in China (see p.26). Without such competition, China's citizens, banks, and economy are left underserved, and the twin goals of increased consumption and a more service-driven economy remain difficult to achieve.

Benefits of a competitive industry

Electronic payments and the banking sector

In its 2006 report, *Putting China's Capital to Work: The Value of Financial System Reform,* the McKinsey Global Institute noted that China's banking environment is neither mature nor diverse. The report states that "The emphasis on lending to large corporations has left retail banking in China underdeveloped. With the exception of bank deposits, personal financial services such as investment opportunities, credit, and insurance are available to only a small portion of households in China, mainly affluent ones." An inefficient payments system has cost China 1 percent to 1.5 percent of gross domestic product, or at least $20 billion annually, according to the report.

In a competitive operating environment, a bank's payments division is typically one of its most important financial services. A properly functioning credit card division gives a bank another profitable outlet for investing its deposits, and in turn, banks can use those profits to fund other activities, including securities underwriting and commercial and consumer lending.

J. Robert Vastine *is president, Coalition of Service Industries (CSI). Prior to joining CSI, Vastine served as deputy assistant secretary of Treasury for International Trade.*

A competitive electronic payment system also adds stability to the banking sector because it produces a redundant infrastructure, which means that when one system suffers an outage, additional back-up systems can shield the banking sector and economy from systemic risk. Multiple transaction networks reduce the risk that consumers and businesses will experience incomplete transactions.

The risk associated with the lack of redundant payment systems came into sharp relief in early 2006 when CUP's network went dark for several hours. During the outage, nearly 3 million transactions totaling some $36 billion were blocked. China Banking Regulatory Commission Chair Liu Mingkang called the impact "huge" and warned that "Given the omnipresence of information technology, a breakdown in one area could lead to a domino effect across the entire sector," according to the *People's Daily*.

Empowered consumers

A healthy, competitive payments industry strengthens the broader banking sector and lays the groundwork for general economic expansion. As all advanced economies have demonstrated, empowering consumers leads naturally to the growth of smaller enterprises that provide services.

Electronic payment cards can provide Chinese consumers with constant access to their savings or personal lines of credit, which is one way to promote greater consumption. In other countries, providing individuals with convenient access to savings and personal lines of credit has increased purchasing frequency and individual ticket amounts compared to transactions conducted in a "cash-only" or a "cash and check" environment. Access to savings is increasingly important in China because of its population's high savings rate—currently about 44 percent of gross domestic product, according to Premier Wen Jiabao's 2007

China's WTO Commitments in the Electronic Payments Sector

According to its World Trade Organization (WTO) General Agreement on Trade in Services (GATS) Financial Services Schedule, China must allow unrestricted market access and national treatment for "payments and money transmission services, including credit, charge, and debit cards" beginning in 2007. In addition, China's GATS schedule requires it to do the same for other financial services listed in its schedule, including payments. China also committed to open market access for the "provision and transfer of financial information and financial data processing...by supplier[s] of other financial services," and prohibited any domestic payments processor to operate as a monopoly.

Despite these commitments, many foreign-owned electronic payment providers say China restricts market access by maintaining a government-protected domestic monopoly, China UnionPay Co., Ltd. (CUP), for all domestic, renminbi-denominated electronic payment transactions.

At the second round of the Strategic Economic Dialogue, China announced that it would allow foreign banks and financial institutions to issue local currency credit and debit cards, as long as they carry the CUP logo. It also maintained the requirement that all transactions conducted on these cards in China be processed over the CUP network. Foreign electronic payment providers contend that this announcement does not satisfy China's WTO commitments and in fact further solidifies CUP's monopoly status.

Further opening of electronic payments benefits all

The opening of the electronic payments sector to foreign and domestic participants would benefit all sides. A competitive payments system will serve China's overall economic interest by enhancing the infrastructure and stability of the country's banking industry, spurring innovation, promoting retail industries, and stimulating consumer spending.

To realize this system, progress is necessary in a variety of areas in addition to meeting China's year-five WTO obligations. PRC authorities can facilitate progress by:

- Lifting all restrictions on payment and money transmission services;
- Opening the domestic market to wholly foreign-owned electronic payment card systems; and
- Adopting international technical standards for electronic payments.

An open and competitive system would benefit the entire Chinese payments industry by exposing it to global best practices, industry innovations, and global interoperability standards. Financial institutions in China that rely on electronic payment networks for payment services would benefit greatly in a more competitive market and from a more secure transactions network.

A greater variety of transaction networks and electronic payment providers should be available for financial institutions to choose from when issuing renminbi-denominated or dual currency credit and charge cards. This variety would enhance the options available to banks and other financial institutions when offering credit and currency services. Chinese consumers would also benefit from an open and competitive electronic payments system.

Meanwhile, Chinese consumers seek financial services with easy access, greater convenience, safety, and cost savings. Non-financial institutions, such as retailers, can make greater contributions in this area by sharing resources and providing services to complement those offered by financial institutions. Retailers' provision of financial services, especially money transfers and traveler's check cashing, can also stimulate consumer spending.

—USCBC staff

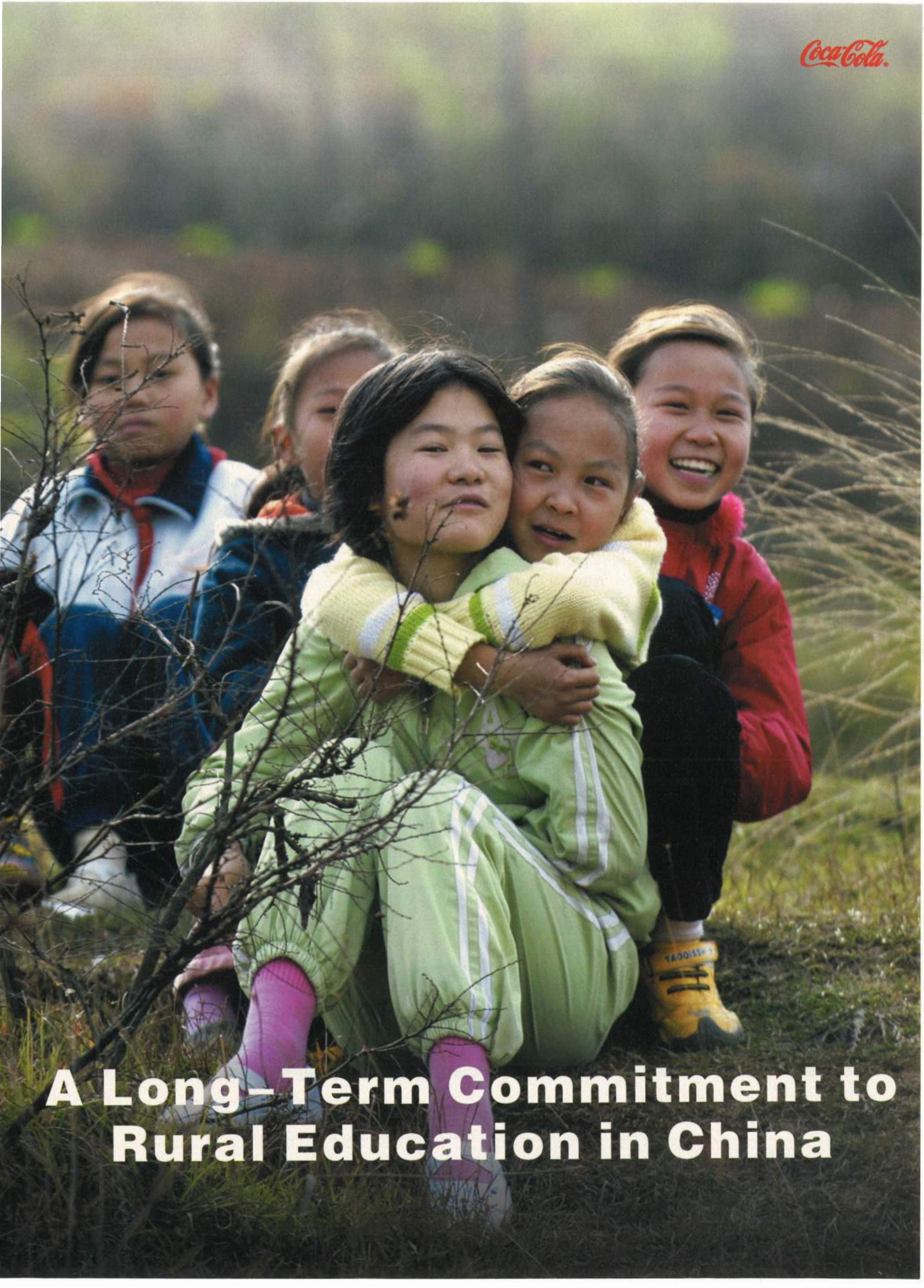
Work Report to the National People's Congress. For businesses in China, electronic payments can open up other channels of commerce, such as Internet, mail, and phone orders, thereby increasing consumption opportunities.

It may seem odd to many people in fully developed, consumption-driven economies to view electronic payment cards as a development tool, but in fact, credit and debit cards often provide individuals with their first access to the formal banking system, a prerequisite for economic success. Credit cards also provide people without savings or other established means the opportunity to invest in themselves and their families to bring about otherwise impossible economic options. Rural residents can participate in distant urban, even global, markets by using electronic payments. In short, electronic payments, particularly credit-related products, empower individual consumers and give them more economic flexibility.

Electronic payments, particularly credit-related products, empower consumers and give them more economic flexibility.

Credit-related payment products also provide small and medium-sized enterprises (SMEs) with a ready source of funds for expansion or for smoothing out the inevitable ebb and flow of business. As in other parts of the world, small, family-owned businesses in China are an important way for many people to provide for their families and improve their quality of life. The World Bank in 2005 reported, however, that "80 percent of SMEs in China report that access to credit is a significant obstacle—more than any other business constraint—and small-company access to bank loans is less than half that reported by companies in India, Thailand, or South Korea."

Citing its 2006 findings, the McKinsey Global Institute elaborated on this point and stated that "A large informal lending market has sprouted up in China to fill the gap left by the formal system in providing funding to SMEs. Our



A Long-Term Commitment to Rural Education in China

interviews with small-business owners in China reveal that most small entrepreneurs finance their operations entirely outside of the formal financial system, using loans from business connections and family and friends, sometimes from overseas....Capital from this market is high cost, however, and many potential borrowers who lack personal connections are excluded." Because credit cards provide small businesses and individuals with access to financial resources they otherwise could not obtain, they could improve the economic well-being of the relatively poor, thereby narrowing the income gap.

Opening the door to greater consumption

China's leaders face a critical decision: protect the popular national brand CUP and create a "national champion" to compete with multinational corporations or permit greater competition in the electronic payment sector to support the goal of increased domestic consumption and global competitiveness.

Ironically, encouraging competition in the electronic payment and consumer credit sector would likely benefit CUP. The experiences of other developing markets have shown that the electronic payment infrastructure grows much more quickly and efficiently when multiple players participate in the market. Because competition tends to increase the size of the market, it benefits all participants, particularly the incumbent market leader.

Consumer credit and electronic payments may not receive as much attention as other financial services or the manufacturing and agricultural sectors, but the decision to allow competition in this sector would have significant implications for China's future economic development. In opening the electronic payment market to competition, PRC leaders can demonstrate their commitment to a path that meets their major domestic policy objectives, benefits a popular Chinese brand, supports the country's WTO obligations, and allows the country to stand on its own in the global payments market. 完

> In other developing markets, electronic payment infrastructures have grown much more quickly and efficiently **when multiple players have participated in the market.**

Yang Jie/China Foto Press

The Promise of Enterprise Annuities

In China's pension reform, enterprise annuities are a pillar of promise for foreign insurers and fund managers

Donald R. Forest

China's elderly population will reach 437 million by 2051, with 31 percent of the country's population topping 60 years of age, according to a 2006 report by the China National Committee on Aging. (In contrast, about 20 percent of the world's population will be over 60 by 2050, according to UN estimates). This means China's transformation into an aging society will occur more rapidly than that of most developed countries, and, because of its large population, China will have to support more retirees than any other country.

Since China's economic reform era began, the dismantling of China's cradle-to-grave welfare system, population control measures that created a "4-2-1" family structure (four grandparents, two parents, and one child), and increases in longevity have combined to create a demographic and fiscal challenge of unprecedented proportions—a large, rapidly aging population and an implicit pension debt of $1.6 trillion. Recognizing the need for immediate and effective policies to address the country's pension shortfall, the PRC government has embarked on a pension system reform that, when fully developed, could offer foreign insurers and fund managers enormous investment opportunities.

The three-pillar model

In 1997, China unveiled a three-pillared pension system, similar to the World Bank's pension model (see the *CBR* November–December 1998, p.8). The first pillar consists of basic, defined-benefit state pensions provided through mandatory contributions by employers and basic, defined-benefit individual accounts provided through mandatory contributions by employees. Enterprise annuities (EA) form the second pillar. Governed by the Trial Rules on Enterprise Annuity and the Trial Measures on Management of Enterprise Pension Funds, issued by the PRC Ministry of Labor and Social Security (MOLSS) in 2004, EAs are fully funded, voluntary defined-contribution schemes set up by employers. The final pillar includes other voluntary plans set up by employers, including commercial group insurance contracts.

Enterprise annuities on the rise

The vast majority of China's existing EAs are "legacy" schemes set up by state-owned enterprises (SOEs) before 2004. Since then, fewer than 300 schemes have been established, all at larger companies. In 2006, EA schemes covered about 9 million urban employees—or 3 percent of total urban employees. In addition, EA assets under management totaled roughly $12 billion.

By most estimates, China will rank among the largest pension fund markets in the world over the next several decades. In the process, EA-related funds will create immense opportunities for pension-related foreign-invested enterprises (FIEs). Peter Alexander, founder and principal of the Shanghai-based consultancy Z-Ben Advisors, Ltd., has noted that momentum could start to build within three years—if the PRC government continues to open the sector. Regulatory clarity in EA licensing, tax unification, trust management, and asset management and allocation policies would be widely welcomed by various industry players.

Current and potential obstacles

Many chops

Seasoned China hands recognize that nearly everything worthwhile requires many "chops," or approvals, in China. The system for EA licensing and approvals, which may be the most complex licensing system for financial services in China, is no exception.

MOLSS issued EA regulations in 2004 that require a pension plan to appoint a licensed trustee, custodian (which must be a bank), administrator, and fund manager (see Figures 1 and 2). (In contrast, a provider can assume all four roles in the US 401(k) retirement system.) Before MOLSS can issue the license, however, an EA service provider must first receive approval from the relevant regulator—meaning that an insurer must receive approval from the China Insurance Regulatory Commission (CIRC), a fund manager from the China Securities Regulatory Commission, and a banker from the China Banking Regulatory Commission.

