November–December 2008

The China Business Review

USCBC THE MAGAZINE OF THE US-CHINA BUSINESS COUNCIL

30 Year Economic Miracle

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Critical Eye on Wuhan

Corporate Social Responsibility

National Energy Administration

Special Issue: USCBC's 35th Anniversary

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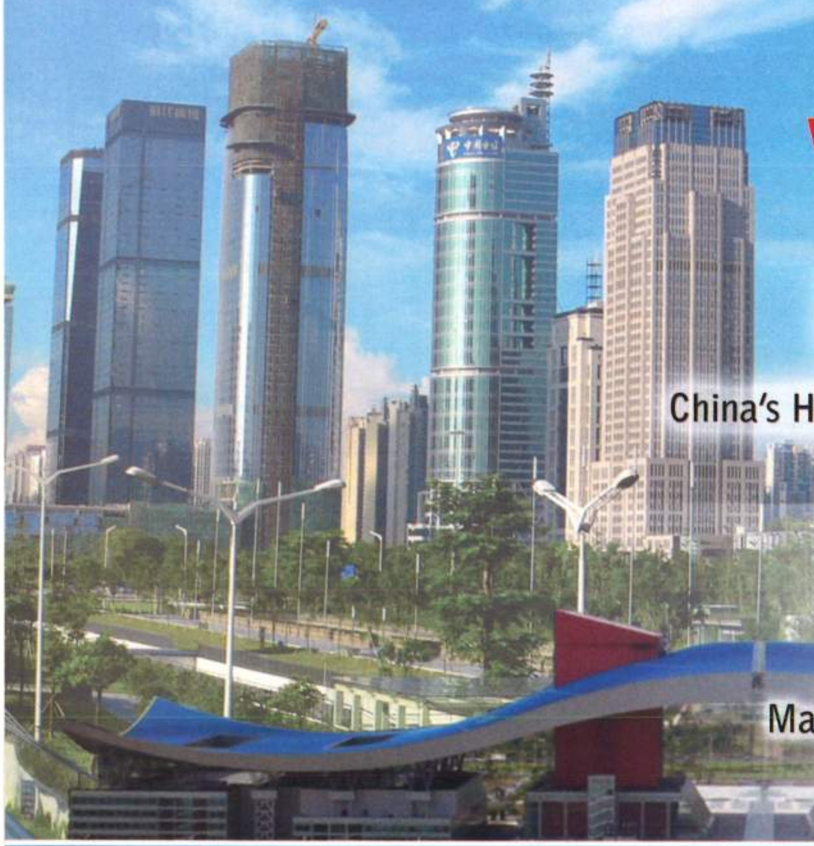
Shenzhen

China's City of Innovation



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China's High-tech, Manufacturing, Service, and Port Ci

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Cover design by Jason Pym

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Note: The exchange rate used throughout this issue is the People's Bank of China rate from September 16, 2008: ¥6.8203=$1.

Correction: In the September–October 2008 issue, the note on Table 1 on p. 37 should have read "Including Hong Kong, US exports to China were $85.4 billion." We regret the error.

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Environmental Awareness

A recent survey conducted by Landor Associates; Cohn & Wolfe; and Penn, Schoen & Berland Associates reveals that 31 percent of China's consumers consider the environment a higher priority than the economy—a percentage that is significantly higher than in the United States and slightly higher than in the United Kingdom, according to a Landor Associates press release. In the same study, Chinese consumers also said that environmental concerns influence their purchases, and 69 percent expect to spend more money on green products next year.

Beijing's air pollution has worsened following the lifting of temporary measures to improve air quality during the 2008 Olympic Games. Whereas the air pollution index remained below 50 during most of the Olympics, it has repeatedly exceeded the healthy 100-level mark since September 30, according to the *Financial Times.*

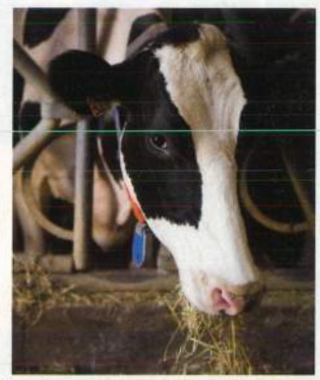
To forestall a return to pre-Olympic air pollution, the city government began requiring vehicles to stay off the roads one workday per week beginning October 11; vehicles may run based on the final digit of their license plates.

Downtown parking fees have increased to encourage the use of public transportation, and some businesses have begun staggering their work hours. Large department stores open at 10:00 am and other offices open between 8:30 and 9:30 am. These measures will last until April.

Food Safety

In response to the discovery of melamine-tainted dairy products, the PRC State Council in September appointed new leaders at the Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ)—the organ that monitors China's food and product quality and safety. Wang Yong, previously the State Council vice secretary general, has replaced Li Changjiang as AQSIQ director. Liu Pingjun, former Standardization Administration of China administrator, is now deputy director. Many new AQSIQ departmental heads have also been appointed.

Meanwhile, AQSIQ on September 17 canceled all food inspection exemptions, which had allowed large companies with good safety records to opt out of inspection processes. The agency also issued an urgent notice calling for tougher food inspections and asked its inspectors to strengthen domestic supervision of dairy companies by adopting



unified inspection methods and equipment.

Despite China's efforts to investigate milk-collecting stations and PRC government assertions that milk products manufactured after September 14 are melamine-free, several foreign countries—including Singapore, Indonesia, and Iran—have banned PRC dairy imports. According to findings from Philippines-based Progressive Laboratories, some PRC canned meats from China may also be tainted with melamine. As *CBR* went to press, melamine-tainted dairy products had sickened nearly 54,000 people and killed four infants in China.

Statement of Ownership

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(2) Mailed In-County Paid Subscriptions Stated on PS Form 3541 (Include paid distribution above nominal rate, advertiser's proof copies, and exchange copies)	0	0
(3) Paid distribution Outside the Mails Including Sales Through Dealers and Carriers, Street Vendors, Counter Sales, and Other Paid Distribution Outside USPS(r)	1,332	1,278
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g. Copies Not Distributed	88	200
h. Total (Sum of 15f and g)	5,610	5,610
i. Percent Paid (15c divided by 15f times 100)	62%	61%

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

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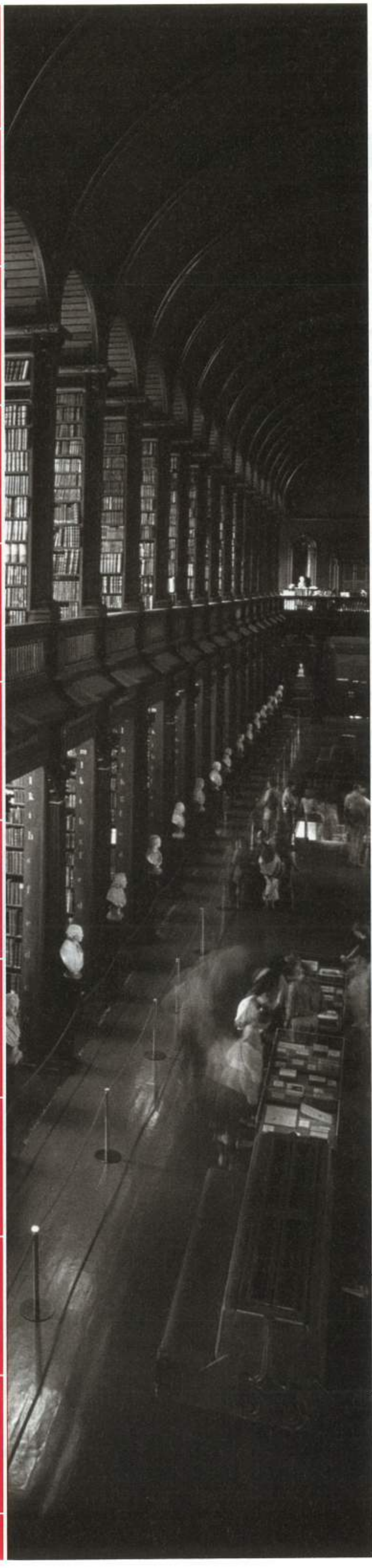

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Event Wrap Up

BEIJING

October

Antimonopoly Law Briefing
Featured Zhao Hong, deputy director of the PRC Ministry of Commerce's Antimonopoly Investigation Bureau, and Professor Wang Xiaoye of the Chinese Academy of Social Sciences.

The US-China Business Council's (USCBC) 35th Anniversary Reception
Featured Andrew Liveris, USCBC chair and chair and CEO of the Dow Chemical Co., and Wan Jifei, chair of the China Council for the Promotion of International Trade.

CHICAGO

September

Roundtable Discussion on Evolving Business Issues in the US-China Trade Relationship
Featured USCBC President John Frisbie, Mayer Brown LLP partners James Parkinson and Jason Schmitz, and leader in Mayer Brown's Government and Global Trade practice, Duane Layton. Special thanks to Mayer Brown for hosting the event.

NEW YORK

September

Luncheon Honoring PRC Premier Wen Jiabao (see p.12)

SHANGHAI

August

Shanghai Luncheon on China's Macroeconomic Outlook
Featured Andy Rothman, China macro-strategist at CLSA Asia-Pacific Markets, and David Cui, head of China Research at Merrill Lynch.

September

Workshop on High- and New-Technology Enterprise Certification
Featured Zhang Rui, deputy director, Europe and Americas Department, Shanghai Municipal Economic Relations and Trade Commission; and Zhang Jianbo, deputy director, Structural Reform and Regulations Department/High-Tech Industrial Zone Affairs Department, Shanghai Science and Technology Commission.

WASHINGTON, DC

September

Labor Unions in China: An Update from the Field
Featured Andreas Lauffs, principal and head of Baker & McKenzie LLP's China Employment Law Group.

Issues Luncheon on the 2008 Joint Commission on Commerce and Trade Outcomes
Featured Assistant US Trade Representative for China Tim Stratford and US Department of Commerce Deputy Assistant Secretary for Asia Ira Kasoff.

October

Issues Luncheon on China and the American Financial Crisis
Featured China economist Albert Keidel, senior associate at the Carnegie Endowment for International Peace.

Webinar on Mergers and Acquisitions in China
Featured Godfrey Firth, USCBC chief representative in Shanghai, and Barry J. Chen, corporate practice director of InterChina Consulting. (To view the webinar, see www.uschina.org.)

Upcoming Events

SHANGHAI

China Operations Conference
November 13, 2008

WASHINGTON

Issues Luncheons
November 20, 2008
December 18, 2008

Forecast 2009
Reception and Conference
January 28–29, 2009

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

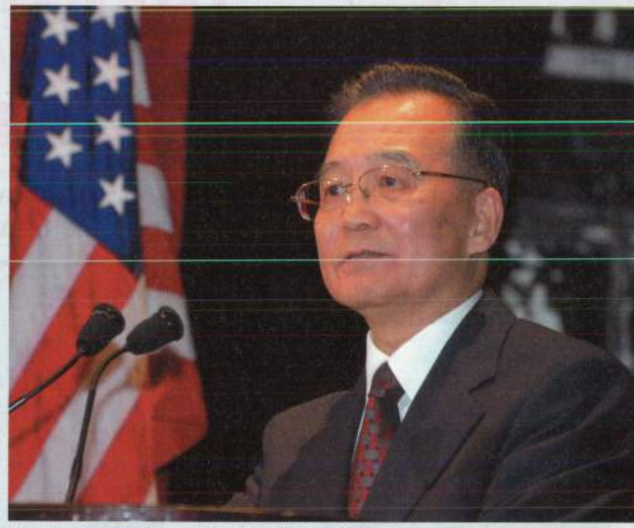
Luncheon Honors PRC Premier Wen Jiabao

The US-China Business Council (USCBC) and the National Committee on US-China Relations (NCUSCR) co-hosted a luncheon in honor of PRC Premier Wen Jiabao in New York on September 23. During his speech on US-China relations, Wen highlighted the upcoming 30th anniversary of the establishment of US-China diplomatic relations and asserted that the United States and China now have more common interests than at any time during the past three decades. He noted that the November elections will produce a change in the US administration and pledged to work with whichever presidential candidate wins to "continue to move [the relationship] forward." In his opening, Wen shared personal memories of the aftermath of the earthquake that struck Sichuan in May and expressed appreciation for the relief provided by US companies and citizens.

Carla Hills, chair of the NCUSCR and chair and CEO of Hills & Co.; Elaine Chao, US Secretary of Labor; and former Secretary of State Henry Kissinger, chair of the America-China Forum and of Kissinger Associates also spoke at the event. Greg Brown, USCBC board director and president and CEO of Motorola, Inc., led the question-and-answer session following Wen's speech. (The text and video of Wen's speech are available on www.uschina.org.)

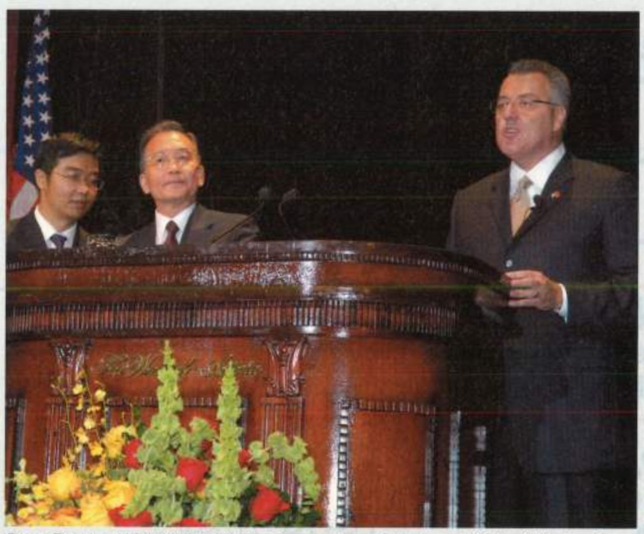
Michael Seto

Former US Secretary of State Henry Kissinger introduced PRC Premier Wen Jiabao and highlighted his responsiveness in managing China's recent natural disasters and reconstruction efforts.



Elsa Ruiz

Wen's address focused on US-China relations.



Elsa Ruiz

Greg Brown, USCBC board director and president and CEO of Motorola, Inc., led the Q&A session following Wen's speech.

Elsa Ruiz

USCBC Board Director John Rice, vice president of GE and president and CEO of General Electric Infrastructure, and PRC Minister of Foreign Affairs Yang Jiechi.

Letter from Washington

Anniversaries

John Frisbie

Anniversaries, anniversaries. This year marks the 30th anniversary of China's economic reopening after decades of isolation. The 30th anniversary of US-China diplomatic relations comes at the beginning of 2009. And the US-China Business Council (USCBC) is in its 35th year of providing US companies with the policy leadership and practical business support to successfully develop business with China.

USCBC was founded in 1973. To put that in context, Chairman Mao was still in power, as was Richard Nixon, the president who re-engaged with China after a long impasse. The Soviet Union dominated US foreign policy thinking.

In our office hallway hangs a fascinating photo of the first US business delegation to the PRC—a black-and-white image from 1974 showing a USCBC delegation at a barren-looking Great Wall. The photos on our office walls chronicle our history. We have pictures of US presidents and of China's leadership throughout the years meeting with or speaking to members.

These photos show USCBC's visible involvement in landmark events. But our primary mission has been to provide services that help our member companies build their business with China. It is important to remember that USCBC was set up by companies, for companies. Boeing, Cargill, Hewlett-Packard, and Westinghouse were among the founders, and all are successful in China today.

USCBC remains the leader in providing the information, analysis, advice, best practices, and advocacy necessary to knock down barriers and expand commercial opportunities. If we do these things well, then by extension we are helping both the US and Chinese economies.

We are proud of our role in bringing about tremendous changes in China's business environment. The pervasive restrictions and workarounds that marked the first two decades are now mostly gone.

China's entry into the World Trade Organization (WTO) in 2001 ushered in significant change and was the single most important event for US companies since China began its economic reforms. China's import tariffs were cut almost in half and its extensive import licensing system mostly eliminated. Many closed economic sectors were opened. Gone are the days of "balancing foreign exchange"—the need to generate hard currency—which was the bane of every foreign investment plan. And, though politics still play a role in US-China business relations, WTO entry unquestionably provided an avenue for engagement based on rules and accepted procedures. For the business community, this is historic and vitally important.

Some industries are still greatly restricted and need USCBC's continued work, but on a macro level, the results are clear. In surveys, USCBC members consistently report expanding revenues and profitability.

Looking ahead

Despite significant progress, USCBC has concerns about where things go from here. Addressing the recent trend of more nationalist, and perhaps protectionist, policies in China is at the top of USCBC's agenda. Signs of favoritism show up in several areas—government procurement practices, the setting of product standards, the designation of "pillar industries," and consideration of "national economic security" when evaluating mergers and acquisitions.

At home, concerns about the trade deficit, jobs, and foreign investment also require USCBC's leadership in Washington and beyond to ensure that protectionist sentiment does not result in actions that do more harm than good.

With a new administration coming in, USCBC has been calling for the expansion of engagement with China. The new administration should continue the Strategic Economic Dialogue (SED)—or something like it—to tackle the big issues, such as energy, the environment, consumer safety, financial reforms, and maintaining open investment environments. It should also continue the Joint Commission on Commerce and Trade to deal with specific trade issues. When good faith dialogue fails, the new administration should use available dispute settlement tools, including WTO cases when well-focused and winnable.

There is an opportunity for bigger, bolder ideas, if we can keep building trust and confidence. The broad issues listed above require America's and China's leadership. On all of those issues and more, we face common challenges—and have common interests in reaching the right solutions.

Would China respond favorably to a more ambitious bilateral agenda, or would it prefer to continue the pattern of incremental progress? Good question, and one to which we must find the answer. China typically moves forward cautiously, and the financial market turmoil may not help our ability to encourage them to be bolder.

The US-China economic relationship is the most important relationship for each country going forward. It is a relationship that each of us has to get right if we are to succeed in the years ahead. That is the challenge of the next phase of the relationship—and for USCBC. 完

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

Carlos M. Gutierrez
US Secretary of Commerce

Please allow me to take advantage of the publication of this special issue of the *China Business Review*, commemorating the 30th anniversary of the start of China's economic reforms and the 35th anniversary of the US-China Business Council (USCBC), to express my appreciation for USCBC's outstanding contribution in promoting US commercial interests with China. The nature of US-China trade and commercial relations has been transformed dramatically in these years, as has the world's economic landscape. Thirty-five years ago, the United States and China had no formal diplomatic relations, and our economic relationship was a mere afterthought. Today, the bilateral relationship between our two great nations is the most important in the world. Indeed, last year, the United States and China together created 25 percent of the world's economic growth.

American exports to China have soared nearly 95-fold since 1973, when the USCBC was first set up, a year after President Nixon visited China. These exports are almost 80 times greater today than in 1978, when PRC leader Deng Xiaoping launched economic reforms. China is now the third-largest trading nation in the world, as well as our second-largest trading partner and third-largest export market. Total bilateral trade between China and the United States in 2007 was $387 billion, compared to just $755 million in 1973. As our fastest-growing major export market, China provides excellent opportunities for US exporters in an ever-expanding number of sectors.

The China story—both the country's remarkable rise, and the growth of our dynamic relations with it—is testament to the benefits of openness and engagement. The Beijing Olympics showcased the growing prominence of China on the world stage and the tremendous economic progress of the world's most populous country. Clearly, China has benefited from its engagement with the global economy.

Transformation of this magnitude does not occur without challenges and growing pains. The underlying changes in US-China trade and economic relations brought on by growth and opportunities, while strengthening our bilateral partnership, have led to concerns over many issues. These include market access, transparency, and protection and enforcement of intellectual property rights. Engagement on all levels is the most effective means to address these challenges.

We celebrated the 25th anniversary of the US-China Joint Commission on Commerce and Trade (JCCT) in September by securing results that benefit both the American and Chinese people. It is through the JCCT and other bilateral fora that we can act quickly, addressing challenges as they arise. Where trade is unfair, we work to right it. Where access is blocked, we work to improve it. Where regulations are excessive, we work to reduce them.

卡洛斯•古铁雷斯
美国商务部长

为纪念中国经济改革 30 周年以及美中贸易全国委员会 (USCBC) 成立 35 周年，《中国经济评论》(*China Business Review*) 特发行本期特刊，请允许我借此机会，对 USCBC 为促进美国在华商业利益所做出的杰出贡献表示忠心感谢。这些年来，随着世界经济大环境的变化，美中贸易以及两国商务关系的性质也产生戏剧性变化。三十五年前，美国与中国尚未建立正式外交关系，两国间的经济关系更无从谈起。如今，美中两个伟大国度间的双边关系已成为全球最重要的关系。事实上，美中两国去年对全球经济增长的贡献率达到了 25%。

尼克松总统访华后一年——1973 年，USCBC 成立，自此美国对中国的出口量迅速飙升，增长了近 95 倍。自 1978 年中华人民共和国领导人邓小平开始推行经济改革以来，如今这一出口量已比推行改革之时高出了近 80 倍。中国是目前世界上第三大贸易国，也是美国的第二大贸易伙伴和第三大出口市场。2007 年中美两国双边贸易总额为 3870 亿美元，而 1973 年这一数字仅为 7.55 亿美元。作为美国增长最快的主要出口市场，中国可以在更多的领域为美国的出口商提供极佳的机遇。

中国的迅速崛起以及随之而来两国关系的不断变化都证明了经济开放与交往的巨大益处。北京奥运会不仅展示了中国在世界舞台上日渐增长的重要性，同时也展示了中国作为世界上人口最多的国家所取得的巨大经济成就。显然，中国从参与全球经济中获益良多。

这一重大变革并非一帆风顺，而是充满了挑战以及成长中的阵痛。发展与机遇带来了美中贸易以及经济关系的根本变化，这些变化在不断加强两国的双边合作关系的同时，也引起两国对诸多问题的关注。包括市场准入、市场透明度以及知识产权的保护与执法等问题。全方位交往是应对这些挑战的最有效方法。

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Continued on page 57

Chen Deming
PRC Minister of Commerce

As China and the United States are about to greet the 30th anniversary of the establishment of diplomatic relations, the bilateral relationship is entering an important stage, serving as a link between the past and future. Economic and trade cooperation is an important foundation of the US-China relationship. The advancement of bilateral economic and trade cooperation is important in promoting the progress of a constructive cooperative relationship between the two nations. After 30 years of development, the volume of bilateral trade between China and the United States has grown from less than $2.5 billion in 1979 to $302.1 billion in 2007, a more than 120-fold increase. The two countries have become each other's second-largest trading partner. For six years in a row, China has been the fastest-growing major export market for the United States. The bilateral economic and trade cooperation has a solid foundation and a vast range of prospects. As the meeting points of interest increase constantly and the economic ties between the two parties become closer and closer, the mutually beneficial and complementary pattern of economic interdependence is further strengthened and solidified.

At present, world economic and financial situations are intricate, and global economic prospects are not optimistic. Against the background of ever-deepening economic globalization, keeping contact, enhancing dialogue, properly addressing issues in bilateral economic and trade relations, and jointly dealing with difficulties and challenges between the governments and business circles of China and the United States are not only in line with the fundamental interests of the two nations and their peoples but also beneficial to the prosperity and stability of the world economy.

For 35 years since its founding, the US-China Business Council has made long-term and unremitting efforts to promote the development of US-China economic and trade relations. In supporting China's accession to the World Trade Organization, promoting the realization of a permanent normal trade relationship between China and the United States, and extending dialogue and exchanges between the business circles of the two nations, in particular, the Council has done tremendous, fruitful work, becoming an important power in promoting bilateral economic and trade cooperation, for which I am deeply appreciative.

Such matters should be considered broadly over the longer term. China will firmly take the road of reform and opening up to the outside world to promote better and faster development of our national economy. We are willing to expand cooperation with the United States in trade, investment, energy, and high-tech fields, to strengthen coordination of both parties on macroeconomic policies, to jointly oppose trade protectionism of any form, to properly resolve problems and disputes, to deepen bilateral business relationships, and to make greater efforts for the common prosperity of the two nations and the world.

陈德铭
中华人民共和国商务部部长

中美两国即将迎来建交30周年，双边关系正处在承前启后的重要阶段。经贸合作是中美关系的重要基础，发展双边经贸合作对推动两国建设性合作关系前进具有重要作用。经过30年发展，中美双边贸易额已从1979年的不足25亿美元增长至2007年的3021亿美元，提高了120多倍。两国已互为对方第二大贸易伙伴，中国连续六年成为美增长最快的主要出口市场，双边经贸合作基础牢固、前景广阔，双方利益交汇点不断增多，经济联系日趋紧密，中美经贸关系中“你中有我、我中有你”的互利互补格局进一步加强和深化。

当前世界经济、金融形势错综复杂，全球经济前景不容乐观。在经济全球化不断加深的背景下，中美两国政府、工商界间保持接触，加强对话，通过合作妥善解决双边经贸关系中的问题，共同应对困难和挑战，不仅符合两国和两国人民的根本利益，也有利于世界经济的繁荣与稳定。

美中贸委会成立35年来，为促进中美经贸关系发展做出了长期不懈的努力，尤其是在支持中国加入世界贸易组织、推动中美实现永久正常贸易关系、扩大两国工商界对话与交流等方面做了大量富有成效的工作，成为促进双边经贸合作的重要力量，对此我深表赞赏。

风物长宜放眼量。中国将坚定不移地走改革开放之路，促进国民经济又好又快发展。我们愿同美方扩大在贸易、投资、能源、高科技等领域的合作，加强双方宏观经济政策协调，共同反对任何形式的贸易保护主义，妥善解决矛盾和分歧，深化两国经贸关系，为两国及世界共同繁荣做出更大努力。

完

Susan C. Schwab
United States Trade Representative

This year marks the 30th anniversary of China's free-market economic reforms and the 35th anniversary of the founding of the US-China Business Council (USCBC). In three brief decades, these economic reforms have fundamentally transformed China and laid the foundations for its emergence as a key player in the global economy. During this period of dramatic change, the USCBC and its members have played major roles in expanding US-China trade, maintaining stable economic ties during times of political turbulence, urging China's accession to the World Trade Organization (WTO), working to secure congressional approval of permanent Normal Trade Relations status for China, and serving as a voice for respect and improved understanding.

