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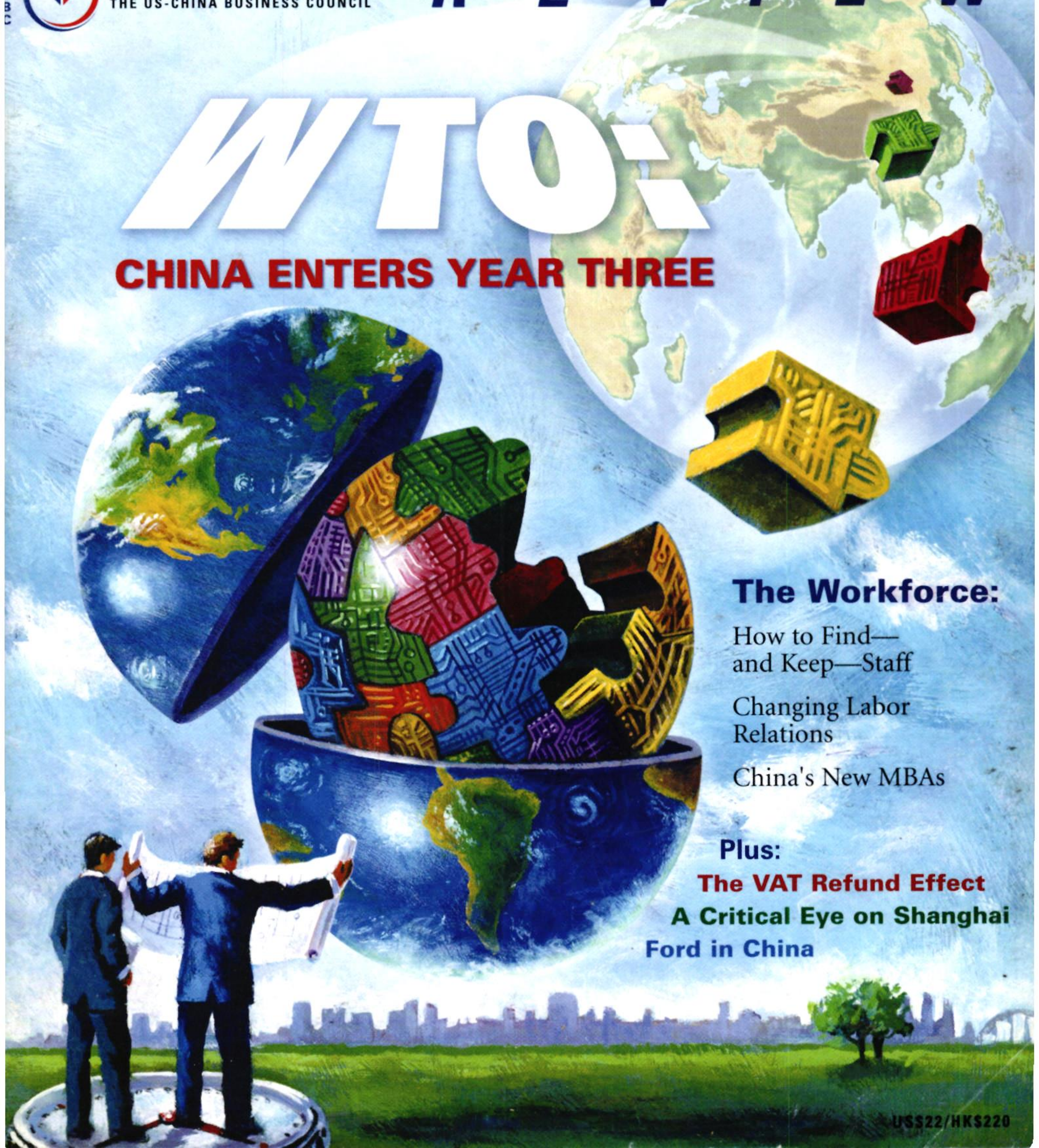
THE CHINA BUSINESS REVIEW

THE MAGAZINE OF
THE US-CHINA BUSINESS COUNCIL



WTO:
CHINA ENTERS YEAR THREE

The Workforce:

How to Find—and Keep—Staff

Changing Labor Relations

China's New MBAs

Plus:

The VAT Refund Effect

A Critical Eye on Shanghai

Ford in China

US$22/HK$220

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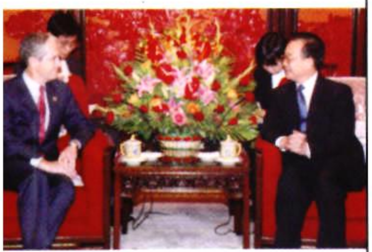

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USCBC
THE US-CHINA BUSINESS COUNCIL
美中贸易全国委员会
BULLETIN

UPCOMING EVENTS

Forecast 2004

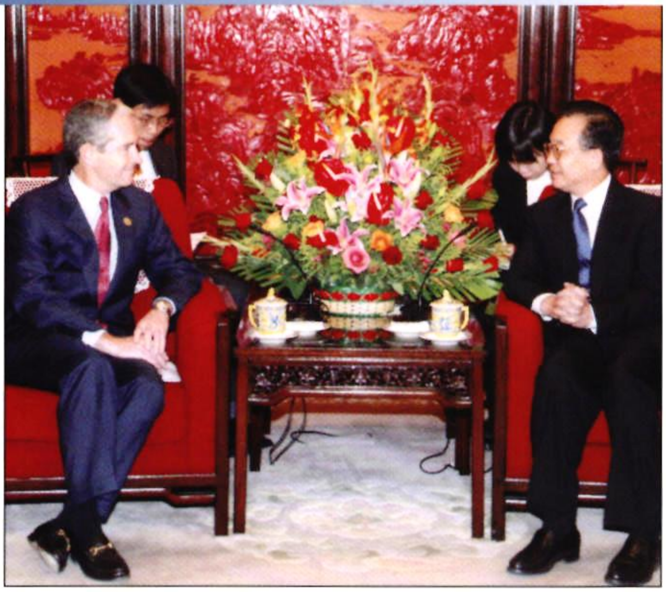
January 28 and 29

Washington Evening Reception

Wednesday, January 28

Conference

Thursday, January 29
For more information, *see* p.7



USCBC Chair Christopher Galvin and PRC Premier Wen Jiabao discuss areas of mutual interest and concern.

EVENT WRAP-UP

Washington

November

Meeting on Intellectual Property Rights Featured Assistant US Trade Representative (USTR) James Mendenhall

Issues Luncheon Featured Ambassador Josette Shiner, Deputy USTR

December

Reception and Dinner in Honor of PRC Premier Wen Jiabao

USCBC Board of Directors Celebrates 30th Anniversary in China

The US-China Business Council (USCBC) Board of Directors visited Beijing and Shanghai in late October 2003 to celebrate USCBC's 30th anniversary. The board met with PRC Premier Wen Jiabao, National Development and Reform Commission Chair Ma Kai, and National People's Congress Vice Chair Cheng Siwei.

The Beijing trip culminated in a gala dinner, with USCBC Chair and Chairman and CEO of Motorola Inc. Christopher Galvin and USCBC President Robert A. Kapp, along with China Council for the Promotion of International Trade Chair Wan Jifei, hosting US Secretary of Commerce Donald Evans and PRC Executive Vice Minister of Commerce Yu Guangzhou. Nearly 300 USCBC member companies and Chinese officials attended the event.

Galvin, Kapp, and Wan held a press conference on the morning of October 29. Broadcast media coverage was extensive; USCBC meetings with the premier, the gala dinner, and the press conference were shown on all national and local TV news, while highlights were noted on national and local radio news.

The board then proceeded to Shanghai, where the directors enjoyed a roundtable luncheon with Chinese business leaders, met with Shanghai Mayor Han Zheng, and attended a briefing with leaders from the Shanghai World Trade Organization Affairs Consultation Center. The board trip wrapped up with a reception attended by USCBC member companies and US and Shanghai government officials.

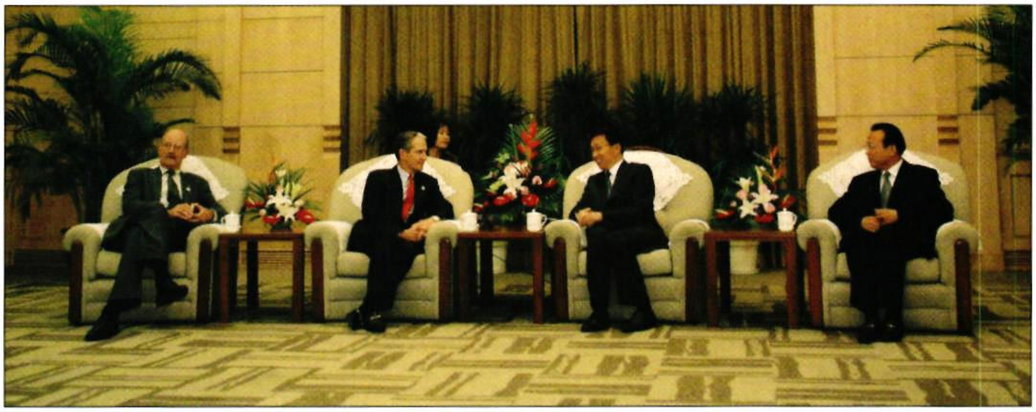
USCBC China Operations Conference in Shanghai

The USCBC's China Operations Conference (CHOPs) took place on October 31. This was the first time CHOPs took place in Shanghai. Arthur Kroeber, managing editor, *China Economic Quarterly*, spoke on China's business climate; Ding Xinghao, president, Shanghai Institute of American Studies, gave an account of US-China relations through Chinese eyes; and Peter Humphrey, China risk management expert, talked about unwinding bad joint ventures.

The first panel, featuring Robert A. Kapp, USCBC president; Andrew W. Shoyer, partner, Sidley Austin Brown & Wood LLP; and James M. Zimmerman, partner, Squire, Sanders & Dempsey LLP, discussed progress and prospects for China's WTO and CEPA trade agreements. In the afternoon, Douglas Clark, partner, Lovells; Ben Goodger, country manager-China, Rouse & Co. Shanghai; and Peter Commeyne, director, Brand Protection Group, Hill & Associates gave presentations on the practical aspects of intellectual property protection. Finally, William Gu, HR director, ITT Industries, talked about the issues surrounding the absorption of workers during an acquisition, and Patrick Powers, USCBC director of China Operations, presented Watson Wyatt's survey of compensation and benefit trends.