In August 2005, MOLSS announced a list of 37 approved licenses for trustees, custodians, administrators, and fund managers (see Table). That month, most of China's national insurers received account administrator licenses. In May 2007, CIRC granted Taikang permission to set up a pension insurance company in Beijing and allowed the Changjiang Pension Insurance Co. to set up in Shanghai. CIRC appears to be moving quickly to get domestic pension providers up and running.

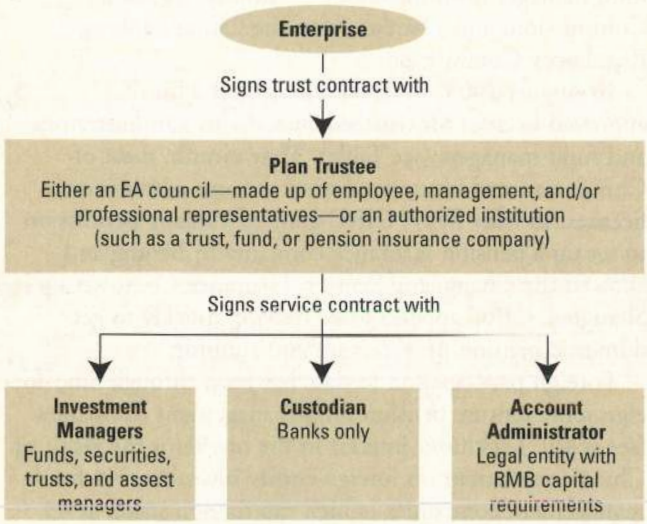
Foreign participation to date has been through Sino-foreign joint venture pension fund management companies (see p.40). Lackluster interest in the market is the result of China's restrictions on foreign equity investment in fund management companies (which cap foreign stakes at 49 percent), low expected margins given the paucity of investable assets and investment ceilings, and the inability to control EA functions (such as trustee, administrator, and fund manager) under one license.

Regulators and existing Chinese EA licensees—insurers, fund managers, administrators, and custodians—appear to recognize that the licensing system needs to be more user-friendly for licensees, and recent market and regulatory developments are likely to support a more rational licensing system in the near future. For example, during the second Strategic Economic Dialogue (SED) meeting last May, the PRC government agreed to streamline the application and licensing process for providing EAs by financial institutions before the next SED, which is slated to take place this December. If implemented according to US requests, this action should permit US insurers in China to offer a wider range of pension services and products and enable other related providers, such as fund and asset managers and banks, to enjoy broader market access. Through the SED, US industry is urging China to allow MOLSS to bundle

Donald R. Forest *has worked on China issues for more than 20 years, including in Beijing for Citigroup CitiInsurance-China and Aetna-China. He served as director for China at the US Department of Commerce from 1992–99 and now advises US clients on commercial issues in China.* *He wishes to thank the American Council of Life Insurers and Richard Hinz of the World Bank for their comments.*

licenses (except for custodians, which for fiduciary reasons are confined to banking institutions) into one EA operating permit. Furthermore, since pensions are included in China's World Trade Organization life insurance commitments, US insurers are eager to gain licenses through their existing JV entities which, in most cases, should entitle them to take stakes of at least 50 percent—the same as the current stake limit in life insurance companies.

Figure 1:
Enterprise Annuity Account Management in China



Source: Hu Yan, independent actuary, Beijing

Figure 2: Enterprise Annuity Qualified Licensees

Who Can Be What?	Trustee	Custodian	Investment manager	Administrator
Trust companies	✔		✔	✔
Fund management companies	✔		✔	✔
Pension service companies	✔		✔	✔
Commercial banks		✔		✔
Securities companies			✔	✔
Life insurance companies				✔
Insurance asset management companies			✔	✔
Investment companies			✔	✔
Non-financial services companies				✔
Others				✔

Note: Under existing regulations, the PRC Ministry of Labor and Social Security (MOLSS) grants licenses piecemeal to different financial services providers; there is no one comprehensive EA license. Life insurers are the most restricted. Under the proposed scheme, MOLSS would bundle all applicable licenses for insurers—trustee, investment manager, and administrator—under one enterprise annuity license, after the China Insurance Regulatory Commission qualifies the insurer.
Source: Hu Yan, independent actuary, Beijing

Many recent market and regulatory changes suggest that some licensing concerns could be addressed soon. According to MOLSS Policy No. 32, issued in September 2006, China will transfer $9.1 billion in company pension plans to selected fund managers by the end of 2007. Liu Yongfu, vice minister of MOLSS, indicated in March that the ministry could adjust or expand the list of current licensees in late 2007 and will likely standardize management of pension funds in early 2008.

Though it appears that MOLSS and CIRC are streamlining the licensing process and issuing more licenses, it is unclear where one regulator leaves off and the other picks up. Furthermore, the regulators should extend licenses to US and other experienced foreign pension providers and fund managers. They will create pressure to support global best practices, better manage risk, and help generate greater returns given their experience in global markets.

Inconsistent tax policies and opaque regulations

Industry observers often cite China's lack of a unified national tax policy on retirement and pension-related income as the single biggest impediment to the development of EA and supplementary pension markets in China. Though current regulations allow companies and employees each to contribute up to 8.3 percent of the previous year's payroll, they do not specify how much of these contributions are tax deductible. Without clear guidance, provinces have taken it on themselves to establish these parameters. Currently, more than 19 provinces have made EA contributions tax deductible, with rates ranging from 4 to 20 percent, creating extra burdens for companies operating in more than one location in China.

EA regulations are equally unclear on critical issues such as dividends, interest income, withdrawals, survivorship, and portability. Unsurprisingly, the lack of regulatory clarity has diminished employee interest and prompted domestic enterprises and FIEs to adopt a wait-and-see approach. Despite EA rules that require employees to contribute to existing EA plans, more than 75 percent of FIEs do not require such contributions because of a lack of tax-related incentives, according to a recent Hewitt Associates LLC survey.

Weak incentives

Modest tax benefits and unclear rules provide employees weak incentives to use EA plans. It will take China years to incentivize investments in financial instruments through national regulations that would allow employers and employees to reduce overall tax obligations and expand financial assets, as is done in the US 401(k) plan. After all, it has taken the 401(k) system 25 years to reach its current $3 trillion in assets.

Industry observers believe China assets under management could reach $100 billion within 10 years and perhaps more than $1 trillion in 20 to 25 years. But to reach

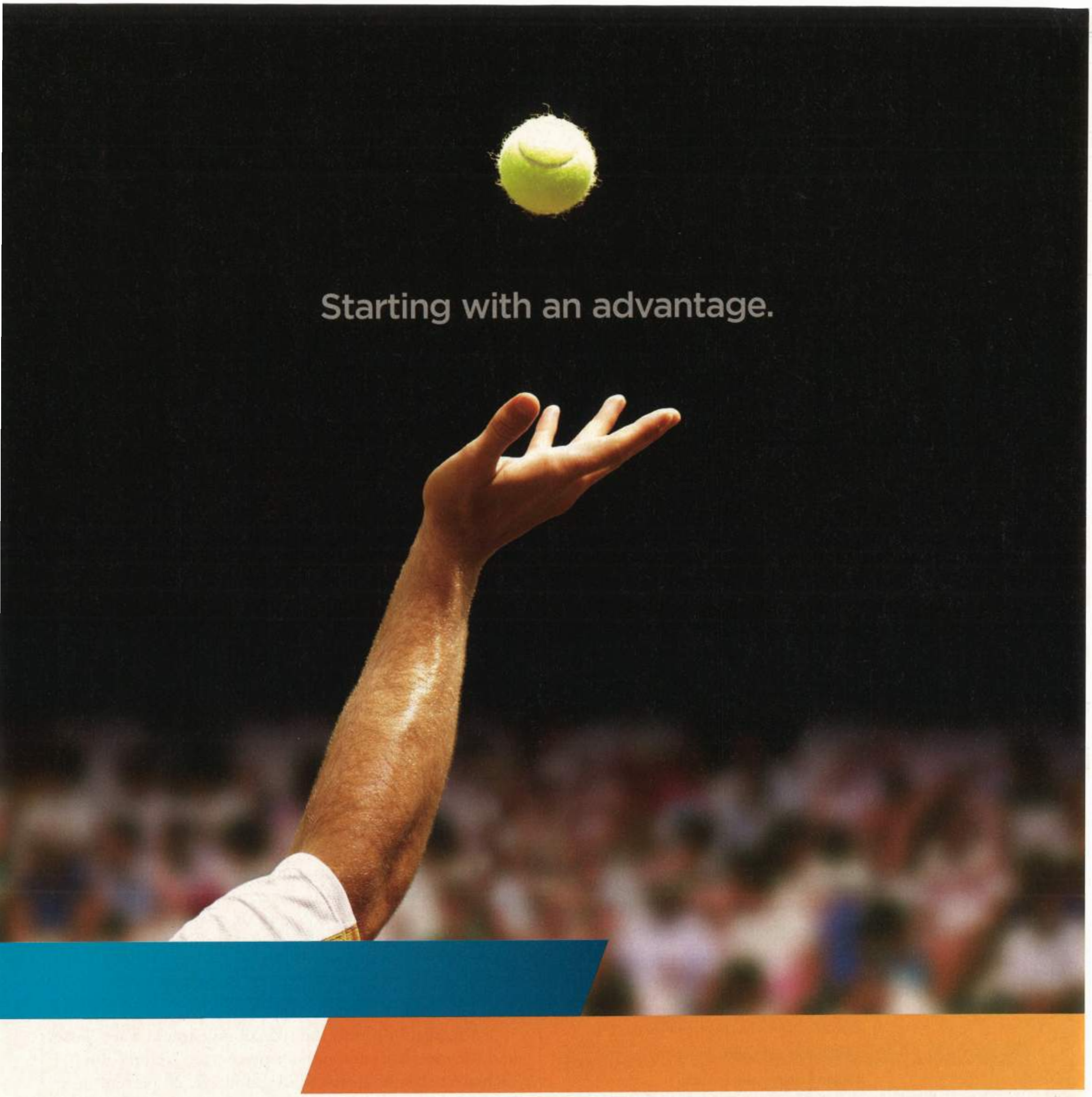

Starting with an advantage.

Table: China's First Batch of Enterprise Annuity (EA) Licensees

License type	Institution
EA institutional trustees	CITIC Trust and Investment Co., Ltd.
	Huabao Trust Corp.
	Ping An Pension Insurance Co.
	Tai Ping Pension Insurance Co. Ltd.
	Zhongcheng Trust and Investment Corp.
EA custodians	Bank of China Ltd.
	Bank of Communications Co., Ltd.
	China Construction Bank Corp.
	China Everbright Ltd.
	China Merchants Bank Co., Ltd.
	Industrial and Commercial Bank of China Ltd.
EA account administrators	Bank of Communications Co., Ltd.
	China Everbright Ltd.
	China Life Insurance Co. Ltd.
	China Merchants Bank Co., Ltd.
	China Pacific Life Insurance Co., Ltd.
	CITIC Trust and Investment Co., Ltd.
	Huabao Trust Corp.
	Industrial and Commercial Bank of China Ltd.
	New China Life Insurance Co.
	Shanghai Pudong Development Bank Co. Ltd.
	Taikang Life Insurance Co.
EA investment managers	Boshi Fund Management Co., Ltd.
	China Asset Management Co., Ltd.
	China International Capital Corp. Ltd.
	China Life Insurance Assets Management Co., Ltd.
	China Merchants Fund Management Co., Ltd.
	China Southern Fund Management Co., Ltd.
	CITIC Securities Co. Ltd.
	E Fund Management Co. Ltd.
	Fortis Haitong Investment Management Co., Ltd.
	Fullgoal Fund Management Co., Ltd.
	Harvest Fund Management Co., Ltd.
	Huatai Asset Management Co.
	Ping An Pension Insurance Co.
	Tai Ping Pension Insurance Co. Ltd.
	Yinhua Fund Management Co., Ltd.

Note: MOLSS released a list of 37 approved licensees in August 2005. Foreign fund managers participate as licensees through their joint ventures: Fortis Investments (UK) (Fortis Haitong Investment Management Co., Ltd.); ING Asset Management BV (China Merchants Fund Management Co., Ltd.); BMO Financial Group (Fullgoal Fund Management Co., Ltd.); and Deutsche Asset Management (Harvest Fund Management Co., Ltd.). Several domestic insurers received account administrator licenses.
Source: MOLSS

that number, China must move expeditiously to enact national tax deduction regulations and take other steps as noted above. Some industry observers believe MOLSS, the Ministry of Finance, State Administration of Taxation, and other supporting agencies may soon release more detailed tax rules that will address such concerns.

State bias toward individual trusts

China's current EA regulations do not permit master trust plans; all EA plans must be established as individual trusts. In a master trust, investments from different companies are pooled, thereby eliminating the need for individual companies to register separate plans. Master trusts are better suited for small and medium-sized enterprises (SMEs), which frequently have limited resources. Smaller, individual trusts are unattractive to EA service providers because they must establish separate accounting and other administrative structures to accommodate such plans, increasing the provider's costs and reducing overall investable capital for the company and its employees.

The need for voluntary retirement plans in China will only grow over time. SMEs and other private firms will continue to account for the lion's share of China's overall economic growth and employment generation. Moreover, young workers who have just entered the work force are largely destined to secure employment outside the state sector. This group is perfectly suited for defined-contribution voluntary plans where employer matches and employee contributions can grow significantly over a long period. Some observers believe that smaller firms could use group annuity products to avoid the complexities of trusts and their administration. But tax treatment, including deferment, of such insurance products requires further study. Meanwhile, MOLSS appears committed to broaden coverage to SMEs through individual trusts.

Restrictions on asset investment and allocation = diminished returns

EA regulations limit the type of investment asset classes and the investable amounts or percentage "ceiling" for each asset class in an EA fund as follows: 20 percent in liquid investments (such as cash and money market funds); 50 percent in fixed-income products and convertible bonds, including a minimum or "floor" in government bonds; and 30 percent in equities (such as stocks and mutual funds). Western asset and fund managers generally believe that China's paucity of investment classes coupled with defined asset class ceilings and floors significantly limits the potential for higher, longer-term returns for EA-related pension assets. These managers argue that raising the ceiling on equities and allowing Chinese pension funds to be invested abroad will permit greater diversification, thus offering the strong possibility of greater returns. (In a related example, Hungary had a 50 percent limit on equities and the Czech Republic a 25 percent equity limit until 2004. Now both markets have begun to eliminate restrictions. These markets, along with Poland, are likely to account for much of the projected 19 percent per year market volume growth expected in Eastern Europe through 2015.)