Since China joined the WTO, US-China trade has grown dramatically. China is now America's third-largest trading partner, our fastest-growing major export market, and the fourth-largest customer in the world for American farm exports. The sweeping reforms required by WTO membership have opened vast new opportunities for American manufacturers, farmers, workers, and service providers. For the most part, China has implemented its WTO commitments and taken seriously the obligations of membership in the world's preeminent multilateral trade institution. And the Chinese economy and its people have enjoyed significant benefits as a result.

Challenges, however, surely lie ahead. Times of economic turmoil can lead to resurgent voices of protectionism and economic nationalism. In both the United States and China, there are those who question the value of expanded two-way trade or see advantage in closing markets to foreign products, services, and investors. History shows clearly that open, rules-based international trade contributes to prosperity, strengthens the rule of law, and enhances respect for international norms, including the human rights that Americans have always stood for. From the beginning of time, trade across borders has served as a mechanism for increased contact between different peoples and increased respect and understanding between cultures and nations. For China—or the United States—to step backward into economic nationalism, industrial policymaking, and agricultural protectionism could only risk a worldwide backlash against its exports and the loss of a major foundation of future economic growth and stability. Both governments have been well served by the periodic reminders to this effect from the USCBC.

The Bush administration's China trade policy has been built on three key pillars. We have pursued high-level bilateral and regional dialogue with senior PRC officials through the Strategic Economic Dialogue, Joint Commission on Commerce and Trade, APEC, and other

苏珊·施瓦布
美国贸易代表

今年是中国市场经济改革 30 周年暨美中贸易全国委员会 (USCBC) 成立 35 周年。在过去三十年中，经济改革彻底改变了中国，为中国在全球经济中承担越来越重要角色打下了坚实的基础。在这个发生巨大变革的时期中，USCBC 及其成员在扩大美中贸易、维持政治动荡时期的经济关系的稳定、促进中国加入世界贸易组织(WTO)、努力确保国会批准永久正常贸易关系、宣扬相互尊重、增进了解方面均发挥了重要作用。

美中贸易自从中国加入 WTO 以来急剧增长。目前，中国是美国的第三大贸易合作伙伴，也是增长最快的主要出口市场，更是美国农产品出口的全球第四大客户。(中国)成为WTO 成员国所必须进行的广泛改革为美国的制造商、农民、工人和服务提供商带来了巨大的新机遇。中国已经大部分兑现了其 WTO 承诺，并非常重视其作为全球卓越的多边贸易机构成员的义务。而且，中国的经济和中国人民都从中受益匪浅。

但是，未来仍充满挑战。时不时出现的经济动荡容易导致出现贸易保护主义和经济民族主义的回潮。无论是在美国还是在中国，都有人质疑扩大双边贸易的意义，或者认为阻止外国产品、服务和投资进入市场利大于弊。历史清晰表明，建立在规则之上的开放的国际贸易可使国家繁荣昌盛，可以强化法制，同时还能提高对国际准则的尊重，包括提高对美国人向来支持的人权的尊重。有史以来，跨边界的贸易就是一种可增进各国人民间的接触并促进不同文化和国家之间尊重和了解的机制。不管对于中国还是美国，倒退到经济民族主义、制定产业政策和农业贸易保护主义只可能会引起全球对其出口做出抵制，并使其丧失未来经济增长和稳定的主要基础。就这一后果，USCBC已经向美中两国政府给予了充分提醒。

布什政府的中国贸易政策建立在三大支柱上。通过“战略经济对话”、“商贸联委会”、APEC 和其它论坛，我们与中国高级官员进行了高层双边和区域对话。我们还努力与中国进行合作，以期推进“多哈回合”谈判，并强化中国在强大并充满活力的多边 WTO 体制中的作用。而在中国未能兑现其 WTO 承诺的那些方面，或对美国产品、服务或农产品设立贸易保护主义障碍时，我们都毫不犹豫地针

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Wan Jifei
Chairman, China Council for the Promotion of International Trade

On the occasion of the 35th anniversary of the US-China Business Council (USCBC), I would like, on behalf of the China Council for the Promotion of International Trade (CCPIT), to extend our most heartfelt congratulations to USCBC, which has worked with us side by side for the past 35 years to promote China-US trade.

The China-US economic and trade relationship is an important basis for China-US bilateral relations. The stable and healthy development of the China-US economic and trade relationship accords with the long-term interests of the two countries. Even before China-US diplomatic relations were established in 1979, USCBC was promoting preliminary economic and trade exchanges between China and the United States. After 1979, USCBC continued to facilitate US companies' entry into China and serve US-funded companies in China through its broad business network. For the past 35 years, USCBC has contributed much to China-US trade and investment relations by organizing trade missions to China, hosting business delegations from China (including those organized by CCPIT), and helping businesses and investors from both sides to enter each other's markets. It is these efforts that have enhanced mutual understanding and friendship between our two peoples and have become a strong impetus for two-way trade and investment.

USCBC is an important counterpart organization of CCPIT in the United States and has collaborated with us in the fields of trade and investment promotion and legal services, such as mediation and arbitration. It was our pleasure to facilitate the establishment of USCBC's Beijing Office in 1979. Since then, the two organizations have cooperated closely and built a deep friendship with each other. We hope that USCBC will, in years to come, make the best use of its connections and influence in the US business community to further promote China-US economic and trade relations. 完

万季飞
中国国际贸易促进委员会会长

值此美中贸易全国委员会成立35周年之际，我谨代表中国贸促会向35年来与我们携手共同促进中美贸易的合作伙伴表示最衷心的祝贺！

中美经贸关系是中美关系的重要组成部分。经贸关系的稳定健康发展符合两国的长远利益。美中贸委会在中美没有正式外交关系的时期，即为两国的早期经贸交往做过积极的推动工作。两国建交后，美中贸委会继续协助美国公司进入中国，同时利用其良好的业务关系向在华美资企业提供服务。35年来，美中贸委会为两国贸易和投资关系的发展做了大量工作，曾多次组织美国贸易团组访华，接待中国经贸代表团，包括贸促会代表团访美，积极促进美国公司进入中国市场，并吸引中国投资者赴美发展业务。这些努力增进了中美两国人民之间的相互了解和友谊，有力推动了双向经贸和投资。

美中贸委会是中国贸促会在美国的重要对口组织，在贸易和投资促进、法律调解等领域与我会保持多方面合作。1979年我会也很荣幸地协助承办了美中贸委会在京代表处的设立。三十余年来，中国贸促会与美中贸委会密切合作，结下了深厚的友谊。在今后的岁月里，愿美中贸委会充分利用在美企业界的广泛联系和影响，促进中美经贸关系的进一步发展。

Andrew Liveris
Chair, US-China Business Council
Chairman and CEO,
The Dow Chemical Company

Congratulations to the US-China Business Council (USCBC) on its 35th anniversary and to China for 30 years of progressive economic reforms.

From the days of US President Richard Nixon at the Great Wall, to China's historic accession to the World Trade Organization, to the success of the 29th Olympiad there is a tremendous amount to celebrate.

The Dow Chemical Co. appreciates the importance of USCBC's support for US investment in China and contributions to the PRC government's economic reforms and trade liberalization efforts. Dow has witnessed the historic growth and tremendous opportunities for partnership made possible by the commitment of China's leaders to reform and open their economy. This policy has enabled Chinese companies to become global competitors, encouraged American investors to become partners in China's amazing success, and energized China's domestic economy.

Throughout this period, USCBC has worked closely with the US and PRC governments, providing them with input from industry as policies are being formed. The organization promotes understanding in key areas such as customs administration and enforcement of intellectual property rights. Most important, USCBC helps the two sides reach common understanding. I am honored to chair USCBC and look forward to continuing this critical partnership in support of constructive engagement between Washington and Beijing.

These are exciting times as we enter ever-deeper partnerships and discover new opportunities for bilateral cooperation. Dow is involved in a number of public-private sector partnerships that will help improve the standard and quality of manufacturing in China—ranging from worker safety programs to improved energy efficiency. This commitment to corporate citizenship and sustainability is also reflected in meeting extraordinary challenges—like responding to the devastating Sichuan earthquake.

Investment projects such as Dow's coal-to-chemicals venture will provide breakthrough opportunities in western China. This project will create a safe, high-standard production facility that incorporates the latest environmental protection, water recycling, and energy efficiency technologies and provide a viable way for China to produce chemical products from its coal and salt resources. In turn, it will help China reduce its reliance on imported oil and maintain sustainable economic growth.

Projects like these would not have been possible without USCBC and PRC government support over the past three decades. Together, we have enabled success stories in both countries.

利伟诚
美中贸易全国委员会主席
陶氏化学公司董事长兼首席执行官

祝贺美中贸易全国委员会 (USCBC) 成立 35 周年，并祝贺中国经济改革开放30 年来所取得的辉煌成就。

从美国前总统尼克松访华到中国历史性加入世界贸易组织，再到取得空前成功的第 29 届奥运会，值得称颂的成就不胜枚举。

我代表陶氏化学公司衷心感谢美中贸易全国委员会在支持美国投资者在华投资以及促进中国政府经济改革和贸易自由化方面所发挥的重要作用。陶氏化学公司早在上个世纪 30 年代就已在中国开展业务，见证了中国一代代领导人坚持改革开放，为国家所带来的历史性发展和巨大的合作机遇。改革开放的战略方针不仅使中国企业逐步参与到全球竞争中，而且鼓励美国投资者到中国寻求合作，促进中国取得辉煌成就。这些金融与投资改革使中国的国民经济得到了飞速的发展。

在这一发展过程中，美中贸易全国委员会一直走在行业的前列。它与中美两国政府密切合作，积极提供行业方面的建议，帮助两国政府制定适宜的政策，促进双方的理解以及对重要领域的能力建设项目的关注，如海关管理和加强知识产权保护等方面。最重要的是，美中贸易全国委员会为使双方达成共识搭建了沟通的桥梁。我非常荣幸当选为美中贸易全国委员会主席，并期望能为中美两国建设性合作继续发挥重要的作用。

建立更深入的合作关系、发掘双边合作的新机遇是多么令人激动的一刻。陶氏化学公司开展了多项与政府和企业的合作，从工人安全生产到节能，全面帮助中国制造业提升标准和品质。在面临非凡挑战时，我们同样 也兑现了对企业社会责任和可持续发展的庄严承诺，比如对四川地震灾害作出快速响应。

陶氏煤化工合作项目等投资项目将为中国西部的发展提供前所未有的机遇。该项目不仅会建立一个安全、高标准的工业企业，而且还会采用最新的环保、水循环和节能技术。该项目的成功将为中国提供一种利用本地煤炭和盐资源生产化学产品的新的可行途径。而且还会帮助中国减少对进口石油的依赖，从而保持经济的可持续增长。

没有美中贸易全国委员会和中国政府在过去 30 年给予的强大支持，这些项目将无法实现。我们的共同努力促进了两国的成功合作。

衷心希望我们继续精诚合作。让我们携手成长，共享未来。

完

America's First Trade Mission to "the New China"

In 1973, the National Council for US-China Trade led the first US business delegation to China since 1949, jump-starting US-China trade relations

Gene Theroux

China's market has been a magnet for US merchants since the 1784 voyage of the US ship, *Empress of China*. That vessel left New York and sailed east around the southern tip of Africa, across the Indian Ocean, into the Pacific, and up the Pearl River to Canton (Guangzhou), one of the Middle Kingdom's thriving southern ports. The venture launched a trade that would grow and flourish until World War II.

In his report to US Secretary of Foreign Affairs John Jay in 1785, Major Samuel Shaw, soon to be the US Consul at Canton, explained how he got the Chinese interested in commerce with the United States: "By the map," he related, "we conveyed to them an idea of the extent of our country, with its present and increasing population," adding that the Chinese "were highly pleased at the prospect of so considerable a market for the production of their own empire." And how "considerable" a market it would become—the two countries recorded $386.7 billion in bilateral trade in 2007 alone!

After the founding of the People's Republic of China in 1949, a US embargo on China from 1950 to 1971 made trade between the countries illegal. Commerce ceased. President Richard Nixon's historic 1972 trip to China made a renewal of trade possible and reawakened the powerful US interest in bilateral trade. The small staff of the National Council for US-China Trade (later renamed the US-China Business Council) enthusiastically pursued the facilitation of a new and successful US commercial relationship with China. The Council's hopes were bolstered by the Boeing Co.'s 1972 sale of 10 aircraft to China and the positive experiences of US importers at the fall 1972 and spring 1973 Chinese Export Commodities Fair in Guangzhou (the Canton Fair), who were quick to develop US demand for a wide variety of Chinese commodities and manufactured goods.

Trip preparations

The Council's chair, Donald Burnham, also chair and CEO of Westinghouse Electric Corp., and the Council's president, Ambassador Christopher Phillips, recognized the need to assess a broader range of opportunities for US business with China, identify obstacles to trade, and prepare for a comprehensive exchange of views with leaders of the China Council for the Promotion of International Trade (CCPIT), the Council's official counterpart in China. At Burnham and Phillips' request, Council Director for Publications and Resources Nicholas Ludlow canvassed the Council's membership, both importers and exporters, for possible topics of discussion. Ludlow compiled and indexed comments from members, producing an invaluable resource volume from which delegation presentations to CCPIT were prepared. Subjects included a broad array of proposed trade development initiatives, including exchanges of commercial missions, trade exhibitions in the two countries, and regular communication on subjects of mutual interest and concern.

With the help of officers at the PRC Liaison Office in Washington, DC, the *de facto* embassy in the absence of formal diplomatic relations, and through telex communication with CCPIT in Beijing, Council staff arranged for 10 members of the Council's board to travel to Beijing in early November 1973 as the first formal US trade mission to China since the People's Republic of China was founded in 1949. Board members included the leaders of Deere & Co.; JC Penney Co., Inc.; Manufacturers Hanover Trust Co.; and Westinghouse Electric Corp. As the delegation prepared to leave for China, Secretary of State Henry Kissinger described the Council's mission as a "historic one"—"the first visit to Beijing by a broadly representative American business delegation in 24 years." The Council, he said, "will continue to enjoy the support of the Department of State."

President Phillips sent me to open a Council office at the fall 1973 Canton Fair to assist US companies as they explored opportunities to buy and sell. He then directed me to travel to Beijing to advance the board's November deliberations with CCPIT. Shortly before the arrival of the Council's delegation, I met with my counterpart at CCPIT, a senior officer in the CCPIT Liaison Office named Wang Genliang, to help ensure a smooth and successful meeting of our principals. Our meetings were cordial, but there were some surprises. At one point, Wang Genliang informed me that CCPIT Chair Wang Yaoting would invite the Council's board to a welcome banquet following the first day of meetings. He advised me that Wang Yaoting would offer a toast and asked if Burnham, as leader of the US delegation, would respond to that toast. I assured him that Burnham would respond to the toast. "In that case," said Wang, "please provide us, beforehand, the text of Mr. Burnham's response to the toast, for our interpreter." I agreed to do so and asked for the text of the toast to which Burnham would be responding. Wang informed me that the text of Wang Yaoting's toast would not be available in advance. The following day, at a luncheon for the Council's delegation arranged by Ambassador David Bruce, chief of the US Liaison Office, Burnham related the curious CCPIT request for an advance copy of the text of a toast to be made in response to a welcoming toast that we would not see ahead of time. The question provoked amusement among delegation members, but Bruce displayed his diplomatic insights, observing, "This is a wonderful opportunity! That request is your opportunity to set the agenda and the outcome for your discussions! Prepare a response that records your sincere appreciation of CCPIT's agreement to

1971 Highlights of Bilateral Commercial Relations and USCBC History 1974

1971

June United States ends 21-year trade embargo with China.

1972

February The Boeing Co. signs its first aircraft deal with China.
September First US grain sale to China.
October US firms attend Canton Trade Fair in Guangdong for the first time.

1973

May PRC Liaison Office opens in Washington, DC, and US Liaison Office opens in Beijing.
Inaugural meeting of the National Council for US-China Trade, the predecessor to the US-China Business Council (USCBC).
Former Deputy Representative to the United Nations (UN) Christopher Phillips becomes the Council president and PRC leaders designate the China Council for the Promotion of International Trade (CCPIT) as the Council's counterpart.

1974

The Council sponsors the first major US tour by members of the PRC Liaison Office in Washington, DC.


The Council's first annual meeting

January Inaugural issue of the *China Business Review*
June Secretary of State Henry Kissinger delivers the keynote address at the Council's first annual meeting.

The Founding of the US-China Business Council

The idea for a private US organization to foster US trade relations with China arose from a report to Congress by House Majority Leader Hale Boggs and Minority Leader Gerald Ford. In presenting the report of their June–July 1972 China trip, *Impressions of the New China*, Boggs told the House that "until we have normal state relations with China, a quasi-public body" could lay a basis for US trade with the PRC. He recalled that in the Shanghai Communiqué of 1972, the two sides agreed that "It is in the interest of both countries to take measures to create conditions for the further development of trade on the basis of equality and mutual benefit." Boggs urged private efforts to enlarge trade and business with China, and identified the China Council for the Promotion of International Trade (CCPIT) as the PRC's channel for fostering trade relations "where lack of diplomatic relations might otherwise be a barrier to international contact." The House leaders' meetings in Beijing had included a session with CCPIT Vice Chair Li Xifu.

In spring 1973, at President Richard Nixon's request, US Commerce Secretary Frederick Dent and Robert Hormats, then a young international economist on the National Security Council staff and now vice chair of Goldman Sachs (International), established a private sector organization to advance business with China. They asked Donald Burnham, chair and CEO of Westinghouse Electric Corp., to assemble a roster of distinguished US corporate leaders who would later become members of the Council's board of directors. Washington attorney Walter Sterling Surrey incorporated the group as the National Council for United States-China Trade, Inc., a name that was subsequently changed to the United States-China Business Council, Inc. in 1988. Burnham announced a May 31 conference on China trade at the Mayflower Hotel in Washington, DC, to inaugurate the new Council. Prior to that conference, Burnham dispatched Gene Theroux, a young Washington lawyer who had accompanied Boggs and Ford to Beijing, to meet with CCPIT Vice Chair Li Zhuan to explore a range of bilateral initiatives. Beijing demonstrated its support for the Council by sending Ambassador Han Xu, chief of China's Liaison Office in the United States (there would be no PRC Embassy in Washington until 1979, six years later), to attend the conference. Han announced that his government viewed the Council as one founded "precisely in accordance with the principles of the Shanghai Communiqué."

In May 1973, 13 months after Nixon's China trip, the American business community was brimming with curiosity and optimism about trade with China. Turnout for the Council's inaugural conference was large, with about 300 corporate participants. Burnham introduced Ambassador Christopher Phillips, then deputy US representative at the United Nations under George H.W. Bush, as the board's choice to be the first president of the Council. (Bush would soon be in Beijing, heading the US Liaison Office from October 1974 to December 1975.) Phillips, an able and popular diplomat, was no stranger to China. His father had served with distinction in Beijing in the early 1900s at the American Legation.

In the years that followed, the Council played an instrumental role in the establishment of commercial relations between the two countries. For example, in April 1974, Phillips testified before the US Senate on reducing tariffs on Chinese imports to help balance US-China trade and improve relations. (In 1973, US businesses had sold 11 times as much to China as PRC businesses had sold to the United States, according to Phillips' testimony—quite the opposite of today's situation.) Also, until diplomatic relations were formally established in 1979, the Council also sometimes served as a point of contact for US-China commercial discussions.

—*Gene Theroux*

1975 Highlights of Bilateral Commercial Relations and USCBC History 1979

First CCPIT delegation to United States

1975

January Trade Act of 1974 takes effect, allowing the US government to grant China Most-Favored-Nation (MFN) status.

February The Council hosts a delegation from the China National Textiles Import and Export Corp. that has come to the United States to investigate marketing opportunities with member firms.

1976

March The Council opens a Hong Kong office to serve Council members going to China.

1977

June The Council sponsors the first US food-processing and -packaging delegation visit to China.

October Discussions initiated by the Council lead to a landmark settlement, the first US-China joint conciliation case, between the American Arbitration Association and the Legal Affairs Department of CCPIT.

1978

November Coastal States Gas Corp. signs an agreement to become the first US company to import crude oil from China.

December Third Plenum of the Eleventh NPC Central Committee, launches China's economic reforms.

The Coca-Cola Co. signs a distribution deal with China National Cereals, Oils, & Foodstuffs Import and Export Corp.

1979

The Council opens its Beijing office.

January The United States and China establish diplomatic relations.

The Council sponsors, and President Jimmy whatever specific proposals you plan to make in the course of your deliberations." His sage advice was followed.

A warm welcome for foreign guests

The Council's delegation was warmly welcomed by CCPIT officials in the shadow of a Mao Zedong statue at Beijing's nearly empty international airport. The group traveled to the Beijing Hotel in a motorcade that breezed past legions of bicyclists into a city where, in 1974, automobile traffic congestion was unknown. The US delegation was housed in the elegant—if somewhat frayed—old wing of the hotel that overlooked the eastern edge of the Forbidden City. A tour of the hotel included a large ballroom that boasted an antique spring-mounted dance floor, where Zhou Enlai and his wife had often waltzed before the Great Proletarian Cultural Revolution stopped the music. (During the Cultural Revolution, many foreign and "bourgeois" activities, such as ballroom dancing, were frowned upon, if not forbidden.)

Business sessions with the CCPIT were held at the hotel. General sessions were held in a comfortable conference room, where hotel staff attentively kept large, flowered thermoses filled with steaming hot tea, and red canisters of Great Wall cigarettes were thoughtfully placed within easy reach. Separate meetings were arranged with CCPIT departments in charge of imports, exports, banking, technical exchange, legal matters, and trade exhibitions in the two countries. Among the subjects discussed were US export controls, which were limiting PRC imports of certain kinds of US products and technologies, and the hope for eventual "most favored nation" tariffs on US imports of Chinese goods.

As many US business visitors were to learn in the years that followed 1973, the Chinese can be superb hosts. The CCPIT arranged for Council board members to attend memorable performances of revolutionary ballet, Beijing opera, and a show displaying the dazzling skills of Chinese gymnasts and acrobats. And we all found ourselves humming a melody broadcast daily—and often—from the loudspeakers that dotted Beijing. We later learned that the tune was an ode to Mao Zedong: "Sailing the seas depends on the helmsman."

Following deliberations with the CCPIT in Beijing, the Council's delegation traveled to Shanghai and Guangzhou for visits to industrial plants and meetings with municipal officials. Heading for Hong Kong, the delegation exited China by rail and passed through Shenzhen—then a small village where people were outnumbered by scurrying free-range hens. In Hong Kong, Burnham led a press conference and issued a press release that, among other things, announced joint agreement on the further exchange of trade missions, beginning with a first-ever commercial delegation from the PRC to the United States in 1974.

Incidentally, responsibility for arranging a cordial welcome for the reciprocal 1974 PRC delegation was given to the able and imaginative Council Vice Chair William Hewitt, who was also chair of Deere & Co. Hewitt told the Council's staff that the hospitality extended to the US delegation a year earlier was so overwhelming that the CCPIT's return visit warranted "a real dog and pony show." Asked what, precisely, he had in mind, Hewitt explained that CCPIT had welcomed us with such memorable performances of Chinese music and dance that he wanted to present "a *real* dog and pony show with real dogs, real ponies, the whole works!" He got such a show in 1974, at a large Washington hotel ballroom, to the amazement of Chinese and American guests alike, but that's a story for another time. 完

Gene Theroux *is senior counsel at Baker & McKenzie LLP in Washington, DC. In 1972, he accompanied House of Representatives leaders Hale Boggs and Gerald Ford on their trip to China. In 1973, he helped organize the Washington, DC, office of the National Council for US-China Trade and was appointed the Council's first vice president. He was later elected vice chair of the board.*

1979 — 1983

Carter hosts, Kennedy Center event with PRC Vice Premier Deng Xiaoping following a state dinner at the White House.

July China's National People's Congress (NPC) issues landmark Sino-Foreign Equity Joint Venture Law.

Council board of directors delegation meets with Vice Premier Deng Xiaoping and Minister of Foreign Trade Li Qiang.