USCBC Board of Directors delegation to China and PRC Premier Wen Jiabao at Zhongnanhai in Beijing.

(left to right) USCBC President Robert A. Kapp and USCBC Chair Christopher Galvin meet with Shanghai Mayor Han Zheng.



USCBC Treasurer Ed Hotard (second from left) and Cargill Investments Greater China President Nor Coquillard (far right) review Board activities with Shanghai-based USCBC members.

Members at the USCBC's 30th anniversary reception in Shanghai.

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Letter from the Editor

This issue of the *China Business Review* ushers in the magazine's 30th anniversary year with articles on topics that would have been unimaginable to the editors and contributors working on the publication in 1974—from our cover story, on China's third year as a member of the World Trade Organization, to the rise of MBA programs to train a new generation of Chinese managers—not just in Western but in Chinese business practices as well.

In many ways China appears to have left its past behind. The global media offer examples almost daily of the forward momentum that is propelling Chinese-made goods into homes around the world, for better or, some would argue, for worse. On the other hand, the Chinese market is far from fully open to foreign commerce—if it were, I doubt the *CBR* would still be around. Indeed, each article in this magazine discusses numerous barriers to commerce that *CBR* readers in 1974 would find familiar, such as inadequate transportation infrastructure, government control over key industries like autos, and poor transparency.

One of the *CBR*'s goals over the years has been to contribute to making the China market as transparent as possible. Now that most major multinational manufacturers, retailers, and service providers are heavily invested in China, and now that smaller companies are starting to head there in large numbers, it would seem a good time to try to expand the magazine's reach—to make the market more transparent for the relative newcomers to the market. For this reason we are excited that the *CBR* will be available on United Airlines flights and in Northwest Airlines executive lounges beginning with this issue. This step follows the distribution of magazines by Cathay Pacific and Malaysian airlines instituted last year.

In addition to the in-depth analysis our loyal readers have come to expect, we are broadening our coverage further this year, with new columns on developments in Shanghai and Beijing; on China's most dynamic sectors, such as media and telecommunications; and on the ins and outs of living in China.

Happy Year of the Monkey!

Catherine Gelb

The *China Business Review* welcomes articles from outside contributors. Manuscripts submitted for consideration should be sent to the editor at the address above. The US-China Business Council obtains licenses for all rights to articles and artwork published in the *CBR*. Articles or artwork published in the *CBR* may be reprinted or reproduced only with the written permission of the US-China Business Council. Articles in the *CBR* do not reflect US-China Business Council policy, unless indicated.

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PRINTED IN THE USA

A Critical Eye on Shanghai

Iain McDaniels
IS DEPUTY DIRECTOR OF CHINA OPERATIONS AND CHIEF REPRESENTATIVE, SHANGHAI OFFICE, THE US-CHINA BUSINESS COUNCIL.

Will the city's extraordinary growth continue?

Judging from the influx of business travelers, the sharp increase in foreign trade, and the continued explosive growth in foreign direct investment (FDI), Shanghai is the place to be. A look at the statistics through the third quarter of 2003 shows that Shanghai, with only 1 percent of China's population, plays a central role in the national economy: The city accounted for more than 11 percent of China's exports, more than 15 percent of China's imports, and more than 11 percent of contracted FDI through the third quarter of 2003 (*see* Table 1). Further, Shanghai outpaces the rest of the country's growth by a healthy margin—more than 3 percent in the third quarter of 2003. And Shanghai's exports during this period grew more than 20 percent faster than the national average.

Shanghai seems to be intent on reclaiming its title as the Pearl of the Orient, but is it all it's cracked up to be? The short answer is "yes," but the pearl is showing some scuff marks. The massive influx of investment and rapidly improving standard of living has driven up labor costs in Shanghai, almost high enough to price Shanghai out of the market. A surge in the number of cars on the streets means that traffic during rush hour is increasingly vexing to foreign businesspeople and locals alike. Finally, a high-profile property scandal has led to increased scrutiny of Shanghai's real estate sector, and sky-high rents for Grade A space have people talking about a real estate bubble. The future viability of Shanghai's tremendous growth will depend on the municipal government's ability to address these and a host of other problems.

Payday pain for foreign employers

Problem: Labor costs are high and growing

Shanghai's rising affluence is leading the middle class to expect ever-higher wages. The influx of financial service companies and anticipation of further market opening is driving wages up and leading to frequent poaching of top financial talent among multinational companies. Most university graduates prefer such white-collar jobs to less-prestigious technical positions. Shanghai thus still suffers from a shortage of up to 15,000 skilled technicians, which pushes up the cost of qualified employees.

According to a recent Watson Wyatt survey, total cash paid to PRC employees of foreign companies in Shanghai is second only to Beijing (*see* p. 18). Compared to secondary cities in the region, Shanghai's labor and pension costs are much higher, and some of these cities advertise factory wages that are 30 percent less than those in Shanghai. A Shanghai Labor and Social Security Bureau survey of total compensation concluded that the average annual salary for a local worker in 2002 was ¥44,512 ($5,363). Foreign companies paid more than that, ponying up, on average, ¥56,931 ($6,886) for each of their employees (*see* Table 2).

Shanghai's solution: Plan 173

To combat this problem, the Shanghai government has instituted Plan 173 along with experimental preferential policies to promote investment in Shanghai's suburban areas. Plan 173, which has received little or no fanfare since it was drafted in April 2003 because it reportedly runs contrary to central government guidelines and has drawn fire from competitors, promotes investment in the 173 km² occupied by Jiading, Qingpu, and Songjiang districts.

In essence, Plan 173 refocuses government efforts detailed in a plan released in October 2002. In its Shanghai Model Districts Investment Improvement Experimental Measures, the Shanghai government offered special investment incentives including reducing employers' pension burden from 43.5 percent of wages to 24 percent. In addition, wages in the suburbs are lower than in the city proper or in some of the leading development zones like Waigaoqiao or Jinqiao.

Table 1:
Shanghai Statistics, Third Quarter 2003

	China		Shanghai	
GDP	$954 billion	+8.5%	$53.1 billion	+11.8%
Exports	$307.7 billion	+32.3%	$35.3 billion	+52.4%
Imports	$298.6 billion	+40.5%	$45.7 billion	NA
Contracted FDI	$79.2 billion	+36.0%	$8.93 billion	+30.4%
Utilized FDI	$40.2 billion	+11.9%	$4.52 billion	+38.2%

Source: The US-China Business Council
NA=Not available

Snarling about traffic

Problem: Traffic is bad and getting worse

According to press reports, Shanghai has 1.2 million cars on its roads today, and with more than 3,000 new license plates for private cars issued every month (the numbers in October and November 2003 topped 4,500), Shanghai's road infrastructure is struggling to keep up with the flow. According to a widely reported speech by Shanghai Mayor Han Zheng in September 2003, over the last 10 years the growth in new vehicles on the road has outstripped new road construction by a large margin. Traffic on Shanghai's elevated expressways and narrow city streets is increasingly congested, and movement on the few tunnels and bridges connecting Puxi and Pudong is often stop-and-go at best. Anecdotal evidence shows that the traffic problems are starting to hurt the productivity of some senior managers, who are unable to schedule as many meetings in a day as they have in the past because it simply takes too long to get from one part of the city to another.

Shanghai's solution: Mass transit and infrastructure development

The bad news appears to be sinking in, and the government is ready to spend a lot of money to remedy the problem. The Shanghai government is pushing forward with a massive infrastructure campaign to construct new highways, build tunnels and bridges across the Huangpu River, and expand the mass transit network. For example, the government plans to more than double the city's highway network to 543 km and build seven new bridges and tunnels across the river, increasing to 84 the total lanes of cross-river traffic. On the mass transit side, Shanghai plans to build nine new subway and light rail lines by 2012, almost quintupling the total length of subway track.

Construction of the projects to date hasn't been entirely smooth. The Number 4 subway line, which will form a loop with the Pearl Line (Line 3), suffered a tunnel collapse near the Nanpu Bridge when workers hit sandy soil, causing massive delays, road closures, and property damage. There were no official reports of casualties, but authorities charged three officials from Beijing China Coal Mine Engineering Co., Shanghai Metro Consultant Technology Co., and Shanghai Tunnel Engineering for their roles in the accident.

Will the bubble pop?

Problem: Real estate shows signs of a bubble

Even as the city center is being overbuilt with skyscrapers, record sales of top-tier properties in Shanghai are making people question how much longer prices will rise. Over the last few years, property prices for all classes of real estate have risen steadily, thanks largely to domestic investors from inside and outside of Shanghai, as well as investors from Taiwan and Hong Kong. (Interestingly, many domestic investors have been bringing money back from overseas recently to mitigate the risk of currency changes.) According to government statistics, average new housing costs have risen more than 30 percent through November 2003 over 2002 to almost ¥6,000 ($722) per m^2. Yet new apartment prices (excluding renovated old houses) in the fourth quarter of 2003 appeared to be moderating somewhat. If this drop is the first sign of a popping bubble, it could be bad news for the government since a lot of investment is fueled by hopes for short-term gains, and, as soon as a downward trend appears in the market, investors seeking speedy returns may look elsewhere.

Shanghai's solution: Curbing city-center development...and enthusiasm

Shanghai recently announced a plan to restrict the growth of new skyscrapers in downtown, and is apparently considering revoking the permits of 2,700 approved buildings. Though the policy claims to address environmental concerns and city living standards, the desire to keep prices high by limiting the stock of prime downtown real estate is certainly factoring into the decision.

The central government is using such new rules and policies, as well as hints of new rules, to deter the most speculative investors without triggering a full-blown correction. These efforts have included an increase in down payments and mortgage rates for luxury home purchases, and possible changes to rules on property market trading and an increase in property sales tax.