The World Bank and the Organization for Economic Cooperation and Development have studied the impact of restricting investments in asset classes, especially equities, and restricting investments to domestic instruments. After observing several markets, these institutions generally recommended against open-ended quantitative portfolio limits (especially for equities) and restrictions on investments abroad. If limits exist, the institutions state, analysts should regularly assess them to determine whether they unnecessarily inhibit the ability of pension fund managers to implement optimum investment strategies and whether they preserve the prudential principles of security, profitability, and liquidity. If legal provisions establish investment ceilings by category, regulators should establish procedures to address ceilings that preclude or hinder managers from optimizing returns.

Some encouraging signs are beginning to emerge in the industry. According to the Provisional Measures on Foreign Investment by Insurance Funds, which CIRC released on July 25, China has relaxed control on foreign investment made by domestic insurance companies and allowed insurers to use their own foreign currency or currency purchased from banks to invest abroad. Whether this will extend to EA-related funds is unclear.

In general, equities generate longer-term returns than bonds. Because pension funds are long-term investments that can absorb downturns and build on market gains, it follows that countries with several carefully managed pension funds invested in equities have often performed better than countries that invested more heavily or solely in bonds. Industry observers generally contend that China cannot improve investment results unless private pension fund investment managers participate more actively in domestic equity markets. This is in part because such investment managers tend to exert pressure to improve corporate governance and standards and to foster greater market stability overall.

Predicting moderate, positive change

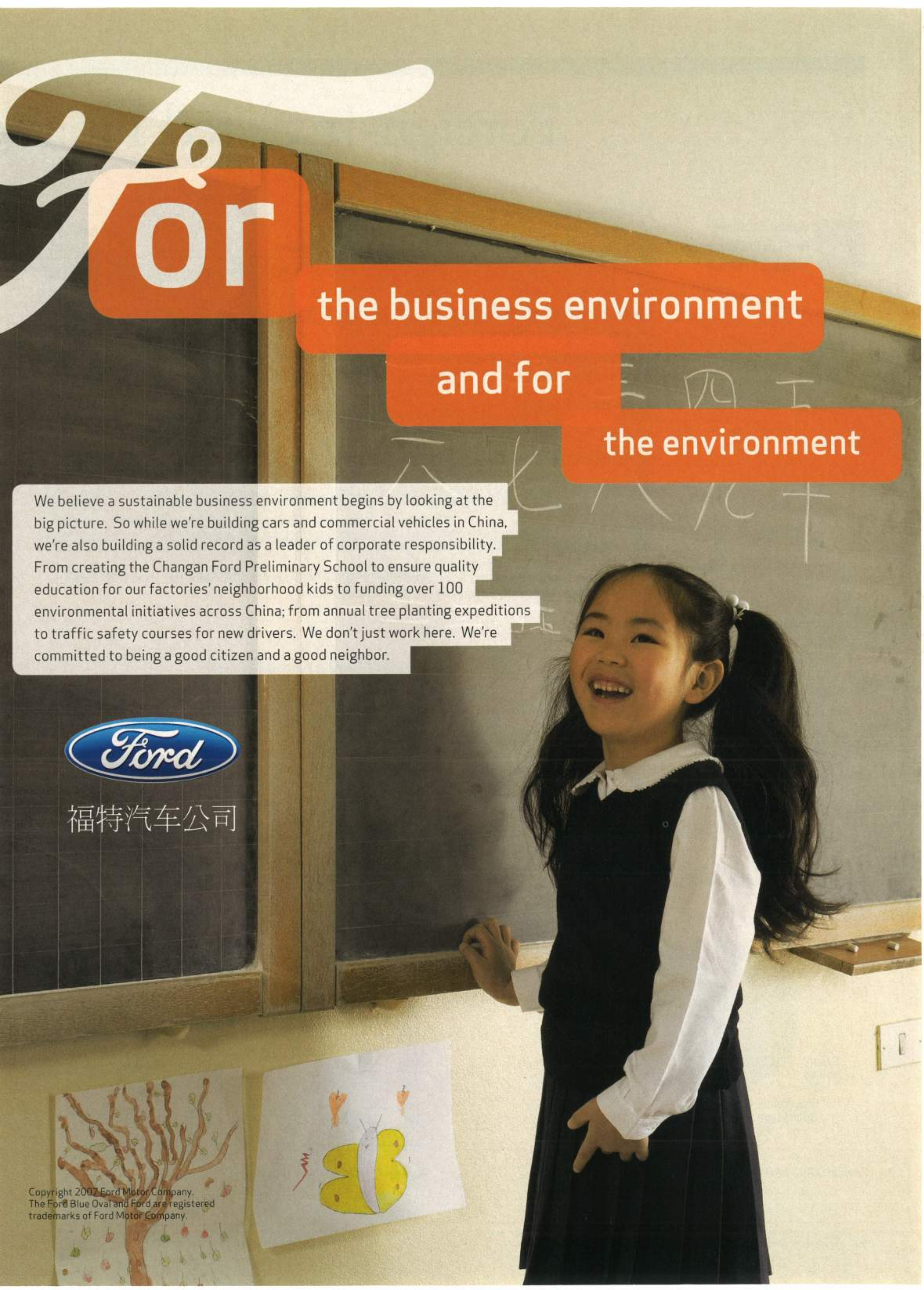
Most experts have predicted that China will grant greater investment latitude to EA investment classes and investments abroad at a measured pace in the near term. The sacking of former Shanghai Chinese Communist Party Secretary Chen Liangyu in September 2006, followed by scores of other local officials, for mismanaging Shanghai's pension funds will weigh heavily against any rapid liberalization of asset allocations. Ironically, the central government's high-profile involvement in Chen's case and vigilance over all provincial and municipal pension plans could ultimately result in more professionally managed pension assets with greater flexibility in allocations.

MOLSS Policy No. 34, issued last year, states that local social security bureaus will not accept new supplementary retirement plans and that all existing supplementary retirement plans managed by the bureaus will be transferred to outside managers by the end of 2007. Particularly in the case of Shanghai's Social Security Bureau, this means transferring the management of supplementary funds, including EA-related funds, to professional outside managers licensed and recognized by the central government.

As noted above, the involvement of foreign fund and asset managers in China's pension market currently extends to a fairly small group of professionals—the 37 firms that received EA licenses in 2005 and 2006 and the 10 firms that manage a portion of the National Social Security Fund's overseas portfolio. Industry insiders believe that MOLSS may soon issue more licenses, but no formal announcement has been made. Once these and future fund manager licensees have had the opportunity to demonstrate the advantages of diverse asset allocations, the power of equities over time, and the critical role that overseas markets play in sustaining and expanding pension assets, PRC policymakers will likely modify current EA asset allocation limits.

Another critical element required for a healthy EA industry is metrics and indices, which can reliably evaluate the performance of EA and related funds. These tools will be indispensable to consumers, employers, fund managers, and government regulators. In an industry first, Reuters Group plc in 2007 launched benchmark indices—the Reuters China Pension Index I and II—to measure the investment performance of China's EA equity and other invested assets. Alex Hungate, Reuter's Asia managing director, explained in a 2006 press release that Reuters devised its China Pension Index "in response to a strong demand ... for benchmark indices on the developing pension industry in China. Market participants realized pension reform is essential to long-term prosperity in China as participants need to assess their portfolio management performance, and government regulators need to measure the progress and development of its EA system."

As the number of China's retirees is expected to double from 2005 to 2015, and the dependency ratio (the number of workers supporting retirees) to worsen thereafter, China's window of opportunity for launching a viable EA system is indeed small. To fully exploit the potential of the second pillar of the pension system, PRC officials must streamline approvals for EA licenses for fund managers and insurers, incentivize consumption of EA-related products through preferential tax policies, and adopt more market-driven approaches to investment and EA plan structures. 完


For
the business environment
and for
the environment
We believe a sustainable business environment begins by looking at the big picture. So while we're building cars and commercial vehicles in China, we're also building a solid record as a leader of corporate responsibility. From creating the Changan Ford Preliminary School to ensure quality education for our factories' neighborhood kids to funding over 100 environmental initiatives across China; from annual tree planting expeditions to traffic safety courses for new drivers. We don't just work here. We're committed to being a good citizen and a good neighbor.
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Foreign-Invested Financ

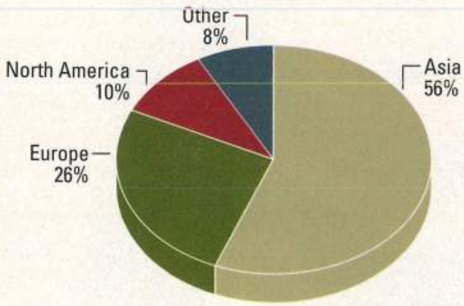
Online Exclusive
Foreign life and nonlife insurers in China

Locally Incorporated Foreign Banks*

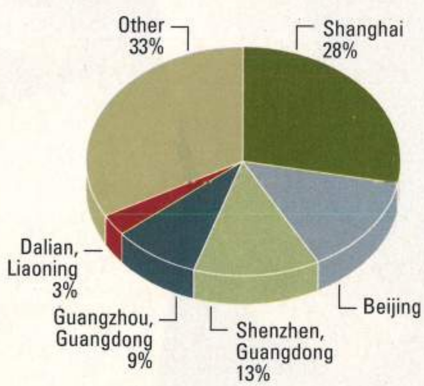
Company	Headquarters	Foreign parent company	Date of approval
Citibank (China) Co., Ltd.	Shanghai	Citigroup Inc. (US)	March 2007
HSBC Bank (China) Co. Ltd.	Shanghai	HSBC Holdings plc (UK)	March 2007
Standard Chartered Bank (China) Ltd.	Shanghai	Standard Chartered plc (UK)	March 2007
The Bank of East Asia (China) Ltd.	Shanghai	The Bank of East Asia Ltd. (Hong Kong)	March 2007
DBS Bank (China) Ltd.	Shanghai	DBS Bank Ltd. (Singapore)	May 2007
Wing Hang Bank (China) Ltd.	Shenzhen, Guangdong	Wing Hang Bank Ltd. (Hong Kong)	May 2007
ABN AMRO Bank (China) Co., Ltd.	Shanghai	ABN AMRO Bank NV (the Netherlands)	July 2007
JPMorgan Chase Bank (China) Ltd.	Beijing	JPMorgan Chase & Co. (US)	July 2007
Hang Seng Bank (China) Ltd.	Shanghai	Hang Seng Bank Ltd. (Hong Kong)	August 2007
NA	Shanghai	Mizuho Corporate Bank, Ltd. (Japan)	Pending
NA	Shanghai	OCBC Bank Ltd. (Singapore)	Pending
NA	Shanghai	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Japan)	Pending
NA	NA	United Overseas Bank Ltd. (Singapore)	Pending

Notes: *As of October 2007; NA = not available
Sources: China Banking Regulatory Commission (CBRC); ABN AMRO Bank NV; DBS Bank Ltd.; Hang Seng Bank Ltd.; JPMorgan Chase & Co.; Wing Hang Bank Ltd.; Xinhua News Agency

Foreign Banks' Home Regions, 2006



Location of Foreign Banks, 2006

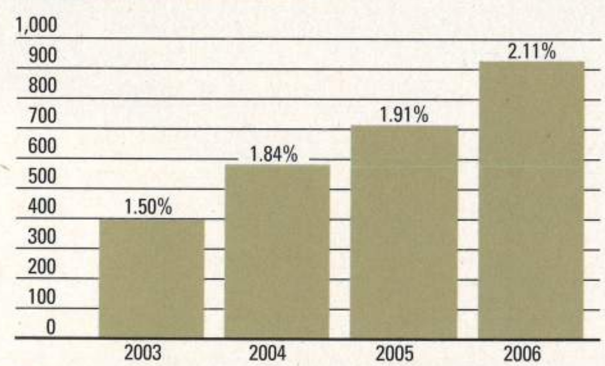


Source: CBRC, *Development of China's Banking Industry*, 2006

Foreign Banks by the Numbers

186 Foreign banks with representative offices
242 Foreign bank representative offices
74 Foreign banks with branches
200 Foreign bank branches
99 Hong Kong bank branches
26 US bank branches
21 UK bank branches
19 Japanese bank branches
17 Singaporean bank branches
15 French bank branches