October First US-PRC joint-venture contract signed to build the Great Wall Hotel in Beijing.

1980

United States establishes consulates in Guangzhou and Shanghai, and China opens consular offices in Houston and San Francisco.

January United States awards China MFN status, now Normal Trade Relations (NTR) status in US law, subject to annual renewal.

September The Council hosts a delegation led by PRC Vice Premier Bo Yibo. Bo and President Carter sign agreements on textiles, civil aviation, shipping, and consular convention.

1981

March Council board of directors visits Beijing, hosted by CCPIT.

May Inaugural issue of *China Market Intelligence*, a members-only newsletter on business opportunities and news of immediate interest to member firms.

1982

April The first US-PRC manufacturing joint-venture contract—between Foxboro Co. and Shanghai Instrument Industry Co.—is approved.

PRC Premier Zhao Ziyang and State Councilor Gu Mu meet with Council President Phillips and Board Chair David Tappan. Through the Council, Zhao communicates that China hopes to maintain trade with the United States even if political relations sour over Taiwan.

1983

March US government's Trade and Development Program funds a Council delegation to China that explores the

Roberta Lipson, President and CEO
Elyse Silverberg, Executive Vice President Chindex International Inc.

Lipson: After studying Chinese history and spending a year in Taiwan studying Chinese language, I went to business school in the United States and spent my last six months desperately searching for an opportunity to become involved in China business. I scoured the pages of the *China Business Review* for possible opportunities, because there weren't many other resources in those days. I ended up taking a job in the pharmaceutical industry in the United States that had nothing to do with China. A month later, I got a call from Julian and Lee Sobin, who after being involved in China trade for a number of years, had been invited to open an office in Beijing. They sent me to China.

Silverberg: I came to China in 1979, the first year that the universities were accepting exchange students. My first job was with the National Council for US-China Trade [as the US-China Business Council was then known]. I was their first student intern. Everybody that was coming in on business came through the office, from court delegations to manufacturing or medical delegations. It was a phenomenal opportunity to get a taste of the various types of business that was going on.

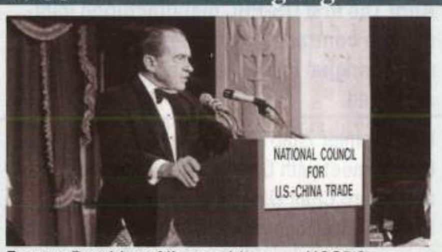
Lipson: In 1981, we decided go into business ourselves. When we first started, all of our business for the first two years happened at the Canton Fair. Everything. All of the medical equipment for all of China was purchased by about four people in two different foreign trade corporations. The Canton Fair in those days lasted six weeks. One of us would be in the States and one of us would be at the fair. You'd go to the fair in the morning, and they would have a big stack of paper. On each piece of paper were requisitions from Chinese hospitals for imported medical equipment, hand-written, really hard to read. They were mostly products whose names had been copied from medical journals, sometimes five- and ten-year-old medical journals. We would have to copy down what they were looking for. Then we had to figure out what it actually was, because the people who were responsible for buying knew nothing about the technology and probably never met the people who were requisitioning it. There was no opportunity to ask questions. We had to guess what they were looking for and then find a company in the US that would sell to China. Even at that time, it was like, "What are they going to give us? Rice or tea bags? What happens if it breaks?"

In the morning we would copy the list of items, and then book a time at the telex office, which wasn't easy. You had to make friends with the folks in the telex office to get a time because it was such a busy place. Then you had to sit there, cut a tape, type everything out on mechanical telex machines, wait for a connection, and run the tape through. Then the one in New York would find companies willing to sell, get quotes for sending the equipment to China, and telex the quotes to China. The one at the fair would type up the quotes in the morning and bring them back to the people at the table, who would check off the items. Then they'd give you a bunch of contract papers and tell you to type up contracts, which is what you'd do at noon time. Then you'd bring the contracts back in the afternoon, and they'd give you another inch of papers to work on the next day. And this would go on for six weeks.

Slowly they started bringing some important hospital users to the fair. The first few times, they would never say who they were. They would sit next to the buyer and not say anything. It was a good two years before we got to go to an actual Chinese hospital.

Silverberg: At that time, most of the foreign businesses in China were trading companies. They would set up a relationship and then leave once the contract was signed. We

1983 Highlights of Bilateral Commercial Relations and USCBC History 1987



Former President Nixon addresses USCBC.

feasibility and business potential of a coal slurry pipeline. The trade mission determines the pipeline could generate up to $250 million worth of sales for US firms.
December China joins the Multi-Fiber Arrangement.

1984
January PRC Premier Zhao Ziyang speaks at Council luncheon in Washington.
November 3M sets up first US WFOE in China.

1985
March Sheraton Corp. takes over management of the Great Wall Hotel, becoming the first foreign hotel chain to operate in China.
July NPC issues the Foreign Economic Contract Law.
Council co-hosts luncheon in honor of PRC President Li Xiannian in Washington, DC.

1986
January The United States and China sign bilateral tax treaty.
July China applies for membership in the General Agreement on Tariffs and Trade, the predecessor to the World Trade Organization.
November Council delegation travels to Beijing to present detailed recommendations to senior policymakers on improving the investment environment in China.

1987
September PRC State Council Leading Group on Foreign Investment Executive Director He Chunlin discusses investment

wanted not just to be the middleman but create an organization that would see business through to its completion.

Lipson: It was really exciting for us to bring the first, real-time ultrasound to Beijing. We had a seminar with 500 obstetricians looking for the first time at a moving fetus on a screen. We saw professors with tears in their eyes, crying. It was an amazing, moving experience. We had a series of opportunities to expose people to technologies because we were bringing those technologies here.

Silverberg: We were also bringing fairly senior-level people in their industries to the United States for the first time. People sometimes reacted angrily to things that they didn't expect. There were lots of misunderstandings. In China, hosts treated visitors formally, always saving the best for a guest. A lot of Chinese visitors to the United States felt slighted by the more casual American approach. In those early years, you had to be cautious about that. Cultural fluency was much more important for the surface issues. Now there are deeper issues of cultural fluency, when you're dealing with sharing with partners and profits and losses. There's still a great need to understand how people think and feel, but because of better communication and growing sophistication, there are fewer misunderstandings.

Lipson: When we got here in 1979, our whole frame of reference was different from everybody we met in China, and there was a huge gulf. In 2008, we have the same starting place and perspective as a lot of our business associates. That's probably the thing that's most different. But though senior professors and opinion leaders in the healthcare field fit in easily with their counterparts from around the world, there is still a great distance for many people.

In terms of our business, we spent a good part of the 1990s convincing Chinese authorities that foreign investment and healthcare were OK to experiment with. The model that we envisioned has proven workable in Beijing and Shanghai. I think that's true about a lot of things in China—reforms have proven themselves in the big cities on the east coast. And now it becomes a rollout strategy, for us and for Chinese society. How do you roll out the prosperity? How do you roll out the openness of society across the country? And the next phase—how do you keep the prosperity going while being mindful of the environment? How can you make it sustainable? It's no longer a matter of will China continue economic development and engage with the world. That question is already answered. The next question is: How can they focus on doing it better and extending the benefits to more people?

Silverberg: I would agree. Just recently I spent Chinese New Year back home in a pretty rural environment—my husband's home village. And I was reminded that even close to the city, life is very different. You don't have to go way out to the west; you just have to go outside of the second ring road of some of the second-tier cities. How things such as education and healthcare that are now taken for granted in the cities will be extended to the rest of China becomes very interesting. 完

1987 1992

Vice President George H.W. Bush addresses Council members.

problems with Council member companies in various US cities.

1988

March NPC issues Contractual Joint Venture Law.

1989

June President George H.W. Bush suspends government-to-government sales, commercial export of weapons, and official visits between US and PRC military leaders.

1990

September NPC issues Copyright Law.

December China opens stock markets in Shanghai and Shenzhen.

1991

May The Office of the US Trade Representative begins investigating violations of US intellectual property rights (IPR) in China.

June USCBC leaders meet with PRC Premier Li Peng, who expresses concern over MFN conditions for China.

1992

January The United States and China sign a memorandum of understanding (MOU) on IPR.

March China accedes to the Nuclear Non-Proliferation Treaty.

The United States lifts high-tech sanctions imposed in 1991 in response to Chinese promises to abide by the Missile Technology Control Regime.

Andrew Andreasen

Managing Director, Shanghai AIAL Information Consulting Co., Ltd.Beijing Branch

I first came to China in 1979 with the National Committee on US-China Relations as an escort interpreter for the Boston Symphony Orchestra's visit. I started studying Chinese in the early 1970s. I finished my PhD in Chinese literature in 1980 was offered a job in Beijing on the Great Wall Hotel construction project.

Opening and reform began in earnest in 1979, and the Great Wall Hotel was only the second international tourist hotel investment joint venture project to have been approved. The first one was the Jianguo Hotel. Of course I knew nothing about business, but I spoke Chinese, which at that time was a rare thing for a foreigner.

In those days, foreign investors did not spend much time in China. I was the only thread of continuity on the project, and so I got involved in a number of activities, such as negotiating loan agreements with banks. When the Great Wall Hotel job finished, I joined Chemical Bank and helped open its representative office in Beijing in 1983. I was here from 1980 to 1985, then I came back in 1995.

From a business perspective, the stark difference between then and now was the lack of clear laws and regulations to govern business. Over the years, China has put into place a comprehensive set of laws, regulations, and tax codes. Now it's quite a complete business environment that offers a fairly large degree of comfort and protection to investors.

In the early years, foreign companies had to do everything with a Chinese partner. In many joint ventures, there was a conflict of interest between the foreign and Chinese partners. The Chinese enterprises wanted to obtain technology and become independent of their foreign partners, so they viewed joint ventures as an opportunity to learn as much as they could in a short period and then strike out on their own. It wasn't until the mid-1990s, when the wholly foreign-owned investment laws came onto the books, that it became possible, in certain industries, to have a wholly foreign-owned and -controlled investment.

Of course, different mentalities and government systems made it difficult for foreign investors to understand how they should operate in China. For people like me, a fair amount of our work involved explaining China to our employers.

In the last 13 years, it's been even more interesting to see China develop. I'm not talking about changes in the physical environment but rather about the emergence of civil society. China's role on the world stage is changing, and a kind of cultural renaissance is taking place.

The current leadership realizes that they cannot just keep accumulating foreign currency reserves, not worrying about the environment, and allowing only the wealthy coastal areas to benefit from reforms while the interior stagnates. They are taking a lot of tax, regulatory, and other initiatives to address that disconnect and make China a more equitable society. For instance, the Labor Contract Law goes quite a bit further in protecting worker's rights than before.

The government has put laws in place that theoretically control environmental pollution and protect intellectual property rights. The fact that it is not enforcing these laws is another issue. The environment is being discussed at very high levels. They already have stricter emissions standards on automobiles than the United States does. They've signed the Kyoto Protocol. At the same time, they recognize that problems like food safety and intellectual property theft affect China's reputation, and they are working hard to change them. But I think it'll take another 50 years. Education—that's the key. A large percentage of the population has only basic education. I think people will be pleasantly surprised with what China will look like 50 years from now. 完

1992 Highlights of Bilateral Commercial Relations and USCBC History 1997

USCBC President Donald Anderson, US Secretary of Commerce Barbara Franklin, and PRC Premier Li Peng

September AIG, Inc. receives license to operate first wholly foreign-owned insurance business in China.

USCBC President Donald M. Anderson leads a board delegation that presents recommendations to senior PRC officials on improving China's investment climate.

October United States and China sign MOU on market access.

China joins Berne Copyright Convention.

Jinbei Automobile becomes the first PRC company listed on the New York Stock Exchange.

1993

March Merrill Lynch & Co. opens representative office in Shanghai, becoming first US securities firm to operate in China.

1994

January China unifies its currency, eliminating Foreign Exchange Certificates.

July New PRC Foreign Trade Law takes effect.

1995

February The United States and China sign Accord on Protection of IPR, Market Access.

1996

July China's currency becomes convertible on current account.

1997

USCBC opens its Shanghai office.

Clinton Dines

President, China BHP Billiton

I first came to China in 1979 to study Chinese at Nanjing Teachers College. The program failed—most students went home within 12 months. We were supposed to stay two years. I stayed 16 months.

For a 20-year-old from Australia, going to China at that time was like being dropped into a shark tank. China had suffered social upheaval for 150 years, and society was Darwinian. During the Qing Dynasty, the heart and soul of the beast had cancer. Then there was the republic, war, and a few stable years in the early 1950s before the political campaigns started. With a history like that, how do you suddenly produce trust? Rule of law? For me, it was a hugely formative shock. But gradually, glimpses of humanity appeared. People took risks to help me.

In the 1980s, reform was not so apparent in the cities, but there were massive changes in rural areas. The household responsibility system liberated the countryside. Suddenly there was much more food. In Nanjing in 1979, people were hungry. Even I, a foreign guest, was hungry—in a major city in a fertile region. Reforms in the early 1980s increased the variety and availability of food, but apart from that there was not much more prosperity.

Then in the late 1980s, inflation hit. China is very sensitive to perils of inflation. People remember the instability it has brought in the past. Tiananmen was a huge wake up call for everyone. China wouldn't be where it is today if that hadn't happened. People realized that they needed to keep the stability of the last 10 years. So an unspoken bargain was struck between the government and the people—economic growth for stability.

In 1979, every aspect of your life was subject to inspection at any time. Now Chinese have so many options! The bright and energetic can realize their full potential. There's also more social justice, though not everyone is benefiting from it.

What hasn't changed? The nature of personal interaction from 1979 to now. It's still more or less Darwinian. People here are raised to compete, rather than collaborate. This system leaves them ill-equipped to work in teams. In the office, I try to create an environment in which discussion is expected, because the boss needs to hear all information, data, and opinions, and Chinese staff often have deep information, knowledge, and experience. Foreigners have to set an example, because Chinese tend to associate expressing an opinion with risk.

Last year's Chinese Communist Party Congress and this year's National People's Congress will be seen as a watershed. Policies from the mid-1990s through about 2004 were aimed at growth for growth's sake. There was massive foreign direct investment, construction, productivity improvements, and managerial changes in government and companies. Reforms in law, infrastructure, the state-owned sector, and housing, as well as corporatization and professionalization, built economic and technology platforms for China's economy. After 2000, all this began to coalesce, and the economy began to grow on its own, with less need for direct government investment as the sole driver.

Now the government doesn't have to create growth, but it does have to regulate it, especially in environment, health and safety, and labor. In the last few years, government policy has shifted. The objective is to harness technology for development and reconcile the major imbalances—environment vs. development, rich vs. poor.

The next era in China's development will see improved governance with an emphasis on social justice. With nearly $2 trillion in the bank in foreign reserves, and a generally healthy economy, China can spend on education, health care, rural issues, and the environment. The government's-capability to understand and deal with such issues is increasing all the time. 完

1997 — **2001**

1997

October PRC President Jiang Zemin and US President Bill Clinton agree to take steps to initiate civilian nuclear trade.

USCBC cohosts dinner for PRC President Jiang Zemin.

1998

June President Clinton visits China to sign agreements on US high-tech exports and other issues.

1999

April PRC Premier Zhu Rongji visits Washington to discuss China's WTO accession. USCBC co-hosts welcome dinner in New York.

USCBC board of directors visits Beijing.

United States and China sign bilateral agriculture agreement.

November United States and China sign agreement on the terms of China's WTO accession in Beijing.

2000

September US Congress passes permanent NTR for China, allowing the United States to benefit from China's WTO accession.

USCBC holds luncheon for PRC President Jiang Zemin in New York.

2001

March USCBC co-hosts luncheon honoring PRC Vice Premier Qian Qichen, at which Qian delivers his only public remarks in Washington, DC.

December China formally accedes to the WTO, kicking off a new era of reform. Over

Jan Borgonjon

President, InterChina Consulting

I started to study Chinese at university in Belgium. Then I received a scholarship to study in Nanjing in 1983. At that time, China was very austere. Socially, there was still a lot of control and campaigns against crime and spiritual pollution. I liked China but not enough to stay. I returned to Belgium and worked three years at Leuven University.

In 1988, I came back to Beijing to direct a European Union funded management education project, the China Europe Management Institute. I had two objectives: not to stay more than two years, and not to marry a Chinese woman. I completely failed, of course! I met a Chinese woman within six months and stayed another 20 years.

In 1988, foreigners were kept separate. Chinese were not allowed in Western hotels, for instance. Mixed marriages were still frowned upon, though attitudes were changing in the big cities. Then came 1989. After that, a lot of positive changes happened very quickly. Looking back at what has changed, it's hard to know where to begin. Until the early 1990s, there were no private shops. It is hard to see what is left from that time. One of the few things that remains is state-owned companies. They are still monopolies, and they are getting stronger. Because they are linked to political power, they can play the political card—national interest, national champions, or security—to bolster their own interests.

Many things have become easier over the years. Transparency, the willingness to provide service, infrastructure—whether communication, telecom, or financial—are all much better.

The whole investment climate is more open and fairer than it was, and the government is generally more supportive. But three things have emerged over the last two to three years: the government's new attitude to foreign investment, the rise of Chinese companies, and costs.

Until recently, foreign investment was used as a driver for development and as one of the evaluation parameters for local officials. That's why local officials were eager to provide investors with land, lower taxes, and other incentives.

I think that has changed completely. The Chinese government now views development in another way, and foreign investment has a different role. The government no longer encourages foreign investment in labor-intensive exports, energy-consuming exports, and production that pollutes. Also, it wants Chinese companies to benefit from foreign investment, so it wants technology and access to international markets.

The terms of access have become, in a sense, more restrictive. That doesn't mean China is closing, but it's not promoting *all* kinds of investment anymore. That is quite a big change for foreign companies. It affects how they look at China, how they look at Chinese partners, how they handle government relations, how they invest in China. Before, companies could start with an export strategy and then break into the local market step by step. Now suddenly not all exports are encouraged, and an export strategy is no longer feasible for some products.

Finally, all costs are going up—environmental controls add to costs, and energy and land costs are increasing rapidly. And transportation, labor...all these costs are on an upward trend.

These three developments are completely changing the picture for foreign companies in China. Some companies are changing their approach, but many others work the same way they always have and still expect the government to support them and that they will be able to export.

The big plus, of course, is booming consumption—that's the big thing. China is becoming a huge consumer society. It will surpass anything that has ever happened before in the world. 完

2001 Highlights of Bilateral Commercial Relations and USCBC History 2006

the next few years, China lowers import tariffs dramatically and lifts restrictions on foreign investment in a wide range of sectors.

2002

May USCBC co-hosts dinner for PRC Vice President Hu Jintao.

October USCBC co-hosts dinner for CCPIT Chair Yu Xiaosong.

2003

October USCBC board of directors meets with PRC Premier Wen Jiabao, National Development and Reform Commission Chair Ma Kai, and NPC Vice Chair Cheng Siwei in Beijing.

December USCBC hosts reception and dinner for PRC Premier Wen Jiabao.

2004

April USCBC co-hosts dinner for PRC Vice Premier Wu Yi and Chinese delegation to the US-China Joint Commission on Commerce and Trade.

September USCBC co-hosts reception honoring PRC Minister of Finance Jin Renqing, China Banking Regulatory Commission Chair Liu Mingkang, People's Bank of China Vice Governor Li Ruogu, and other senior Chinese finance officials.

USCBC delegation attends Xiamen Trade Fair and meets senior PRC officials, including Vice Premier Wu Yi, Minister of Commerce Bo Xilai, and Vice Minister of Commerce Ma Xiuhong.

2005

July China unpegs its currency from the US dollar and begins valuing it against a trade-weighted basket of currencies.

USCBC co-hosts luncheon honoring PRC State Councilor Tang Jiaxuan.

2006

April PRC President Hu Jintao delivers an address on bilateral relations at a dinner co-hosted by USCBC.

Anne Stevenson-Yang

Principal and Research Director, Wedge MKI LLC

I first came to China in 1985. Someone had offered me a job as a foreign expert at the foreign languages press, and I thought, "I'll try it for a year." I ended up staying three years because I got married here. Then we went back to Washington. We returned at the end of 1993, and we've been here ever since. That was with the Council. [Stevenson-Yang headed the US-China Business Council's Beijing office from 1993–98.]

The change since then has obviously been very great, but often it seems to be a process of creating islands of internationalism, money, development, and economic choice that float on top of the rest of China. Fuyuan, in Yunnan, has dedicated Adidas outlets and a little art gallery. Where did they come from? It is a rural county, and yet it seems to be pretty prosperous. It would have been dirt poor just a few years ago. Salaries are going up all over the country. In rural Inner Mongolia, farmhands are earning what urban Chinese in Beijing were earning 10–15 years ago. That sort of thing is quite impressive. In particular urban areas, the degree of economic opportunity, fun things to do and buy, and ways to entertain yourself multiplies year after year. But those changes are not happening uniformly across China.

Going into business is easier and more routine than it used to be. There is less government interference in the setup process, and smaller companies can focus more on the business itself. I think that for big companies, government relations is a bit more of an issue. But small companies face all sorts of challenges in finding their markets, making their products, and competing, and they don't focus so much on government relations. It used to be that every company would have to spend a huge amount of effort getting a license and dealing with officials. So the economic environment is freer.

Doing business got a lot easier after China joined the World Trade Organization [WTO] in 2001. Now, it's much easier to attract financing and start a big company, whereas before WTO almost everything was about strategic involvement, not building a big business. You thought, "I'll build this company to $1 million and sell it to the next bigger guy who wants strategic access to China." But you didn't think, "I can build a $10, $20, $50, $100 million business in China." Now you do. It's very new. It's partly a function of the regulatory changes since WTO and partly a function of the economic growth spurt.

The recent investment tightening is interesting. It affects the way people manage their foreign investments, but I don't think it is a particularly important macroeconomic factor. What will actually create sustainable value here, make people's lives better, is spending money on the health system, figuring out the rural land issue, and allowing people with land tenure to realize the value of their land rather than having it expropriated by real estate developers. 完

2006 … 2008

2006

November USCBC President John Frisbie and a delegation of board members meet with senior PRC officials, including Premier Wen Jiabao, Foreign Affairs Minister Li Zhaoxing, and Commerce Minister Bo Xilai.

2007

May USCBC co-hosts dinner honoring PRC Vice Premier Wu Yi and delegation to the Strategic Economic Dialogue (SED) in Washington, DC.

June China's Enterprise Bankruptcy Law, which incorporates international standards and grants more protection to creditors, takes effect.

2008

January China's Enterprise Income Tax Law, which unifies tax rates for domestic and foreign companies, takes effect.

PRC Labor Contract Law, which gives more legal protections to Chinese workers, takes effect.

June USCBC co-hosts dinner honoring PRC Vice Premier Wang Qishan and PRC delegation to the SED.

August China's Antimonopoly Law, which establishes the guidelines for China's first comprehensive antitrust policy, takes effect.

President Hu Jintao

September USCBC co-hosts luncheon honoring PRC Premier Wen Jiabao and ministerial delegation to the UN in New York.


Wu Luming/China Foto Press

China's Great Economic Transformation

Thirty years of change have modernized China's economy

Loren Brandt and Thomas G. Rawski

China's massive, protracted, and unexpected economic upsurge began in the late 1970s and continues nearly 30 years later. China's extended boom began at remarkably low levels of income and consumption. Its growth spurt is remarkable for its geographic spread as well as its speed and longevity. While coastal regions have led the upward march of output, exports, and income, China's central and western regions have recorded enormous gains as well.

Rapid advance in output per capita has elevated hundreds of millions from absolute poverty. Using an early official poverty indicator, the share of impoverished villagers drops from 40.7 percent in 1980 to 10.6 percent in 1990 and 4.8 percent in 2001. A second indicator shows higher proportions living in absolute poverty, but indicates a comparable trend (75.7 percent impoverished in 1980 and 12.5 percent in 2001).

China's economy has abandoned its former isolation in favor of deep engagement with world markets. The trade ratio, which measures the combined value of exports and imports as a share of gross domestic product (GDP), jumped from under 10 percent prior to reform to 22.9 percent in 1985, 38.7 percent in 1995, and 63.9 percent in 2005—a level far higher than comparable figures for any other large and populous nation. China has also become a major player in the global market for foreign direct investment, receiving annual inflows in the neighborhood of $70 billion during 2004–06 and generating moderate, but rapidly increasing, outflows of direct overseas investment ($16.1 billion in 2006).

China's economic ascent rests on a series of gradual, often discontinuous, and continuing transitions. A massive exodus from the villages has reduced the farm sector's share of overall employment from 69 to 32 percent between 1978 and 2004, while the farm sector's GDP share fell by more than half.

The slow retreat of planning has cumulated in a dominant role for market outcomes. Price determination, formerly concentrated in official hands, now reflects shifts in supply and demand. Data for 2000–03 indicate an 87 percent share of market pricing (as opposed to prices that are fixed or guided by government) for "means of production"; comparable figures for farm products and consumer goods exceed 90 percent.