Keeping up with the Jiangsus

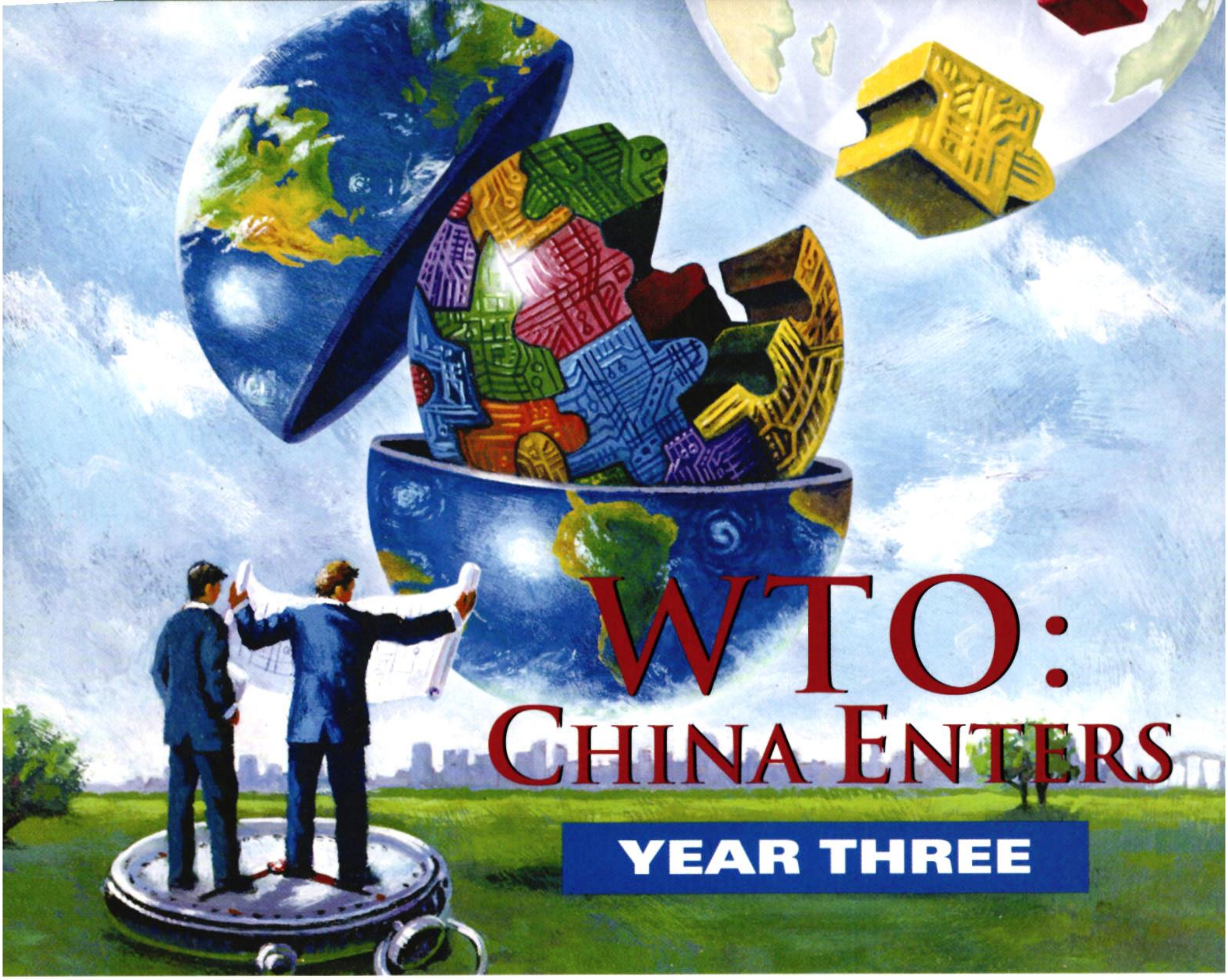
Meanwhile, the dynamic provinces surrounding Shanghai are becoming formidable competitors for foreign investment and potential partners in regional development. Shanghai has so far been able to act as the head of the Yangzi Delta region dragon, but to maintain this role the city will have to find ways to leverage Jiangsu's FDI bonanza and Zhejiang's private enterprise explosion into opportunities for Shanghai's own growth.

There are signs that all three local governments see it in their best interest to cooperate. For example, Chinese Communist Party secretaries from all three localities agreed in principle this summer to allow freer movement of skilled personnel between Shanghai and the two provinces. Greater integration of the Shanghai, Jiangsu, and Zhejiang economies will allow Shanghai to focus on developing its designated pillar industries (autos, biotechnology, chemicals, information technology, and steel) and its service industry while shifting labor-intensive investment projects outside the city. Shanghai's success depends on it.

Table 2: Labor Costs in and Around Shanghai

Location	Average Wage Workers (RMB/month)	Average Wage Technicians (RMB/month)	Average Wage Management (RMB/month)	Pension Contribution
Shanghai Jinqiao Export-Processing Zone	700-1,000	1,000-2,000	2,000-5,000	44%
Shanghai Waigaoqiao Free-Trade Zone	700-1,000	1,000-2,000	2,000-5,000	44%
Shanghai Qingpu Industrial Zone	600-800	1,000-1,200	2,000-5,000	24%
Singapore-Suzhou Industrial Park, Jiangsu	600-800	1,000-1,800	1,800-3,500	22%
Suzhou New District, Jiangsu	600-800	1,000-1,800	variable	40%-41%
Wuxi, Jiangsu	500-800	800-1,100	1,500-3,000	37%
Nanjing, Jiangsu	460-600	900-1,500	1,500-3,000	42%
Changzhou, Jiangsu	600-800	1,000-1,800	1,600-3,200	40%
Hangzhou, Zhejiang	700-900	1,000-2,000	1,800-3,500	42%
Ningbo, Zhejiang	500-700	900-1,200	1,500-3,200	42%

Source: The US-China Business Council



WTO: China Enters Year Three

Julie Walton

China began its third year as a World Trade Organization (WTO) member on December 11, 2003. That day, the clock started ticking on China's year-three commitments under its Schedule of Specific Commitments on Services—and all year-two commitments were to have been in place. On January 1, 2004, WTO-mandated tariff reductions for goods took effect.

But two years into China's WTO membership, the PRC government has been slow to implement its most significant commitments, and no progress has been made in some important areas. China has fallen into a pattern of renegotiating its WTO entry terms line by line as questions arise about implementation problems. China's interpretations of certain WTO terms violate the spirit, if not the letter, of its commitments, and new

Julie Walton
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China has many new commitments to fulfill—and some catching up to do—during its third year as a WTO member

barriers China has erected in some areas make matters worse. Will China be able to pick up the pace in year three—a year with a heavy schedule of commitments and high expectations for rules in many areas, including trading rights and direct selling?

More service commitments to phase in

China's commitments to expand foreign participation in services are of major importance to foreign service providers in all industries. Though some year-two commitments remain outstanding (*see* p.13), China must implement a range of new commitments before December 11, 2004. China is expected to issue a series of new regulations in the coming months to address these requirements.

● Trading rights

Foreign companies' right to import and export goods—a key element of all WTO agreements—has been a weak spot in China's implementation efforts. Joint ventures with minority foreign stakes should have been granted full trading rights by December 11, 2002. But regulations that conferred this right did not appear until February 2003 and were so vague that companies found it difficult to structure their operations. The rules did not clarify how existing foreign-invested enterprises (FIEs) could obtain trading rights, nor did they state that the granting of trading rights would be automatic. Meanwhile, in June 2003, China granted full trading rights to all enterprises, including FIEs, in Futian-Shatoujiao, Tianjin, Waigaoqiao, and Xiamen Xiangyu free-trade zones.

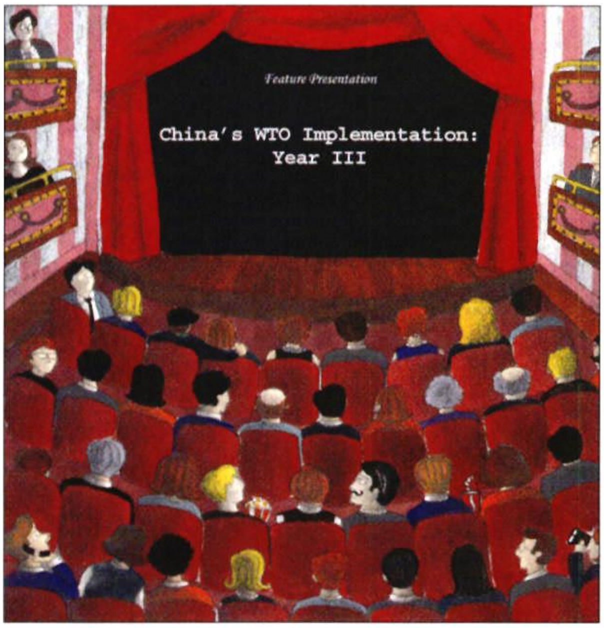
Further progress appears close at hand. In November 2003, the State Council approved revisions to the Foreign Trade Law. As the *CBR* went to press, details of the revised Foreign Trade Law had not yet been released, but there are indications that the procedure for granting import and export rights will be revised to eliminate the examination and approval process, as China's WTO commitments require. The new process will simply involve filing an application with relevant authorities, after which import and export rights will be added to the scope of existing business licenses. But because the National People's Congress was scheduled to meet at the end of December—after the December 11, 2003 deadline for China to grant majority-owned joint ventures trading rights—this deadline passed without the issuance of corresponding and vital implementing rules.

China also committed to allow domestic companies increased access to trading rights by progressively lowering registered capital requirements. In year three, the required registered capital for domestic Chinese trading companies should fall from \$360,000 in year two to \$120,773.

● Distribution and related services

China has agreed to implement a number of important commitments in the areas of retailing, wholesaling, and commission agents' services, and franchising by December 11, 2004.

Although a year late, a recently circulated draft of the Ministry of Commerce's (MOFCOM) Management Regulations on Foreign-Invested Commercial Enterprises may finally bring China up to date with many of its distribution-related WTO commitments and put it on track to meet its December 11, 2004 obligations. The draft covers Sino-foreign equity/cooperative joint ventures or wholly foreign-owned enterprises engaged in domestic retail, wholesale, commission agents', or franchising businesses. Though the draft does not clearly state whether an existing FIE can obtain distribution rights, it allows FIEs to establish companies to distribute their imported or China-made products. The draft also does not address direct selling, which China's WTO commitments define as one type of distribution service; MOFCOM is drafting a separate rule



Paula M. Miller

Observers note that China's recent WTO implementation actions have rested with agencies under the central government in Beijing, not at the local level as some have speculated.

to address this industry. The draft regulation must be submitted to the State Council for final approval. The State Council has not yet indicated when it will issue the regulation.

Retail China has agreed to allow foreign majority control of retail operations by December 11, 2003 and to allow wholly foreign-owned enterprises (WFOEs) by December 11, 2004. Majority foreign investment in chain stores with more than 30 outlets will remain prohibited until 2006. All remaining geographic restrictions covering China's retail sector should be removed by the end of 2004. China has also agreed to remove remaining product-specific restrictions. In other words, by the end of year three, foreign retailers will be allowed to sell pharmaceuticals, pesticides, mulching films, and processed oil in addition to other goods.