Foreign Bank Assets, 2006



al Institutions in China

Fund Management Joint Ventures, 2006

Company	Headquarters	Foreign investor	Stake (%)	PRC investor(s)	Stake (%)	No. of funds	Year est.
ABN AMRO TEDA Fund Management Co., Ltd.	Beijing	ABN AMRO (the Netherlands)	49	Northern International Trust and Investment Co., Ltd.	51	9	2002
China Merchants Fund (CMF) Management Co., Ltd.	Shenzhen, Guangdong	ING Asset Management BV (the Netherlands)	30	China Power Finance Co. Ltd.; China Huaneng Finance Co. Ltd.; China Merchants Securities Co. Ltd.; and COSCO Finance Co. Ltd.	70	9	2002
Guotai Junan Allianz Fund Management Co., Ltd.	Shanghai	Allianz AG (Germany)	33	Guotai Junan Securities Co. Ltd.	67	14	2002
Fortis Haitong Investment Management Co., Ltd.	Shanghai	Fortis Investments (UK)	49	Haitong Securities Co., Ltd.	51	8	2003
Fortune SGAM Fund Management Co., Ltd.	Shanghai	Société Générale Asset Management SA (France)	49	Fortune Trust & Investment Co., Group Co. Ltd.	51	10	2003
Fullgoal Fund Management Co. Ltd.	Shanghai	BMO Financial Group (Canada)	27.8	Haitong Securities Co., Ltd.; Shenyin & Wanguo Securities Co., Ltd.; and Shandong International Trust and Investment Corp.	72.2	13	2003
Invesco Great Wall Fund Management Co., Ltd.	Shenzhen, Guangdong	AMVESCAP plc (US)	49	Great Wall Securities Co., Ltd.; Dalian Shide Group Co., Ltd.; and Kailuan Group Co., Ltd.	51	9	2003
AIG-Huatai Fund Management Co., Ltd.	Shanghai	AIG Global Investment Corp. (US)	49	Huatai Securities Co., Ltd. and Suzhou New District High-Tech Industrial Park Co., Ltd.	51	4	2004
BOC International Fund Management Co., Ltd.	Shanghai	Merrill Lynch & Co., Inc. (US) and BOC International Holdings Ltd. (Hong Kong)	33	BOC International (China) Ltd.	67	4	2004
China International Fund Management Co., Ltd.	Shanghai	JPMorgan Asset Management (UK) Ltd. (US)	49	Shanghai International Trust and Investment Co., Ltd.	51	7	2004
Everbright Pramerica Fund Management Co., Ltd.	Shanghai	Pramerica Investment Management (US)	33	Everbright Securities Co., Ltd.	67	5	2004
SYWG BNP Paribas Asset Management Co., Ltd.	Shanghai	BNP Paribas Asset Management Ltd. (UK)	33	Shenyin and Wanguo Securities Co., Ltd.	67	5	2004
Bank of Communications Schroder Fund Management Co., Ltd.	Shanghai	Schroder Investment Ltd. (UK)	30	Bank of Communications Co., Ltd. and China International Marine Containers (Group) Co., Ltd.	70	6	2005
CCB Principal Asset Management Co., Ltd.	Beijing	Principal Financial Services, Inc. (US)	25	China Construction Bank Corp. and China Huadian Corp.	65	4	2005
CITIC Prudential Fund Management Co., Ltd.	Shanghai	Prudential plc (UK)	33	CITIC Trust and Investment Co., Ltd.; China-Singapore Suzhou Industrial Park Venture Co.; and Suzhou New District Economic Development Group Corp.	67	2	2005
Harvest Fund Management Co., Ltd.	Beijing	Deutsche Asset Management (Germany)	19.5	Lixin Investment Co., Ltd.	80.5	13	2005
HSBC Jintrust Fund Management Co., Ltd.	Shanghai	HSBC Investment (UK) Ltd.	49	Shanxi Trust and Investment Corp.	51	3	2005
ICBC Credit Suisse Asset Management Co., Ltd.	Beijing	Credit Suisse First Boston (Switzerland)	25	Industrial and Commercial Bank of China Ltd. and COSCO Group	75	7	2005
UBS SDIC Fund Management Co., Ltd.	Shenzhen, Guangdong	UBS AG (Germany)	49	SDIC Hongtai Trust and Investment Co., Ltd.	51	8	2005
First State Cinda Fund Management	Shenzhen, Guangdong	Colonial First State Investments (Australia)	46	China Cinda Asset Management Corp.	54	1	2006
KBC-Goldstate Fund Management Co., Ltd.	Shanghai	KBC Asset Management NV (Belgium)	49	Goldstate Securities Co., Ltd.	51	1	2006
Lord Abbett China Fund Management Co., Ltd.	Shanghai	Lord Abbett Distributor, LLC (US)	49	Changjiang Securities Co., Ltd. and Tsinghua Holdings Co., Ltd.	51	1	2006
Lombarda China Fund Management Co., Ltd.	Shanghai	Banca Lombarda e Piemontese SpA (Italy)	49	GuoDu Securities Co., Ltd. and Pingdingshan Coal (Group) Co., Ltd.	51	1	2006

Sources: China Securities Regulatory Commission; www2.chinaknowledge.com/financial/company_fund_list.aspx

Wang Zhide/China Foto Press

The New Labor Contract Law

China's new Labor Contract Law and its expected implementing regulations may mean significant changes for human resources and other policies

US-China Business Council staff

After much anticipation, the Standing Committee of the PRC National People's Congress (NPC) on June 29, 2007 passed the Labor Contract Law (LCL), which will take effect January 1, 2008. Media reports in the United States and China have highlighted the views of foreign multinational corporations (MNCs) on the development and impact of the law and have suggested that MNCs are the target of this legislation. In fact, however, the new LCL is the product of a lengthy and significant internal debate within the Chinese Communist Party on the protections that should be provided to all workers within China's "socialist market economy," including domestic Chinese companies, foreign-invested enterprises (FIEs), and other foreign commercial entities in China. Thus, all companies doing business in China would do well to familiarize themselves with the LCL and its possible practical implications.

The context for the law: Rising number of labor disputes

Increasing social unrest and worsening income inequality in recent years have prompted PRC leaders to promote the concept of a "harmonious society," the goals of which include taking steps to ensure that broader classes of workers and rural laborers can benefit from China's economic progress. The new policy focus is also in part a response to the rising number of labor disputes. According to Ministry of Labor and Social Security (MOLSS) statistics, the number of labor disputes submitted for arbitration in 2006 was 447,000, nearly triple the number in 2001 (see Figure). In 2005, nearly 63 percent of disputes were filed in Beijing, Guangdong, Jiangsu, Shandong, Shanghai, or Zhejiang—developed coastal cities and provinces that have benefited the most from economic reforms. These developed regions are also home to many of China's new private enterprises and to most foreign companies in China.

The LCL is one of numerous policy measures that are emerging to address the causes of labor disputes. In particular, legal analysts have described the law as designed to address mistreatment of migrant workers and the urban poor by private and collective enterprises. Examples of this mistreatment reported frequently in the Chinese and foreign media include late or non-payment of wages, dangerous and unhealthy working conditions, absence of written contracts, abuse of labor dispatch agencies and other sub-contracting methods, and other techniques used by employers to evade their legal responsibilities.

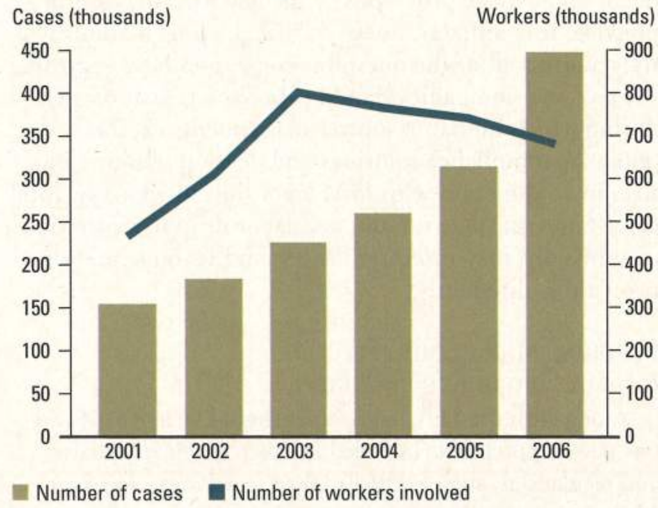
Indeed, legislation has existed for many years that deems illegal all of the forms of worker mistreatment listed above. The best known of these regulations is the Labor Law, passed in 1995. China also has numerous national, provincial, and local labor regulations.

While the existing legal protections provided to workers under China's regulatory structure are generally considered quite comprehensive, compliance with and enforcement of these protections varies and central government authorities have uncovered many abuses. Local labor bureaus, labor arbitration commissions, and courts are frequently under the influence of local governments, whose interests may align more closely with those of local employers than with workers. Local governments face conflicting pressures and numerical targets of success imposed by higher-level government authorities. Keeping unemployment low is among the most significant of these targets, and local government officials may believe that many Chinese small and medium-sized enterprises would shed workers if they had to pay the full, legally required costs of employment.

In such circumstances, workers can find it difficult to use existing channels to address grievances successfully. Migrant workers from the countryside who have come to the cities seeking work and are not formal legal residents of the area in question are often particularly vulnerable, as they lack knowledge of their legal rights. Moreover, as non-residents, their interests are often simply ignored by local authorities. Many observers believe China's new LCL is intended to raise the profile of labor issues in an effort to prod local governments to fulfill their obligations to protect workers' legal rights.

To be sure, the LCL will affect FIEs that violate workers' rights. But according to the PRC government's own statistics, FIEs account for significantly fewer labor disputes formally submitted to labor mediation and arbitration commissions than do state-owned and domestic private enterprises. (The overall number of disputes in FIEs, as in other types of enterprises, is rising, however.) Anecdotal evidence suggests that many labor disputes in FIEs occur in enterprises established by smaller investors or those operated by investors from countries or economies with less-developed labor practices and standards.

Figure: Labor Dispute Cases and Workers Involved, 2001–06



Source: PRC Ministry of Labor and Social Security

Most MNCs bring global workplace practices to their China facilities and comply with local labor laws and regulations. At the same time, however, US and other developed-economy MNCs are highly visible employers and, despite their generally good employment records, attract a disproportionate amount of attention from media, unions, and the PRC government.

The law's development

The main proponents and drafters of the LCL within the PRC government were MOLSS and the All-China Federation of Trade Unions (ACFTU; see the *CBR*, July–August 2007, p.20). The law was the focus of significant debate among various groups within China throughout the drafting and legislative process. The law progressed through 13 internal drafts before finally—in a welcome step toward increased transparency in China's legislative process—being released for public comment in spring 2006 and again for a round of invitation-only comments in late 2006–early 2007. Following another closed round of comments in May 2007, the law passed in June.

The US-China Business Council (USCBC), publisher of the CBR, *is a nonprofit membership organization that has been serving US companies doing business in and with China since 1973. USCBC is headquartered in Washington, DC, with offices in Beijing and Shanghai. This article is adapted from a longer USCBC paper,* Human Resources Update: China's Evolving Labor Regime.

In late September, MOLSS was working on implementing regulations for the LCL, which will provide more detail on how the provisions of the law will function in practice. It is unlikely, however, that these regulations will fully address all of the questions companies have regarding the law, and companies should plan for a transition period during which human resources departments explore potential compliance solutions and develop working practices in conjunction with local labor bureaus. Finally, local labor bureaus, trade unions, and labor dispute arbitration commissions may interpret the law and its implementing regulations differently.

Practical implications for foreign companies in China

Along with the LCL, companies should be aware of various new requirements included in other recent labor laws and regulations, such as the Employment Promotion Law. More labor-related laws and regulations are expected in the coming months. Of particular note, MOLSS will likely release implementing regulations for the LCL, and the NPC may pass the Labor Dispute Arbitration Law, which was read for the first time in August.

Below are responses to the most frequently asked questions on the LCL that the US-China Business Council, the publisher of the *CBR*, has received from company managers.

What does the LCL cover?

The LCL covers how labor contracts are written, enforced, and terminated. It discusses

- Severance payments;
- Noncompete clauses;
- Probationary periods;
- Part-time employees;
- Mass layoffs;
- Collective bargaining;
- Labor dispatch agencies;
- The formulation of company policies; and
- The role of labor unions.

How does this law differ from existing law?

The new LCL changes how the above subjects are addressed. A few examples of the changes include

- **Collective bargaining** Though existing laws already allow for collective bargaining, the new law introduces the concept that collective bargaining can occur across an industrial sector in a defined geographic area. Recent regulations in Shanghai outline specific processes for collective bargaining and appear to call for mandatory collective contracts for all enterprises in the municipality (see below).
- **Severance payments** Previous rules on severance compensation allow for one month's pay for each year of employment, with a cap set at 12 months, for certain situations. The new law introduces payment caps at three times the local average monthly salary for all positions. It also introduces the requirement to pay severance for nearly all terminations, including at the conclusion of a fixed-term contract that the employer does not wish to renew.
- **Mass layoffs** The 1995 Labor Law stipulates that enterprises must notify labor unions or "employee repre-

Shanghai's Collective Contract Regulations

The Standing Committee of the Shanghai Municipal People's Congress on August 17 passed the Regulations on Collective Contracts, which appear to require all enterprises located within the municipality to use a collective bargaining process. The rules are based on existing regulations and relevant provisions included in the Labor Contract Law (LCL) and were issued before the LCL implementing regulations that the Ministry of Labor and Social Security is reportedly drafting. It is possible that these collective contract regulations are serving as a "test case" for the processes the new national implementing regulations will require. Shanghai's regulations, which take effect January 1, 2008—the same date as the LCL—could require companies in Shanghai to alter their human resources procedures significantly.

The regulations require companies to follow a collective bargaining process when setting or changing any "aspects directly related to the personal interests of employees." Either the employer or employee representatives may initiate collective negotiations on any subject that qualifies under this definition by submitting a written request. In addition, companies must also collectively negotiate salary levels and systems for salary adjustment with employee representatives. Standards and conditions laid out in collective contracts may not be lower than the minimum standards of national or municipal governments, and companies may not sign individual labor contracts with employees that contain standards below those included in the collective contract.

Though the full impact of these regulations will emerge only when they are implemented, overall, the rules appear to codify previous labor laws and the LCL. Media reports indicate that the Shanghai Labor Bureau and Shanghai All-China Federation of Trade Unions (ACFTU) will initially focus on promoting collective bargaining within large state-owned and private enterprises, with the focus shifting to foreign-invested enterprises within the next two years. Meanwhile, companies in Shanghai should carefully examine and modify their human resources policies as necessary to comply with these regulations. As ACFTU looks to promote the use of collective contracts nationwide, companies in other parts of China should be aware that other jurisdictions may implement similar regulations.

—USCBC staff

sentatives" 30 days prior to any layoff. The LCL expands upon this rule by requiring employers to explain layoffs that involve 20 or more employees or 10 percent or more of all staff to the labor union or the entire staff, as well as to hear staff opinions. Moreover, in making layoff decisions, employers must now give preference to retaining employees on open-ended contracts or relatively long fixed-term contracts and to employees whose households contain elderly persons or children and no other employed persons.

Training reimbursement The 1995 Labor Law granted enterprises the right to establish training funds and provide training to employees but addressed neither required terms of service for employees who receive training at a cost nor compensation for employers if employees leave the company soon after such training is completed. The new LCL allows employers that incur training costs (outside the general training fund stipulated by other regulations) for particular employees to require a fixed term of service from those employees and permits employers to collect damages from employees who violate that term of service.

Are all of these provisions new?

No. Many of the provisions reflect existing national or local laws and regulations, and the LCL consolidates or reemphasizes them. For example, the Company Law has provisions on communicating with trade unions about major transformations in company policy. Provisions that allow collective bargaining have been on the books for some time but were somewhat vague and rarely implemented.

Must companies rewrite contracts prior to January 1, 2008?

Although the law does not require new contracts for all employees prior to January 1, some experts are advising companies to review and revise contracts in light of the new provisions, especially with regard to term, probation, severance, and noncompete agreements. For instance, existing fixed-term labor contracts will be grandfathered, as will existing noncompete clauses, though some legal experts have warned that implementing legislation may change this. Thus, instead of relying on grandfathering, companies may want to redraft and redesign noncompete agreements now with their employees to ensure that the agreements comply with the new law. The ultimate answer, however, will only come once the implementing regulations have been issued and authorities start to enforce these provisions.

Legal experts are also encouraging companies to review their employee handbooks, policies, and similar documents against the changes in the new law.

How will the law affect employee contracts?

To employers accustomed to the "at will" system used in the United States, China's employment environment appears more restrictive. Both the 1995 Labor Law and the LCL stipulate three types of labor contracts: fixed-term, open-ended, and contracts based on the completion of an assignment. An existing MOLSS circular states that in cases where the employee has been with the employer for more than 10 years, and both parties wish to continue the employment contract, an open-ended contract should be granted. In addition, the new law adds a provision that entitles employees to open-ended contracts if they have already signed two fixed-term contracts, regardless of length. The calculation for fixed-term contracts will apply only to contracts signed after January 1, 2008. The LCL also states that if an "employment relationship" exists without a written contract for one year, it is considered an open-ended contract; previous drafts of the law did not include this provision.