Following a quarter century of liberalization, markets for products, labor, and materials are well developed and increasingly competitive. While investment decisions, capital markets, and transfer of ownership rights still bear the imprint of official preferences, the overall impact of market forces continues to deepen. Despite the dominance of state ownership in finance, telecommunications, steel, petroleum, tobacco, and other important sectors of the economy, private entrepreneurs continue to push into sectors formerly reserved for public enterprise. The Organization for Economic Co-operation and Development's estimates show the private sector, which scarcely existed at the start of reform, accounting for 59.2 percent of China's GDP for 2003. Thus, China's reforms brought these momentous shifts, from poverty to growing prosperity, from village to city, from plan to market, from public toward private ownership, and from isolation to global engagement.

Quick Glance

- China's reforms have focused on increasing incentives, mobility, price flexibility, competition, and openness.
- These reforms have unleashed market forces and driven the country's rapid economic growth.

Key factors in China's reform success

China's pre-reform plan system saddled the economy with costly defects that constrained its economy to a path that delivered modest gains at best and indubitably failed to satisfy Chinese ambitions. In economic terms, Chinese socialism held the economy far below its production frontier while severely restraining the frontier's outward movement.

In China, partial measures affecting incentives, prices, mobility, and competition—what might be termed "big reforms"—created powerful momentum, which easily dominated the friction and drag arising from a host of "smaller" inefficiencies associated with price distortions, imperfect markets, institutional shortcomings, and other defects that retarded growth and increased its cost but never threatened to stall the ongoing boom.

Rural reform

Early initiatives in the farm sector illustrate the impact of limited reforms affecting incentives and mobility. The shift to household cultivation meant that farmers could claim the fruits of extra effort for themselves. The restoration of household farming immediately reinstated the link between effort and reward throughout rural China. Substantial increases in official purchase prices, especially for grain, added to the rewards from extra effort. With new incentives spurring work effort, farm output jumped quickly, even though the post-reform rural environment retained important elements of the planned economy.

The response to early rural reforms quickly spread beyond the farm sector. Following the revival of agriculture, rural industry, now fortified by greater access to the cities, rising incomes among potential rural customers, increased supplies of agricultural inputs, and throngs of eager job seekers, bounded ahead with renewed vigor. The resulting shift of employment from farming toward rural industry began the continuing exodus from farming—an important component of economy-wide productivity change during the early reform years.

Freeing the market

Encouraged by the explosive response to partial reform of the rural economy, officials pressed ahead with urban reform efforts focused on improving the performance of state-owned industry. Early urban reforms achieved only limited progress toward their main objective of "enlivening" state-owned enterprises (SOEs). They did, however, contribute to the expansion of rural industry and urban collective enterprises by opening new markets as well as new sources of materials, subcontracting opportunities, and technical expertise.

A unique policy innovation was instrumental in spurring the development of urban and rural collective industry as well as increasing market awareness and efficiency within the state sector. Rather than eliminate plan allocations at official prices, China's reformers created a dual price system that split transactions for most commodities into plan and market components. Once producers had satisfied plan requirements, they could distribute after-plan residuals at increasingly flexible prices. This initiative thrust market forces into the economic lives of all Chinese households and businesses. Furthermore, this landmark change avoided the economic or political earthquakes associated with privatization or full liberalization of prices. The arrival of dual pricing instantly recast the plan system as a vast array of taxes and subsidies.

This novel arrangement reversed two central shortcomings of the plan system: rigid prices and neglect of innovation. Participants in China's economy—including the large SOEs at the core of the plan system—now faced a new world in which market prices governed the outcome of marginal decisions to sell above-plan output or purchase materials and equipment.

By the turn of the century, notwithstanding significant exceptions associated with the pricing of credit, risk, and foreign exchange, supply and demand had emerged as the main arbiters of prices throughout the Chinese economy. Expanded, but still incomplete, price flexibility also facilitated the process of whittling away at barriers to mobility, which had restricted the transfer of labor, capital, commodities, and ideas across administrative boundaries under the plan system.

The *hukou* system of residential permits offered the largest hindrance to mobility, curtailing productivity-enhancing transfer of workers out of agriculture and stunting the growth of urban service occupations. Additional restrictions arose from campaigns promoting local and regional "self-reliance," which rolled back regional economic specialization, forcing many localities to abandon specialty crops in favor of low-productivity subsistence farming. Dual pricing enlarged markets that provided opportunities for entrepreneurs to purchase materials and equipment, manufacture products newly in demand or neglected by the plan system, and sell them profitably. The same markets allowed rural migrants to pursue employment opportunities, first in nearby towns and later in distant cities, where they could now use cash to purchase food and other essentials formerly available only to holders of location-specific ration coupons.

Although reform did not eliminate price distortions or barriers to the mobility of people and goods, the beneficial consequences of allowing people to respond to price signals were enormous. Villagers needed no precise calculation to see that they could raise their incomes by taking up non-farm occupations; several hundred million recognized the opportunity and made the choice. Erosion of long-standing prohibitions against development of the tertiary sector produced an explosion of new activity involving restaurants, retail outlets, private schools, and a vast array of other activities.

Opening to the world

As the influence of markets, price flexibility, and mobility expanded within the domestic economy, a separate strand of reform began to move China's isolated system toward greater participation in international trade and investment. During the late 1970s, an abortive plan to expand imports revealed huge latent demand for foreign equipment and technology. In the ensuing debates, China's leaders agreed to establish four tiny "special economic zones" in Guangdong and Fujian. Initial operations in these zones seemed directionless and inconsequential, but the arrival of ethnic Chinese entrepreneurs, mostly from Hong Kong and Taiwan, turned the zones into drivers of regional and eventually national growth.

China's progression from near-isolation to extensive openness to international trade and investment added a new dimension to economic growth. Access to commodities, information, and trade opportunities linked to international markets expanded steadily from the tiny initial base as the number of special zones and open cities rose and as the scope of permissible activity stretched to encompass direct foreign investment along with import-export trade. Rapid expansion of overseas study, international travel, and publication of information from abroad (including abundant translations) multiplied the points of contact between the domestic and global economies, as did the easy interchange with overseas Chinese entrepreneurs, tourists, and kinfolk.

The emergence of foreign-linked joint ventures, and eventually of wholly owned foreign firms, as major elements of China's economy brought millions of Chinese workers, engineers, and managers into direct contact with the technical standards, engineering processes, and management practices needed to compete in global markets. The expansion of supply networks linked to export production or to foreign-owned businesses connected increasing numbers of purely domestic operators with international standards and practices. Growing foreign presence has consistently strengthened the demand for new reform initiatives, for instance, allowing firms to recruit employees through public advertisements (during the 1980s) or establishing a legal foundation for equipment leasing (during the 1990s).

From an initial position of extreme isolation, China has now attained a high degree of economic openness. With few sectors of the economy effectively shielded from global markets, incumbent suppliers of soybeans, machine tools, retail services, and an endless array of other goods now confront the entry of rival producers from the United States, Italy, Japan, Bangladesh, or Brazil as well as Jilin, Zhejiang, or Sichuan. The resulting expansion of both dangers and opportunities has delivered enormous benefits. New export industries have raised the productivity and incomes of millions while accelerating the historic shift of labor from the farm sector. Imports have expanded consumer choice, contributed to the development of new industries and the improvement of old sectors, and pushed Chinese suppliers to raise standards and reduce costs. Foreign investment has injected immense flows of technology—for organization, management, and marketing as well as production—into China's economy.

Globalization

China's reform era coincided with a new stage of globalization powered by rapid reductions in the cost of transport, communication, and information management. China's experience to date powerfully supports the view of globalization as an engine for growth and prosperity. The open-door policy has tilted China's whole economy toward labor-intensive production, hugely benefiting the mass of Chinese workers whose labor is their chief asset. By rewarding firms that raise quality standards toward global levels and punishing laggards, foreign trade and investment have motivated Chinese firms to abandon long-standing neglect of quality in favor of a broad-based upgrading effort that has enabled a growing array of Chinese products to compete in overseas as well as domestic markets. Dramatic expansion of incentives, mobility, and markets created unprecedented opportunities for the formation of new enterprises and the expansion of existing firms (including foreign companies) into new markets. The scale of entry is startling: the number of industrial firms rose from 377,300 in 1980 to nearly 8 million in 1990 and 1996; the 2004 economic census, which excluded enterprises with annual sales below ¥5 million, counted 1.33 million manufacturing firms, with Jiangsu and Zhejiang alone reporting more firms than the nationwide total for 1980.

Competition

Reform has pushed China's economy toward extraordinarily high levels of competition. Despite pockets of monopoly and episodic local trade barriers, intense competition now pervades everyday economic life. The auto sector provides a perfect illustration: two decades of competition have sucked a lethargic state-run oligopoly into a whirlwind of rivalries in which upstarts like Chery and Geely wrestle for market share with state-sector heavyweights and global titans. The payoff—rapid expansion of production, quality, variety, and productivity along with galloping price reductions—has injected a dynamic new sector (not just manufacture of vehicles, components, and materials, but also auto dealers, service stations, parking facilities, car racing, publications, motels, tourism, etc.) into China's economy. Price wars and advertising, two unmistakable signs of competition, have become commonplace. Expenditures on advertising in 2006, estimated at ¥386.6 billion, now match total urban retail sales for 1990. The decline of former industry leaders like Panda (televisions) and Kelon (home appliances) and the ascent of new pacesetters like Wahaha (beverages), Wanxiang (auto parts), and Haier (home appliances) from obscure beginnings show that competition has added new fluidity to Chinese market structures.

The growth of markets and the expansion of competition, mobility, and price flexibility invite participants to pursue financial gain by capitalizing on market opportunities. Government agencies and political leaders also respond to reform-induced economic change, leading to a complex web of interaction between reform initiatives, economic developments, policy responses, and political strategies.

Chinese firms

Chinese firms have evolved from bureaucratic appendages to commercial operators that seek to enlarge strengths, remedy weaknesses, and capitalize on market opportunities. Two recent developments have strengthened the responsiveness of Chinese firms. One is the growth of research and development (R&D) spending, which reached 1.4 percent of GDP in 2006, and the shift of R&D activity from government agencies to enterprises, including many outside the state sector. The second is the growing influence of foreign firms, which elevates the risks associated with standpat business strategies, but also supports the efforts of domestic firms to generate a dynamic response to intense competition.

The rapidity with which large and small innovations now migrate to China—e-commerce, text messaging, health clubs, organic foods, environmental awareness, flat-screen televisions, and so on—demonstrates the vitality of entrepreneurship in China's business sector. The current rush of international firms to establish China-based research and design facilities can only strengthen China's capacity for decentralized innovation—a hallmark of market systems.

Cautious—but incomplete—reforms

Starting with the restoration of household agriculture in the late 1970s, China has implemented a long sequence of increasingly coherent, focused, but still partial, gradual, and as yet unfinished economic reforms. Chinese policy has eschewed the "big bang" approach, in part because political realities have repeatedly frustrated ambitious reform proposals. In hindsight, China's economy lacked some of the institutional underpinnings essential to the success of sweeping reforms; for example, the undeveloped state of domestic markets for capital and ownership rights might have derailed an early push for privatization. China's reforms consistently focused on the "big issues" of incentives, mobility, price flexibility, competition, and openness. China's experience, as well as the record of earlier growth spurts in Japan and South Korea, shows that improvements in these areas can power strong economic advance despite the costs and frictions associated with institutional shortcomings, distorted prices, entry barriers, corruption, and other limitations. 完

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Forecasting China's Economic Growth to 2025

How fast China grows in the next twenty years has implications for the rest of the world

Dwight H. Perkins and Thomas G. Rawski

Why attempt to forecast China's economic growth? Most important, China's impact on the rest of the world and on the standard of living of its own people depends mainly on whether the nation's gross domestic product (GDP) continues to double every seven to ten years or whether that growth slows markedly or even halts. China already influences the world economy through its booming exports, its demand for natural resources, its influence on global warming, and much else. A GDP four times the current level will multiply China's worldwide impact. Analytical forecasts based on a model that attempts to sort out the main influences that are likely to shape that future can deepen understanding of the mechanisms driving Chinese growth.

Previous interludes of reform and accelerated total factor productivity (TFP) growth in China were a product of the return of household farming, the shift from plan to market, the removal of most restrictions on domestic and international trade, and other fundamental changes that accompany the transition to a market economy. That transition, while not complete, has moved China far toward the market economy end of the economic systems spectrum. Future reforms of this sort will not have the same impact.

China's growth prospects

Will the savings and investment rate remain high?

Future productivity and GDP growth in China over the coming two decades depends primarily on what happens to growth in output and productivity in industry and services. These new sources of reform and productivity growth are likely to come in a continuing stream of important but smaller, less volatile steps that raise efficiency and upgrade technology year after year.

Even if productivity is the main driving force behind high GDP growth, sustained growth at the levels attained during the past quarter century will require the continued expansion of China's stock of fixed capital at something approximating the 9 percent annual growth that has prevailed since the reform period began. This is because sustained productivity growth is unlikely in the absence of the large investments needed to introduce new technologies. In a market system, it is equally improbable to expect investment to remain at high levels if productivity is not growing rapidly.

Quick Glance

- Productivity increases will remain important drivers of China's growth but will not match the gains of the last 30 years.
- Continuing reforms, particularly of China's financial and legal systems, will be essential to maintain rapid economic growth.
- Growth will slow to 6 to 8 percent over the next two decades.

In China, the continuing role of official actors in investment choice complicates the relation between growth of investment and productivity. Because of China's consistent record of poor investment decisions, a decline in the expenditure share devoted to fixed investment could improve the quality of project selection and execution and contribute to a higher rate of TFP growth.

Even though China has become a magnet for overseas investment, annual increments to the capital stock come mostly from domestic investment, which is largely financed by domestic savings. It is therefore the level of domestic savings over the coming two decades that will largely determine the pace of investment in China and the growth rate of the capital stock.

Savings in China come from three sources: household saving that accounts for a little over half of total savings, enterprise saving that accounts for roughly one-third of the total, and government saving that has averaged around 15 percent of the total since the 1990s. In recent years, both rural and urban households have saved roughly one-quarter of disposable income, with household savings amounting to about one-sixth of GDP. The main motivation for high household savings in China is to save for retirement, health care, and education. China's government lacks the financial resources to establish a public retirement or social security system that will provide ample pension income to more than a small segment of the population. This circumstance is unlikely to change dramatically during the next two decades, indicating that household saving in China is likely to remain high through 2025.

It is difficult to say much about the future savings of business and government, the other major sources of domestic saving in China, but there is no reason to expect enterprise profits and savings to fall substantially as a share of GDP. If investment opportunities remain robust, enterprises will make substantial profits and will plow a large portion of those profits back into investment.

Forecasting the level of government savings mainly involves reaching a judgment about the likely path of government revenue and, more important, how that revenue will be used. The recent shift in government policy toward greater efforts to ameliorate the distributional consequences of rapid growth could boost subsidies for the poor and other welfare expenditures at the expense of government savings.

Increased effort to reduce poverty is likely to concentrate on raising investment in education and rural infrastructure rather than subsidizing consumption. The government will likely continue as a substantial contributor to domestic saving. In summary, therefore, inadequate saving is unlikely to constrain China's economic growth between now and 2025.

Future growth of the labor force and human capital

Since infants born in 2005 will enter the work force in 2021, forecasting China's working-age population to 2025 is not difficult (see Table 1). China's workforce, defined to include nonstudents aged 16–65, will continue to grow slowly until about 2015 and then begin to decline, resulting in a 2025 figure that matches the projected total for 2010.

Given the importance that China's present administration has placed on efforts to accelerate employment growth, continued migration out of China's countryside will likely deliver sufficient productivity increases to offset the negative impact of slow growth and eventual shrinkage of the labor force on overall economic expansion.

How does the addition of human capital change this picture? Over the next two decades, growing numbers of high school and college graduates will reshape China's labor force.

Our labor force projections show that junior high school graduates will continue to constitute the largest segment of Chinese workers, accounting for a steady proportion slightly above one-third of the total. But the distribution of educational attainment among the remainder of the workforce will shift dramatically between 2005 and 2025, with the share of high school and college graduates doubling from 18.4 to

37.9 percent. As more students earn higher-level diplomas, their subsequent contribution to GDP will rise.

Under plausible assumptions about demographic and educational change, the education-enhanced workforce will continue to contribute positively to overall growth between 2005 and 2025 even as the number of workers reaches a peak and begins to decline. This is because the anticipated productivity benefits from the continuing spread of education outweigh the slow growth and subsequent decline in the actual number of working age adults.

Productivity implications of expected growth of capital, labor, and education

Table 2 shows the productivity implications of combining specific assumptions about the growth of GDP and fixed capital with the labor force projections.

The first thing to note about these projections is that, despite the anticipated expansion of education, the contribution of labor and human capital to projected growth during 2005–25 is only 0.8 percent annually, well below the 1.5 percent figure derived for 1978–2005.

A second observation is that under widely varying assumptions about the growth of GDP and investment, the average annual contribution of fixed capital to overall GDP growth during 2005–25 varies only between 2.4 and 3.9 percent.

The central issue in forecasting China's future rate of growth, therefore, involves projecting the likely rate of growth of TFP. To sustain a growth rate of 9 percent per year for another two decades, China would have to push the annual TFP growth above 4 percent—higher than the 3.8 percent growth attained during 1978–2005 and far above the 3.1–3.2 percent rate recorded during 1995–2005. Such an increase in TFP growth is unlikely. Nor can China substitute a rapidly rising (as contrasted to the assumption of a falling) rate of capital formation to fill this gap.

When the projections for the two decades (2006–15 and 2016–25) are separated out, it is clear that China will have much more difficulty achieving a rate of growth above 6 percent in the second of these two decades. All of these projections assume that China's economy enjoys a peaceful environment both externally and internally. Assuming a peaceful environment, our belief is that Chinese GDP will grow 6 to 8 percent per year for the next decade and that sometime in the second decade, the economy will slow to a rate of GDP growth that could be as low as 5 percent or as high as 7 percent per year.

Can Chinese institutions support continued rapid growth?

The role of the state

As the share of public ownership shrinks, the issue of state intervention in the operation of the economy, rather than direct state ownership, comes to the fore.

Reductions in state ownership and official intervention in the economy, particularly in the realm of investment decisions, have the potential to propel substantial productivity gains over the coming decades. The benefits of an improved investment mechanism extend far beyond reducing the number of failed projects and the scale of bad debt. Policies that channel investment funds to state-sector projects and artificially reduce interest rates to improve the profitability of state-sector borrowers are largely responsible for the slow pace of job creation since 1995. Despite these difficulties, important steps have moved China's economy toward a structure in which decisions governing investment outlays rest primarily in the hands of decisionmakers whose choices reflect the costs and likely returns to alternative allocations of funds.

Reforming the financial sector

The progress of reform efforts in China's financial and legal systems is likely to exert a powerful influence on the outcome of efforts to improve the quality of day-to-day economic decisionmaking.

Fundamental change in China's financial sector can improve the prospects for sustained productivity growth at three levels: cleaning up bank balance sheets, promoting entry and reform to increase the range and quality of financial services offered to Chinese firms and households, and removing politics from the allocation of financial resources.

Strengthening the legal system

Two areas, intellectual property rights (IPR) and disposition of business property, stand out as particularly important for China's long-term growth prospects.

Table 1: Projections of Working-Age Nonstudent Population Ages 16–65: Size and Composition, 2005–25

	Labor force and graduates (millions)			Educational composition of nonstudent workforce (%)					
		Annual graduates							
Year	Working-age nonstudents, L	Senior high	Tertiary	No diploma	Primary	Junior high	Senior high	Tertiary	Ratio H/L
2005	849.6	8.3	3.1	15.1	32.8	33.6	15.7	2.7	1.31
2010	885.3	9.9	5.0	11.6	29.3	36.6	17.8	4.7	1.39
2015	913.4	12.8	5.0	9.5	25.3	37.8	20.2	7.2	1.48
2020	903.6	11.5	6.9	7.4	21.9	38.2	21.7	10.8	1.58
2025	885.6	12.8	6.6	5.7	19.4	37.0	23.2	14.7	1.69

Notes: H/L is the ratio of education-enhanced workforce (H) to the actual workforce headcount (L). Values of 1 (respectively 1.35, 2.01, and 3.28) indicate that the average worker has earned a diploma at the primary (respectively junior high, senior high, tertiary) level.

The rapid expansion of domestic research and development (R&D) spending on science and technology, together with China's growing success in attracting R&D operations from foreign companies, means that the value of domestic intellectual property, and therefore the potential cost of weak IPR protection, has entered a steep upward trajectory. Rapid intensification of official efforts to curb IPR violations appears to have begun. Official regulations have outlawed the installation of pirated software in government offices and, most recently, in newly manufactured computers, and IPR enforcement is emerging as a new dimension of competition among localities.

The disposition of assets for firms undergoing bankruptcy or restructuring is equally important, especially because these categories encompass large numbers of firms and large amounts of assets. The emergence of national and regional State Assets Supervision and Administration Commission agendas for the management of state-owned assets represents an important advance, as does the expansion of mergers and acquisitions based on commercial criteria rather than official decisions. Despite these gains, the commercialization of firms now trapped in bureaucratically controlled enterprise groups holds the prospect of considerable gains in productivity. It is too early to tell whether China's new bankruptcy law, which took effect in June 2007, will establish a system in which legal precepts rather than official preferences govern the timing of bankruptcy declarations and the disposition of assets held by bankrupt firms.

Efforts to establish an independent judiciary as the chief arbiter of issues surrounding the disposition of business property will hasten the improvement of corporate governance and the protection of minority shareholder interests, both of which can contribute to future productivity growth.

Table 2: Productivity Consequences of Input Projections and 6 or 9 Percent Growth, 2005–25

	Average growth of inputs (%)					Annual growth of GDP (%)			
			Labor input			Attributable to			
Period	Annual GDP growth (percent)	Fixed capital (K)	Raw labor (L)	Education enhanced labor (H)	Average TFP growth (%)	Fixed capital (K)	Education-enhanced labor (H)	TFP growth	TFP share of GDP growth (%)
Version 1									
2005–15	9.0	9.8	0.7	2.0	3.6	4.2	1.1	3.6	40.4
2015–25	9.0	8.2	-0.3	1.0	4.9	3.5	0.6	4.9	54.4
2005–25	9.0	9.0	0.2	1.5	4.3	3.9	0.8	4.3	47.4
1978–2025	9.3	9.4	1.2	2.2	4.0	4.0	1.2	4.0	43.1
1952–2025	7.5	8.1	1.4	2.3	2.7	3.5	1.3	2.7	36.3
Version 2									
2005–15	9.0	9.0	0.7	2.0	4.0	3.9	1.1	4.0	44.5
2015–25	9.0	6.6	-0.3	1.0	5.6	2.8	0.6	5.6	62.4
2005–25	9.0	7.8	0.2	1.5	4.8	3.3	0.8	4.8	53.4
1978–2025	9.3	8.8	1.2	2.2	4.2	3.8	1.2	4.2	45.6
1952–2025	7.5	7.7	1.4	2.3	2.9	3.3	1.3	2.9	38.3
Version 3									
2005–15	6.0	8.1	0.7	2.0	1.4	3.5	1.1	1.4	23.1
2015–25	6.0	5.6	-0.3	1.0	3.0	2.4	0.6	3.0	50.7
2005–25	6.0	6.8	0.2	1.5	2.2	2.9	0.8	2.2	37.0
1978–2025	8.0	8.4	1.2	2.2	3.1	3.6	1.2	3.1	39.1
1952–2025	6.7	7.5	1.4	2.3	2.2	3.2	1.3	2.2	32.4
Version 4									
2005–15	6.0	7.3	0.7	2.0	1.7	3.1	1.1	1.7	28.7
2015–25	6.0	4.0	0.3	1.0	3.7	1.7	0.6	3.7	61.7
2005–25	6.0	5.7	0.2	1.5	2.7	2.4	0.8	2.7	45.4
1978–2025	8.0	7.9	1.2	2.2	3.3	3.4	1.2	3.3	41.8
1952–2025	6.7	7.1	1.4	2.3	2.3	3.1	1.3	2.3	34.5

Notes: Average TFP growth 1978–2005: 3.8 percent. Versions 1 and 2 assume 9 percent GDP growth; versions 3 and 4 assume 6 percent growth. The ratio of fixed capital formation to GDP declines linearly from the 2005 figure of 42.3 percent to a terminal 2005 level of 35 percent (versions 1 and 3) or 25 percent (versions 2 and 4).

Social issues: Major obstacles to development?

In addition to possible political instability, numerous observers suggest that social issues could pose major obstructions to China's future growth.

Public health

The SARS scare of 2002–03 and the longer-term issues surrounding HIV/AIDS have drawn international attention to the limitations of China's public health system. Despite many shortcomings, China's response to both SARS and HIV/AIDS suggests that health authorities have sufficient administrative and financial resources to prevent threats to public health from inflicting severe damage on China's economic prospects.

Environment

Environmental issues are widely seen as possible barriers to future growth. The questions that matter for our forecast are whether cleaning up the widespread environmental degradation will cost so much that it will cut significantly into investment in new production or whether that degradation will reduce the health of the labor force enough to materially influence the labor force's contribution to growth.