The PRC government made some progress in opening the retail sector in March 2003 when MOFCOM (then the Ministry of Foreign Trade and Economic Cooperation) and the General Administration of Press and Publication (GAPP) published a rule that permits WFOEs in China's retail book, magazine, and newspaper distribution sector. USCBC sources confirm that, in principle, the new rule opens investment in retail distribution of publications ahead of schedule. The new rule requires $600,000 in registered capital for retail operations, and legal representatives and professional staff must possess publication distributor qualification certificates issued under existing rules. The new rule also allows for the provision of Internet publication sales, chain stores, and reader's clubs. Foreign investment in existing publication distributors, including state-owned enterprises, is also allowed. In December 2003, Germany's Bertelsmann AG took a 40 percent stake in Beijing 21st Century Book Chain, a nationwide bookseller.

Wholesale and commission agents' services Foreign companies are to be allowed to establish wholly foreign-owned wholesale operations by December 11, 2004. The wholesale distribution of books, newspapers, magazines, pharmaceutical products, pesticides, and mulching films, which had previously been restricted, is also to be permitted. The March 2003 rule that opened the distribution of publications does not apply to wholesale operations until December 1, 2004; China must allow investment via all types of ownership for wholesale distribution of publications by December 11, 2004. The distribution of chemical fertilizers and processed and crude oil will remain closed until December 11, 2006.

GAPP appears to be progressing toward the 2004 wholesale operation liberalization deadline. The agency published the Regulation on Administration of Printed Publications, which addresses verification of domestic publishing licenses, registration of printed matter, publication storage and delivery, and disposal of low-quality publications, September 1, 2003. GAPP also authorized Guangzhou-based Wende Guangyun Media Distribution Group as the first private book distributor on September 19, 2003, in line with the September 1 regulation. Prior to that decision, book distribution had been reserved for the State Postal Bureau, Xinhua General Bookstore, and state-run publishing houses.

Franchising China committed to lifting all equity, geographic, or quantity restrictions on franchising operations by December 11, 2004. According to the state-run China Chain Store and Franchise Association, rules that would remove existing restrictions are being drafted.

Wholesale or retail away from a fixed location Because China has prohibited direct selling, its commitment to remove all equity, geographic, and quantitative restrictions on sales away from a fixed location by December 11, 2004 is significant for companies that use direct selling as their business model. Regulations are currently in the works, though copies have not been widely circulated for public comment.

● Telecom

The problems that foreign telecom service providers have faced in accessing China's market should improve in year three as foreign companies will be permitted to establish joint venture operations in domestic or international data services (such as voice, packet- or circuit-switched transmission, and fax) without quantitative restrictions in Beijing, Guangzhou, and Shanghai—though the foreign investment share may not exceed 25 percent. Foreign companies will be able to invest up to 49 percent in mobile voice or data service joint ventures.

After an extended period with no new approvals of foreign investment in China's telecom sector, four Sino-foreign joint ventures were approved in 2003, all of which provide Internet access services.

● Financial services

China's WTO commitments required significant openings to foreign investment in the banking, insurance, and securities sectors during the first few years of China's WTO membership. A number of these commitments will phase in during 2004.

Banking By December 11, 2004, foreign companies should be able to participate in local currency business in Beijing; Kunming, Yunnan; and Xiamen, Fujian, raising the total number of cities open to this service to 16—up from the 13 cities that were opened before December 11, 2003.

Insurance Foreign providers' business scope is to expand in year three to allow FIEs to provide health, group, and pension/annuities insurance to both foreign and Chinese clients. All

geographic restrictions will be lifted, and foreign partners in insurance brokerage joint ventures may raise their stakes to 51 percent. All reinsurance companies in China were required to reinsure 10 percent of their primary risk with China Reinsurance Co. beginning December 11, 2003; the requirement will drop to 5 percent by December 11, 2004.

Securities Foreign securities houses are to be permitted to establish joint ventures—with a limit of 33.3 percent foreign investment—to underwrite A shares and to underwrite and trade B and H shares, as well as government and corporate debt, in year three. No Chinese intermediary will be required. Foreign companies should be able to establish domestic securities fund management joint ventures, with investment limited to 49 percent in year-three. China's October 2003 Securities Investment Funds Law puts the country on track to fulfill this commitment.

Although China's WTO commitments did not require this liberalization, China launched a qualified foreign institutional investor plan in 2003 that opened China's renminbi-denominated, domestic A-share market to foreign investors. To date, Citigroup Inc., Deutsche Bank AG, Goldman Sachs Group, Inc., HSBC Holdings plc, ING Groep NV, JP Morgan Chase & Co., Morgan Stanley, Nomura Holdings, Inc., and UBS AG are among the foreign companies that have received approval to participate.

Autos

China has committed to raise the level of auto manufacturing investment that requires provincial government approval to $90 million. This act will reduce the number of bureaucratic hoops that companies must jump through to establish manufacturing operations.

Though almost two years late, the China Banking Regulatory Commission issued regulations governing foreign nonbank investment in the auto financing sector in September 2003. The price of entry, however, is quite high. Companies seeking to establish new auto finance companies must possess at least ¥4 billion ($483.1 million)

The Year-Two Waiting Game

As the *CBR* went to press in early December 2003, foreign companies were awaiting signs from the PRC government that the year-two commitments below had been met. (Signs could include new regulations, deal approvals, or other announcements.)

Distribution

The PRC Ministry of Commerce (MOFCOM) began soliciting comments on a draft distribution services regulation in fall 2003; the State Council must still review and approve the draft. Although the draft has not yet been released to the general public, the regulation is likely to allow foreign investors to establish Sino-foreign equity and cooperative distribution joint ventures (JVs) and wholly foreign-owned distribution enterprises to engage in businesses, described as "distribution services" in China's WTO commitments, including domestic retail, wholesale, commission agents', or franchising businesses in China. The regulation, if and when enacted, may fulfill part of China's year-two distribution commitments.

- **Retail** (excluding tobacco)

China must permit foreign majority ownership in JV retail enterprises and open all provincial capitals, plus Chongqing and Ningbo, Zhejiang, to foreign-invested retail JVs.

- **Wholesale and commission agents' services** (excluding salt and tobacco)

China must allow foreign majority ownership and place no geographic or quantitative restrictions on foreign service suppliers of most imported and domestically produced products (with some exceptions).

Other services

- **Advertising**

China must permit foreign majority ownership in advertising firms.

- **Insurance**

China must permit wholly foreign-owned subsidiaries of foreign nonlife insurers (the China Insurance Regulatory Commission allowed this, with certain requirements, in draft implementing rules released in August 2003, but has not yet released the final regulation); and reduce insurance brokers' asset requirements to $300 million.

- **Freight forwarding**

China must provide national treatment for additional registered capital requirements for JV branches.

- **Technical testing and analysis; and freight inspection**

China must permit foreign majority ownership in freight inspection (except in statutory inspection services), and in technical testing and analysis services.

- **Value-added telecommunications and paging**

The PRC must eliminate geographic restrictions and permit foreign investment at 50 percent.

Tariff-rate quotas and agriculture

China's tariff-rate quota (TRQ) system for agricultural products has, in effect, acted as a nontariff barrier on agricultural imports. MOFCOM and the National Development and Reform Commission published a regulation on the management of TRQs for imported agricultural products in September 2003. Though the regulation makes China's TRQ allocation process more transparent, problems with transparency, conformity to international standards, and the assessment of value-added tax remain—especially in corn, soybean, and wheat imports.

Trading rights

China must grant foreign majority owned joint ventures full trading rights. The PRC State Council approved a revised Foreign Trade Law in November 2003; the National People's Congress must still review and approve the law. China has not yet released details that would confirm whether the law will fulfill the nation's trading rights obligations.

—USCBC staff

Table 1: Comparison of Import Tariffs on Major Agricultural Products

Product	2001 Rate (%)	2004 Rate (%)
Barley	114	3
Soybeans	3	3
Other Vegetables	30-50	10-15
Citrus	40	12
Other Fruits	30-40	10-13
Dairy Products	50	10-12
Beef	45	12
Pork	20	12
Poultry	20	10
Wine	65	14
Tobacco	34	10

Source: The World Trade Organization

Table 2: TRQ Import Volume and Allocations to STEs for 2004

Product	Import Quotas (million metric tons)	Allocation to STEs (%)
Fertilizers		
DAP	6.25	75
Urea	2.3	90
NPK	3.13	73
Agriculture		
Corn	7.2	60
Rice	5.32	—
-Long rice	2.66	50
-Mid/Short rice	2.66	50
Wheat	9.64	90
Sugar	1.95	70
Cotton	0.89	33
Wool	0.29	NA
Wool tops	0.08	NA
Palm oil	2.7	18
Rapeseed oil	1.13	18
Soybean oil	3.12	18

Notes: TRQ=tariff-rate quota; STE= state-trading enterprises; DAP=diammonium phosphate; NPK=nitrogen, phosphorous, and potassium fertilizers; NA=not available; — =the percent allocated to STEs for each rice type is broken down into long and short grains.
Sources: National Development and Reform Commission, Ministry of Commerce

in assets, and the auto finance company itself must have paid-in capital of at least ¥500 million ($60.4 million). Other concerns with the auto finance rules include a prohibition on establishing branch offices, ambiguities in the approval process, and limitations on the scope of activities permitted.

● Tourism

China accelerated compliance with its WTO commitments in the tourism industry by two years when it issued regulations in June 2003 that permit wholly foreign-owned travel agencies to operate in China. The regulation covers only foreign-majority joint venture and wholly foreign-owned travel agencies established before December 11, 2007, when all geographic, registered capital, and branch restrictions are due to be lifted. Like the Management Regulations on the Administration of Travel Agencies, which opened the sector to minority foreign ownership in early 2002, the new regulation requires foreign-invested travel agencies to have at least ¥4 million ($483,092) in registered capital and does not permit foreign-invested travel agencies to open branches. The new regulation also requires the foreign party in a joint venture to have an annual income from tourism of more than $40 million, a restriction included in China's WTO entry agreement. Unlike the management regulation, the new regulation restricts foreign investors to an investment in one foreign-majority joint venture or wholly foreign-owned travel agency. According to China's WTO commitments, foreign-majority joint venture or wholly foreign-owned agencies cannot be established outside of State Council-approved resort areas and Beijing, Guangzhou, and Shanghai, and Xi'an, Shaanxi—although investment by such FIEs in Shenzhen is now permitted.