How will the law affect employee termination?

The LCL includes more circumstances in which the employer can fire for cause, including material conflict of interest and deception on the part of the employee in signing the labor contract. But experts caution that termination for cause can still be difficult because of local labor tribunals' generally narrow definition of what constitutes proof in wrongful termination cases. Therefore it remains important to document employee history and communication in detail and in writing.

The LCL requires advanced notification to the labor union of the termination of an employee, a change from earlier laws that did not mention such advance union notice. If a company does not have a union, it may be prudent to send a letter to the local labor authorities or ACFTU branch informing them of the termination to fulfill the requirement for written notification.

What process must companies use to change company rules and regulations?

The LCL requires "consultation" with a trade union or employee representative for changes to company rules and regulations that have a direct impact on employees, such as overtime or sick leave. Companies have generally interpreted "consultation" to mean discussion with, but not necessarily final approval from, unions or employee representatives. The Supreme People's Court will likely issue a judicial interpretation to clarify the process of consultation on company rules and regulations as described in Article 4 of the LCL.

Companies without unions may want to consider providing draft copies of new rules and regulations, such as employee handbooks, to all employees and requesting comments from employees before finalizing.

What costs are associated with compliance?

Compliance with the new law will likely increase costs in various areas. Companies may find that severance and noncompete payments are higher under the new law, though these payments are capped. In addition, compliance with the LCL will require administrative tracking of the specifics of each contract and filing of required reports with the local labor authorities, which may entail additional staff.

Does the LCL address labor disputes?

While the LCL does not have a specific chapter addressing labor disputes (Chapter 10 of the 1995 Labor Law covers this in detail), many articles in the new law reaffirm parts of existing regulations that allow an employee or a trade union to take an employer to a labor tribunal.

Must labor dispatch agencies change their procedures under the LCL?

Two key provisions of the LCL alter labor dispatch agency activities. First, the new law limits the positions that may be filled by dispatched employees to those that are "supplementary, replacement, and temporary." MOLSS will reportedly provide clarification on which functions or jobs fit these categories.

Second, labor dispatch agencies must sign contracts with dispatched employees for at least two years. If the receiving company terminates the employee before the two years are complete, the dispatch agency will be required to pay the employee minimum wage until the two years are complete. Dispatch agencies will likely seek to pass the higher cost of the two-year provision on to receiving companies.

Receiving companies and dispatch agencies have "joint liability" for any situations in which harm is inflicted on dispatched employees. In practice, receiving companies will likely be held responsible for any damages.

These provisions may have a significant impact on foreign company representative offices, which must use dispatch agencies for local hires (unlike FIEs, representative offices do not have legal person status in China and therefore cannot directly hire PRC nationals).

Should the China operations of foreign companies form unions now if they have not yet done so?

Under PRC law, a union must be formed if at least 25 employees request its formation. Formation of a union must be initiated by employees, however, not management. Companies may choose to consult directly with their staff or employee representatives on the issue to ensure that employee wishes are understood.

A step forward?

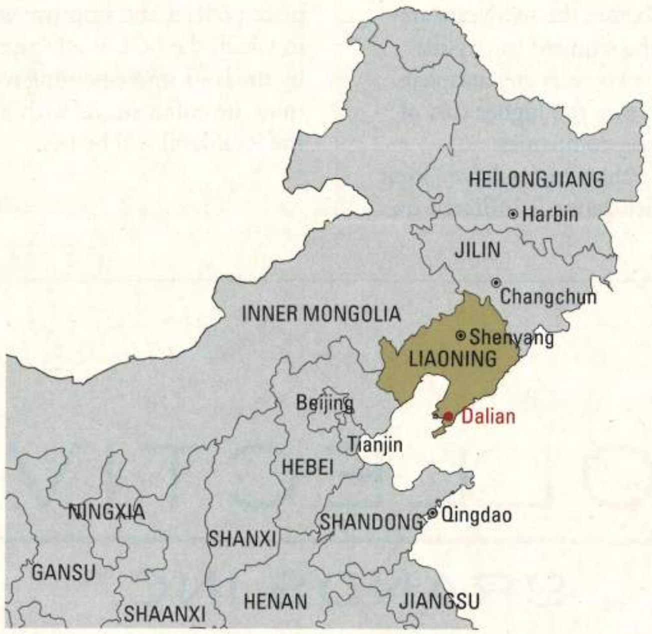
By passing the LCL and reviewing other labor regulations, China is taking valuable steps to improve working conditions. Though the new law may ultimately raise labor costs, it may also help companies in China standardize their workplace policies and improve working conditions. The degree to which the LCL is effective, however, will be determined by the law's implementing regulations and how the regulations are enforced. As with most PRC laws, enforcement at the local level will be key. 完

Northern IT Center

Eric Arndt

Long a cornerstone of northeastern China's heavy manufacturing base, Dalian, Liaoning, has had the good fortune of an early start on economic liberalization and strong international links that catalyzed its economic development. In recent years, Dalian has transformed itself into a center for software and business process outsourcing (BPO), primarily serving Japan and other East Asian markets. Its convenient location, developed infrastructure, educated workforce, and comfortable living standards may allow the city to play an even greater role in global information technology (IT) and other services.

Strategically located on the southern tip of the Liaodong Peninsula, Dalian was first designated an "open coastal city" by the central government in 1984, opening the city to foreign investment. Japanese manufacturing and electronics companies soon found Dalian to be an appealing site for investment. The city now claims 10 percent of Japan's total foreign direct investment (FDI) in China, according to the China Council for the Promotion of International Trade (CCPIT), Dalian Sub-Council. According to PRC statistics, Dalian has grown steadily since 1984, with gross domestic product (GDP) reaching $32.9 billion in 2006, up 16.5 percent over 2005. The city government is aiming for a GDP of $43 billion by 2010. Dalian residents have benefited from their city's growth—urban disposable household income reached ¥13,350 ($1,710) in 2006, an 11.3 percent increase over the previous year.



Strong maritime links

Because of its geographic position and role as an early "Gateway to the Northeast," Dalian developed into one of China's major port cities. In 2006, the annual cargo handling capacity of Dalian's Dayao Bay Bonded Port reached 145.2 million tons and its container handling capacity reached 2.2 million twenty-foot equivalent units. According to local officials, Dalian operates China's third-largest port. Cargo transit times to the US west coast can be as short as 16 days, according to the Dalian CCPIT. The coastal city also possesses one of China's three bonded-port zones (the others are in Shanghai and Tianjin; Shenzhen has applied for this status).

Dalian's strong maritime links have helped to fuel vibrant shipbuilding and petroleum transport industries. In part because a number of leading Japanese and South Korean shipbuilding firms have invested there, the city is now China's second-largest shipbuilding center after Shanghai. Dalian is also China's largest petroleum port, transporting 21.9 million tons of crude oil in 2006. The city has devoted significant resources to developing its petrochemical and chemical industries, with large development projects including the Changxing Island development zone. The port city also boasts an impressive network of land and air connections with the rest of the world. For example, Dalian International Airport offers direct and indirect connections to 15 countries, as well as to more than 50 domestic locations. Flights to

Dalian's ties in Northeast Asia have made it a global information technology hub

Beijing and Seoul take around 1.25 hours; to Shanghai, 1.75 hours; to Tokyo, 3 hours; and to Hong Kong, 3.5 hours. Expressways radiate to Beijing, an 8-hour drive away; Changchun, Jilin; Harbin, Heilongjiang; and Shenyang, Liaoning, just 3.5 hours away.

Plentiful power, scarce water

US companies have reported few issues with Dalian's power supply. Local officials note that Dalian is regularly called upon to supply power to other northeastern Chinese cities, primarily Beijing. Construction also recently began on a nuclear power station, which will be fully operational by 2014.

Water, on the other hand, is more of a challenge. Dalian faced severe water shortages only a decade ago, and officials report that it is still a concern. Although water supplies have increased, rising from roughly 80 liters per capita per day for urban users in the early 1990s to a reported 234 liters in 2006, per capita water supply is still only a quarter of the national average. In addition to encouraging enterprises to use seawater, Dalian is also expanding its desalination capabilities: six major desalination plants were operational at the beginning of 2007.

Becoming the "world's office"?

Although much of northeastern China has struggled to reform its outdated heavy industrial base to meet the demands of a more dynamic economy, Dalian has found a successful recipe for change in the form of a growing IT services sector. The city has also exploded onto the global IT scene in recent years, earning—as many Dalian residents would gladly point out—the nickname the "Bangalore of China" in Thomas Friedman's *The World is Flat.* The city's status as a domestic leader and global player in IT have been boosted by Intel Corp., which is building a $2.5 billion wafer fabrication facility in Dalian—its first such investment anywhere in Asia.

Dalian first focused on the software and IT services sector in the late 1990s under then-Mayor Bo Xilai (now Minister of Commerce). The city established China's first city-level information industries bureau to develop electronics and information product manufacturing, software, and information services industries. Dalian's IT sector has skyrocketed since then, rising from a modest revenue of ¥200 million ($26.5 million) in 1998 to ¥14.5 billion ($1.9 billion) in 2006 and is projected to surpass ¥20 billion ($2.7 billion) by the end of 2007.

Foreign investment—particularly from the United States—has played a key role in this expansion, and foreign-invested enterprises reaped 61.7 percent of the industry's 2006 revenue. US companies such as Accenture Ltd., Dell Inc., General Electric Co., Hewlett-Packard Co., IBM Corp., and others operate software and IT services facilities largely focused on serving the Asia-Pacific region.

One of the crown jewels in the software and IT services hub is the BPO component, which earned total revenue of ¥2.94 billion ($389 million) in 2006, up 55.6 percent year on year, placing Dalian among China's top three earners in this category alongside Beijing and Shanghai. BPO companies serving overseas markets constituted 81 percent of that total and accounted for 66.7 percent of all of Dalian's software and IT services exports. Much of this rapid growth is due to the relocation to Dalian of multinational corporations' (MNCs) operations formerly based in Japan and, to a lesser extent, South Korea. These MNCs are attracted by the city's large pool of Korean- and Japanese-speaking workers and lower costs. Encouraged by the city's strong performance in this sector, Mayor Xing Liangzhong announced earlier this year the ambitious goal of making Dalian the "world's office."

Human resources woes

Feeding this growing software and IT services giant has brought new challenges to Dalian's educational infrastructure. Although 22 tertiary computer and related technical-education institutions currently operate in Dalian, graduating 10,000 students annually, the city is already feeling the sharp pinch of labor supply constraints. The information industry section of China's 11th Five-Year Plan (2006–10) calls for 140,000 IT workers in Dalian by 2010, but the city could fall short by up to 100,000 workers. Exacerbating the shortage, roughly 20 percent of the city's software and IT services sector workers leave Dalian each year to seek opportunities elsewhere.

As in cities across China, MNCs in Dalian also face shortages of high-level managerial staff and qualified entry-level workers. A number of companies have responded to

Eric Arndt *is manager, Business Advisory Services, at the US-China Business Council in Shanghai.*

the problem by partnering with educational institutions to develop practical education programs, sometimes even supplying their own experienced staff as instructors. Nevertheless, the Dalian government has acknowledged that the supply of workers will not meet expected demand in the near future, and some MNCs have had to revise their recruitment goals and even consider opening facilities in other cities to tap a wider talent pool.

Dalian has ramped up its outreach efforts to help fill its human resources gap. In addition to creating tax incentives for highly paid skilled workers to lure them to Dalian, the city government has also launched recruitment roadshows within China and abroad, including in the United States and Canada. International-standard schools, healthcare, dining, and entertainment facilities cannot match those in China's first-tier cities, and improvements are needed to lure talented expatriates to the city. Likewise, if Dalian wishes to expand into western markets, it must dramatically improve English-language training resources.

A good place to call home?

Though the city faces the same obstacles as China's other coastal cities, such as rising property and commodity prices, stiff competition from other cities, and less official leeway in providing preferential policies, foreign companies in Dalian seem happy to call the city home. Besides offering various development zones with the usual mix of preferential policies, the local government is flexible and attentive to foreign investors' requests, according to MNC representatives interviewed for this article. Moreover, Dalian is a "sub-provincial level municipality," which grants it provincial-level decisionmaking authority, and city officials have been willing to directly support MNCs in Beijing, according to at least one US company in Dalian.

Despite impediments that may slow Dalian's explosive IT growth, other factors make the city an attractive place to set up shop. For instance, Dalian residents are proud of the city's mild climate and relaxed atmosphere, which they contrast favorably with those of Beijing and Shanghai. The city's air is among the cleanest in China: the State Environmental Protection Administration ranked Dalian's air quality thirty-fifth out of 109 key cities in 2006, with an Air Pollution Index of less than 100 for almost 340 days of the year. Dalian has long been a popular holiday destination for central government officials, and now wealthy residents of other large Chinese cities are purchasing residences in the city. Residential property sales grew 23.6 percent to ¥24.3

Dalian at a Glance

By the Numbers

	2006	% change over 2005
Population	5.72 million	NA
Average per capita urban disposable income	$1,709.89	11.3
Average per capita rural net income	$894.52	18.3
Number of students in tertiary education institutions	201,000	NA
Gross domestic product	$32.91 billion	16.5
Fixed-asset investment	$18.82 billion	32.3
Value-added industrial output	$13.56 billion	20.8
Consumer price index (%)	101.4	NA
Retail sales	$10.75 billion	14.7
Government revenue	$2.51 billion	29.5
Government spending	$3.41 billion	28.3
Total trade	$29.32 billion	24.3
Exports	$15.66 billion	25.4
Imports	$13.66 billion	23.1
Foreign direct investment (FDI)		
Number of contracts	900	NA
Utilized FDI	$2.25 billion	124.1

Source: Dalian Bureau of Statistics 2006 Annual Economic and Social Development Statistical Report
Note: NA = not available

Government Contacts

Dalian City Government
www.dl.gov.cn
Party Secretary: Zhang Chengyin
Mayor: Xia Deren
Vice Mayors:
Wang Chengmin
He Min
Liu Junwen
Song Zengbing
Dai Yulin
Sun Guangtian
Xing Liangzhong
Zhang Jixian

China Council for the Promotion of International Trade, Dalian Sub-Council
www.ccpitdl.org
Tel: 86-411-8280-8040
Fax: 86-411-8280-6905

Dalian Foreign Trade and Economic Cooperation Bureau
www.china-dalian.com
Tel: 86-411-8369-8000
Fax: 86-411-8368-6426

Dalian Administration for Industry and Commerce
www.dlgs.gov.cn
Tel: 86-411-8431-2999

billion ($3.2 billion) in 2006, and the number of high-rise residential buildings and resorts emerging along the coastal strip that stretches between Dalian and its neighboring city, Lüshun, are testament to the attractiveness of Dalian as a lifestyle choice.