Focusing on urban air quality, evidence indicates that concentrations of dust and soot outside major cities reached a peak around 2000 and subsequently began to decline, suggesting a general trend toward improved air quality.

Though air quality appears to be improving, China's greatest difficulties with water lie in the future. With water tables falling, 400 of 660 cities reporting water shortages, and over 100, including the capital, reporting "very severe" supply problems, it is evident that current arrangements are unsustainable. Price increases, structural change, and regulatory controls can help save water.

Annual investment in remediation and prevention of pollution, which does not include expenditures on water diversion projects, has jumped from under 1 percent of GDP in the early and mid-1990s to 1.1–1.3 percent in 2004–05. For China, these outlays amount to no more than 3 percent of annual investment spending. Although these are sizable figures, high levels of current and projected future saving and investment mean that China's economy can easily support a much larger burden of expenditure on environmental remediation without endangering its prospects for rapid growth of output and productivity.

Demand side sources of growth

Most of our discussion has approached the question of future growth from the supply side of the issue. But elements on the demand side will also determine whether China will be able to sustain rapid growth over the next one to two decades. There are two trends worthy of note. The first is that household consumption as a share of GDP declined steadily over time and came to just under 40 percent of GDP in 2004 and 2005. The change in government consumption as a share of the change in GDP fluctuated year to year as well, peaking in the late 1990s when the Chinese government pump primed to keep the financial crisis of those years from depressing GDP growth.

The most notable trend, however, is that the annual change in exports accounted for a rising share of incremental expenditure on GDP and in 2003–05 accounted for over half of that change in GDP. Put differently, without the extraordinarily rapid export growth of recent years, China likely would have experienced a shortage of aggregate demand, and, unless the government had taken steps to prime the pump as in 1997–99, GDP growth would have fallen markedly.

This contribution of the annual rise in exports to GDP was achieved thanks to an export growth rate over the past decade that averaged 17.7 percent per year (1995–2005) and 29.9 percent per year over the last five years (2000–05). It is highly unlikely that an export growth rate of this magnitude can be sustained for even one more decade let alone two decades.

China, therefore, is probably going to have to find a way to stimulate domestic demand. How it achieves this shift inward in demand, however, could have a major impact on whether the country will be able to sustain a high GDP growth rate. If demand has to be supported as it was in 1997–99 by the government running a fiscal deficit to fund expanded government consumption plus state investment in road and airport construction across the country, sustained productivity growth at high rates seems unlikely. High productivity growth is more likely to come from a higher growth rate (and a higher share of GDP) of consumer spending that in turn stimulates a higher or at least high growth rate in private investment.

> High saving and investment levels mean that China's economy can support a much larger burden of expenditure on environmental remediation without endangering rapid output and productivity growth.

Forecasting China's growth rate

Beginning in the late 1970s, China's economic reforms brought dramatic change, with productivity emerging as a key driver of accelerated growth.

Our projections show that the growth of labor, capital, and education alone can propel China's GDP growth at a maximum rate of less than 5 percent during 2005–25, well below the average rate of 9.5 percent recorded during 1978–2005. Because the productivity expansion required to support 9 percent annual growth seems unrealistically high, we focus on the likelihood that China can attain sufficient TFP growth to drive the economy forward at an average annual rate of 6–8 percent during the two decades ending in 2025. That range seems feasible over the next decade to 2015, but the upper end of this range appears to be unrealistically high for the second decade.

There are two reasons for concluding that growth rates in this second decade will likely fall between 5 and 7 percent per year. First, the TFP rate required to sustain a growth rate of 8 percent is higher than the TFP rate sustained by China during 1978–2005 and much higher than TFP growth during 1995–2005. Second, the three economies that in earlier times were most like China's economy today (Japan, South Korea, and Taiwan) each sustained a growth rate for several decades similar to that achieved by China from 1979 through 2005, but each saw the GDP growth rate fall sharply when per capita GDP rose above $13,000 measured in 2005 prices, using the PPP method. China's current per capita GDP in PPP terms is roughly $6,600 and, at a per capita growth rate of 6–7 percent a year, will surpass $13,000 in 10 to 12 years.

One can also look at future growth prospects in terms of moving to the production possibility frontier and moving that frontier outward. Capital formation moves the frontier outward by expanding old industries and starting new ones. R&D expenditures also move the frontier outward, and protection of IPR is one way of ensuring that innovators have an incentive to develop new products and new ways of producing old products. Protecting IPR in turn requires a legal system that is equitable, efficient, and can enforce its judgments—conditions that do not exist today.

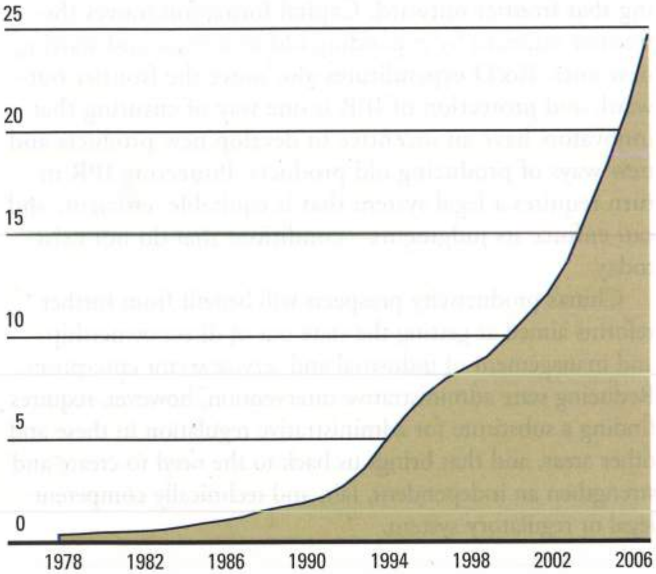
China's productivity prospects will benefit from further reforms aimed at getting the state out of direct ownership and management of industrial and service sector enterprises. Reducing state administrative intervention, however, requires finding a substitute for administrative regulation in these and other areas, and that brings us back to the need to create and strengthen an independent, fair, and technically competent legal or regulatory system.

Continued on page 45

Thirty-Five

As gross domestic product (GDP) skyrocketed...

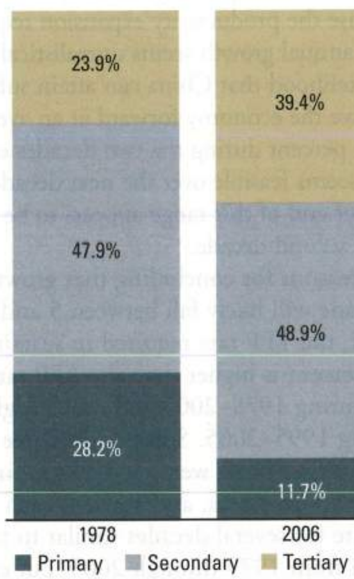
GDP (¥ trillion)



Source: National Bureau of Statistics (NBS), *2007 China Statistical Yearbook,* and NBS statistical overview for 2007

...the economy shifted away from primary industry toward tertiary industry.

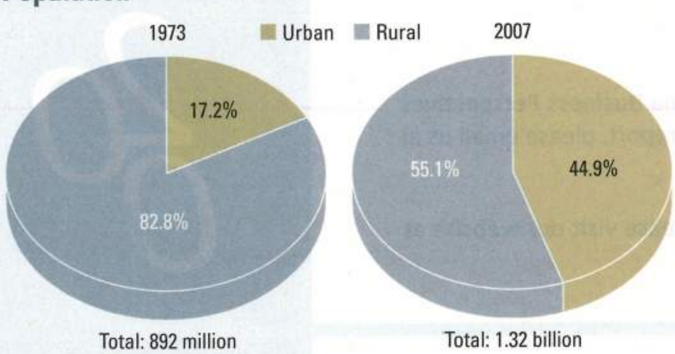
GDP Composition by Industry (%)



Source: NBS, *2007 China Statistical Yearbook*

As many of China's rural residents migrated to urban areas...

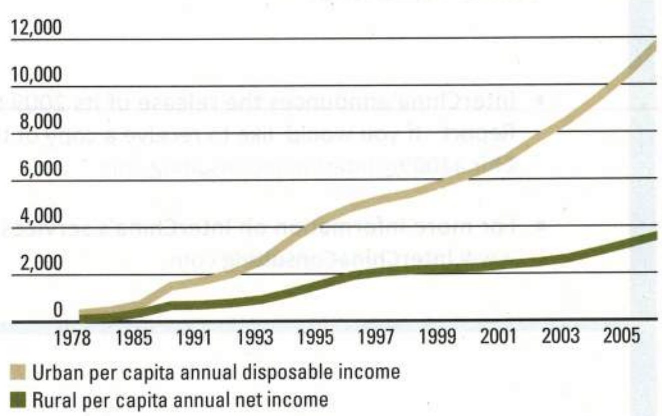
Population



Source: NBS, *China Statistical Yearbook 1988,* and 2007 National Economic and Social Development Statistics Report

...and per capita income rose...

Urban and Rural Per Capita Income (¥)



Source: NBS, *2007 China Statistical Yearbook*

Years of Change

Meanwhile, the United States' $625.4 million trade surplus with China has become a $256.3 billion deficit—and the goods traded have also changed.

Top 10 US Exports to China, 1973

Item	$ Million
Unmilled wheat, including spelt or meslim	277.7
Unmilled corn, excluding seed and popcorn	132.4
Upland, domestic raw cotton	100.5
Passenger transport aircraft, 33,000 lbs. and over	53.3
Soybeans	43.4
Iron and steel scrap	24.2
Crude soybean oil	17.9
Aircraft parts and accessories	5.4
Fertilizers	4.7
Telecom equipment	4.2
Total (all exports)	**689.1**

Top 10 US Imports from China in 1973

Item	$ Million
Unwrought tin and tin alloys	7.8
Materials of animal origin (primarily bristles)	7.1
Woven, unbleached cotton fabrics	6.1
Works of art, collectors' pieces, and antiques	5.6
Raw silk	4.3
Pyrotechnical articles	3.2
Brooms, brushes, and lusters	2.0
Essential oils and resinoids	1.5
Wood and resin-based chemical products	1.5
Fine animal hairs, excluding wool	1.4
Total (all imports)	**63.7**

Top 10 US Exports to China, 2007

Item	$ Billion
Computer and electronic products	13.3
Transportation equipment	9.4
Chemicals	7.9
Waste and scrap	7.3
Machinery, excluding electrical machinery	7.1
Agricultural products	5.8
Food and related products	2.3
Primary metal manufacturing	2.3
Electrical equipment, appliances, and components	1.4
Paper	1.3
Total (all exports)	**65.2**

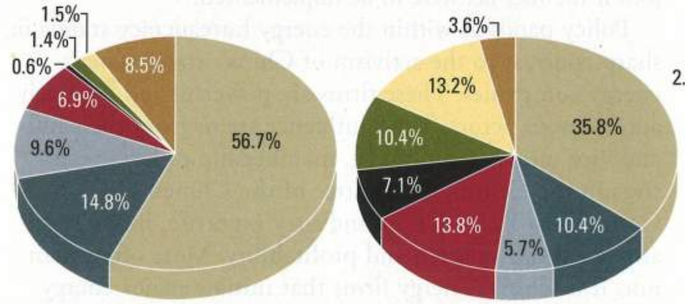
Top 10 US Imports from China in 2007

Item	$ Billion
Electrical machinery and equipment	76.7
Power generation equipment	64.0
Toys and games	26.1
Apparel	24.0
Furniture	20.4
Footwear and parts thereof	14.1
Iron and steel	11.9
Plastics and articles thereof	8.3
Leather and travel goods	7.2
Vehicles, excluding railway	6.1
Total (all imports)	**321.5**

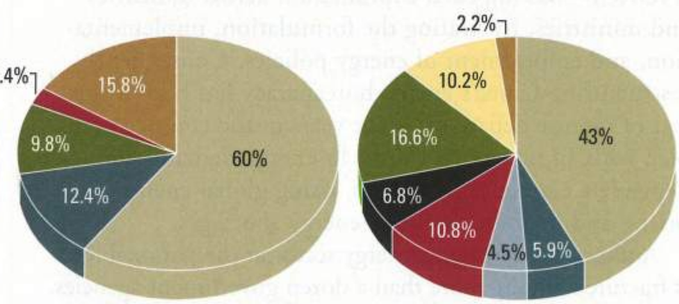
Sources: US International Trade Commission; Department of Commerce, Census Bureau; and the National Council for US-China Trade, *Special Report No. 7*, 1974

...people's spending habits changed.

Urban consumption, 1981 and 2006



Rural consumption, 1981 and 2006



Food ■ Clothing ■ Daily necessities ■ Education, culture, and recreation ■ Medicine and health care ■ Residence ■ Transportation and communications ■ Other

Note: Some of the categories, including education, culture, and recreation and medicine and healthcare, are not fully parallel for 1981 and 2007.
Source: NBS, *China Statistical Yearbook*, 1988 and 2007.

China's "New" Energy Administration

China's National Energy Administration will struggle to manage the energy sector effectively

Erica S. Downs

China's new National Energy Administration (NEA), established in March 2008, is the PRC government's latest attempt to create an effective national-level energy institution. Periodic restructurings of China's energy bureaucracy since 1949 have produced a series of institutions that lacked the authority, autonomy, resources, and tools to govern the energy sector. NEA is unlikely to be an exception.

China's "old" energy bureaucracy

Despite the growing importance of energy issues on China's domestic and foreign policy agendas, the country's bureaucracy lacked the capacity to manage the energy sector effectively. Some Chinese and foreign commentators even maintained that China's energy security was undermined by the very institutions responsible for enhancing it. These commentators argued that the splintering of energy sector authority among multiple institutions—some of which are understaffed, underfunded, and politically weak, such as the now defunct Energy Bureau under the National Development and Reform Commission (NDRC)—has impeded coordination across industries and ministries, frustrating the formulation, implementation, and enforcement of energy policies. Consequently, restructuring China's energy bureaucracy has been a subject of intense debate in recent years as the country grappled with an unexpected surge in energy demand, growing dependence on energy imports, rising global energy prices, and periodic domestic energy shortages.

Authority over China's energy sector at the national level is fractured among more than a dozen government agencies, the most important of which is NDRC. Within NDRC, responsibility for energy is similarly scattered among multiple departments. Prior to the March 2008 government restructuring, NDRC's Energy Bureau had a broad mandate to manage the energy sector but lacked the authority, tools, and manpower to fulfill it. In 2005, the government established the National Energy Leading Group, an advisory and coordination body under the State Council, headed by Premier Wen Jiabao. The leading group's creation reflected China's recognition of the need to strengthen energy sector management but did not eradicate its energy governance woes, which were rooted in the structure and power distribution of the energy bureaucracy itself.

China's fragmented energy bureaucracy has impeded energy governance because there is no single institution, such as a ministry of energy, with the authority to coordinate the interests of the various stakeholders. Turf battles among various energy institutions have often resulted in energy laws that fail to specify agencies responsible for the content of those laws, delaying or preventing implementation. For example, conflicts among key stakeholders have prevented the implementation of a fuel tax that the National People's Congress (NPC) approved in 1999. The ministries of Transportation and Finance and the State Administration of Taxation cannot agree on which agency will take responsibility for the 27,000 toll collectors who would lose their jobs if the fuel tax were to be implemented.

Policy paralysis within the energy bureaucracy stands in sharp contrast to the activism of China's state-owned energy companies. These firms are powerful and relatively autonomous actors. Their influence stems from their full and vice ministerial ranking, membership of key executives in the Central Committee of the Chinese Communist Party (CCP), industry expertise, internationally listed subsidiaries, and profitability. More often than not, it is China's energy firms that initiate major energy projects and policies, such as the West-East Gas Pipeline and the acquisition of foreign energy assets, that are later embraced by the government. Yet energy companies sometimes advance corporate interests at the expense of national ones. For example, oil and power generating companies have periodically reduced their output to pressure the government to raise state-set prices of refined products and electricity, which have not kept pace with market prices of crude oil and coal. Similarly, China's national oil companies have ignored guidance from the central government about where they should invest overseas. China National Petroleum Corp. (CNPC) acquired more assets in Sudan even after NDRC in 2007 excluded Sudan from a list of countries in which Chinese oil companies were encouraged to invest.

China's "new" energy bureaucracy

Recent changes to China's energy policymaking apparatus are the latest in a series of institutional reforms aimed at improving energy governance. In March 2008, the NPC approved two new additions—the National Energy Commission (NEC) and NEA. NEC, a high-level discussion and coordination body, whose specific functions, organization, and staffing had not been announced as *CBR* went to press, will replace the National Energy Leading Group. During the NPC meeting, then-State Councilor Hua Jianmin stated that NEC is intended to strengthen energy decisionmaking and coordination. NEC will draft a national energy development strategy and discuss major energy security and development issues. NEA, which replaced NDRC's Energy Bureau, will handle NEC's daily affairs. NEA also absorbed other energy offices from NDRC, the Office of the National Leading Group, and the nuclear power administration of the Commission of Science, Technology, and Industry for National Defense (COSTIND). It has nine departments (see Figure).

Quick Glance

- Periodic restructurings of China's energy bureaucracy have produced institutions that lack the authority, autonomy, and tools to govern the energy sector.
- The new National Energy Administration will similarly struggle to fulfill its mandate.
- China's politically powerful and relatively autonomous state-owned energy companies play a large role in shaping China's energy policy.

NEA has a broad mandate, which includes managing the country's energy industries, drafting energy plans and policies, negotiating with international energy agencies, and approving foreign energy investments. Like its predecessor, however, NEA will struggle to fulfill its mandate because it lacks the authority, autonomy, manpower, and tools to deal with the country's energy challenges. Though NEA's capabilities in each of these areas are greater than those of the former NDRC Energy Bureau, they still do not equip NEA to do its job.

Authority

NEA has more political clout than its predecessor but not enough to mitigate the bureaucratic infighting that undermines energy decisionmaking. As a vice-ministerial body, it is a step above the former Energy Bureau, but it still lacks the authority to effectively coordinate the interests of ministries, commissions, and state-owned energy companies. The heads of some of these companies—for example, the CNPC, China Petroleum and Chemical Corp. (Sinopec), State Grid Corp., and Shenhua Group—hold ministerial rank. One complaint of former Energy Bureau officials was that energy companies often undercut Energy Bureau authority by holding face-to-face discussions with senior PRC leadership.

NEA's authority is somewhat enhanced by the appointment of Zhang Guobao, NDRC vice chair and second-highest-ranking NDRC official, as director. Though it was widely expected that Zhang would retire, his new position reflects his substantial energy expertise. Zhang, who has worked at NDRC and its predecessors since 1983, is a smart and skillful bureaucrat with encyclopedic knowledge of China's energy sector. He has overseen the development of some of the country's major infrastructure projects, including the West-East Gas Pipeline, the transmission of electricity from west to east, the Qinghai-Tibet Railway, and the expansion of the Beijing Capital International Airport.

Though Zhang has full ministerial rank, he is not as politically powerful as some of the officials and company executives with whom he must coordinate energy policy. Zhang is not a member of the 17th CCP Central Committee, which consists of the 371 most politically powerful individuals in China. Minister of Industry and Information Technology Li Yizhong, Minister of Railways Liu Zhijun, and Chair of the State Assets Supervision and Administration Commission Li Rongrong are all full members. CNPC General Manager Jiang Jiemin, Sinopec Group President Su Shulin, and State Grid Corp. President Liu Zhenya are alternate members.

Autonomy

One of the great uncertainties surrounding NEA's establishment is how much autonomy it will have from NDRC on energy policy. On the one hand, there are two indicators that NEA will have a fair amount of policy independence. First, NEA reports directly to the State Council on substantive matters, though NDRC retains responsibility for NEA's logistics. Second, NEA has its own CCP committee, which gives it greater autonomy in managing its affairs. On the other hand, Zhang Guobao's dual role as both NDRC vice chair and NEA director raises questions about where his interests will lie when confronted with issues on which NDRC and NEA disagree.

Personnel

The central government is still managing the energy sector with a relatively small staff. Contrary to rumors that NEA's staff would be as large as 200, it ended up with just 112 people. This staff is larger than that of the former NDRC Energy Bureau, Office of the National

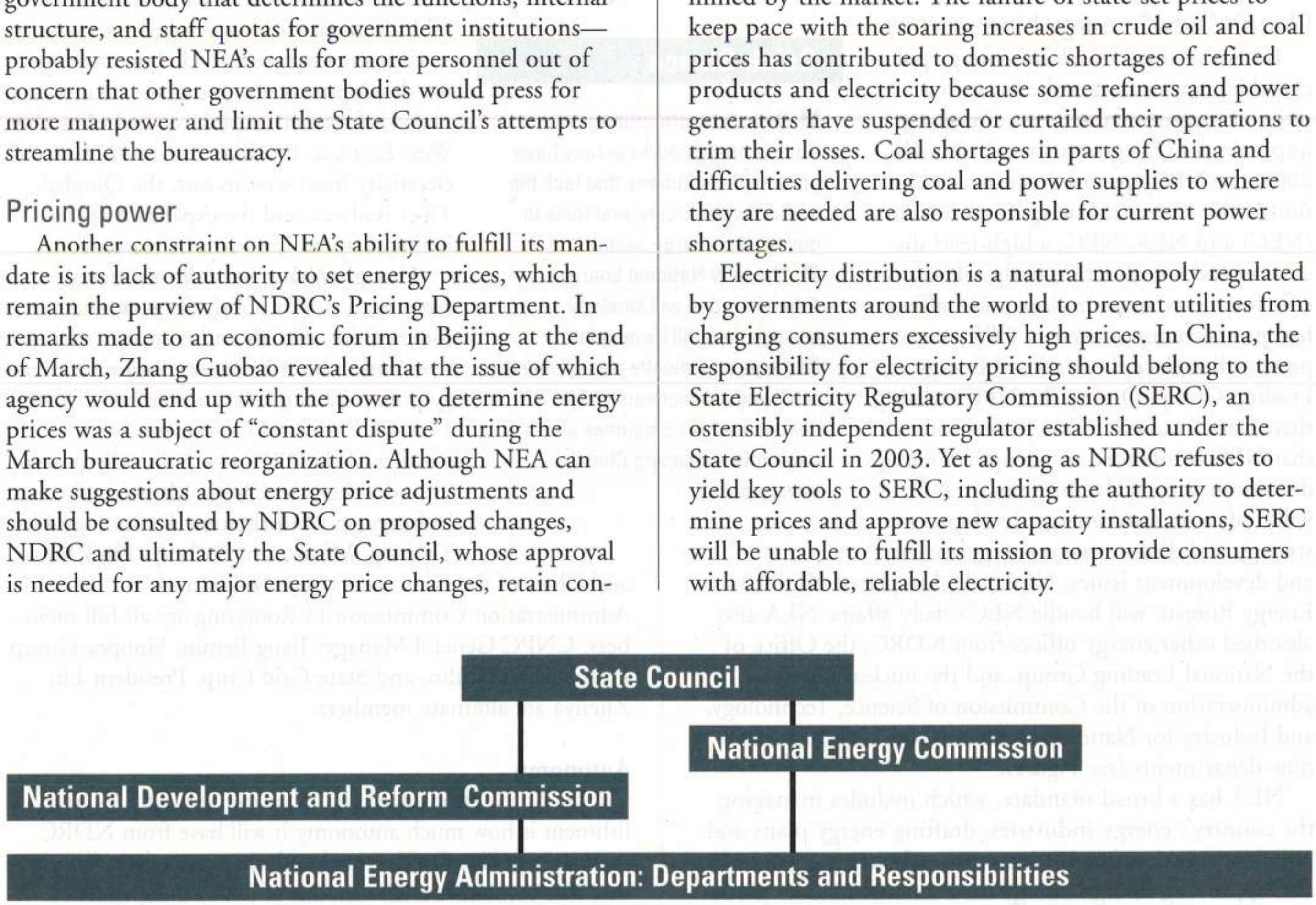
Energy Leading Group, and COSTIND's nuclear power administration combined, which totaled about 80 people, but is still much smaller than the central government needs. In comparison, the US Department of Energy has about 4,000 employees dedicated to energy matters. Moreover, *Caijing* magazine has speculated that NEA may face the problem of "too many generals and not enough soldiers," because at least half of the 112 slots are for positions at the deputy department head level and above. The State Commission Office for Public Sector Reform—the government body that determines the functions, internal structure, and staff quotas for government institutions—probably resisted NEA's calls for more personnel out of concern that other government bodies would press for more manpower and limit the State Council's attempts to streamline the bureaucracy.

Pricing power

Another constraint on NEA's ability to fulfill its mandate is its lack of authority to set energy prices, which remain the purview of NDRC's Pricing Department. In remarks made to an economic forum in Beijing at the end of March, Zhang Guobao revealed that the issue of which agency would end up with the power to determine energy prices was a subject of "constant dispute" during the March bureaucratic reorganization. Although NEA can make suggestions about energy price adjustments and should be consulted by NDRC on proposed changes, NDRC and ultimately the State Council, whose approval is needed for any major energy price changes, retain control over energy prices. This is hardly surprising. The power to set prices is one of NDRC's main instruments of macroeconomic control, and it is reluctant to relinquish this power to another government body that might be tempted to adjust energy prices in ways that run counter to broader NDRC objectives such as combating inflation.