Though no foreign company has yet been approved to set up a wholly foreign-owned travel agency, German-based Touristik Union International recently became the first foreign company to have a controlling stake in a Sino-foreign travel joint venture.

● Repair, maintenance, rental, and leasing

In 2004, WFOEs are to be permitted in the repair/maintenance and rental/leasing sectors. MOFCOM stated in late October that it would release new regulations before the end of 2003 that permit wholly foreign-owned leasing operations. But MOFCOM also stated that, at first, only a few wholly foreign-owned leasing companies would be permitted to operate in China. Given the high capital requirements the PRC government has mandated in other sectors, China may use this tactic to limit foreign participation again. Meanwhile, Shell Lubricants' Jiffy Lube International and the Shanghai Automotive Industry Corp. signed a letter of intent in October 2003 to form a $30 million, 50-50 maintenance business venture; China's State Administration of Industry and Commerce must still approve the deal.

● Other services

In year three, China's construction, packaging, and entertainment WTO commitments kick in.

Construction Although regulations technically opened China's construction sector to WFOEs in November 2002, well ahead of the 2004 deadline, significant implementation problems have emerged in 2003 that render the liberalization virtually meaningless. High capitalization requirements, the potential repeal of laws that qualify foreign engineering and construction companies, and the lack of implementing regulations have stalled sector liberalization. But, according to China's entry documents, the country has until December 11, 2004 to iron out details permitting wholly foreign-owned construction and engineering firms.

Packaging China agreed to allow WFOEs to engage in packaging services by December 2004.

Entertainment In early October 2003, China approved Warner Brothers International Theaters, Inc. to take a 51 percent controlling stake in its upcoming joint venture with the Shanghai Cinema Group, which will build and operate 10 cinemas. In accordance with the WTO's Most Favored Nation principle, this deal effectively opens the door to foreign majority ownership in theater management, though China only committed to allow foreign minority shares in its services agreement.

In a related move, China's State Administration of Radio, Film, and Television issued a regulation in October 2003 that permits foreign investment in film production and film-technology companies beginning December 1, 2003. Foreign investors are permitted to hold controlling shares in film technology ventures in certain provinces and cities and foreign partners may take stakes of up to 49 percent in film production companies.

Tariffs and quotas

With the exception of certain agricultural goods, natural resources, and products under quota or license management, all imported

Continued on page 37

USCBC Membership Survey of WTO Priorities

In July and August 2003, the US-China Business Council (USCBC) conducted a survey of member company views on China's implementation of its World Trade Organization (WTO) commitments in each member's priority areas. Thirty percent of the Council's 208 members responded to the survey. Of those responding, 97 percent said that their business is affected by WTO implementation and 80 percent are significantly affected.

On a scale of 1 (excellent) to 10 (failure) USCBC members gave China an average (unweighted) performance score of 5.15. Most respondents gave China a score within the range of 3 to 7, with an equal number of firms reporting above average and below average progress.

USCBC Members' Top WTO Implementation Issues

Issue		Weighted Score
1.	Trading rights (ability to import and export)	112
2.	Transparency	106
3.	Distribution (ability to distribute to wholesalers, retailers, and endusers within China)	97
4.	Standards, technical regulations, and conformity assessment	96
5.	Intellectual property rights (IPR) enforcement	85
6.	Nontariff measures (quotas, licenses, tendering requirements)	79
7.	Tariffs	76
8.	Specific market-access service commitments	73
9.	Nondiscrimination/national treatment	61
10A.	Customs and trade administration (classification, valuation, rules of origin)	57
10B.	IPR legal framework (patents, trademarks, copyrights)	57

Top issues

Each responding company was asked to select five priority issues from a list of 23 choices. The following 11 issues emerged as the most important concerns for USCBC firms. Issues received a weighted score to reflect their relative importance to respondents. The score was calculated according to the number priority indicated by each firm using the following scale: Priority 1=5 points; Priority 2=4 points; Priority 3=3 points; Priority 4=2 points; Priority 5=1 point.

WTO implementation status

According to the survey, USCBC member companies believed China made most progress in the area of transparency in its second year of WTO membership—though transparency still has not lost its place as a top concern. USCBC companies also reported progress in the development of China's intellectual property rights (IPR) framework and in IPR enforcement, as well as in tariffs and standards; though many firms reported new problems or no progress on standards. Members highlighted trading rights, distribution rights, and nondiscrimination/national treatment as areas in which there has been a pronounced lack of progress and in which new problems have appeared.

When asked to identify the major obstacles to implementation in their priority areas, a majority of USCBC firms identified government protectionism and industry protectionism. These two barriers were cited as the most important factors impeding progress in almost all areas. Companies also highlighted lack of access to China's rulemaking process as a significant barrier.

Interestingly, respondents did not name low levels of understanding among PRC government officials as a serious barrier to implementation, except in the areas of customs/trade administration and transparency. Lack of resources was only considered a significant barrier in IPR enforcement.

Background on the survey's top five WTO issues

- **Trading rights**

Only three members reported that their trading rights problems are now resolved; nine members reported some progress in trading rights. Fifteen members reported new problems or no progress. Respondents overwhelmingly identified government protectionism and industry protectionism as the key obstacles to implementation.

- **Transparency**

Most respondents reported some progress in transparency. Key obstacles to improving transparency included a low level of understanding among PRC government officials, bureaucratic infighting, government protectionism, industry protectionism, and lack of access to China's rulemaking process.

- **Distribution**

Respondents were evenly divided as to whether there has been some or no progress in this sector. No one reported that the issue is resolved. Key obstacles to implementation include government protectionism, industry protectionism, and lack of access to China's rulemaking process.

- **Standards**

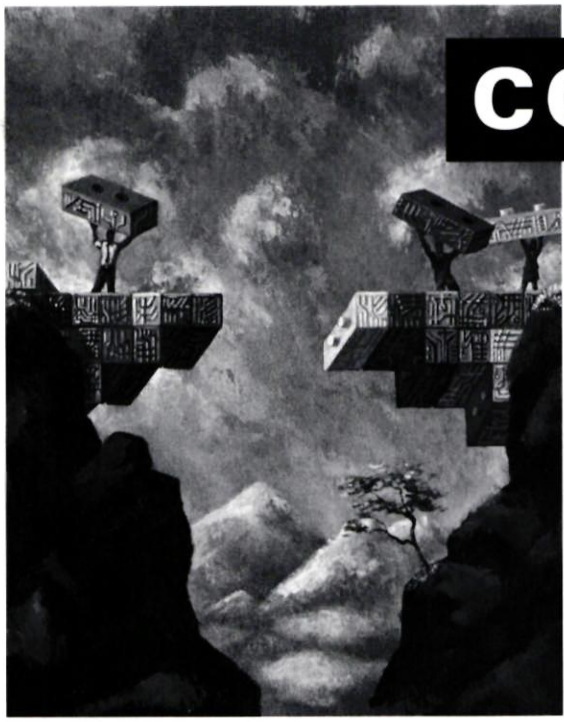
Half of the respondents found there was some progress in standards, but the other half found new problems or no progress in this area. Bureaucratic infighting, government protectionism, industry protectionism, and lack of access to China's rulemaking process were all cited as key obstacles.

- **IPR enforcement**

A majority of respondents reported some progress in enforcement, but the issue remains a top concern. Lack of resources, government protectionism, and industry protectionism are the greatest obstacles to enforcement.

—USCBC staff

The KEY to Retention: COMMITTED Employees



Jim Leininger

Among the most important keys—and obstacles—to business success in China is the attraction and retention of talented employees. In contrast to hiring trends in the United States and Europe, many foreign-invested enterprises and top-tier, domestic private and state-owned companies in China are facing a local labor market with double-digit turnover rates and high salary increases. The nearly 7 percent annual salary increases in China's major markets in 2003 are an even greater challenge, since inflation has been hovering near zero for the past four years.

Executives and human resource (HR) managers thus are looking for ways to gain a competitive edge in hiring and retention. Of course, developing a competitive remuneration system is key to maintaining that edge. Yet a recent Watson Wyatt survey reveals that to retain the best employees, companies need to offer programs that inspire a deeper level of commitment than does compensation alone—such as

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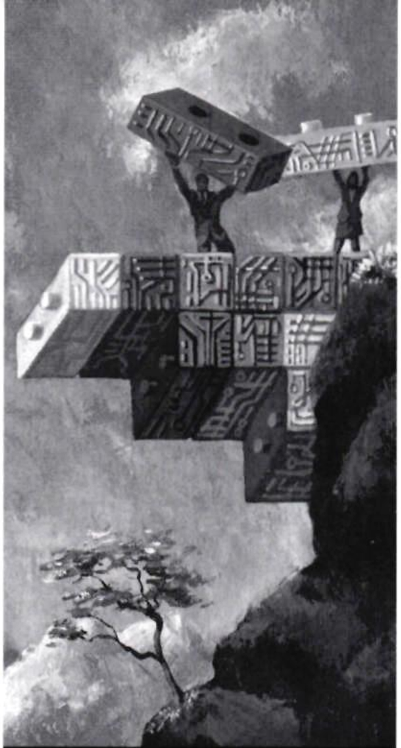


Foreign companies in China are increasingly finding that compensation alone does not guarantee that employees will stay

clear and open office communication, job satisfaction, effective leadership, fair performance evaluation systems, and a positive work environment.

The retention challenge

At first glance, the notion of a labor shortage in China may seem counterintuitive. Why does a country with a population of more than 1.2 billion, and millions of unemployed or underemployed workers, have such a tight market for talent? The answer depends on how one defines "talent."

Foreign companies operating in China want to attract and retain a specific type of talented worker—the young, upwardly mobile Chinese professional with advanced technical skills and a solid understanding of international management techniques. Foreign companies expect these employees to possess strong language skills, initiative, and strategic thinking.

Finding employees with this special set of skills is difficult, for a number of reasons. First, foreign companies in China are increasingly competing against domestic companies that are reforming their operations and chasing after the same talent. Second, many of the workers between the ages of 45 and 60 passed their formative years during China's tumultuous Cultural Revolution (1966–76), learning politics and subsistence farming rather than markets and strategy. As a result, China has fewer qualified mid-level managers and specialists than other economies.