Dalian's advantageous role as a geographic and cultural conduit between northeastern China and other Northeast Asian nations, strong investment infrastructure, and IT growth momentum make it a popular destination for FDI even as it competes with other Bohai Bay cities, such as Tianjin and Qingdao, Shandong, for foreign investors' attention. Dalian's status as a leader among China's cities was recently confirmed by the World Economic Forum, which held its first Annual Meeting of the New Champions—portrayed as an Asian counterpart to the annual Davos, Switzerland, meeting—in Dalian. The city will not have long to reap the public relations fruits of this victory, however, as nearby Tianjin has been slated to host next year's forum. Dalian officials are aware of the obstacles they face but are confident in the future of their city. If they exercise the nimbleness shown during the Bo Xilai years in developing Dalian's advantages, their optimism will not be misplaced. 完

Dalian Municipal Development and Reform Commission
www.pc.dl.gov.cn
Tel: 86-411-8363-1153

Dalian Economic and Trade Commission
www.jw.dl.gov.cn
Tel: 86-411-8363-1509

Dalian Bureau of Information Industry
www.dlbii.gov.cn
Tel: 86-411-8362-1406

Central-Level Zones

Dalian Economic and Technological Development Area
www.ddz.gov.cn

Dalian Beihai Industrial Zone
www.dl-beihai.com

Dalian Free-Trade Zone and Export-Processing Zone
www.dlftz.gov.cn

Dalian High-Tech Industrial Park
www.dlhitech.gov.cn

Provincial-Level Zones

Dalian Jinzhou Development Zone
www.jinzhou.gov.cn

Dalian Lüshun Economic Development Zone
www.lsedz.com

US Companies' China Outlook

The USCBC's annual membership survey results show US companies remain optimistic but face operational challenges and protectionist threats

US-China Business Council staff

Each year the US-China Business Council (USCBC) surveys its members to better understand their perspectives on the operating and investment climate in China, as well as China's progress in implementing its World Trade Organization (WTO) commitments (see p.55). The 2007 survey results show that many US companies doing business in China benefit from the market openings that were created by China's WTO membership. The majority of companies report that they are expanding their business in China, with increased revenues, profitability, and investment (see p.68).

At the same time, however, the majority of respondents report that China's business environment remains challenging and express concerns about the future direction of China's trade and investment policies. The ranking of top issues by USCBC's membership remained largely the same as last year. Companies continue to encounter difficulties finding qualified personnel, obtaining business licenses in many sectors, and enforcing intellectual property rights (IPR). Rising protectionist sentiments in both China and the United States also threaten to undermine the gains made to date, according to the survey results.

Top operating issues in China

As in past years, the survey asked respondents to rank the top five issues of importance to their China operations. Respondents were then asked to assess the progress that China has made over the past year in addressing those issues (see Figure). Result highlights are listed below.

Human resources: recruiting and retention

For the second year in a row, USCBC members ranked recruiting and retaining qualified workers as their top operating issue in China. In fact, more than 90 percent of respondents indicated that recruiting and retention pressures had intensified or showed no improvement over the past year.

Despite China's large population, rapidly increasing supply of college and technical education graduates, and growing workforce with business or skilled labor experience, demand from foreign and Chinese employers outstrips supply, particularly for the most qualified workers and managerial talent. The pressures for companies range from factory and service labor, where costs have increased—particularly in the more developed coastal areas—to managerial, sales, and technical staff, where costs have risen sharply in China's largest cities. Turnover rates are high relative to other economies in Asia and globally and can approach 15 percent or more annually in some cities.

Administrative licensing and business approvals

The second-most-important issue for USCBC members, for the second consecutive year, was securing administrative licenses and business approvals. Sixty-two percent of respondents indicated that no improvement had been made on the issue in the past year.

Though the challenges of navigating China's licensing and regulatory procedures have existed for many years, the high ranking of this issue during the past two years is probably a direct result of greater market access due to China's WTO entry. As China opened more sectors to meet the terms of its entry agreement, companies have sought more licenses and approvals to initiate or expand their business in these sectors—and have encountered difficulties doing so.

Administrative licensing and business approvals encompass a wide range of issues. Companies in some segments of the financial services sector, for example, have had to wait months or longer for license approvals that PRC regulations state should be decided in a matter of weeks. Disagreements among PRC regulators can result in confusion about applying for permits. Duplicative, cumbersome, and expensive testing procedures, often based on opaque rules or local standards that diverge from internationally accepted norms, hinder the ability of US goods to penetrate the market.

IPR enforcement

IPR enforcement remains a top concern for USCBC members. The drop of IPR enforcement from the number one problem in the 2005 survey to the number three problem over the past two years does not reflect a lessening of IPR concerns. Rather, it is an indication of the longer-term or structural nature of resolving intellectual property concerns versus the more immediate human resources and administrative licensing issues companies face. For the third consecutive year, just over half of respondents (53 percent) reported that China's IPR enforcement environment had remained unchanged over the past year. Almost 40 percent reported some progress, however, suggesting company practices and the PRC government's IPR campaigns are having some impact. Only 8 percent of respondents said enforcement had deteriorated or that new problems had arisen.

IPR problems affect the types of activities that companies are willing to undertake in China. Two-thirds of respondents indicated that China's lack of viable IPR protection affected their willingness to bring their products to China's markets or to engage in research and development there.

Competition and overcapacity

For the second year in a row, survey respondents indicated that competition and overcapacity was the fourth-most-important issue facing their companies in China. More than half noted that the issue had worsened or cited new problems in the previous year.

Overcapacity appears to affect companies operating in many sectors in China. Authorities are often reluctant to allow market-consolidating mergers and acquisitions (M&A) for fear that they will lead to unemployment. Bankruptcies are still rare; the PRC government only recently passed the long-awaited Enterprise Bankruptcy Law. Overcapacity is also linked to China's rapid economic growth and high rate of fixed-asset investment. Chinese companies often plow profits back into expanded production because they lack alternative options for retained earnings. The result is excess capacity that drives down margins and, in some cases, leads Chinese companies to aggressively pursue exports, contributing to trade frictions overseas.

Transparency

Insufficient regulatory transparency remains the fifth-highest concern that US companies face in China, but it is also one of the most important and far-reaching. Transparency touches upon the rulemaking system, including the drafting of new laws and regulations and solicitation of public comment; government decisionmaking on policies and licensing; and the availability of information on costs and markets.

China continues to take small steps toward introducing greater transparency: 35 percent of survey respondents indicated some improvement over the past year. The publication of the draft Labor Contract Law and high-profile invitation of public comments prior to the law's finalization is one example of such progress. But despite the PRC State Council's March 2006 notice requiring all laws and regulations affecting trade in goods, services, intellectual property,

Respondent Demographics

The 2007 survey reflects an almost equal balance of views from US-China Business Council (USCBC) members based in China and the United States. About half of the 97 survey respondents were based in China, with 45 percent based in the United States, and the balance of respondents based elsewhere in Asia.

Reflecting the diversity of USCBC membership, respondents hailed from manufacturing (49 percent), services (46 percent), agriculture (3 percent), and other categories including energy (2 percent). US companies employ multiple options for structuring their operations in China. Wholly foreign-owned enterprises are by far the most popular investment vehicle, with 70 percent of respondents having one or more. Joint ventures are the second-most-common vehicle with 50 percent of respondents having one or more. Representative offices follow at 46 percent. Other entities established by USCBC members include branches, regional headquarters and holding companies, and research and development centers.

The survey results reflect the views of companies with significant experience in China. Nearly 80 percent of respondents have been doing business in China for more than 10 years, with 45 percent of those respondents in the market for more than 20 years.

Seven percent of respondents employ more than 10,000 workers in China. Thirty percent have between 1,000 and 10,000 employees. The remaining respondents employ fewer than 1,000 workers in China, with 16 percent having fewer than 50 employees in the country.

The US-China Business Council (USCBC), publisher of the CBR, *is a nonprofit membership organization that has been serving US companies doing business in and with China since 1973. USCBC is headquartered in Washington, DC, with offices in Beijing and Shanghai. This article is adapted from* USCBC 2007 Member Priorities Survey Results. *For the full report, see www.uschina.org.*

or foreign exchange to be published in the Ministry of Commerce gazette, about 60 percent of survey respondents noted no improvements in transparency in the past year.

Standards setting

China's product and technology standards-setting process remains locked in sixth place for the third year in a row. The ability to get information on and to participate in and influence standards setting is a central part of navigating any market. In China, that ability is frequently impeded because of an opaque standards-setting process and the tendency to devise and use unique domestic standards that sometimes put foreign companies at a disadvantage.

For the second year, the survey asked respondents specifically about their ability to participate in China's standards-setting process. Forty-seven percent of respondents evaluated their participation as "fair" or average. Another 34 percent of survey respondents view the process as "poor," up from 23 percent in 2006. This increase in dissatisfaction with the PRC standards-setting process is troubling given the volume of new standards coming out of China and the increasing number of US companies wanting to sell there.

Protectionism in China and protectionism in the United States

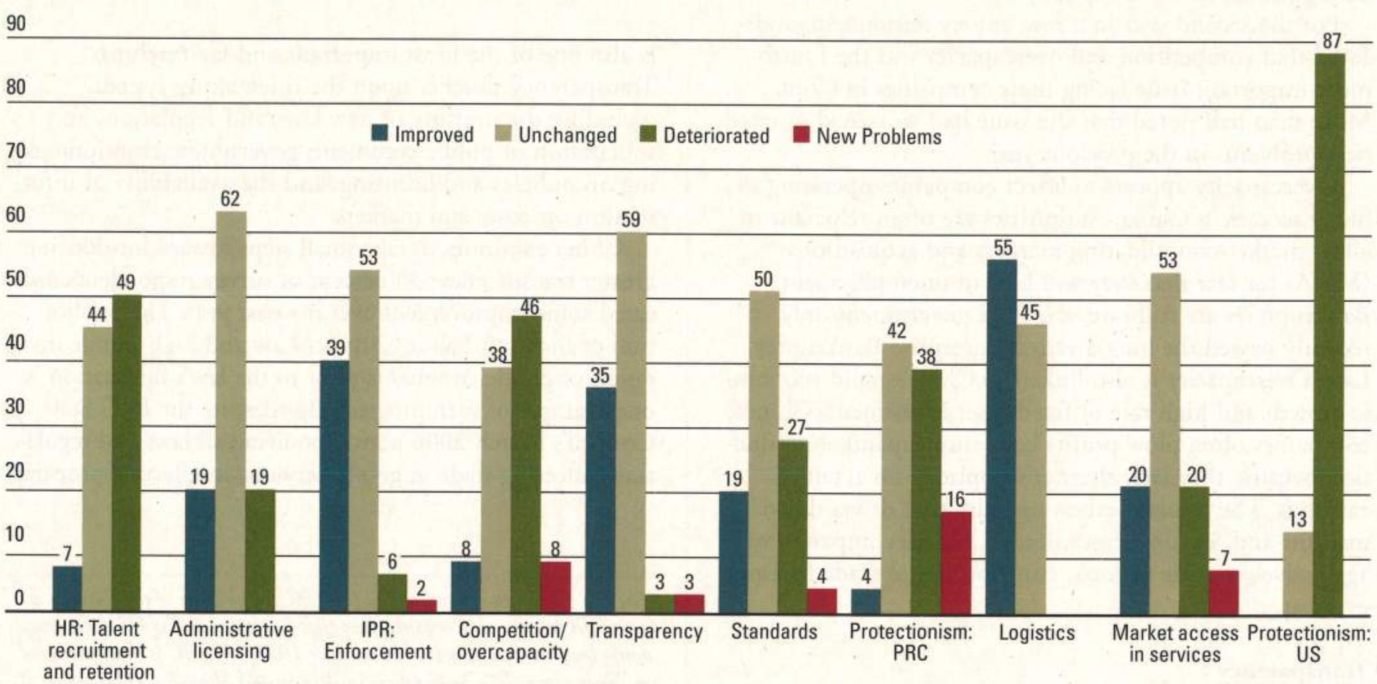
For the first time, USCBC's survey asked respondents to evaluate protectionism risks in China and the United States. Both issues debuted in the top ten, with Chinese protectionism ranking seventh and US protectionism ranking tenth.

Concerning Chinese protectionism, new policies that appear to restrict foreign direct investment and M&A in certain sectors have been frequently cited as indications that China may resist openings beyond those in its WTO accession agreement or even roll back access in sectors previously opened. An active debate on the role of foreign companies in China's economy is taking place among government policymakers, in the media, and even in Internet blogs, much of it with a more nationalistic tone. The 2007 survey asked respondents to assess their level of concern with these policies. Most respondents were somewhat or very concerned—64 and 21 percent, respectively. Only 15 percent indicated they were not concerned about these policies. Forty percent felt the protectionist trend in China had grown stronger in the past year.

The ranking of US protectionist threats is lower but clearly constitutes a serious concern for USCBC members. Eighty-seven percent of respondents indicated that the issue had become a more serious threat in the past year. The broader debate in the United States about the impact of globalization and the need to scrutinize new trade agreements is no doubt reflected in the survey responses; the specific legislative threat of applying retaliatory tariffs to China for currency policy or other perceived trade transgressions adds to the sentiment.

Continued on page 68

Figure: Degree of Progress on USCBC Members' Top 10 Concerns* (%)



Notes: *Multiple responses were allowed in this survey question. HR = human resources; IPR = intellectual property rights.
Source: The US-China Business Council

Sales and Investment

July 16–September 15, 2007

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

Compiled by Yoko Uchida

Agriculture

INVESTMENTS IN CHINA

Bunge Ltd. (US)/China Grain Reserves Corp. (Beijing)
Will form JV to build and operate a soybean processing plant in Dongguang, Guangdong. (US:65%-China:35%). 07/07.

Architecture, Construction & Engineering

CHINA'S IMPORTS

Aker Kværner ASA (Norway)
Will provide basic engineering design, technical advisory services, and offshore equipment procurement service to Inner Mongolia-based Shenhua Baotou Coal Chemical Co., Ltd., a unit of Shenhua Group Corp. Ltd. 07/07.

INVESTMENTS IN CHINA

Binani Cement Ltd., a subsidiary of Binani Industries Ltd. (India)
Will raise its stake in Shandong Rongan Group Co. Ltd. to 70 percent. $100 million. 08/07.