Ironically, price controls for energy periodically jeopardize the economic growth they are intended to support. Prices for diesel fuel, gasoline, and electricity are set by the state while prices for crude oil and coal are determined by the market. The failure of state-set prices to keep pace with the soaring increases in crude oil and coal prices has contributed to domestic shortages of refined products and electricity because some refiners and power generators have suspended or curtailed their operations to trim their losses. Coal shortages in parts of China and difficulties delivering coal and power supplies to where they are needed are also responsible for current power shortages.

Electricity distribution is a natural monopoly regulated by governments around the world to prevent utilities from charging consumers excessively high prices. In China, the responsibility for electricity pricing should belong to the State Electricity Regulatory Commission (SERC), an ostensibly independent regulator established under the State Council in 2003. Yet as long as NDRC refuses to yield key tools to SERC, including the authority to determine prices and approve new capacity installations, SERC will be unable to fulfill its mission to provide consumers with affordable, reliable electricity.



General Administration
Manages the administration's daily operations, including personnel, Chinese Communist Party affairs, financial management, asset management and press affairs.

Policy and Legislation
Studies important energy problems, organizes the drafting of energy legislation, and conducts administrative auditing and review.

Development and Planning
Studies and provides suggestions on energy development strategy; organizes the drafting of macro-level energy development programs, yearly plans, and industrial policy; and undertakes energy industry reform work.

Energy Conservation and Scientific Equipment
Directs energy conservation and comprehensive resource use, prepares standards, and promotes energy-saving technologies and equipment.

Power
Plans thermal and nuclear power development, manages the national power network, and handles nuclear power station crisis management.

Coal
Manages the coal industry, drafts plans for coal mining, undertakes system reform, and develops advanced technology for reducing pollution caused by coal burning.

Oil and Natural Gas
Manages the oil and gas industry, plans oil and natural gas development, promotes industry reform, and manages national and commercial oil reserves.

New and Renewable Energy
Directs and coordinates rural energy development and plans the use of new and renewable energy.

International Cooperation
Undertakes international energy cooperation, drafts strategies, laws, and policies for opening up China's energy sector and coordinates the development and use of overseas energy.

Source: PRC National Development and Reform Commission and Xinhua News Agency

More business as usual

China's new energy structure is unlikely to improve energy governance substantially. Though the energy bureaucracy looks a bit different, its limited capacities remain largely unchanged. Consequently,

■ **Periodic domestic energy shortfalls will continue.** Prolonged electricity shortages, in particular, will likely have economic costs as blackouts prompt firms, especially in the manufacturing and metals sectors, to reduce output. As long as the specter of inflation looms large, Chinese economic planners will likely try to eradicate energy shortages with administrative policy instruments that treat the symptoms but not the disease. Government subsidies to energy producers that only partially offset their losses; the creation of high-level task forces to coordinate the oil, coal, electricity, and transportation sectors; and exhortations from senior leaders to the state-owned oil and power companies to provide consumers with adequate supplies will continue.

■ **Bureaucratic infighting will impede energy decisionmaking.** NEA lacks the authority to resolve disputes among more powerful actors. Their competing and conflicting interests are likely to undermine not only policy formulation and implementation but also the drafting of laws and regulations and further energy bureaucracy restructuring.

■ **China's state-owned energy companies will likely remain the dominant drivers of projects and policies.** Energy giants will continue to take advantage of the paralysis that pervades the national-level energy bureaucracy to shape the development of China's energy sector. Companies are likely to be especially successful when they link their corporate interest in a particular project to a national interest articulated by the PRC leadership.

Future energy bureaucracy reshuffling

The modest tinkering to China's energy bureaucracy unveiled during the March 2008 NPC reflects conflicts of interest that stymie energy decisionmaking. Despite widespread recognition among PRC officials and energy experts of the need to make the country's energy institutions effective and growing support for the establishment of a ministry of energy, powerful ministerial and corporate interests favor the status quo. Opposition to the creation of a ministry of energy—a hot topic of debate in China's energy circles in recent years—was led by NDRC and the state-owned energy companies. NDRC fears that the establishment of such a ministry would deprive NDRC of a substantial portion of its portfolio and important tools of macroeconomic control. Energy firms are reluctant to have another political manager and fear that it would limit their direct access to China's leadership. Such opposition helps explain why the government was unable to forge a consensus in favor of more robust changes to China's energy bureaucracy.

NEA is almost certainly a transitional institution. The limits of its authority, autonomy, manpower, and policy instruments indicate that it may have trouble effectively managing China's energy challenges. If NEA fails, then calls for a ministry of energy will reemerge and another bureaucratic reshuffle will occur. 完

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Forecasting China's Economic Growth to 2025

Continued from page 39

The waste connected with a system of investment allocation that is heavily influenced by politics and rent seeking is enormous. Again, China has made progress in this area, but decisions, particularly by the state owned banking system, are still heavily influenced by politicians.

Other areas discussed briefly include reallocation of labor from low-productivity activities in the rural areas to much more productive work in industry and urban services, the challenge China faces in shifting a larger portion of aggregate demand from dependence on exports to a greater dependence on domestic demand, and shocks to the economic system that could derail economic growth. A period of political instability is in this regard probably the greatest danger to China's continued growth, but the conditions that could bring this about are outside the scope of this article. Some have suggested that China's current environmental situation could be a shock to the system that derails growth, but to do so the cost of cleaning up the environment would have to cut deeply into total capital formation and in China, this is unlikely.

China's economy will continue along a path of rapid growth over the next two decades, with annual growth averaging 6–8 percent in real terms. While considerably below the 9.5 percent real growth recorded during 1978–2005, two decades of expansion at rates between 6 and 8 percent will deliver large increases in the absolute and relative scale of China's economy and in the standard of living available to its nearly 1.5 billion citizens. 完

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__Thomas G. Rawski__ is professor of economics and history and UCIS Research Professor at the University of Pittsburgh.
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China's Newest Market: The Southwest

Southwest China offers US companies fresh business opportunities

Arthur Pang and the US Commercial Service

China's surging consumption and economic growth have captured the interest of many foreign-invested enterprises (FIEs). But in China, where competition is fierce, it is difficult to find locations with both unsaturated markets and reliable business resources. In the last four years, an increasing number of US firms have found their ideal entry point in Southwest China.

Southwest China—which includes Guizhou, Sichuan, and Yunnan provinces, Chongqing Municipality, and the Tibet Autonomous Region—serves as the routing center for much of China's trade with Southeast Asia. With a collective gross regional product (GRP) of roughly $328 billion in 2007, according to China's National Bureau of Statistics, Southwest China commands nearly 25 percent of the inland Chinese economy. The region is home to several major cities critical to China's inland development.

A wide range of industries—including aerospace, chemicals, construction, machinery, medical devices, and steel—are established in Southwest China. During the past 20 years, industries have diversified and expanded, aided by the establishment of regional economic and technological development zones (see p.47). These local initiatives, coupled with top-down government plans, such as China's 2000 Great Western Development Strategy, are spurring Southwest China's development. Since 2000, the region has experienced double-digit GRP growth each year. Broad financial and technical government support boosted the region's growth to 16.4 percent in 2007, easily surpassing the national average of 11 percent (see Figure).

Southwest strengths

China seeks foreign investment and expertise to guide its development, especially from US companies, which often have the management expertise, technical knowledge, and professional experience that Chinese businesses look for in a partner. US firms have set up in economic development zones throughout Southwest China. Targeted tax incentives, such as a 15 percent reduction in income tax payment for the first three years and an exemption from certain tariffs and value-added tax on imports, are especially enticing to FIEs. Lower real estate prices and a business-friendly environment also draw FIEs to the region.

The growth of US exports to this region's provincial centers—Chengdu, Sichuan; Chongqing; Guiyang, Guizhou; Kunming, Yunnan; and Lhasa, Tibet—indicates an expanding market for US goods, which are often regarded as high-quality goods in China. Last year, imports of US goods to key cities in Southwest China climbed 23 percent to $1.7 billion, up from $1.4 billion in 2006, according to China's Customs statistics (see Table). Machinery, vehicles, optics, and agricultural products top the list of US exports to the region.

Easy market entry

The main cities (in terms of highest GRP) in Southwest China have a highly developed business environment that makes them attractive for foreign investment and business activity. Last year, members of the American Chamber of Commerce in Shanghai voted Chengdu as the top destination for follow-on investment. With a cost base that is two-fifths of Shanghai's, it is easy to see why foreign businesses come inland. And Chengdu boasts an educated and largely stable work force, making it relatively easy to build a skilled Chinese team there.

The China Council for the Promotion of International Trade (CCPIT), the government organ that oversees foreign trade and investment throughout China, has offices across Southwest China to promote regional development. Understanding that government support and business cooperation go hand in hand, CCPIT has maintained good relations with US companies for many years. CCPIT offers FIEs consultations, exhibition opportunities, and legal assistance to help them break into markets across China.

Quick Glance

- Southwest China can offer foreign companies many advantages—such as a strong distribution network, tax incentives, and lower real estate prices and labor costs.
- Yet companies must still conduct due diligence before establishing operations in the region, and the US Commercial Service can help.

Complete distribution networks and booming trade

With a population of more than 197 million in 2007, Southwest China serves as a distribution center for an area larger than Alaska. In many southwestern markets competition is less intense than in the coastal cities. Southwest China's three most developed cities—Chengdu, Chongqing, and Kunming—hold benefits for US companies looking to initiate or expand their China presence.

Regional Powerhouses

Chengdu

Chengdu is the capital of Sichuan, the Southwest's wealthiest and most populous province. With major international business and investment already pouring into Chengdu, the city has the political will and the economic strength to nurture foreign investment and operations. In 2007, Chengdu imported $1.2 billion worth of US exports, up 40.7 percent over 2006, according to China's Customs statistics, and the total value of foreign trade hit $9.5 billion. Machinery, optics and medical devices, aircraft, and iron and steel products were the top imports.

To serve its booming economic and thriving civic life, Chengdu has one of the largest freeway networks of any Chinese city; the various classes of expressway and highway span over 30,000 km. Chengdu is also serviced by water through the nearby ports of Leshan and Luzhou. In addition, Chengdu is the Southwest's largest railway hub, with nine cargo railway routes to major cities including Chongqing, Guangzhou, and Shanghai. With the completion of the Chengdu Railway Container Center in 2010, Chengdu will have an annual handling capacity of 2.5 million containers.

Chengdu is pro-business, as is shown by its low tax rates, relaxed regulations, and close relations between the business sector and academic community. With a responsive CCPIT, the city pulls nominal amounts of inbound investment away from China's larger coastal hubs.

In 2007, 124 of the Fortune 500 companies had offices in Chengdu. Last year, Intel Corp. invested $500 million in its Chengdu operations, and other companies—including Motorola, Inc., Toyota Motor Corp., and Chevron Corp.—also have significant investments in the city. Chengdu's utilized foreign direct investment (FDI) reached $1.14 billion in 2007, up 50 percent over 2006 and 3.7 times the national average, according to the Chengdu Statistics Bureau.

Chongqing

With roughly 30 million people in the greater Chongqing area, and 5 million people in the urban center, Chongqing is the world's most populous municipality and an up-and-coming destination for US products and foreign company expansion. After the completion of the Three Gorges Dam, Chongqing is expected to become the primary port city of China's interior. In 2007, the city imported $367.5 million worth of products from the United States, up 11 percent over 2006. Like Chengdu, Chongqing has a growing demand for education and

Economic and Technological Development Zones in Southwest China

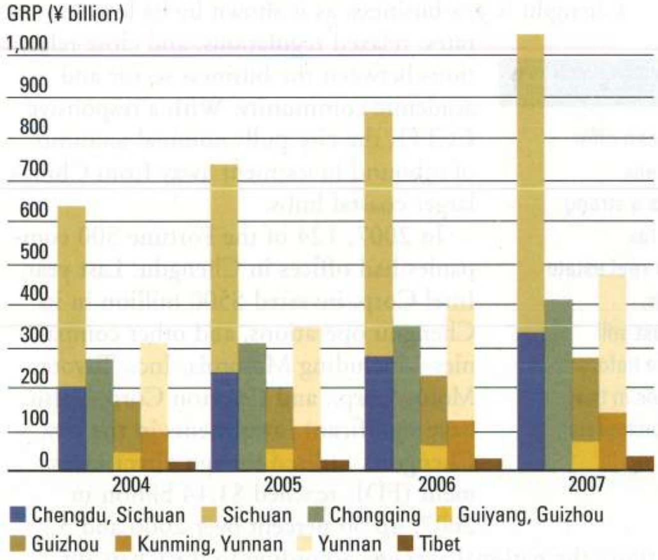
Chengdu Economic and Technological Development Zone
www.investchengdu.gov.cn
Chongqing Economic and Technological Development Zone
www.cetz.com
Kunming Economic and Technological Development Zone
www.ketdz.gov.cn

US Exports to Key Southwest Cities, 2007

City	Value ($ million)	% change over 2006
Chengdu, Sichuan	1,168.8	40.7
Chongqing	367.5	10.6
Guiyang, Guizhou	13.8	-31.8
Kunming, Yunnan	136.9	-25.6
Lhasa, Tibet	4.7	864.7

Source: PRC General Administration of Customs

Gross Regional Product of Key Southwest Regions, 2004–07



Note: GRP = gross regional product
Source: National Bureau of Statistics

engineering services to support its already sophisticated high-tech and manufacturing industries.

Though Chongqing is often compared to Chengdu because of the two cities' proximity and similar industries, Chongqing offers foreign firms a distinct advantage. In 1997, Chongqing joined a select group of municipalities that report directly to the central government and have provincial-level status. This affords it the benefits of national-level initiatives that promote high-tech research, environmental protection, and overall development.

Kunming

Kunming, the capital of Yunnan, is better known for its verdant landscape than for its business opportunities. Kunming's geographic location, however, makes it a natural transportation hub and a center for China's developing trade relations with Southeast Asia. As the Chinese province bordering the most Association of Southeast Asian Nations (ASEAN) countries, Yunnan and its capital city are already thriving as distribution centers. FDI is already developing in anticipation of this area becoming part of the China-ASEAN Free-Trade Area in 2010. The free-trade area will provide businesses in this region with significant benefits, including cheaper access to commodities and lower transportation costs.

Kunming, China's point of entry to Southeast Asia, is connected to freeway and railway networks that run from Vietnam, through Thailand and Malaysia, to Singapore. Though this environmentally friendly city bought $136.9 million worth of US exports in 2007, this total is down 25 percent from 2006. Most non-Asian countries also reported lower exports to Kunming, largely because the new roads and railways make it easy to ship goods from Southeast Asian production centers to the city.

How the Commercial Service in Chengdu Can Help You

Southwest China is served by the US Consulate in Chengdu, Sichuan. With the help of the US Commercial Service-Chengdu (CS Chengdu), which is part of the US and Foreign Commercial Service, it is easy for US companies to enter the Southwest's lucrative market. CS Chengdu promotes and aids US trade and investment throughout Southwest China.

Eric Wolff, principal commercial officer of CS Chengdu, has witnessed the tremendous growth of the last few years. "Southwest China is an expanding market with a solid business infrastructure in place. The importance of tapping into this unsaturated and business-friendly environment cannot be overstated." Wolff and his staff of trade specialists work directly with US and Chinese companies to foster business in the Southwest's various emerging markets. Services provided by CS Chengdu include market research, introductions to qualified buyers and distributors, trade events that promote companies' products and services, and counseling and advocacy through every step of the export process.

These trade specialists also work directly with the China Council for the Promotion of International Trade, China's national trade association, to help US exporters identify potential markets, develop partners and distribution networks, and connect with key decisionmakers. With customized trade representation, US companies—especially small and medium-sized enterprises—interested in entering the region have access to guidance that will help them compete and win in Southwest China.

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www.buyusa.gov/china/en/chengdu.html

—*Arthur Pang*

FIEs with niche market products—such as Caterpillar Inc.—have made substantial investments in the city and are finding success. Construction machinery, mining equipment, and medical devices are just a few of Kunming's staple industries that have consistently positive trends. The city's growing role as a regional hub presents advantages for first-movers interested in expanding into Southwest China, and even into Southeast Asia.

Pitfalls and best practices

Despite the many benefits of moving into Southwest China, unprepared FIEs may still encounter risks. For example, though many goods are readily available in the region, they tend to be more expensive than on the coast. Hiring quality staff capable of dealing with the requirements of an FIE can be difficult. Though Southwest China has many well-educated graduates, the pool is smaller than in Beijing or Shanghai. Once found, however, capable, locally hired staff can provide a stable workforce with a wage rate often two-thirds that of coastal cities.

For all its economic success, Southwest China has faced two major crises in the past year: the Tibet protests and the Sichuan earthquake. Though the region has largely recovered economically from both crises, it is important to note that protests and natural disasters can occur anywhere in China. This should not discourage FIEs from investing in China, but should give them pause when considering how best to expand.

Finally, China-wide best practices, such as respecting local government, protecting intellectual property, and considering the language barrier, still apply in the Southwest. As with any investment in China, FIEs investing in the Southwest should fully research clients, business opportunities, and the overall market. Organizations like the US Commercial Service and CCPIT can help FIEs with these important tasks (see p.48).

New markets beckon

Though the risks for operating in this emerging market can be higher than in Beijing and Shanghai, the potential reward in Southwest China is much greater. With a growing middle class, upward trends in the housing market, and an overall boost in the standard of living, the economic and consumer base in Southwest China—like other markets in China with significant FIE activity—is only getting stronger.

In China, where first-movers tend to have an advantage, Southwest China's government incentives, existing and evolving consumer bases, and pro-business environment draw FIEs at ever-increasing rates. And though first-mover advantage is harder to come by in places like Chengdu, where foreign businesses have been thriving for nearly five years, cities like Chongqing and Kunming are in prime positions to foster business and market-entry opportunities with Chinese clients. 完

Southwest China's three most developed cities—
Chengdu, Chongqing, and Kunming—
hold benefits for US companies looking to set up or expand in China.

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Case Study: A US Medium-Sized Firm in Yunnan

While large US firms, such as Caterpillar Inc. and Intel Corp., have already established multi-million dollar investments in Southwest China, US small and medium-sized enterprises are also setting up there.

In 2003, Han's Technologies, Inc. (HTI), a medium-sized US firm, began looking for new opportunities in China. Based in Oakland, CA, the engineering and management firm, which provides environmental planning and project supervision, had been investing in southern China since 1997. To further develop its China operations, HTI contacted the US Commercial Service, which arranged meetings between HTI and Yunnan government leaders. After a successful first meeting, talks began to explore the possibility of selling HTI products throughout Yunnan. After several months, HTI signed a new agreement with the city government of Yuxi, Yunnan. HTI not only gained new projects from the city government, but also established a toehold in Southwest China.

Weiping Xia, vice president of HTI, reported that after HTI signed the agreement with Yuxi in 2007, HTI's engineers helped the local government develop the feasibility study for wastewater treatment projects in eight counties.

—*Arthur Pang*

China Foto Press

China's CSR Expectations Mature

With PRC stock exchanges and agencies issuing regulations on corporate social responsibility (CSR), businesses in China have new incentives to implement CSR programs

Michael A. Levine

Corporate social responsibility (CSR) is not just a concern of developed nations and the companies formed or operating within them. It has become an important issue in other countries, including China. CSR is sometimes defined as the notion that companies should be responsible for the effects of their operations on stakeholders—those involved in, affected by, or interested in their operations. CSR programs encompass not only a company's standards and systems for the range of legal, social, environmental, ethical, governance, and human rights issues it must address but also extend to its relationships with, and conditions within, its supply chain. For example, in the supply chain context, issues assessed in inspections that evaluate suppliers' respect for CSR standards range from basic legal compliance in areas such as labor and employment, workplace and product safety, customs and trade, and environmental protection to human rights impacts and the scope of community engagement.

Recent events in China's dairy industry have underscored the importance of implementing CSR and compliance programs throughout an industry. To prevent the recurrence of such events, China's dairy industry should consider implementing practices used in other sectors, such as third-party supply chain inspections, CSR programs and policies, reports that follow formal CSR "guidelines," and engagement with stakeholders. All or some of these elements may be essential for businesses in the dairy sector to rebound, rehabilitate their brands, regain consumer trust, and compete successfully against their non-Chinese competitors.

China's CSR push

PRC President Hu Jintao in November 2007 exhorted China's leaders to uphold a "scientific outlook on social development"—an approach that includes encouraging businesses to emphasize sustainable development, put people first, and look beyond short-term profits. In January

2007, the National People's Congress Standing Committee Vice Chair Cheng Siwei announced that anyone who believes that "money overrides morality can no longer be tolerated in China." Cheng noted that PRC companies must not pursue profits at the expense of upholding social responsibilities. Irresponsible corporate practices, he said, were preventing PRC businesses' overseas expansion and inhibiting PRC economic growth.

Viewed collectively, several governmental and private CSR initiatives in China may be seen as part of an effort to enhance Chinese companies' ability to compete effectively in the global marketplace and protect the growing value of their brands. The Shenzhen Stock Exchange (SSE), Shanghai Stock Exchange (Shanghai Exchange), the China Banking Regulatory Commission (CBRC), State Assets Supervision and Administration Commission (SASAC), and China National Textile and Apparel Council (CNTAC) have formulated guidelines that emphasize the importance—and, in some cases, require the incorporation—of CSR standards and principles in Chinese businesses' plans.

Quick Glance

- China's stock exchanges, government agencies, and nongovernmental organizations are encouraging businesses to implement corporate social responsibility (CSR) programs.
- Recent guidelines create incentives for improving CSR.
- Failure to abide by some CSR standards may result in fines and punishments.

Stock exchange involvement

The SSE and the Shanghai Exchange have each taken several steps to underscore the importance of CSR. A key distinction, however, between the SSE and Shanghai guidelines is that the SSE guidelines encourage businesses to conduct themselves in accordance with the recommended principles, while parts of the Shanghai guidelines appear to require compliance.

Shenzhen Stock Exchange

In 2006, the SSE issued the CSR Guidelines for Listed Companies (SSE guidelines), which instruct SSE-listed companies to assume responsibility for social development; protect the natural environment and other resources; and commit to advancing the interests of shareholders, creditors, employees, customers, consumers, and others involved with their business. The SSE guidelines also encourage companies to regularly evaluate, and issue voluntary disclosures about, their performance.

Consistent with Hu Jintao's call for "scientific development," the SSE guidelines' goal is to implement a "scientific outlook on social development." The guidelines also encourage listed companies to take responsibility for their suppliers, customers, and consumers. For example, if a company's commodity is found to be unsafe, the company should report the defect to the authorities and make a public announcement.

Articles 27 through 31 of the SSE guidelines outline the environmental protection policies and sustainable development procedures that the SSE encourages companies to follow. Under the guidelines, human resources should be dedicated to the establishment, implementation, maintenance, and improvement of the environmental protection system. The guidelines instruct companies to use resources with the lowest discharge of pollutants. If the discharge exceeds national or regional standards, companies should file reports on pollutant discharges with the proper authorities and pay a fine.

Articles 32 through 34 of the SSE guidelines discuss the importance of social welfare services and encourage business units to designate personnel to develop and sustain strong company-community relationships. Such goals can be achieved through community-based programs that target poverty relief, education, and community development.

Shanghai Stock Exchange

The Shanghai Exchange in May 2008 issued a Notice on Strengthening Listed Companies' Assumption of Social Responsibility (Shanghai CSR Notice) and the Guidelines on Listed Companies' Environmental Information Disclosure (Shanghai Environmental Disclosure Guidelines). According to the two documents, Shanghai Exchange-listed companies should fulfill social responsibilities, address interests of stakeholders, and commit themselves to promoting sustainable economic and social development.

The Shanghai Exchange appears to consider its listed companies pillars of the national economy and encourages them to assume a leadership role in promoting sustainable development. For listed companies that promote CSR, the Shanghai Exchange sometimes offers incentives such as priority election into the Shanghai Corporate Governance Sector, which may benefit a company's public image, or simplified requirements for examination and verification of temporary announcements.

The Shanghai notice encourages all listed companies to enhance their own CSR awareness and develop a strategic CSR plan for their operations. Listed companies may disclose the goals and achievements of their CSR activities and annual social responsibility reports through announcements posted temporarily on the SSE website. Such disclosures are efforts by corporations to be transparent and to engage their stakeholders. On the other hand, in the absence of a well-designed CSR program, the process of gathering information on and disclosing CSR activities can be risky and lead to stakeholder criticism, receipt of shareholder resolutions, or even investigations and litigation.

Critics of CSR efforts sometimes argue that it is difficult to measure their value to companies that engage in them. The Shanghai Exchange's response to this was to develop the concept of social contribution value per share (SCVPS)—a new method of measuring companies' value creation. SCVPS is calculated by adding the tax revenues paid to the state, salaries paid to employees, loan interest paid to creditors (including banks), and donations to—and other value for—stakeholders, minus any social costs that arise from environmental pollution and other negative factors. The Shanghai Exchange believes that SCVPS will allow the public to understand the value companies create for their shareholders, employees, customers, creditors, communities, and society as a whole. Companies may choose to disclose their SCVPS calculation in their annual CSR reports. The extent to which the SCVPS will meet stakeholder needs remains to be seen.