These Chinese employees are taking advantage of the opportunities competition provides. Watson Wyatt's *WorkChina 2003* survey—a China-wide employee opinion survey of more than 60 companies and nearly 10,000 employees from a complete range of positions—was designed to analyze the attitudes of Chinese workers about a range of issues. The study found that 38 percent of the Chinese employees surveyed believe they may leave their current job in the next several years.

For managers of China operations, then, the challenge is daunting: how can they retain their best employees given the economic realities of a dynamic economic environment, tight market for key talent, and a workforce with ever-higher expectations for its work environment?

Why do employees leave?

If keeping talented employees is the single most important task for HR managers in China today, HR managers must ask why employees leave their companies. Global research has consistently shown that employees leave companies for many reasons, and compensation is usually not highest on the list. Yet in China, compensation almost always gets top billing. In the *WorkChina* survey, Watson Wyatt asked respondents who said they might leave in the next several years to list the top three reasons for their planned departure. The results were consistent with popular perception: better pay was the number one reason employees wanted to leave their company, followed by better career opportunities, and training and development (*see* p.19). This heavy emphasis on compensation makes it essential for companies operating in China to have a clear compensation philosophy and to keep up to date on compensation trends in China.

Compensation trends

China's dynamic business environment makes refining compensation systems more difficult than in most other places in the world. In addition to high annual salary increases, salary levels have varied substantially depending on location, industry, and business entity. Watson Wyatt's 2003 Remuneration Data Services survey of local employees working for foreign companies, joint ventures, or top-tier domestic companies in China shows how these trends are beginning to change.

- **Salary increases are leveling off**

Though average annual salary increases have been in the double digits in previous years, the rate of increase has begun to level off. Increases will remain quite high by US standards, however—between 6 and 8 percent per year—for the next several years. As in the past, Watson Wyatt expects that talented employees at mid-level management or supervisory levels will receive the highest increases—followed by officers/supervisors and clerical/general staff.

- **City-to-city salary differences are narrowing**

In years past, salary levels in the four largest job markets differed widely. Beijing compensation levels were the highest, followed by Shanghai, Guangzhou, and Shenzhen. Though this ranking is likely to stay the same because of where company headquarters and specific industries are based, the wage differences between cities will narrow. Foreign enterprises are expanding their presence across major cities in China and thus are affecting salary levels and altering the industrial makeup of cities. Currently, many companies are considering standardizing compensation levels across these major markets as the gap continues to shrink.

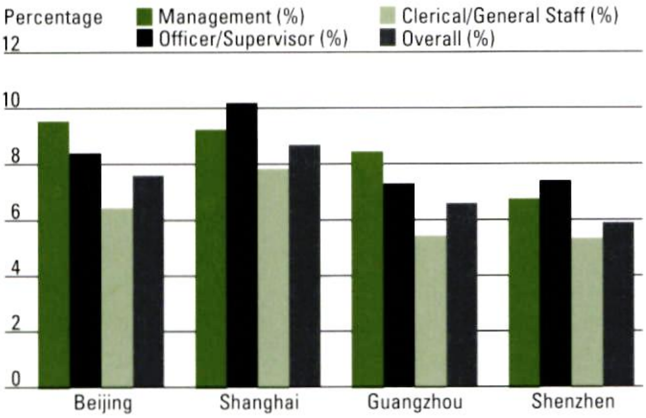
Continued on page 38

Human Resource Trends

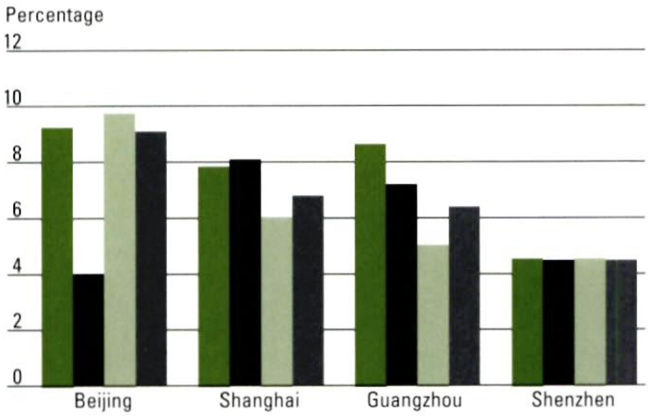
Watson Wyatt Worldwide Human Resources Surveys

PRC Salary Increase Rates by Job Level

2002 Reported



2003 Anticipated



Source: Watson Wyatt, *2003 Compensation and Benefits Report—China*

Selected Median Annual Salary Grade Levels by City, as of March 2003
Total cash (RMB) before tax (regressed data)

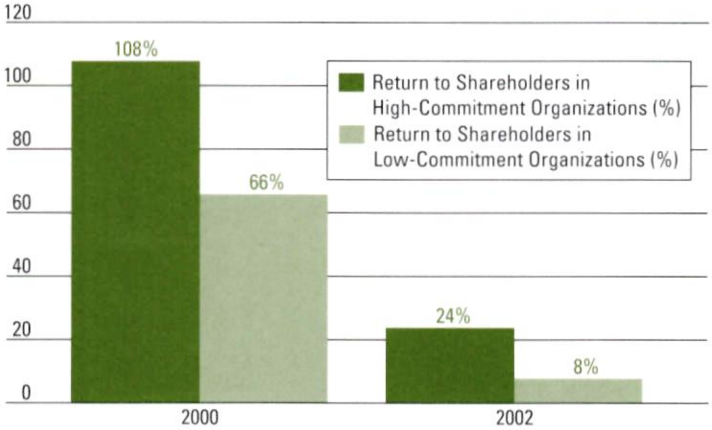
City			Administration	IT	CS	Engineering	Finance	HR	Logistics
Beijing	Senior management	Upper grade	NA	411,352*	297,810*	NA	306,544*	488,246	345,932*
		Lower grade	NA	NA	NA	NA	NA	390,132	NA
	Junior management	Upper grade	185,266	245,103	173,017	200,080	180,664	199,035	170,983
		Lower grade	155,100	206,250	144,368	155,427	151,472	159,039	135,189
	General staff	Upper grade	63,782	87,020*	58,396	43,969	62,753	51,805*	41,772
		Lower grade	37,424	NA	40,658	20,612	44,112	NA	26,113
Guangzhou	Senior management	Upper grade	NA	367,025*	NA	NA	379,453	289,753*	333,651*
		Lower grade	NA	NA	NA	NA	308,797	NA	NA
	Junior management	Upper grade	158,980	198,906	140,006	168,618	166,425	167,492	172,749
		Lower grade	130,741	162,169	117,076	139,093	135,436	139,525	138,714
	General staff	Upper grade	49,177	58,419	47,871	53,125	48,340	55,967	46,308
		Lower grade	22,492	47,629	27,992	29,819	32,014	38,837	23,976
Shanghai	Senior management	Upper grade	NA	480,382	274,556*	NA	452,510	430,271	285,674*
		Lower grade	NA	390,736	NA	NA	364,105	347,803	NA
	Junior management	Upper grade	154,820	210,268	157,975	165,724	189,680	183,700	160,690
		Lower grade	131,287	171,029	131,394	136,276	152,623	148,491	132,646
	General staff	Upper grade	57,570	60,891	52,300	51,238	51,477	51,246	50,842
		Lower grade	29,770	40,285	30,093	23,428	33,328	33,484	23,607

Notes: IT=information technology; CS=Customer Service; HR=human resources; QA&QC=quality assurance and quality control; R&D=research and development; NA=not available. *Only one wage level for this category. Only a selection of grade levels is shown in this table: senior management=Watson Wyatt grades 14–15; junior management=Watson Wyatt grades 10–11; and general staff=Watson Wyatt grades 1–5.

Source: Adapted from Watson Wyatt, *2003 Compensation and Benefits Report—China*

in China

Employee Commitment Drives Financial Performance



Note: Watson Wyatt surveyed employees about their commitment to their companies and measured those companies' return to shareholders over three years.
Source: Watson Wyatt, *Weathering the Storm,* 2002

Marketing	Purchasing	Production	QA&QC	R&D	Sales
371,259	NA	NA	NA	NA	462,976
311,233	NA	NA	NA	NA	368,107
183,363	199,535	126,145	137,841	161,451	185,022
153,717	156,513	103,543	113,757	127,587	147,109
63,645	46,473*	38,581	43,548	NA	46,743
53,355	NA	17,514	35,939	NA	29,550
378,398*	348,255*	403,788	NA	NA	377,271*
NA	NA	327,894	NA	NA	NA
199,917	189,924	175,579	177,444	173,071	185,180
161,616	155,170	142,578	142,332	143,356	146,074
55,802	56,486	50,344	47,262	55,894*	44,614
45,111	46,150	21,891	30,409	NA	35,193
444,430	427,394	335,419	375,862	268,231*	493,315
360,085	347,185	278,251	310,421	NA	394,891
191,517	186,105	158,848	174,871	159,167	202,553
155,170	151,179	131,774	144,424	133,752	162,141
54,177	53,475	51,770	55,495	56,045	53,292
43,895	35,287	24,517	25,819	47,096	34,148

Top Reasons Employees Want to Leave Their Company

Reason	Percent indicated
Better compensation package	24%
Better career opportunities	19%
Better training and development opportunities	15%
Better opportunities to use skills	10%
Better benefits	9%
New company has better prospects for success	5%

Note: Percentages do not equal 100%. Employees who had suggested they might leave their company were asked to check the top three reasons from a list of 18. Percentages reflect the percentage of employees who listed the item as one of their reasons.
Source: Watson Wyatt, *WorkChina 2003*

MRI Bi-Annual Employment Trend Survey Findings

Executive search firm MRI Worldwide conducted a survey of hiring trends in China and Hong Kong from March through October 2003. The firm surveyed more than 350 employment decisionmakers in a full range of multinational organizations.