YLT Cement Bhd (Malaysia)
Acquired Zhejiang Linan Jin Yuan Cement Co. Ltd. $20 million. 08/07.

OTHER

iASPEC Services Ltd. (Hong Kong)
Signed new management services agreement with Guangdong-based China Public Security Technology Inc. 08/07.

Automotive

CHINA'S EXPORTS

Chery Automobile Co., Ltd. (Anhui)
Will supply more than 100,000 1.6 liter and 1.8 liter gasoline engines to Italy-based Fiat SpA. 08/07.

CHINA'S IMPORTS

GKN Torque Technology Group, a unit of GKN plc (UK)
Will supply power transfer units to Anhui-based Chery Automobile Co., Ltd. 08/07.

CHINA'S INVESTMENTS ABROAD

Great Wall Motor Co. Ltd. (Hebei)
Opened Kremenchuk Motor Assembling Factory in Ukraine. 08/07.

Iran Khodro Co., Solitac, Inc. (Canada)/Chery Automobile Co., Ltd. (Anhui)
Will form JV to assemble compact S21 sedans in Babol, Iran. (Canada:21%-Iran:49%-China:30%). $370 million. 08/07.

INVESTMENTS IN CHINA

Fiat SpA (Italy)/Chery Automobile Co., Ltd. (Anhui)
Singed MOU to form JV to manufacture about 175,000 passenger cars a year in China. (Italy:50%-China:50%). 08/07.

Hino Motors, Ltd. (Japan)/Guangzhou Automobile Industry Group Co., Ltd. (Guangdong)
Will form JV to manufacture trucks and buses in Guangdong. $415.5 million. 08/07.

ArvinMeritor, Inc. (US)/Chery Automobile Co., Ltd. (Anhui)
Formed JV, ArvinMeritor Chassis Systems Wuhu Co., to build chassis systems in China. (US:60%-China:40%). 07/07.

Johnson Controls, Inc. (US)/Baoding Jin Fengfan Storage Battery Co. Ltd. (Hebei), a subsidiary of China Shipbuilding Industry Corp. (Beijing)
Signed MOU to form JV to design, manufacture, sell, and service lead acid batteries for cars. 07/07.

OTHER

MAN AG (Germany)/Weichai Power Co., Ltd. (Shandong)
Signed MOU to form JV to build and market trucks, truck engines, and other components. 08/07.

Guangzhou Honda Automobile Co., Ltd., a subsidiary of Honda Motor Co., Ltd. (Japan)
Will build wholly owned R&D center, Guangzhou Honda Research & Development Co., Ltd., to test and design cars under a new brand in Guangzhou, Guangdong. $266.4 million. 07/07.

Nissan Motor Co., Ltd. (Japan)
Jointly developed a car navigation system with Beijing Transportation Information Center to reduce traffic congestion. 07/07.

Tiger Truck, LLC (US)
Will produce trucks designed by Chongqing-based Changan Automobile Co., Ltd. to be sold in the United States. 07/07.

Aviation/Aerospace

CHINA'S EXPORTS

Chengdu Aircraft Industrial (Group) Co., Ltd., a division of AVIC I (Beijing)
Will supply Boeing 747-8 horizontal stabilizer parts and subassemblies to US-based Vought Aircraft Industries, Inc. $300 million. 08/07.

INVESTMENTS IN CHINA

Singapore Airlines Ltd.
Acquired 15.7% stake in Shanghai-based China Eastern Airlines Corp. Ltd. $602 million. 09/07.

Temasek Holdings Pte. Ltd. (Singapore)
Acquired 8.3% stake in Shanghai-based China Eastern Airlines Corp. Ltd. $321 million. 09/07.

Dnata, a unit of the Emirates Group (UAE)/China West Airport Group
Will form JV, Xi'an Dnata Aviation Services Co. Ltd., to provide ground handling services for Xi'an Xianyang International Airport for 15 years. (UAE:45%-China:55%). 07/07.

Banking & Finance

CHINA'S INVESTMENTS ABROAD

China Finance Online Co. Ltd. (Beijing)
Acquired 85% stake in Hong Kong-based Daily Growth Investment Co. Ltd. $3 million. 09/07.

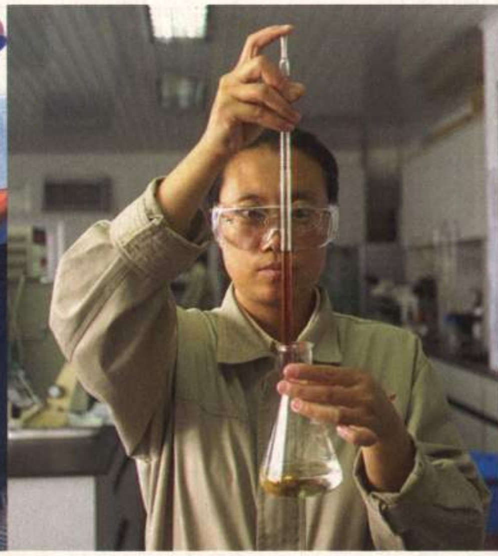
CDB (Beijing)
Aquired 3.1% stake in UK-based Barclays plc. $3.1 billion. 08/07.

ICBC (Beijing)
Acquired 79.93% stake in Macao-based Seng Heng Bank Ltd. $583 million. 08/07.

INVESTMENTS IN CHINA

Bank of America Corp. (US)/China Construction Bank Corp. (Beijing)
Formed JV to offer financial leasing services in China. (US:24.9%-China:75.1%). $599 million. 09/07.

Cargill is commited to quality, safety, and corporate citizenship in China.



With 30 plants and 4,200 employees in China – and an annual trade value that exceeds US$ 5 billion – Cargill is committed to serving customers and contributing to communities across China.

Cargill relies on 142 years of experience to support the development of a high quality agriculture and food system in China. We work to ensure that our people, products and facilities are safe. We partner with farmers to grow crops, raise animals and feed people. We create solutions for our local and global customers that reduce risk, expand markets and improve supply chains.

In addition to helping customers succeed, Cargill is committed to nourishing the communities in which we do business. We regularly provide extensive technology and skills training to over 1 million Chinese farmers. Our employees in China volunteer to build schools, teach students, and support entrepreneurship in their communities. We contribute financially to projects and organizations that promote nutrition, improve education, and protect the environment in China.

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Cargill™

Nourishing Ideas. Nourishing People.™

HSBC Holdings plc (UK)
Will establish WFOE, HSBC Rural Bank Co. Ltd., to offer banking services in rural China. 08/07.

HSBC Holdings plc (UK)/BOCOM (Shanghai)
Formed credit card JV. $266.5 million. 08/07.

AXA Investment Managers, Ltd., a unit of AXA SA (France)/ Shanghai Pudong Development Bank Co. Ltd., Shanghai Dragon Investment Co., Ltd.
Will form JV, Puyin AXA Fund Management Co. (France:39%-China:61%). 07/07.

OTHER

Doha Bank (Qatar)
Will open representative office in Shanghai. 08/07.

Standard Chartered Bank plc (UK)
Opened Chongqing branch to offer foreign currency services. 08/07.

Chemicals, Petrochemicals & Related Equipment

CHINA'S EXPORTS

China United Coalbed Methane Corp., Ltd., a JV between PetroChina Co. Ltd. and China National Coal Group (Beijing)
Will supply coal-bed methane to Hong Kong-based China Leason Investment Group Co. Ltd. 08/07.

CHINA'S IMPORTS

Jacobs Engineering Group Inc. (US), Hofung Technology (the Netherlands)
Will provide sulfur recovery technologies for two projects in Ningxia and Shandong. 08/07.

Univation Technologies, LLC (US)
Will provide UNIPOL PE process to Inner Mongolia-based Shenhua Baotou Coal Chemical Co., Ltd., a subsidiary of Shenhua Group Corp. Ltd., for a 300 kilotons per-year polyethylene plant in Baotou, Inner Mongolia. 07/07.

INVESTMENTS IN CHINA

Cabot Corp. (US)/Shanghai Coking & Chemical Corp.
Will expand its JV, Cabot Chemical (Tianjin) Co. Ltd., to add two rubber black units. $65 million. 07/07.

High Performance Polymers, a unit of Evonik Degussa GmbH (Germany)
Opened a polyamides polymerization and compounding plant in Shanghai. 07/07.

OTHER

Degussa (China) Co. Ltd., a subsidiary of Evonik Degussa GmbH, a unit of Evonik Industries AG (Germany)
Will expand its R&D center in Shanghai to 25,000 m². $31.1 million. 08/07.

Petromin Resources Ltd., Alberta Research Council (Canada)/ China United Coal Bed Methane Co. Ltd., a JV between PetroChina Co. Ltd. and China National Coal Group (Beijing)
Will design and implement a five-year pilot carbon dioxide injection project to enhance coal-bed methane production. 07/07.

Electronics, Hardware & Software

CHINA'S IMPORTS

Sybase, Inc. (US)
Will supply its analytics servers to Beijing-based State Grid Corp. for its data center. 07/07.

INVESTMENTS IN CHINA

Celestial Asia Securities Holdings Ltd. (Hong Kong)/ Chongqing Chongyou Information Technology (Group) Co., Ltd.
Formed JV to produce base band chips for mobile phones, wireless Internet access cards, and wireless modules. (Hong Kong:50%-China:50%). 07/07.

Foxconn International Holdings Ltd., a subsidiary of Honghai Precision Industry Co. Ltd. (Taiwan)
Will build an industrial park to produce electronics in Qinhuangdao, Hebei, over the next three years. $1 billion. 07/07.

OTHER

NEC Corp. (Japan)
Will expand its sales network in China over the next three years. 08/07.

Energy & Electric Power

CHINA'S IMPORTS

Alstom SA (France)
Will supply Beijing-based Dongfang Electric Corp. with four 1,000 MW steam turbine-generator packages for a new nuclear power plant in Liaoning. $190.6 million. 08/07.

Voith Siemens Hydro Power Generation, a JV between Voith AG and Siemens AG (Germany)
Will supply electro-mechanical equipment to Sichuan-based Ertan Hydropower Development Co., Ltd. for the Jinping II hydropower station on the Yalong River. $169.5 million. 08/07.

Westinghouse Electric Co. LLC, The Shaw Group Inc. (US)
Will jointly provide four AP1000 nuclear power plants, including engineering, procurement, commissioning, and information and project management services to Zhejiang-based Sanmen Nuclear Power Co., Ltd., Shandong Nuclear Power Co. Ltd., and Beijing-based State Nuclear Power Techonology Co. of China and China National Technical Import & Export Corp. 07/07.

3L Filters Ltd. (Canada)
Will supply filters for two nuclear reactors to Zhejiang-based Nuclear Power Qinshan Joint Venture Co. Ltd. 07/07.

INVESTMENTS IN CHINA

AES Black Sea Holdings BV, a subsidiary of the AES Corp. (US)/ Guohua Energy Investment Corp. (Beijing)
Will form JV, Guohua AES (Huanghua) Wind Power Co. Ltd., to operate a 49.5 MW wind farm in Hebei. (US:49%-China:51%). 08/07.

Oculus Ltd. (Singapore)
Signed MOUs to acquire four hydropower plants in Fujian and Shanghai. $210 million. 07/07.

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

OTHER

Scottish and Southern Energy plc (UK)/GD Power Development Co., Ltd., a subsidiary of China Guodian Corp. (Beijing)
Signed four agreements to support the development of four new wind farms in northeastern China. 09/07.

Food & Food Processing

INVESTMENTS IN CHINA

Associated British Foods plc (UK)/Hebei Tian Lu Sugar Group
Signed agreement to form JV to produce cane sugar in China. (UK:51%-China:49%). 08/07.

China Resources Snow Breweries Ltd., a JV between SABMiller plc (UK) and China Resources Enterprise, Ltd. (Hong Kong)
Acquired 80% stake in Liaoning Yalujiang Brewery Co. Ltd. $79 million. 08/07.

China Resources Snow Breweries Ltd., a JV between SABMiller plc (UK) and China Resources Enterprise, Ltd. (Hong Kong)
Acquired 85% stake in Liaoning-based Huludao Juhua Brewery Co. Ltd. 08/07.

China Resources Snow Breweries Ltd., a JV between SABMiller plc (UK) and China Resources Enterprise, Ltd. (Hong Kong)
Acquired the brewing assets of Anhui Wanpi Brewery Co. Ltd. 08/07.

China Resources Snow Breweries Ltd., a JV between SABMiller plc (UK) and China Resources Enterprise, Ltd. (Hong Kong)
Acquired Hunan Xinghua Brewery Co. Ltd. 08/07.

OTHER

The Coca-Cola Co. (US)
Will open new headquarters and R&D center in Shanghai to develop products for China and other markets. $80 million. 07/07.

Forestry, Timber & Paper

INVESTMENTS IN CHINA

Ahlstrom Corp. (Finland)/Zhejiang Kan Specialty Material Co. Ltd.
Signed MOU to form JV to produce crepe and other technical-grade paper in Kaifeng, Henan. (Finland:70%-China:30%). 09/07.

Hanfeng Evergreen Inc. (Canada)/Shanxi Fengxi Fertilizer Group Ltd.
Formed JV to build and operate a sulphur-coated urea production facility in Shanxi. (Canada:50%-China:50%). 08/07.

Infrastructure

CHINA'S INVESTMENTS ABROAD

Sinosteel Corp., China Railway Materials Commercial Corp., China Communications Construction Co. Ltd., China Railway Engineering Corp. (Beijing), and Angang Steel Co. Ltd. (Liaoning)
Signed cooperation agreement with Australia-based Yilgarn Infrastructure Ltd. to invest in western Australia's Oakajee Port and Rail Project. 09/07.

INVESTMENTS IN CHINA

Cheung Kong Infrastructure Holdings Ltd. (Hong Kong)
Transferred its shares in Guangzhou East-South-West Ring Road to Guangzhou City Tongda Highway Co. Ltd. $162.3 million. 08/07.

Internet/E-Commerce

CHINA'S IMPORTS

China Expert Technology, Inc. (Hong Kong)
Will provide an e-government system for the Suizhou City government in Hubei. $19.4 million. 07/07.

OTHER

Wi-Fi TV, Inc. (US)
Launched the world premiere of its new social Internet TV website design in China. 08/07.

Light Industry/Manufacturing

CHINA'S IMPORTS

BASF Coatings AG, a unit of BASF AG (Germany)
Will supply refinishing coatings products to Hebei-based Great Wall Motor Co., Ltd. 08/07.