Whether encouraging companies to perform CSR activities is sufficient to motivate socially responsible corporate behavior is the subject of debate. The Shanghai Environmental Disclosure Guidelines indicate that the Shanghai Exchange may "adopt necessary punishment measures" against companies and relevant personnel for violations of the disclosure rules and regulations. They do not, however, define "necessary punishment measures." It is therefore unclear what sanctions or fines will be imposed for violations.

Government entity involvement

State Assets Supervision and Administration Commission

PRC government entities have also adopted CSR guidelines. SASAC has implemented guidelines for state-owned enterprises (SOEs) that encourage SOEs to take responsibility for stakeholders and the environment in addition to turning a profit. SASAC indicates that SOEs, as key players in the PRC economy, influence important industrial sectors and people's lives. Therefore, CSR is not only the mission of SOEs, but a public expectation.

Moreover, because the global economy emphasizes the importance of CSR, it has become a key component in assessing companies' value. SASAC wants to develop SOEs into modern corporate institutions with the competitive advantages offered by effective CSR programs. The key components for CSR implementation under SASAC's guidelines are:

- Ensuring legal compliance;
- Continuously improving profitability;
- Improving product and service quality;
- Saving energy and protecting the environment;
- Encouraging self-innovation and technological development;
- Protecting labor rights and the interests of workers; and
- Engaging in philanthropic activity.

SASAC believes that enterprises that engage in CSR will increase their creativity, add value to their brands and images, and improve their employees' qualifications. SASAC's CSR guidelines call on Chinese enterprises to project a responsible public image and encourage their employees to volunteer and participate in community and social welfare programs. SASAC appears to believe that incorporating a strong CSR mentality into SOE operations will also help promote environmental protection, economic development, and a socially responsible corporate culture.

To address transparency and stakeholder engagement issues, SASAC asks SOEs with CSR-program experience to report their activities and provide regular updates and information about their CSR and sustainable development programs and plans. SOEs should also publicize and report CSR-related information to stakeholders and society in general.

Finally, SASAC encourages SOEs to exchange their ideas on and commitments to CSR with other companies in China and abroad. In theory, increased inter-company dialogue and communication may strengthen CSR in China and other countries because companies can use each other's ideas as benchmarks against which they may evaluate their own CSR efforts.

China Banking Regulatory Commission

CBRC's priority is to protect the interests of depositors and financial services consumers. It calls on all banking institutions to assume social responsibilities through various means. CBRC's CSR-related responsibilities fall into four specific categories:

- **Providing education to financial consumers** CBRC in 2007 opened China's first Public Education Service Center, an organization that answers questions about financial products and services and offers educational materials about financial matters.
- **Spreading financial knowledge to rural areas** CBRC organized young volunteers to educate farmers and other rural residents about their financial options. More than 1,000 lectures were held for 2 million farmers from nearly 300,000 rural households. CBRC also challenged other financial institutions to develop more financial products for the rural sector.
- **Supporting the development of poor areas and charities within those areas** CBRC in 2007 donated money to needy students and families, schools in poor areas, and environmental protection causes. In October 2007, CBRC staff visited rural areas and donated computers and stationery to needy school children in Hebei.
- **Urging banking institutions to fulfill social responsibilities** CBRC has urged banks to protect shareholder interests by making voluntary changes to policies and operations. In November 2007, it released Recommendations on Strengthening Large Commercial Banks' Social Responsibilities, which require large banks to comply with the 10 basic principles of the United Nations' Global Compact, which focuses on human rights, labor, the environment, anticorruption, and other issues. In addition, CBRC's Shanghai office requires banks incorporated in Shanghai to submit the previous year's annual report on CSR by the end of each June. Major Chinese banks with significant CSR initiatives have established departments to oversee those initiatives. Commercial banks have begun to incorporate CSR standards into their daily business policies and procedures, including in the evaluation and extension of credit.

In an effort to develop environmentally friendly policies, CBRC issued Guidelines on Energy Saving and Emissions Reduction, which urge banks to combine credit-structure adjustments with national economic structure adjustments. This allows banks to contribute to energy conservation, emissions reduction, and environmental protection efforts. In 2007, CBRC also required the State Environmental Protection Administration (the Ministry of Environmental Protection's predecessor) to pass on details of corporate environmental law violators to China's central bank, which blocked or withdrew loans to a dozen such companies.

The new Green Banking Innovation Award gives banks another reason to implement CSR. The award recognizes success in improving resource efficiency, encouraging employees to participate in environmental activities, minimizing environmental impact through financing activities, exploring new opportunities for environmental improvement-related business, and implementing sustainable finance. In July 2008, Yu Xiaogang, director of the nongovernmental organization (NGO) Green Watershed, presented the first award to China Industrial Bank Co. Ltd. Eight NGOs voted on this award to encourage banks to engage in CSR. Banks seriously interested in competing for the award by having effective practices will likely reduce their energy expenses—an extra bottom line reward.

NGO involvement: China National Textile and Apparel Council

CNTAC, first established by the Responsible Supply China Association in 2005 to promote CSR practices in the industry, holds an annual conference on CSR to highlight certain companies' CSR efforts. Its standards for social compliance provide guidelines and a framework to help companies comply with laws, regulations, conventions, standards, and practices. CNTAC selected 10 companies within the industry and monitored their CSR implementation. Its goal was to help PRC factories improve CSR performance and develop a competitive edge in the global marketplace. In May 2007, it selected 100 companies in 10 different textile clusters to establish a CSR management system that provides CSR training to small and medium-sized companies. CNTAC also seeks to create an independent, credible, and transparent system to monitor CSR implementation. More recently, in June 2008, CNTAC issued PRC Textile and Apparel Industrial CSR Reporting Guidelines, which encourage companies to comply with voluntary CSR rules.

Over time, the global focus of CSR has shifted from the content of the standards that are applied to whether information gathered from compliance assessments is used effectively and building CSR compliance capacity within firms. In July 2008, CNTAC's annual CSR report indicated that companies faced challenges in keeping employees' work hours within legal limits, maintaining proper employment records for workers, reducing waste emissions and water consumption, and bolstering water recycling efforts.

CSR in China

Though CSR initiatives are new in China, the idea of strengthening Chinese businesses, borders, and national pride has been important throughout Chinese history. The following Chinese story is a useful way of viewing CSR:

A shepherd woke one morning to find a sheep missing from a fenced-in pen. When he looked at the pen, the shepherd saw a hole in the fence. The shepherd's friends told him that he should immediately fix the hole to prevent future losses. But the shepherd thought there was no point in fixing the hole because the sheep was already gone. Another day passed, and another sheep was missing. The shepherd then realized that he must fix the fence.

Simply put, the lesson of the story is: "even if you have lost some sheep, it's never too late to mend the fence." CSR programs may be analogized to a "fence" that safeguards a company's core assets and helps to create long-term sustainable growth.

CSR can be seen as combining important standards with compliance assessments to protect a company's value, and to sustain its (and its stakeholders') development. Conversely, failing to adopt appropriate CSR standards, conduct compliance assessments, or remediate instances of noncompliance can, over time, amount to continuous and sometimes irreversible losses through the "hole in the fence." Simply having good CSR standards is insufficient to accomplish the purposes for which they were adopted. Companies must take the time and effort to implement standards and policies and manage related data to achieve their CSR goals.

Ultimately, in light of the various new regulations and economic considerations detailed above, the question for companies in China is not whether CSR issues need to be addressed, but how to address them in the most effective way. In the Chinese dairy context, recalls of Chinese products may have widened the "hole in the fence," allowing greater market penetration by non-Chinese competitors that may have more extensive CSR and supply chain compliance programs.

CSR programs need to be expertly constructed with regard to real world conditions and related legal and reputational risks, diligently implemented, and frequently adjusted to account for emerging trends and changing conditions. CSR disclosures must also be carefully considered and vetted. Effective CSR programs enable companies to protect their brands, to successfully compete against their global competitors, and to address important concerns of their employees, customers, investors, and other stakeholders. 完

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Central Hub

The rise of central China gives a boost to its leading city

Eric Arndt

A politically and economically prominent city in the early and mid-twentieth century, Wuhan, Hubei, was once the scene of some of the Cultural Revolution's (1966–76) most intense moments and a favorite getaway for Mao Zedong. Although Wuhan has since lost its former political weight, it remains an economic leader in central China. The city is also building on traditional strengths—strategic location and nationally significant heavy industrial and tertiary educational bases—to position itself as a modern, high-tech center.

Home to 8.3 million people, Wuhan is central China's largest city. It is also one of central China's most prosperous and fastest growing cities. From 2000 to 2007, its economy nearly tripled in size, from ¥120.7 billion ($17.7 billion) to ¥314.1 billion ($46.1 billion). Growth continued at 2007's 15.6 percent pace in the first half of 2008. The heavy industrial sector—led by China's first major steel complex and fourth-largest steel producer, Wuhan Iron and Steel (Group) Corp.—has spearheaded this growth. Taking advantage of this base, many foreign automakers have set up shop there, most prominently Dongfeng Peugeot-Citroën Automobile Co. Ltd., Dongfeng Honda Automobile Co., Ltd., and Dongfeng Nissan Passenger Vehicle Co. In 2007, auto industry revenue grew more than 33 percent to ¥75.8 billion ($11.1 billion).

Strategic logistics location

Much of Wuhan's past, present, and likely future prominence stems from its position astride the confluence of the Yangzi River and its tributary, the Han Shui, making the city a natural hub for waterway transport and ensuring its status as a key trading center for centuries. Wuhan's location also places it within easy reach of China's major population centers: Beijing, Chongqing, Guangzhou, Shanghai, Shenzhen, and Tianjin. Numerous provincial capitals—including Nanjing, Jiangsu, and Xi'an, Shaanxi—all lie within a 1,200 km radius of the city.

Strategically important to China's transportation network, Wuhan has benefited hugely from China's transport infrastructure boom and is slated to become an even more important rail, road, air, and water hub. Major rail lines and expressways that connect Beijing with cities in Guangdong, and Shanghai with Chengdu, pass through Wuhan. The city's inland port is expanding and will be capable of handling 100 million tons of cargo annually by 2010, according to *Cargonews Asia*. Current facilities are capable of berthing sea-going ships of 10,000 tons. In addition, Wuhan's Tianhe Airport is the largest in central China, providing service for domestic and regional carriers, and the Civil Aviation Administration of China has developed plans that support Wuhan as the country's fourth-largest aviation hub—behind Beijing, Shanghai, and Guangzhou, Guangdong.

Infrastructure investments are part of a much broader push to develop China's central regions under the broad policy rubric of "Rise of Central China," first announced by Premier Wen Jiabao in 2004. As costs along the coast rise, central and local authorities hope to attract greater investment inland, with extensive transport infrastructure investments that give enterprises access to the central region's lower-cost labor. Such new connections have already enhanced Wuhan's effectiveness as a national distribution center, and the city has attracted new manufacturers of home appliances, electronics, and packaging. Hubei is slated to develop as an agricultural processing and high-tech center and key modern logistics hub, with Wuhan leading the way.

Despite Wuhan's location, growing infrastructure, and policy support, its final role in China's logistics and distribution system remains unclear. Central China hosts another major rail hub in Zhengzhou, Henan, and Chongqing's port is dramatically increasing its cargo throughput and capacity. For example, according to Chongqing's municipal government website, the city intends to invest ¥15.8 billion ($2.3 billion) in expanding river ports by 2010. The expansion of transport facilities at the Three Gorges Dam—including a ship lift capable of lifting 3,000 tons—will increase the volume of freight traffic to Chongqing, adding further weight to the city's pull as a western terminus for Yangzi River traffic. Wuhan's final position in the flow of goods across China will likely become clear only after major infrastructure investments are completed and the region's future development and demand patterns are more clearly established.

High education and low costs

Wuhan is also a regional education center. It is home to 52 institutes of higher education, including Wuhan University, which ranked seventh-best overall in the nation this year, and another six universities in the top 100, according to China Gaoxiao Xinxi Wang (www.gxedu.org.cn). Altogether, Wuhan's institutes of higher education enrolled more than 740,000 students in 2006, the most of any city in China. In 2009 alone, the city's top engineering and technical schools—Wuhan University, Huazhong University of Science and Technology, and Wuhan University of Technology—will graduate nearly 25,000 bachelors of science.

Yet though educated talent is widely available, wages remain low compared to coastal education centers. Average salaries in 2006 were ¥19,759 ($2,896), compared to ¥36,097 ($5,293) in Beijing and ¥29,569 ($4,335) in Shanghai.

Lofty high-tech goals?

Wuhan is touting its advantages as an attractive destination for high-tech foreign direct investment. East Lake High-Tech Park, the focus of efforts to foster a high-tech cluster in Wuhan, is already a domestic leader in fiber-optic cable, transmission, and photoconducting that seeks to expand this base into other sectors, including pharmaceutical manufacturing, biotechnology, and software development. Related services industries, particularly services outsourcing, have also been granted special policy incentives—including land subsidies, low personal income tax rates, training assistance, and export subsidies—to encourage rapid growth. Several US high-tech industry leaders have set up facilities there—including IBM Corp. and Electronic Data Systems Corp., a Hewlett-Packard company—according to the park's website.

By the Numbers, 2007

	2007	% change over 2006
Population	8.29 million	1.0
Economy	$46.06 billion	15.6
Fixed-asset investment	$25.41 billion	30.7
Value-added industrial output	$17.56 billion	19.5
Consumer price index (%)	104.10	NA
Retail sales	$22.26 billion	17.4
Government revenue	$9.30 billion	26.2
Utilized foreign direct investment	$2.25 billion	12.4
Total trade	$9.96 billion	24.3
Exports	$4.47 billion	25.8
Imports	$5.21 billion	23.0

Note: NA = not applicable
Source: Statistical Information of Wuhan (www.whtj.gov.cn)

Major Development Zones

Central-level zones

Wuhan Economic and Technological Development Zone
www.wedz.gov.cn

Wuhan East Lake High-Tech Development Zone
www.wehdz.gov.cn

Provincial-level zones

Wuhan Hongshan Economic Development Zone
www.hsedz.com

Wuhan Jiang'an Economic Development Zone
www.jiangan.gov.cn/cms/publish/jajjkfq/2008-09/02/1200809021535560003.html

Wuhan Panlong Economic Development Zone
www.panlong.gov.cn

Wuhan Yangluo Economic Development Zone
www.wyd.gov.cn

Critical Eye on Wuhan

Though Wuhan has a strong information technology (IT) sector, many engineering graduates, and a number of research and training centers to support IT and high-tech industry development, other cities offer similar advantages. Changsha, capital of Hunan, offers nationally competitive academic credentials to potential investors. More significant, Sichuan's capital, Chengdu, boasts strong educational institutions and has successfully attracted several high-tech foreign investors, including Intel Corp. As with logistics, the high-tech sector in central and western China is still taking shape, and Wuhan faces stiff competition.

Power and pollution woes

Like other cities across China, Wuhan faces considerable environmental and power challenges. Rapid industrialization and heavy industrial demand have outpaced the city's wastewater treatment capabilities and pushed the limits of its power production and transmission capacities.

Snowstorms earlier this year damaged Hubei's power grid system and led to coal shortages, forcing the city to restrict electricity use in some urban areas. In August, Bloomberg reported that Hubei implemented austerity measures that reduced Wuhan's power supply by 34 percent—targeting high-energy-consuming companies such as small steelmakers, petrochemical producers, and cement plants—to ease a coal shortage caused by high summer demand. Wuhan's power supply problems are connected to larger national issues and are therefore difficult for the local government to resolve. Though Wuhan-based foreign-invested enterprises have reported few problems with their electricity, keeping the lights on will remain a priority for the Wuhan government.

Wuhan has also suffered from pollution. Years of dumping untreated wastewater has severely polluted the area's many lakes and seriously damaged the ecology of the scenic East Lake last year. To address wastewater issues, Wuhan has been cooperating with the Asian Development Bank (ADB) since 2000, and in 2006 ADB approved a $100 million loan to develop wastewater treatment capacity. Last year, the city more than doubled its 2005 wastewater treatment rate of 37 percent and kicked off a ¥2.66 billion ($390 million) cleanup project in March that is scheduled for completion in 2012.

Central China's centerpiece?

Wuhan offers numerous advantages for manufacturing and high-tech investors in China's interior. Yet the city's success depends largely on the extent to which central China realizes Beijing's ambitions to make it a new economic growth engine. If it succeeds, Wuhan, which considers itself central China's leading city, will be able to take advantage of its growing logistics and education platforms to generate rapid growth and stimulate high-tech sector development. Central China's rise as an economic powerhouse is still uncertain, but higher production costs along China's coast, better infrastructure in the interior, and central government encouragement may all spur regional development that elevates Wuhan to regional and national prominence. 完

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Carlos M. Gutierrez
US Secretary of Commerce

Continued from page 15

Developing sound and strong trade relationships between countries requires much more than government-to-government dialogue. The USCBC has been at the forefront of our private-sector economic engagement with China. Its role in organizing, informing, advising, and serving the US business community engaged in trade and commerce with China, in advising the US government, and in helping China reform has been invaluable. I thank the USCBC for its contributions in furthering US-China commercial relations and wish you even greater success in the future. 完

卡洛斯•古铁雷斯
美国商务部长

发展健康而强劲的双边贸易关系，需要的不仅仅是政府间的对话。也需要 USCBC，它在美国私有经济与中国的交往方面一直走在前列。它为与中国进行贸易往来与商业合作的美国商会提供组织安排、沟通协商、出谋划策和相关服务，并为中国改革提供帮助，在这整个过程中发挥了重大作用，十分宝贵。我非常感谢 USCBC 在为促进美中商务关系方面做出的巨大贡献，同时祝愿大家在将来取得更加辉煌的成就。

Susan C. Schwab
United States Trade Representative

Continued from page 17

forums. We have sought to work with China to bring about an ambitious Doha Round and to underscore China's stake in a strong and vibrant multilateral WTO system. And where China has failed to implement its WTO commitments or put up protectionist barriers to US goods, services, or farm products, we have not hesitated to enforce our rights by aggressively challenging such measures under the WTO's dispute settlement mechanism. I believe time will show the wisdom of our approach.

I applaud the USCBC for its many contributions to US-China trade and economic relations, and I know we and our successors will be able to turn to you whenever leadership and quality advice from the American business community are needed in the days and years ahead. 完

苏珊・施瓦布
美国贸易代表

对这些措施利用了 WTO 的争端解决机制行使了我们的权利。我相信时间会证明我们的方法是明智。

在此，就 USCBC 在美中经贸关系所做出的贡献，谨致感谢！我知道今后我们和我们的继任者每当需要向美国商界寻求引领和高质量的建议的时候，还将仰仗你们。

Sales and Investment

July 16–September 15, 2008

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

Compiled by Nicholas Chu

Advertising, Marketing & Public Relations

CHINA'S IMPORTS

UTStarcom Inc. (US)
Will supply 3,600 RollingStream Internet Protocol Television streams for deployment of an interactive advertising system to Guangxi Telecom Co. Ltd., a wholly owned subsidiary of China Telecom Corp. Ltd. 07/08.

OTHER

Globe7 HK Ltd., a wholly owned subsidiary of Northgate Technologies Ltd. (India)
Formed partnerships with Beijing-based Baidu.com, Inc.; Alimama.com, a unit of Zhejiang-based Alibaba Group; and Shanghai Allyes Advertisement Co., Ltd., to build Chinese advertising exposure for its products Globe7.com, Egglad.com, Ziddu.com, and Longhaier.com. 07/08.

Architecture, Construction & Engineering

CHINA'S IMPORTS

ThyssenKrupp Elevator AG, a subsidiary of ThyssenKrupp AG (Germany)
Will supply 669 elevators and escalators for the extension of metro systems in Shenzhen, Guangdong; Wuhan, Hubei; and Xiamen, Fujian. 07/08.

INVESTMENTS IN CHINA

Boral Ltd. (Australia), Lafarge SA (France)
Will build plasterboard plant with initial annual production capacity of 34 million sq m in Shanghai. (Australia:50%-France:50%). $48 million. 08/08.

OTHER

China Everbright International Ltd. (Hong Kong)/Ji'nan Municipal Government
Signed agreement to form subsidiary to build a wastewater treatment plant with daily capacity of 100,000 tons. $20.2 million. 08/08.

Automotive

CHINA'S EXPORTS

Pol-Mot Holding SA (Poland)
Will assemble Hebei Zhongxing Automobile Manufacture Co. Ltd.'s Grand Tiger pickup truck, with annual output of 1,500 units. 07/08.

CHINA'S INVESTMENTS ABROAD

Beiqi Foton Motor Co., Ltd. (Beijing)
Will increase its stake in Beijing Foton Cummins Engine Co., a JV between US-based Cummins, Inc. and Beiqi Foton Motor Co., Ltd., from 37.45% to 50%. $18.6 million. 08/08.

Chery Alado Holdings Sdn Bhd, a JV between Alado Corp. Sdn Bhd (Malaysia) and Chery Automobile Co. Ltd. (Anhui)
Will invest in equipment at its new completely knocked down plant to be built in Pahang, Malaysia. $14.7 million. 09/08.

INVESTMENTS IN CHINA

American International Group, Inc. (US)
Acquired 13.5% stake in Chongqing-based Lifan Group. $90 million. 07/08.

Daimler AG (Germany)/Beiqi Foton Motor Co., Ltd. (Beijing)
Signed letter of intent to form commercial vehicle JV in Beijing. (Germany:50%-PRC:50%). 08/08.

Fiat SpA (Italy)
Signed MOU to build a light-duty diesel engine plant with annual production capacity of 100,000 units in Chongqing. $263.9 million. 08/08.

International Automotive Components Group North America (US)
Will build two JV factories in China in the next year. 09/08.

Mahindra Overseas Investment Company (Mauritius) Ltd., a subsidiary of Mahindra & Mahindra Ltd. (India)/Jiangsu Yueda Yancheng Tractor Manufacturing Co. Ltd.
Signed agreement to form JV to manufacture tractors in China. (India:51%-PRC:49%). $49.1 million. 08/08.

Ssangyong Motor Co. (South Korea)/Shanghai Automotive Industry Corp.
Signed agreement to form JV to produce Ssangyong Motor Co.'s Kyron model at Shanghai Automotive Industry Corp.'s plant in Jiangsu. (South Korea:51%-PRC:49%). 08/08.

OTHER

Piaggio & C. SpA (Italy)
Signed MOU with Chongqing-based Zongshen Industrial Group to look at the possibility of forming a commercial vehicle JV. 07/08.

Aviation/Aerospace

CHINA'S IMPORTS

Great Wall Airlines, a JV between Beijing Aerospace Satellite Applications Corp.; Singapore Airlines Cargo, a subsidiary of Singapore Airlines; and Dahlia Investments, a subsidiary of Temasek Holdings (Singapore)
Signed seven-year fleet-management-program agreement with US-based Pratt & Whitney Global Service Partners, a division of United Technologies Corp. 07/08.

INVESTMENTS IN CHINA

Airbus SAS (France)/Harbin Aircraft Industry Group Co. (Heilongjiang).
Will form JV to produce aircraft composite material parts and components. (France:20%-PRC:80%). 07/08.

The Boeing Co. (US)
Will increase its stake in BHA Aero Composites Parts Co. Ltd., a JV between Boeing, US-based Hexcel Corp., and Beijing-based AVIC I, to 80% by acquiring shares. $22.3 million. 07/08.

Banking & Finance

CHINA'S INVESTMENTS ABROAD

Bank of China (UK) Ltd., a unit of BOC (Beijing)
Acquired 30% stake in Switzerland-based Heritage Fund Management SA. $8.7 million. 07/08.

Franklin Templeton Sealand Fund Management Co., Ltd., a JV between Franklin Templeton Investments (US) and Sealand Securities Co., Ltd. (Beijing)
Won approval to invest overseas under China's Qualified Domestic Institutional Investor program. 09/08.

ICBC (Beijing)
Won approval from the US Federal Reserve to open a branch in New York. 08/08.

INVESTMENTS IN CHINA

ABN Amro TEDA Fund Management Co. Ltd., a JV between ABN Amro Asset Management (Asia) Ltd., a unit of ABN AMRO Asset Management Holding NV (The Netherlands), and Northern International Trust & Investment Co. Ltd. (Tianjin)
Won approval to issue a bond fund. 07/08.

Allianz Global Investors Hong Kong Ltd., a subsidiary of Allianz SE (Germany)
Increased its stake in Guotai Junan Allianz Fund Management Co. Ltd., a JV between Allianz SE and Hong Kong-based Guotai Junan Securities Co. Ltd., from 33% to 49%. 08/08.

Bank of Nova Scotia (Canada)/Bank of Beijing
Will form a fund management JV. (Canada:33%-PRC:67%). $44 million. 08/08.

Everbright Pramerica Fund Management Co. Ltd., a JV between Prudential Financial Inc. (US) and Everbright Securities Co. Ltd., a subsidiary of China Everbright Group (Hong Kong)
Won approval to issue a bond fund in Shanghai. 08/08.