Hottest Disciplines

Hong Kong	Mainland China
Sales/client servicing	Sales/client servicing
Marketing/communications	Engineering
Senior management	Manufacturing
Computer/information technology professionals	Senior management
Banking operations/mid-office	Logistics

Most Optimistic Sectors

Hong Kong	Mainland China
Fast-moving consumer goods	Logistics
Tourism	Engineering
Retail	Manufacturing
Information technology	Automotive
Insurance	Healthcare/medical

Professionals Most Difficult to Find and Recruit

Hong Kong	Mainland China
Sales, business development, client servicing: all levels	Sales, business development, client servicing: middle and senior levels
Senior management	Engineering: mid-level
Marketing, communications: mid level	Senior management
Engineering: senior level	Logistics, project management: mid-level
Strategic business consultant	Sales support: mid-level

Source: MRI Worldwide Employment Trend Survey, 2003

CHINA'S Changing LABOR Relations

Bama Athreya

Many people in the international labor movement believed that the granting of permanent Normal Trade Relations (PNTR) to China by the US government in 2000 would eradicate any effective pressure the labor movement could bring to bear to promote labor rights in China. The same activists believed that China's entry into the World Trade Organization (WTO) in 2001 was the final nail in the coffin for labor rights in China. A scant three years later, however, the picture for workers on the ground has changed dramatically, at least in certain regions of China. Though abuses persist, a startling new space has emerged for grassroots organizations and private and public sector lawyers to advocate for better protections for workers. Even the stodgy, government-dominated All-China Federation of Trade Unions (ACFTU) has recognized a need, given the changing economic context, to take a more activist approach to

Labor activism is taking root

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workers' rights. These changes—and the rising tide of labor disputes in China (*see* Tables)—signal a need for employers to better understand and honor their obligations under China's labor laws.

China's new labor scene

In recent years, an astounding range of day-to-day household goods originating in China has flooded the US market; the typical department store today carries everything from T-shirts to lawn furniture manufactured in China. Many of these light-industrial goods originate in southern China, primarily in Guangdong, and it is this region that journalists and international consumer advocates seeking to publicize China's labor abuses have focused on.

To be sure, labor rights abuses in China at factories supplying US retail corporations are widespread. Reports by nongovernmental organizations (NGOs) in different regions of China indicate near-nonexistent enforcement of legal protections for workers at foreign-invested enterprises (FIEs). In 1997, *Change*, the newsletter of the Hong Kong Christian Industrial Committee, reported that 70 percent of all industrial deaths occur at such enterprises and commented that

It is often the case that only after a disaster has occurred that the authorities begin to instigate meetings to make decisions, announce their intentions to investigate the cases, punish the responsible and then undertake safety reviews. Unfortunately, responsibility is not pinpointed and the buck is often passed on. Therefore, disasters are often repeated.

Numerous other researchers have found similar evidence of labor rights violations in light-manufacturing enterprises in South China. In 1998, sociologist Anita Chan noted, "Working two or three hours overtime on a normal workday, with only one or two days off every month, is not uncommon." She also documents practices of corporal punishment, hazardous health and safety conditions, and schemes to cheat workers out of payment of even the minimum wage through enforced overtime and a system of financial penalties, deductions, and fines for infringements as meaningless as talking and laughing at work, littering, or forgetting to turn off lights.

Similar reports can be found almost daily in local Chinese newspapers as well as in international publications. Both the *New York Times* and the *Washington Post* have, for the past several

Corporations in the United States and Europe have responded to consumer pressure by adopting corporate "codes of conduct," or public statements regarding their commitment to workers' rights.

months, featured articles about workplace abuses in China. Though many of these problems are not unique to China, corporate leaders would do well to remember that when they appear in China, such problems are news at home.

Corporate codes of conduct and Chinese law

Corporations in the United States and Europe have responded to consumer pressure by adopting corporate "codes of conduct," or public statements regarding their commitment to workers' rights. Typically, such codes stress the company's commitment to prohibiting forced labor and child labor; fair and safe working conditions for employees; and nondiscrimination for reasons of gender, race, or other factors not relevant to the performance of work. The best codes include the right to form trade unions and bargain collectively. All of these issues are recognized by the International Labor Organization (ILO) as constituting "core" labor rights, and thus all ILO member governments are obliged to uphold these rights.

Corporations with codes have been experimenting with methods of monitoring the implementation of these codes by their suppliers. A number of auditing firms, as well as a few nonprofit organizations, have begun to offer services in labor rights auditing. Firms providing labor audits include Ernst and Young Global Ltd., InterTek Services Corp., and Global Compliance LLC, a spinoff of PricewaterhouseCoopers. Perhaps the most interesting new auditor in this area is Verité Inc., technically a nonprofit organization established by a former buyer for a major multinational corporation who, after witnessing

Creating private, voluntary alternatives to effective labor law enforcement is hardly an acceptable or effective long-term solution to the problem.

firsthand the conditions in factories in China, started an independent organization to perform labor audits.

A handful of voluntary monitoring initiatives have also emerged to help corporations oversee their labor audits and to act as neutral bodies to certify or otherwise assure the consumer public that the standards in the codes have been reliably implemented. In the United States, new oversight bodies include the Fair Labor Association and Social Accountability International, and in Europe, the Fair Wear Foundation and the Ethical Trading Initiative. But none of these organizations interacts with local PRC law enforcement efforts. Presumably the stakeholders in such initiatives, including consumers in developed countries, believe that the legal frameworks in countries such as China are so weak or nonexistent that they cannot be relied upon to protect workers. Yet creating private, voluntary alternatives to effective labor law enforcement is hardly an acceptable or effective long-term solution to the problem. Both activists and enlightened members of the corporate community should be asking themselves what such initiatives might do to enhance, rather than replace, legal protections for workers.

Chinese labor law is, by and large, not at odds with either the ILO core labor standards or the basic content of most corporate codes of conduct. Indeed, China has ratified more of the ILO conventions related to these standards than has the United States, including conventions prohibiting child labor, establishing criteria for the setting of minimum wages, and upholding the principle of equal pay for equal work. These concepts are also enshrined in China's basic labor code. The issue is not whether violations of these principles are legal, but whether sufficient sanctions exist to deter employers.

The law is perhaps most clear on the subject of child labor. Article 94 of China's National Labor Law forbids "illegal" recruitment of workers under age 16, an offense punishable by a fine or revocation of business license. State Council Regulations on the Prohibition of Child Labor enumerate and elaborate upon the child labor restrictions. For instance, Articles 10 and 11 require businesses to pay the costs of sending child laborers back to their places of residence and to pay any medical fees or disability costs associated with sickness or injury of children at work. And under Article 13, employers and parents may be fined, and employers' licenses revoked, for allowing children to work.

When it comes to other core rights, however, sanctions against offenders are less clearly defined. Although China's constitution provides that "women enjoy equal rights with men in all spheres of life," PRC law provides only piecemeal coverage for women. Similarly, China's labor laws technically reflect the government's obligation to ILO Convention No. 26, which sets out minimum wage guidelines and provides for a number of important substantive definitions of minimum wages. But national regulations do not define minimum wages or sanctions for violators. Instead, these important definitions are left to local authorities, creating tremendous gaps in coverage and possibly even pitting one region against another not only in the setting of wages, but in passively encouraging employers not to comply.

Overtime has been another issue on which the laws are insufficiently clear. Articles 36–43 of the Labor Law provide for an eight-hour day and, with a number of exceptions, limit the normal work week to 44 hours. Quota-based work must also be rationalized according to the same working hour system (Article 37) and workers must receive at least one day off in a week (Article 38). But the law's hours provisions contain exceptions that include unspecified "other rules" established by labor administration departments (Article 39) and "other circumstances as stipulated by laws, administrative rules, and regulations" (Article 42). In practice, provinces and municipalities throughout China have established their own administrative guidelines for maximum hours of work and overtime, and these often far exceed the national guidelines.

On two other issues, forced labor and the right to associate, the principles in the international standards and voluntary codes of conduct

Table 1:
Labor Disputes are on the Rise in China

	Number	Year	Increase
Labor disputes accepted by arbitration committees	34,273 135,2006	1986-1991 2000	298% for the decade, more than 100% annually
Laborers involved in disputes	221,115 422,617	1997 1999	91%
Collective disputes accepted by labor arbitration organs	9,043 or 7% of the total	1999	
Laborers involved in collective disputes	319,241 or 67% of the number of workers in disputes	1999	

Source: "Labour Conflict in Contemporary China: Analysis and Discussion on Several Labour Disputes." By Kai Chang and Qi Li, December 2002.

clash with provisions in PRC national laws. Companies have a relatively easy way out of the forced labor dilemma, as they cannot be compelled to source goods from prison camps. Upholding the right to associate presents a much trickier dilemma, as the ILO has determined that Chinese labor law does not sufficiently guarantee freedom of association. But recent changes to China's trade union law that apparently create the possibility for workers to organize a union at the workplace level, and recent experiments by companies and by the ACFTU itself in promoting workplace-level union elections, may make it somewhat easier for individual employers to comply with the spirit of the ILO conventions on this subject.

Interestingly, Chinese law comes closer to the intent of international conventions on the subject of collective bargaining than on the right to associate. FIEs have a fairly low unionization rate, and a progressive employer might encourage the real exercise of the right to associate by encouraging the development of a collective bargaining agreement. Article 33 of the national Labor Law provides that "[i]n an enterprise where the trade union has not yet been set up, [a collective contract] shall be also concluded by the representative elected by the staff and workers with the enterprise." Thus, if workers in an enterprise without a union form an ad hoc group to negotiate with management, management must bargain collectively with this group. Recent changes to China's Trade Union Law make it possible for such a group to elect its own leaders, although ultimately the organization must affiliate with the ACFTU. In practice, a handful of FIEs have allowed or even facilitated the democratic election of workplace-level union leaders, and, at its most recent annual congress in September 2003, the ACFTU leadership endorsed this practice. This represents a remarkably rapid change, since as recently as 1998, ACFTU Secretary General Xiao Zhenbang urged affiliate unions to prevent "unexpected incidents" by working with the Chinese Communist Party and the state to consolidate control from above.

Worker advocates emerge

The ACFTU leadership presumably recognizes that it must make itself useful to the millions of workers in FIEs and private Chinese enterprises or perish as state-owned enterprises are reformed. In an apparent reflection of this new attitude, at the 2003 annual ACFTU congress, the federation made a direct appeal to a multinational retail corporation, Wal-Mart Stores, Inc. Union spokespeople urged Wal-Mart to establish trade unions and stated, "For companies depriving the rights of employees to establish trade unions, we reserve the right of resorting to lawsuits." The union federation leadership is surely aware that the actual employers they must deal with are not only Wal-Mart staff in retail outlets, but also a wide range of contractors and subcontractors; at the same time, the union recognizes that the power to change conditions among the subcontractors is in the hands of the multinational retail giant.