Machinery & Machine Tools

CHINA'S EXPORTS

Beijing Beizhong Steam Turbine Generator Co., Ltd.
Will supply electrical and power evacuation systems and products, including steam turbines, alternators, and condensing and cooling systems to India-based Triveni Engineering & Industries Ltd. 08/07.

CHINA'S INVESTMENTS ABROAD

Northern Heavy Industries Group Co., Ltd. (Liaoning)
Acquired 70% stake in France-based NFM Technologies, a WFOE of Germany-based Wirth GmbH. 08/07.

INVESTMENTS IN CHINA

Caterpillar Inc. (US)
Signed MOU with Wuxi National High-Tech Industrial Development Zone to manufacture small and medium-sized diesel engines and conduct engine research and development in Wuxi, Jiangsu. 08/07.

Qimonda AG (Germany)
Will form Qimonda Memory Products Development Center Suzhou Co. Ltd. to develop memory products with facility for the assembly and testing of memory integrated circuits in Suzhou Industrial Park. $20 million. 08/07.

Media, Publishing & Entertainment

CHINA'S IMPORTS

Optibase, Inc. (Israel)
Will supply Guangdong-based ZTE Corp. with Optibase's Media Gateway platforms for IPTV services. 08/07.

INVESTMENTS IN CHINA

ICIS news, a division of Reed Business Information Ltd., a unit of Reed Elsevier Group plc (UK)/ CBI China Ltd. (Shanghai)
Will form JV to deliver commodity market information in China. 08/07.

Medical Equipment & Devices

CHINA'S IMPORTS

Chindex International, Inc. (US)
Will supply medical equipment to Beijing-based INSTRIMPEX and Liaocheng People's Hospital in Shandong. $5.2 million. 08/07.

Metals, Minerals & Mining

CHINA'S IMPORTS

ABB Ltd. (Switzerland)
Will supply automation equipment and electrical systems to Zhangjiagang GTA Plate Co., a unit of Jiangsu Shagang Group Co., Ltd., for a steel mill. $56 million. 08/07.

CHINA'S INVESTMENTS ABROAD

Aluminum Corp. of China Ltd. (Beijing)
Increased its stake in Canada-based Peru Copper Inc. to 91% from 9.9%. $703 million. 08/07.

Companhia Vale do Rio Doce (Brazil)/Baosteel Group Co. (Shanghai)
Signed MOU to construct an integrated plant for steel plate production. (Brazil:20%-China:80%). 08/07.

Fortescue Metals Group Ltd. (Australia)/Baosteel Group Co. (Shanghai)
Will form JV to develop a second iron ore mine in Pilbara, Australia. (Australia:50%-China:50%). 08/07.

International Mineral Resources, a division of Eurasian Natural Resources Corp. (Kazakhstan)/ Jiuquan Iron & Steel (Group) Co., Ltd. (Gansu)
Will form JV to produce steel in Kazakhstan. (Kazakhstan:49%-China:51%). 08/07.

Qingtongxia Aluminum Group Co. (Ningxia)/Ashapura Minechem Ltd., a unit of Ashapura Group (India)
Will form JV to produce 500,000 tons of alumina in Gujarat, India. $400 million. (India:50%-China: 50%). 08/07.

VISA Group (India)/Baosteel Group Co. (Shanghai)
Formed JV, VISA Bao Ltd., to build a ferrochrome plant in Orissa, India. (India:86%-China:14%). 08/07.

INVESTMENTS IN CHINA

Alcan Inc. (Canada)/Zhenjiang DingSheng Aluminum Co., Ltd., a unit of Hangzhou Dingsheng Industries Co., Ltd. (Jiangsu)
Will form JV to set up a greenfield facility to produce heat-treated aluminum plates in Zhenjiang. 09/07.

OTHER

Alcoa Inc. (US)
Sold its 7% stake in Beijing-based Aluminum Corp. of China Ltd. $2 billion. 09/07.

Sinosteel Corp. (Beijing)
Signed agreement with Australia-based Rio Tinto Ltd. to reaffirm their existing sales agreement. 09/07.

Miscellaneous

INVESTMENTS IN CHINA

ComfortDelGro Corp. Ltd. (Singapore)/Nanjing Big Lift Transport Holdings Ltd. (Jiangsu)
Formed JV in Nanjing for taxi services. 08/07.

OTHER

T. Hasegawa Co., Ltd. (Japan)
Expanded its Shanghai R&D center to conduct research on fragrances and flavors. 08/07.

Petroleum, Natural Gas & Related Equipment

CHINA'S IMPORTS

Woodside Petroleum Ltd. (Australia)
Signed key terms agreement with Beijing-based PetroChina Co. Ltd. for the potential sale of 2 to 3 million tons of LNG per year for 15 to 20 years. 09/07.

Air Products and Chemicals, Inc. (US)
Will supply industrial gases to Hebei-based Tangshan Guofeng Steel Co. Ltd. 08/07.

CNPC (Beijing)
Will import 30 billion m³ of natural gas annually from Turkmenistan for 30 years. 07/07.

CHINA'S INVESTMENTS ABROAD

PBOC (Beijing)
Aquired 0.5% stake in UK-based BG Group plc. $252.1 million. 08/07.

INVESTMENTS IN CHINA

China Leason Investment Group Co. Ltd. (Hong Kong)
Will develop China's biggest LNG project in Shanxi. $77.2 million. 07/07.

OTHER

Newfield Exploration Co. (US)/ CNOOC (Beijing)
Will cooperate to explore Block 22/15 located in the Beibu Gulf basin. 08/07.

Newfield Exploration Co. (US)/ CNOOC (Beijing)
Will cooperate to explore Block 16/05 located in the Pearl River basin. 08/07.

Odfjell ASA (Norway)/Dalian Port (PDA) Co., Ltd. (Liaoning)
Will form JV to design, build, and operate a world-class tank terminal for oil and chemical products in Dalian's Caofeidian Industry Zone. 08/07.

SPC E&P (China) Pte. Ltd., a wholly owned subsidiary of Singapore Petroleum Co. Ltd.
Signed production sharing contract with CNOOC to explore Block 26/18 in the Pearl River basin. 08/07.

SeaMetric International AS (Norway)/China Petroleum First Construction Corp., a wholly owned subsidiary of CNPC (Beijing)
Signed agreement to jointly construct the world's first 20,000 ton-capacity twin marine lifter system. 07/07.

Pharmaceuticals

INVESTMENTS IN CHINA

RAC Global International Co., Ltd. (Thailand)/Qingdao OSIC International Co., Ltd. (Shandong)
Will jointly invest in a facility to produce ethyl alcohol from cassava. 08/07.

The Co-operative Group (UK)/ Tasly Group (Tianjin)
Will form JV, Tianjin Tasly Sants Pharmaceutical Co., Ltd., to research, manufacture, market, and sell drugs for the EU market. $40 million. 08/07.

Ports & Shipping

CHINA'S EXPORTS

CSC Jinling Shipyard (Nanjing), a wholly owned subsidiary of China Changjiang National Shipping (Group) Corp. (Hubei)
Will supply six roll-on, roll-off (RoRo) vessels to Italy-based Grimaldi Group through its subsidiary, Finland-based Finnlines Oyj by 2011. $339.5 million. 08/07.

CSC Qingshan Shipyard, a wholly owned subsidiary of China Changjiang National Shipping (Group) Corp. (Hubei)
Will build four dry cargo vessels to be delivered to Russia-based FESCO Transport Group by 2010. 08/07.

CHINA'S IMPORTS

MacGregor Group, a division of Cargotec Oyj (Finland)
Will provide 88 ship cranes to China. $38.2 million. 08/07.

INVESTMENTS IN CHINA

Nippon Yusen Kabushiki Kaisha (Japan), Wallenius Wilhelmsen Terminals North AB, a subsidiary of Wallenius Wilhelmsen Logistics AS (Norway)/Tianjin Port Co., Ltd.
Will form JV, TPG Global Ro-Ro Terminal Co., Ltd., to operate a RoRo terminal in Tianjin for 30 years. (Japan:34%-Norway:15%-China:51%). $98 million. 07/07.

Pacific Basin Shipping Ltd. (Hong Kong)
Aquired 45% stake in Nanjing Longtan Tianyu Terminal Co. Ltd. $16 million. 07/07.

Rail

CHINA'S IMPORTS

Siemens Transportation Systems, a unit of Siemens AG (Germany)
Will supply 500 freight locomotives to CSR Zhuzhou Electric Locomotive Co., Ltd. 08/07.

Real Estate & Land

INVESTMENTS IN CHINA

Yorksure Pte. Ltd., a subsidiary of CapitaLand Ltd. (Singapore)
Acquired a commercial site in Shanghai's Zhabei District to develop offices and a high-end hotel. $79 million. 08/07.

The Wharf (Holdings) Ltd., a subsidiary of Wheelock and Co. Ltd. (Hong Kong)/China Merchants Property Development Co., Ltd. (Guangdong)
Will form JV to develop a lot in Suzhou Industrial Park for residential purposes. (Hong Kong:50%-China:50%). $134.4 million.07/07.

OTHER

Ascendas Pte. Ltd. (Singapore)
Established two real estate funds, Acendas China Industrial & Business Parks Fund and Ascendas China Commercial Fund. 08/07.

Retail/Wholesale

OTHER

New World Department Stores China Ltd. (Hong Kong)
Will open seventh department store in Pudong District, Shanghai. 08/07.

Telecommunications

CHINA'S IMPORTS

UTStarcom, Inc. (US)
Will provide its RollingStream end-to-end IPTV solution to Beijing-based China Telecom for a new commercial IPTV network in Ningxia. 07/07.

INVESTMENTS IN CHINA

British Telecommunications plc, a wholly owned subsidiary of BT Group plc (UK)
Will open the Dalian Technology and Service Center to provide software development and service delivery and support services. 09/07.

Arasor International Ltd. (US)/China Techfaith Wireless Communication Technology Ltd. (Beijing)
Formed JV to develop and market wireless handsets in China. 07/07.

OTHER

British Telecommunications plc, a wholly owned subsidiary of BT Group plc (UK)
Will open R&D center in Shanghai to define new product and service concepts and to develop product prototypes. 09/07.

AT&T Inc. (US)
Will provide telecom services to Beijing-based China Netcom for National Broadcasting Corp.'s broadcast of the 2008 Olympic Games. 08/07.

Sycamore Networks, Inc. (US)
Will open R&D center based in Shanghai's Caohejing High-Tech Park. 07/07.

Textiles & Apparel

OTHER

Nike, Inc. (US)
Opened flagship store in Beijing. 08/07.

US Companies' China Outlook

Continued from page 56

Two emerging issues

Tax policy

In 2008, China will unify its tax code, bringing foreign and domestic companies under the same rules for the first time. Previous tax rules created incentives for foreign companies to invest in China or to export most of what they produced; many of these incentives will be eliminated under the new rules that take effect January 1.

The 2007 survey asked whether preferential tax rates had been a primary reason for investing in China and whether changes to those policies would have an impact on the company's investment plans in the country. Just over half of survey respondents indicated that preferential tax policies had slightly affected their decision to invest in China, and another 11 percent said it was highly important. The remaining 38 percent said China's tax policies were not a factor in their previous investment decisions. Almost 70 percent of companies indicated that the new tax laws will not affect their future investment plans in China.

Operating costs

The perception that China remains the lowest-cost location for company operations may be changing. Nearly 90 percent of survey respondents indicated that their operating costs are rising in China, with the majority of those companies believing that rising costs will have some, or a considerable, impact on their long-term investment plans for China. The cost of most concern: labor, likely reflecting the tight labor market and China's dwindling pool of surplus labor. Other cost concerns included rising taxes, materials, and real estate, each with about 10 percent. 完

US Companies Take Advantage of China's Market Openings

Most survey respondents reported good news about their China operations.

Companies are profiting and optimistic

- USCBC members see China as important to their company's global operations: Eighty-four percent of respondents said China was at or near the top of their companies' priorities.
- Eighty-three percent of respondents said their China operations were profitable, up slightly from last year's survey results, and two-thirds say their profitability rate in China meets or exceeds their company's global rate.
- Eighty-five percent of respondents said their China revenues increased in 2006, up from 70 percent in last year's poll, and 92 percent expect the increases to continue in 2007, up from 80 percent in 2006. The overwhelming majority of respondents, 93 percent, view their companies' medium-term future in China positively.

USCBC members are primarily serving the Chinese market

- Nearly all respondents, 96 percent, indicated they were primarily in China to access or serve the Chinese market.
- Another 46 percent said a secondary motive is to use China as an export platform for Asia and or other parts of the world.
- Only 28 percent of companies indicated their China operations were set up to export to the US market, an important and consistent finding that is often overlooked in discussions about US companies operating in China.

US companies bring higher pay and better facilities to China

- Three-quarters of respondents noted that they pay employees above the average wage paid by domestic Chinese enterprises.
- Almost all respondents (97 percent) indicated that they bring their companies' global environment, health, and safety (EHS) standards to their operations in China. Ninety-nine percent say these standards either exceed or meet local Chinese EHS standards.

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

US companies participate in a broad range of programs that benefit the people of China and strengthen the bonds of US-China friendship beyond the commercial realm. *Opportunities* aims to help companies identify programs that merit their assistance. The materials contained in *Opportunities* are condensed. For more detailed information, interested companies should contact the programs directly. (Note: Neither the US-China Business Council nor the *CBR* is a sponsor of any project listed in *Opportunities* and makes no recommendation with regard to corporate assistance to any specific project.)

US Institution: Washington Yu Ying Public Charter School
Project Description: To establish the first public Chinese-language immersion school in Washington, DC

Washington Yu Ying Public Charter School was granted a charter by the District of Columbia Public Charter School Board in June 2007 and will open its doors in September 2008. Yu Ying—which means "nurturing excellence" in Chinese—will offer instruction in Mandarin and English on alternating days. The school will eventually seek to enroll 700 students from pre-kindergarten to eighth grade and adopt the International Baccalaureate Primary Years and Middle Years programs.

Yu Ying will provide Washington, DC, students—many of whom face poverty and other educational challenges—with access to the type of education usually found in elite private schools. The school is seeking corporate support for its facility, cultural, and curriculum budgets and is searching for individuals interested in supporting the school's outreach efforts through membership on its advisory board. Parents interested in bilingual Chinese-English education for their children are also encouraged to contact Yu Ying. Yu Ying is a 501(c)(3) tax-exempt, nonprofit organization, and donations to the school are tax deductible.

Contact Information

Mary Shaffner, President, Board of Trustees or
Alejandra Maudet, Head of School
Washington Yu Ying, PCS
1637 Irving Street, NW
Washington, DC, 20010
E-mails: mary.shaffner@washingtonyuying.org
alejandra.maudet@washingtonyuying.org
www.washingtonyuying.org