Hana Bank, a unit of Hana Financial Group (South Korea)
Will acquire 19.67% stake in Bank of Jilin. 07/08.

The Infinity I-China Fund (Israel)/China-Singapore Suzhou Industrial Park Ventures Co. Ltd. (Jiangsu)
Will invest in Beijing-based Digital China Information Technology Service Co. Ltd. $73 million. 09/08.

OTHER

Atradius Collections, a unit of Atradius Group (The Netherlands)
Signed cooperation agreement with Jiangsu-based Flevum-Loenermark Co. Ltd. to collect unpaid invoices from Chinese exporters to their foreign customers. 08/08.

CDB (Beijing)
Signed agreement with Banco de Chile to provide a three-year loan. $100 million. 08/08.

CDB (Beijing)
Will provide $50 million line of credit to Kenya-based Eastern & Southern African Trade and Development Bank Ltd. 08/08.

China Merchants Bank (Shenzhen)
Received official license from the New York State Banking Department to operate a branch in New York. 07/08.

Citibank (China) Co. Ltd., a unit of Citigroup Inc. (US)
Signed debit card processing agreement with China UnionPay Data Services Co. Ltd., a JV between Shanghai-based China UnionPay and US-based Total System Services, Inc. 09/08.

DBS Bank (Singapore)
Signed deal with Shanghai-based China UnionPay to use their credit and debit cards at more retail outlets in Singapore. 09/08.

ICBC (Beijing)
Will acquire Russia-based RosEvroBank. $800 million. 08/08.

Standard & Poor's, a unit of the McGraw-Hill Companies, Inc. (US)
Signed technical services agreement with Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. 08/08.

Sun Life Everbright Life Insurance Co., a JV between Sun Life Financial (Canada) and China Everbright Group (Hong Kong)
Won CIRC approval to open a branch in Guangdong. 08/08.

Chemicals, Petrochemicals & Related Equipment

CHINA'S IMPORTS

Aker Solutions ASA (Norway)
Will provide process design and technical advisory services for PetroChina Sichuan Petrochemical Co., Ltd.'s new polypropylene facility in Chengdu. 09/08.

The Dow Chemical Co. (US)
Will supply UNIPOL Polypropylene Process Technology to PetroChina Sichuan Petrochemical Co., Ltd. for its new polypropylene facility in Chengdu. 09/08.

CHINA'S INVESTMENTS ABROAD

Anyang Chemical Industry Group
Signed deal to acquire 28.4% stake in Singapore-based Jiutian Chemical Group. $86.6 million. 08/08.

OTHER

Celanese Corp. (US)
Will open shared service center in Nanjing to simplify its operation flow and accelerate its business processes in Asia. 07/08.

Sino Saudi Aramco Company Ltd., a wholly owned subsidiary of Saudi Aramco (Saudi Arabia)
Signed mutual cooperation agreement with Saudi Basic Industries Corp. Shenzhen Trading Co. Ltd., a subsidiary of Saudi Basic Industries Corp., to market polyolefin products produced by the Fujian Refining and Petrochemicals Co. 07/08.

Consulting

OTHER

International Business Machines Corp. (US)
Will establish center in Beijing to serve domestic banks. 07/08.

Distribution, Logistics & Related Services

INVESTMENTS IN CHINA

Agility (Abu Dhabi) PJSC (UAE)
Won service contract from Singapore-based Borouge Pte Ltd. to build manufacturing unit and logistics hub in Shanghai. 08/08.

UPS Inc. (US)
Will build new air hub in Shanghai. $125 million. 08/08.

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

Education

OTHER

Huawei Technologies (Bangladesh) Ltd., a subsidiary of Huawei Technologies Co., Ltd. (Shenzhen)
Signed agreement with Bangladesh University of Engineering and Technology to set up a wireless communication lab and training center in the university. $3 million. 07/08.

Electronics, Hardware & Software

INVESTMENTS IN CHINA

Advanced Micro Devices, Inc. (US)/Shanghai Supercomputer Center
Will jointly establish technology laboratory in Shanghai to promote technology application in high-performance computing. 07/08.

Elpida Memory Inc. (Japan)/ Suzhou Venture Group Co. (Zhejiang)
Will form JV to construct an advanced semiconductor plant in Suzhou, Jiangsu. (Japan:39%-PRC:61%). $4.9 billion. 08/08.

Rakon Ltd. (New Zealand)
Will form JV with Guangdong-based Timemaker Crystal Technology Ltd. (New Zealand: 70%-PRC:30%). 07/08.

Samsung Electronics Co., Ltd. (South Korea)
Will build liquid crystal display television module plant with annual production capacity of 2 million units in Suzhou, Jiangsu. $150 million. 09/08.

Sanyo Electric Co., Ltd. (Japan)
Acquired 30% stake in Liaoning-based Dalian Bingshan Group Co., Ltd., a Chinese producer of refrigerators, air conditioners, and petrochemical machinery. 09/08.

Toshiba Corp. (Japan)
Will acquire the remaining 10% stake of its JV, Toshiba HA Manufacturing (Nanhai) Co., from Guangdong-based TCL Corp. $1.8 million. 08/08.

OTHER

FalconStor Software, Inc. (US)
Signed partnership agreement with Guangdong-based China Security & Surveillance Technology, Inc., to jointly develop and market digital video security and surveillance. 08/08.

Energy & Electric Power

CHINA'S EXPORTS

Sinohydro Corp. (Beijing)
Won contract from Kenya Electricity Generating Co. to build a 20 MW hydropower plant in Kenya. $65 million. 09/08.

CHINA'S IMPORTS

Velan SAS, a wholly owned subsidiary of Velan Inc. (France)
Will supply high-pressure forged valves to Beijing-based China Nuclear Power Engineering Co. for six nuclear power plants in China. 07/08.

CHINA'S INVESTMENTS ABROAD

Guangxi Guiguan Electric Power Co., Ltd.
Won approval from Cambodian government to conduct feasibility study for building two hydropower dams in Cambodia. 08/08.

Reliance Infrastructure Ltd., a subsidiary of Reliance Anil Dhirubhai Ambani Group (India)/Shanghai Electric Corp.
Will form JV to build a power equipment plant with initial capacity of 10,000 MW. (India:50%-PRC:50%). $2.5 billion. 07/08.

INVESTMENTS IN CHINA

Cleanfield Energy Corp., a wholly owned subsidiary of Cleanfield Alternative Energy Inc. (Canada)/Zhejiang Jingye Technology Co., Ltd.
Signed LOI to form JV to build a manufacturing facility in China and distribute Cleanfield's V3.5 turbines in China. 09/08.

Electricite de France SA (France)/China Guangdong Nuclear Power Holding Co.
Signed agreement to form JV to invest in and operate two new-generation reactors in Guangdong. 08/08.

Hong Kong Energy (Holdings) Ltd./China Energy Conservation Investment Corp. (Beijing)
Won NDRC approval to set up a JV wind-power project in Hebei. $139.2 million. 08/08.

Tanjung Rhu Investments Ltd., a wholly owned subsidiary of Khazanah Nasional Berhad (Malaysia)/Beijing China Sciences General Energy & Environment Co., Ltd.
Will form JV to develop municipal waste-to-energy projects. 08/08.

OTHER

Reliance Power Ltd., a subsidiary of Reliance Anil Dhirubhai Ambani Group (India)
Won funding from China Exim Bank, CDB, and China Export & Credit Insurance Corp. for the 4,000 MW Sasan ultra mega power project in India. $1 billion. 07/08.

Environmental Equipment & Technology

CHINA'S EXPORTS

Trina Solar Ltd. (Jiangsu)
Signed agreement to supply photovoltaic modules for a new stadium being built by the Spanish Premier League football team Real Club Deportivo Espanyol de Barcelona. 08/08.

Trina Solar Ltd. (Jiangsu)
Signed sales agreement with Enel.si Srl, a subsidiary of Italy-based Enel SpA, to supply photovoltaic modules with a total capacity of 17 MW. 07/08.

CHINA'S INVESTMENTS ABROAD

China Investment Corp. (Beijing)
Acquired 1.5% stake in France-based Veolia Environnement SA. 08/08.

INVESTMENTS IN CHINA

Tennant Co. (US)
Signed asset purchase and sale agreement with Shanghai Shen Tan Mechanical and Electrical Equipment Co. Ltd. 08/08.

Food & Food Processing

CHINA'S INVESTMENTS ABROAD

Oceanus Group Ltd. (Singapore)/ Ah Yat Abalone Group (Beijing)
Will form JV in Singapore to expand its abalone processing market and its brand. 08/08.

Tsingtao Brewery (Shandong)
Will acquire a Shanghai brewery by purchasing Denmark-based Carlsberg's 25% stake. $7.5 million. 09/08.

INVESTMENTS IN CHINA

CJ Corp. (South Korea)/ Heilongjiang Agriculture Co., Ltd.
Will form JV to process rice-bran oil and rice-bran protein. 07/08.

Diageo plc (UK)
Will increase its stake in Sichuan Chengdu Quanxing Group Co., Ltd., from 43% to 49%. 08/08.

FMC Corp. (US)
Will acquire Guangdong-based CoLiving Food Ingredients to boost its position in supplying specialty hydrocolloid products and services to the Chinese market. 07/08.

Itochu Corp., Shikishima Baking Co. (Japan)/Wei-Chuan Foods Corp. (Taiwan)
Will form JV to enter the Chinese bread market. 08/08.

Ng Fung Hong Ltd., a wholly owned subsidiary of China Resources Enterprise Ltd. (Hong Kong)/Henan Cereals, Oils & Foodstuffs Import & Export Group Corp.
Will form pig farm JV. (Hong Kong:70%-PRC:30%). $51 million. 07/08.

The Coca-Cola Co. (US)
Agreed to buy Beijing-based China Huiyuan Juice Group Ltd. $2.3 billion. 09/08.

Tyson Foods, Inc. (US)
Signed framework agreement to acquire 60% stake of Shandong-based Xinchang Group. 07/08.

OTHER

Eden Foods, Inc. (US)
Signed agreement to distribute products in China for Hong Kong-based Golden Dragon Holdings, Inc. 07/08.

Herbalife Ltd. (US)
Won five licenses from MOFCOM to expand its business in China. 07/08.

Natural Glacial Waters Inc. (Canada)
Won contract to market its glacial water at Beijing's national swimming center. 08/08.

Insurance

OTHER

Aon-Cofco Insurance Brokers Co., a JV between Aon Corp. (US) and Cofco Ltd. (Beijing)
Won CIRC approval to set up a branch in Shanghai. 08/08.

Media, Publishing & Entertainment

CHINA'S IMPORTS

Independent Online Distribution Alliance (US)/R2G (Beijing)
Signed agreement to provide China's Internet users with access to more than 1 million music recordings. 08/08.

Tandberg Television, a subsidiary of the Ericsson Group (Sweden)
Was selected to provide Tandberg MPEG-4 AVC video processing solutions to NBC for the network's coverage of the 2008 Beijing Olympics. 08/08.

INVESTMENTS IN CHINA

IMG Worldwide, Inc. (US)/CCTV (Beijing)
Will form JV to create, develop, and promote world-class sporting events and sports programming across China. 08/08.

OTHER

Adobe Systems Inc. (US)
Formed strategic relationship with CCTV International Networks Co., Ltd., a subsidiary of Beijing-based CCTV, to deliver coverage of the 2008 Beijing Olympic Games through the Internet. 08/08.

Electronic Arts Inc. (US), GigaMedia Ltd. (Taiwan)/Tencent Holdings Ltd. (Shenzhen)
Entered into strategic marketing partnership to distribute a video game, NBA Street Online, in China. 07/08.

Venevision International LLC, a unit of the Cisneros Group of Companies (Venezuela)/CCTV (Beijing)
Signed agreement to distribute television programming in their respective markets. 08/08.

Medical Equipment & Devices

INVESTMENTS IN CHINA

Covance Inc. (US), WuXi AppTec, Inc., a subsidiary of WuXiPharma-Tech (Cayman) Inc. (Cayman Islands)
Signed MOU to form JV to provide preclinical contract research services in China. 07/08.

OTHER

Boehringer Ingelheim GmbH (Germany)
Signed strategic partnership with Zhejiang Hisoar Pharmaceutical Co., Ltd. to provide technical knowledge and specialized technology in return for Hisoar's investment in construction of a new plant. 08/08.

GE (China) Co., Ltd., a unit of General Electric Co. (US)/Mingyuan Medicare Development Co., Ltd. (Hong Kong)
Signed strategic cooperation memorandum to jointly develop medical and diagnostic centers in China. 07/08.

Schering-Plough Corp. (US)
Established wholly owned subsidiary in China, Shanghai Schering-Plough Pharmaceutical Co. Ltd. 08/08.

Metals, Minerals & Mining

CHINA'S IMPORTS

Energy Resources of Australia Ltd., a subsidiary of Rio Tinto plc (UK)
Will supply uranium to an electric utility in China. 07/08.

Golden West Resources Ltd. (Australia)
Signed 15-year deal to supply iron ore to Hunan Valin Steel Tube & Wire Co. 08/08.

IMX Resources NL (Australia)
Signed two sales agreements to supply iron ore to Jilin Tonghua Iron & Steel (Group) Mining Co., Ltd. 08/08.

Siemens AG (Germany)
Signed agreement with Shougang International Trade & Engineering Corp. to supply a 5 m plate mill and modernize an existing rolling line. $102.7 million. 08/08.

SMS Demag, a unit of the SMS group (Canada)
Will supply Hebei-based Qinhuangdao Shouqin Metal Materials with an extension of its heavy plate rolling mill. 08/08.

CHINA'S INVESTMENTS ABROAD

Aluminum Corp. of China Ltd. (Beijing)
Won Australian government approval to raise its stake in UK/Australia-based Rio Tinto Group to 11%. 08/08.

China Metallurgical Group Corp. (Beijing)/Evraz Group SA (Luxembourg)
Signed cooperation agreement to jointly develop the Cape Lambert Iron Ore Project in Australia. (Luxembourg:75%-PRC:25%). 07/08.

China Non-Ferrous Metal Mining (Group) Co., Ltd. (Beijing)
Signed production-sharing contract with No. 3 Myanmar Mining Enterprise to produce nickel in Myanmar. 07/08.

China Steel Resources Holding Co. (Beijing)
Will build two steel factories with a combined annual production capacity of 3 million tons in Indonesia. 07/08.

Xinwen Mining Group Co., Ltd. (Shandong)
Will buy coal exploration permits in Australia from Australia-based Linc Energy. $1.5 billion. 09/08.

Zijin Mining Group Co. Ltd. (Fujian)
Will invest in gold mining project in Tajikistan. $146.6 million. 07/08.

INVESTMENTS IN CHINA

ArcelorMittal (Luxembourg)/Hunan Valin Iron & Steel Group Co. Ltd.
Will form JV, Valin ArcelorMittal Electrical Steel Co., Ltd., to produce and sell electrical (silicon) steel. (Luxembourg:50%-PRC:50%). $379.3 million. 08/08.

Miscellaneous

OTHER

France Barter Exchange/China Business Online Co., Ltd., a JV between Sino Fibre Communications, Inc. (Hong Kong) and China Association of Small and Medium Enterprises (Beijing)
Signed MOU to jointly conduct and develop barter trade. 08/08.

Petroleum, Natural Gas & Related Equipment

CHINA'S IMPORTS

GE Oil & Gas Technology, a unit of General Electric Co. (US)
Will supply pipeline compression equipment for Beijing-based PetroChina's West-to-East natural gas transmission pipeline. $100 million. 09/08.

CHINA'S INVESTMENTS ABROAD

Andes Petroleum Ecuador Ltd., a JV between CNPC (Beijing) and Sinopec (Beijing)
Signed agreement with the Government of Ecuador to maintain its contracts in Ecuador. 08/08.

China Oilfield Services Ltd. (Beijing)
Won approval from NDRC to acquire Norway-based Awilco Offshore ASA. $2.5 billion. 07/08.

CNPC (Beijing)
Signed contract with the Government of Iraq to help develop the Ahdab oil field in Baghdad. $3 billion. 09/08.

Petrolimex (Vietnam)/Sinopec (Beijing)
Will form JV to build a refinery with annual processing capacity of 10 million metric tons of crude oil in Khanh Hoa, Vietnam. $4.5 billion. 08/08.

Sinochem Corp. (Beijing)
Signed deal with Indonesia-based firm to explore for oil and gas in two onshore blocks in Indonesia. 08/08.

INVESTMENTS IN CHINA

Kuwait Petroleum Corp./Sinopec (Beijing)
Won NDRC approval to form refinery JV to build a plant with annual production capacity of 15 million metric tons in Guangdong. 08/08.

Ports & Shipping

CHINA'S EXPORTS

Vale (Brazil)
Ordered 12 ore carriers, each with a carrying capacity of 400,000 metric tons, from Jiangsu Rongsheng Heavy Industries Co., Ltd. $1.6 billion. 08/08.

CHINA'S IMPORTS

Rolls-Royce plc (UK)
Signed contract with Fujian Mawei Shipbuilding Ltd. to supply propulsion and control systems for 18 offshore supply vessels. $40 million. 07/08.

Rail

CHINA'S EXPORTS

China South Locomotive & Rolling Stock Corp. Ltd. (Beijing)
Signed contract to supply 15 diesel locomotives to Kazakhstan Railway Co., Ltd. $116.4 million. 08/08.

CHINA'S INVESTMENTS ABROAD

China Railway Engineering Corp. (Beijing)
Won contract to build highway in Ethiopia. $75.3 million. 07/08.

Real Estate & Land

INVESTMENTS IN CHINA

CapitaLand Ltd. (Singapore)
Established a private equity fund, Raffles City China Fund, to invest in mixed-use commercial properties in China. $1 billion. 07/08.

Kerry Properties Ltd., Shangri-La Asia Ltd., Winson Terrace International Ltd. (Hong Kong), Allgreen Properties Ltd. (Singapore)
Will form JV to develop a hotel and residential property project in Tangshan, Hebei. (Hong Kong: 75%-Singapore:25%). $1.1 billion. 07/08.

Kuwait Finance House
Signed contract with Hong Kong-based Nan Hai Corp. Ltd. to invest in a 1 million sq m project in Shekou and Shenzhen, Guangdong. $3 billion. 08/08.

Retail/Wholesale

INVESTMENTS IN CHINA

Johnson & Johnson (US)
Acquired Beijing Dabao Cosmetics Co., Ltd. $337 million. 07/08.

New World Department Store China (Hong Kong)
Acquired a 32,500 sq m property in Shenyang, Liaoning, to open a new private subsidiary department store. $42.2 million. 07/08.

Telecommunications

CHINA'S IMPORTS

China Telecom (Beijing)
Will procure 1 million CDMA cell phones from South Korea-based Samsung Electronics Co., Ltd. 09/08.

China Telecom (Beijing)
Will procure 150,000 CDMA cell phones from US-based Motorola, Inc. 09/08.

Motorola, Inc. (US)
Signed contracts with Beijing-based China Mobile to supply GSM network equipment and a range of services. $431 million. 08/08.

CHINA'S INVESTMENTS ABROAD

Huawei Technologies Co., Ltd., ZTE Corp. (Guangdong)
Won contracts to expand the mobile phone network in Libya. $75 million. 09/08.

INVESTMENTS IN CHINA

Sitronics JSC (Russia)/ZTE Corp. (Guangdong)
Will form JV, Sitronics-ZTE Ltd., to develop and produce telecom equipment, CDMA terminals, and specialized electronic products in Hangzhou, Zhejiang. 09/08.

Telefonica SA (Spain)
Will raise its stake in Beijing-based China Netcom to 12%. $1.2 billion. 09/08.

OTHER

Alcatel Shanghai Bell Co., Ltd., a subsidiary of Alcatel-Lucent (France)/Datang Mobile (Beijing)
Signed cooperation memorandum to jointly develop TD-SCDMA mobile technology. 09/08.

Celltick Technologies Ltd. (UK)
Launched new mobile media service over Beijing-based China Unicom's network. 08/08.

Geosolutions BV, a subsidiary of GeoSentric Oyj (Finland)/Ramar International Co., Ltd. (Guangdong)
Signed distribution agreement to embed GeoSolutions' location and social networking application on Ramar's "amsam" Windows Mobile devices. 08/08.

mInfo Inc. (Shanghai)
Signed agreement with Finland-based Nokia Corp. to integrate mInfo's mobile search services into Nokia's Widset mobile application platform. 07/08.

Qualcomm Inc. (US)
Signed subscriber unit license agreement with Shanghai HuaQin Telecom Technology Co., Ltd., to develop, manufacture, and sell CDMA2000 subscriber units and modem cards. 08/08.

Textiles & Apparel

OTHER

Geox SpA (Italy)
Signed distribution partnership with Guangdong-based Belle International Holdings Ltd. 09/08.

Tourism & Hotels

INVESTMENTS IN CHINA

JAL Hotels Co., Ltd. (Japan)
Will build five-star hotel, Nikko Hotels International, in Guangzhou, Guangdong. 07/08.

Taj International Hong Kong Ltd., a wholly owned subsidiary of Indian Hotels Co., Ltd.
Signed management contract with Cuiting Hotspring Hotel Management Co., Ltd., a subsidiary of Beijing-based Zhong Qi International Investment Co., to operate hotels in Beijing and Hainan. 07/08.

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A Bird's Nest View of the Olympics

Roqueña R. Domingo

In 2001, when Beijing won the bid to host the 2008 Olympic Games, I knew I had to attend the opening of the games to be part of history and China's entrance onto the world stage. Sitting at the National Stadium ("the Bird's Nest") during the opening ceremony on August 8, I knew I was witnessing an event of great significance.

China Foto Press

Pre-show impressions

August 2008 was a great time to be in Beijing. Giant billboards promoting the Olympics and its theme "One World, One Dream" decorated the streets. Taxis played English recordings welcoming passengers, and information booths for tourists were set up in every major tourist area from Wangfujing Street (Beijing's "Fifth Avenue") to the bar-dotted area of Sanlitun. In addition, ultra-modern architecture, such as the National Center for the Performing Arts ("the Egg"), China Central Television headquarters, National Aquatics Center ("the Water Cube"), Bird's Nest, and Beijing Capital International Airport's Terminal 3, signaled a new Beijing.

On the opening day, every moment on the way to the Olympic park—taking the subway, going through security, walking to the stadium, finding seats, and buying snacks—was a pleasant experience. Security checks were orderly, with high-tech machines showing the photo and identification associated with the ticket holder. Snacks at the stadium had a Chinese twist—for example, delicious hot dogs with corn bits and piping hot meal boxes with rice and vegetables. Roughly 100,000 volunteers were out in full force. Moreover, signs for sporting venues were plentiful and written in English and Chinese.

Magnificent, elegant, flawless

The energy and excitement was palpable throughout the opening ceremony, and China's determination to share its long, rich history and culture with the world was apparent. Each presentation—the countdown, fireworks, unfolding of the scroll, opera and tai chi motifs, synchronized execution of the dances, and ingenious lighting of the torch—was visually stunning. The music's mesmerizing notes soared into a crescendo of heart-tugging rhythms and fast beats. Booming drums and crackling fireworks reverberated throughout the stadium and rocked the stands.

Well-organized and well-executed, the event moved like clockwork. At the end of the ceremony, despite the massive crowds, people and traffic flowed smoothly and efficiently.

Media and blog coverage the day after

Across the world, photos of the ceremonies appeared above the fold on front pages of newspapers and their corresponding websites, with glowing reviews of the performances' artistry, creativity, and execution. Edelman's International Affairs team conducted a media analysis coverage in major US and international print and broadcast outlets the day after the opening ceremony. The results came down to 58 percent positive, 23 percent neutral, and 5 percent negative. (The review covered BBC and CNN, the *Los Angeles Times, New York Times, USA Today, US News and World Report, Wall Street Journal, Washington Post,* and *Washington Times.*)

Most of the positive coverage focused on the grandiosity of the ceremony, the blend of technology and tradition, and technical effects and dramatic lighting. The media also viewed the opening as showcasing China's growth, development, and power and perceived it as a symbol of the country's ability to overcome challenges such as the Sichuan earthquake and Tibet riots. In addition, the press viewed the fact that more than 80 world leaders attended the event as positive. The lighting of the torch by Chinese gymnastics legend Li Ning garnered the most positive coverage.

Negative coverage of the opening delved into the perceived strong management of the event by the PRC government. For example, the press discussed regulations that restricted protesters and journalists. (Other complaints were unrelated to the opening or arose a few days after the opening.)

Analysis of blog entries about the opening ceremony and the first day of games conducted by Edelman's Digital Team revealed more than 45,000 relevant posts. A sampling of the posts, which were written in English and posted on news, sports, and personal blogs across the globe, showed overwhelmingly positive reactions to the opening ceremony, with many bloggers saying it was the best opening ever.

Image of the new China

The Beijing opening ceremony communicated China's desire to be viewed as a modern and peaceful country—a country that is open, friendly, and ready to engage the world. 完

Roqueña R. Domingo *is senior vice president for International Affairs at public relations firm Edelman in Washington, DC.*

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