Table 2: Labor Dispute Issues, 2000

Issue	Number	Percent of total
Wages	41,671	30.8
Labor contract	35,974	26.3
Social & insurance benefits	31,350	23.1
Remedy for injury suffered on the job	13,008	9.6
Training	12,549	9.2
Other	834	0.6

Source: "Labour Conflict in Contemporary China: Analysis and Discussion on Several Labour Disputes"

Still, the vast majority of workers in China's manufacturing zones are waiting for representation of any kind. Private lawyers and new grassroots organizations are starting to take up some cases, although they remain few in number. This country of more than 1 billion people has only slightly more than 110,000 trained lawyers. Of these, only a few are sufficiently trained to handle labor disputes, and they often cannot make a living solely through their client base. A small handful of labor lawyers in South China, in particular Zhou Litai and, to a lesser extent, paralegal Zeng Feiyang, have become well known for such work thanks to media publicity, but such advocates can only handle a tiny number of cases. Interestingly, national networks such as the All-China Lawyers' Association and the All-China Women's Federation are slowly developing institutional capacity to deal with labor cases (*see* the *CBR*, May-June 2002, p.30).

In the absence of trained experts who can represent workers in labor disputes, workers have turned to informal advocates or have acted as their own advocates before the courts. Not surprisingly, in most cases workers have been unsuccessful in winning settlements in their favor. A small handful of genuine indigenous NGOs, such as the Chinese Working Women's Network, have tried to address the knowledge gap by providing legal resource materials to workers. Law schools have also tried to fill the gap by setting up clinics in which law students advise workers. Again, these efforts address only a fraction of potential cases. Nevertheless, these fledgling efforts signal that the wave of labor law activism is beginning to gain force.

Continued on page 39

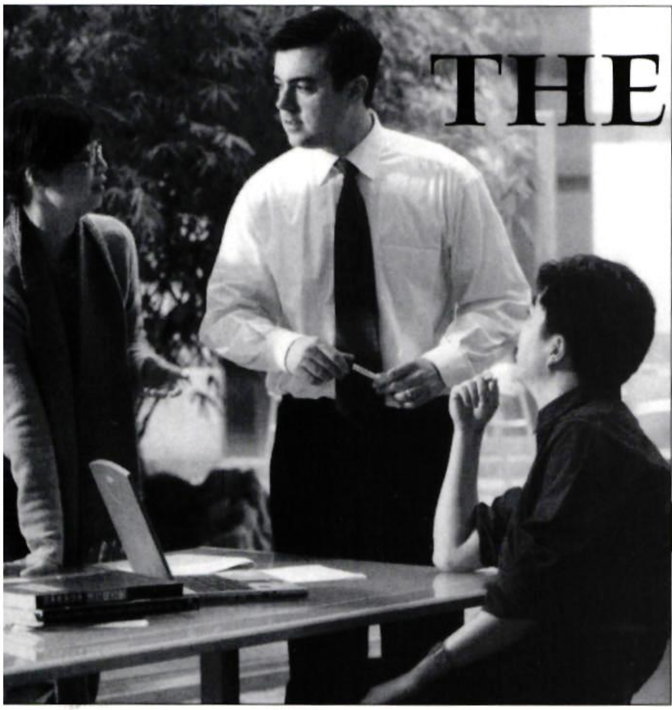


Photo courtesy of CEIBS.

THE MBA BOOM

Virginia A. Hulme

A range of new MBA programs have sprouted to train a new generation of Chinese managers

Companies in China have long suffered from a shortage of PRC employees with international-standard management skills. By 2006, the Shanghai Education Commission estimates, China will need 37,500 masters of business administration (MBA) graduates each year.

To fill this need, MBA and executive MBA (EMBA) programs have been springing up across China in recent years. In 1991, when the PRC government first recognized MBA programs, the Ministry of Education (MOE) had approved such programs in only nine universities, and just 100 students were enrolled. By 2001, MOE had approved 62 institutions, and by 2003, 10,000 students were enrolled. But according to the *People's Daily*, China's top schools admitted nearly half of the matriculating MBA students in 2002. EMBAs didn't officially arrive in China until 2002, when the State Council's academic degree committee approved 30 programs.

Different types of programs: Local, joint, imported

MBA and EMBA programs in China fall into roughly three groups: local (run solely by PRC institutions), joint (run jointly by a PRC and a foreign institution), and imported (run by a foreign institution, with a passive Chinese partner).

- **Local programs**

Local MBA programs are usually taught in Chinese or, because some foreign professors cannot speak Chinese, in English with translation. In addition, many of the texts used are either in English or are translations of US textbooks. Though local programs provide the same MBA basics as joint and imported programs, they tend to place greater emphasis on Chinese conditions and problems facing Chinese enterprises. Dean Bing

Virginia A. Hulme
is associate editor of the *CBR*. The author would like to thank the many MBA professors and administrators who furnished information for this article.

"As little as five years ago, it was okay for MBA programs in China to use only US cases. Now, if you want to be successful in China, that's not enough—you must study Chinese business cases too."

CEIBS students on campus. Photo courtesy of CEIBS.

Xiang of the Cheung Kong Graduate School of Business (CKGSB) notes, "As little as five years ago, it was okay for MBA programs in China to use only US cases. Now, if you want to be successful in China, that's not enough—you must study Chinese business cases too." And as more Chinese companies look to expand abroad, international experience is also important. Local programs are also trying to improve their international exposure through more student and professor exchanges with foreign universities.

Large, well-established universities, such as Beijing, Qinghua, Fudan, and Shanghai Jiaotong, offer more electives, concentrations, and specialized MBAs than most of the joint and imported programs (*see* p.26).

● **Joint programs**

Many of China's top universities have joint programs with foreign universities in addition to their own programs. (Some universities have several joint programs; Paul Swenson of the US Commercial Service, Shanghai, notes that in some cases foreign partners have complained that the host school favors other joint programs over their own.)

Joint programs are taught predominantly by the staff of the overseas university, with a few of the local institution's professors teaching topics in which they have more expertise than their foreign counterparts, usually topics related to China's economy. Most, if not all, of the teaching is in English, though in some programs all the courses are co-taught. Under this arrangement, the foreign professor does most of the lecturing, but a professor from the Chinese institution is always present to give a Chinese perspective, show how a particular concept applies in China, or simply help translate and explain difficult concepts in Chinese.

Most of the course takes place in China, but sometimes programs conduct several courses and/or graduation ceremonies at the foreign institution's home campus. The foreign university usually grants the degree. The Chinese university offers a certificate verifying the joint program, which gives the foreign degree instant credibility within China (as long as the Chinese institution is reputable).

Class sizes tend to be smaller in joint programs than in local ones. This is one reason that joint programs tend to offer fewer electives and concentrations; some do not offer any choices at all. Some of the programs reviewed for this article hope to be able to expand their offerings in the next few years.

● **Imported programs**

Several foreign schools run their China programs largely on their own. Though PRC law requires all foreign MBA programs to have a Chinese partner organization, some foreign programs

Business Ethics?

Since the Enron scandal broke in 2001, US business schools have reportedly been beefing up their offerings on business ethics. But only two out of the 16 school representatives interviewed for this article stressed the importance of moral values such as honesty, integrity, and good character without prompting. One was the Cheung Kong Graduate School of Business, a privately funded, independent business school set up by the Li Kashing Foundation. Cheung Kong's Dean Bing Xiang noted that the top qualities his school looks for in potential students are a sense of social responsibility, followed by passion, inspiration, and unselfishness. Admitting students with these traits, he believes, increases the school's chances of turning out CEOs.

The other program to emphasize such traits was the Beijing International MBA (BIMBA), a joint program between the China Center for Economic Research (CCER) and a coalition of 26 US Jesuit universities headed by Fordham University. (BIMBA is located within Beijing University [Beida], but is not affiliated with Beida's Guanghua School of Management.) Dean John Yang attributes this emphasis on integrity not only to Fordham's Jesuit background, but also to BIMBA's foreign and foreign-trained professors and to Beijing University's traditional values.

Yang stresses that it is not enough for BIMBA graduates to make money. They must also contribute to society. Many of BIMBA's students are graduates of China's top universities—and have egos to match their alma maters' reputations, according to Yang. Arrogance and a tendency to look down on others is what Yang aims to eliminate. BIMBA students engage in a variety of exercises and team projects—as do students in other business schools—to learn the value of working with others and to convince them that others also have something to contribute. Yang says he can see a real difference in the students' attitudes at the end of the two years.

To improve students' attitudes and integrity, BIMBA invites speakers from all walks of life—artists, photographers, dancers, as well as corporate leaders—to show that a sense of responsibility, integrity, and unselfishness is essential to success in any field.

—Virginia A. Hulme

Rise of Specialized MBAs

The latest trend in the world of Chinese MBAs seems to be the appearance of specialized programs. Most of these are brand-new—they either have been launched within the last year or will be launched in 2004. Below is a sampling of the specialized MBAs on offer.

Agriculture	Shanghai Jiaotong University Qinghua University University of Iowa, Purdue University, Chinese Academy of Agricultural Sciences (joint program)
Aviation management, Aviation industry for national defense	Beijing University of Aeronautics and Astronautics
Culture	Renmin University of China
Finance	Qinghua, Chinese University of Hong Kong (joint program) Shanghai Jiaotong Fudan University, Hong Kong University (joint program)
High-tech administration	Qinghua, Arizona State University (joint program)
Hospital management	Beijing International MBA
Marketing management for the manufacturing sector	Beijing Institute of Technology
Medical management	Shanghai Jiaotong
Product development	Webster University, University of Electronic Science and Technology of China (joint program)
Technology management	Shanghai Jiaotong
Urban management	Beijing Institute of Technology

—Virginia A. Hulme

Class in session at the Cheung Kong Graduate School of Business. Photo courtesy of CKGSB.

have managed to find partners willing to leave the day-to-day running of the program, as well as most of the business decisions, up to the foreign partner. As a result, these programs are, in effect, imports. They offer exactly the same core courses in China that they offer at home, with 100 percent of the professors flown in from the home-country institution. Imported programs tend to offer fewer electives and concentrations, if any. All of the teaching and materials are usually in English, with no translation. As a result, these programs tend to attract younger and mid-career professionals who have a good grasp of English and often work in foreign-invested enterprises. Most of the course takes place in China, but several courses and/or graduation may take place at the foreign institution's home campus.

The options: Full-time, part-time, EMBA

Because business education is so new in China, the types of students choosing each of these program structures differ slightly from those in the United States, where many people planning a career in business take off a full two years from work to complete an MBA.

- **Full-time**

In mainland China, Chinese universities, rather than the joint or imported programs, tend to offer full-time MBA courses. In Hong Kong universities, a significant number of full-time students come from the mainland. Students in full-time courses tend to be younger and have less work experience than part-time and EMBA students.

- **Part-time**

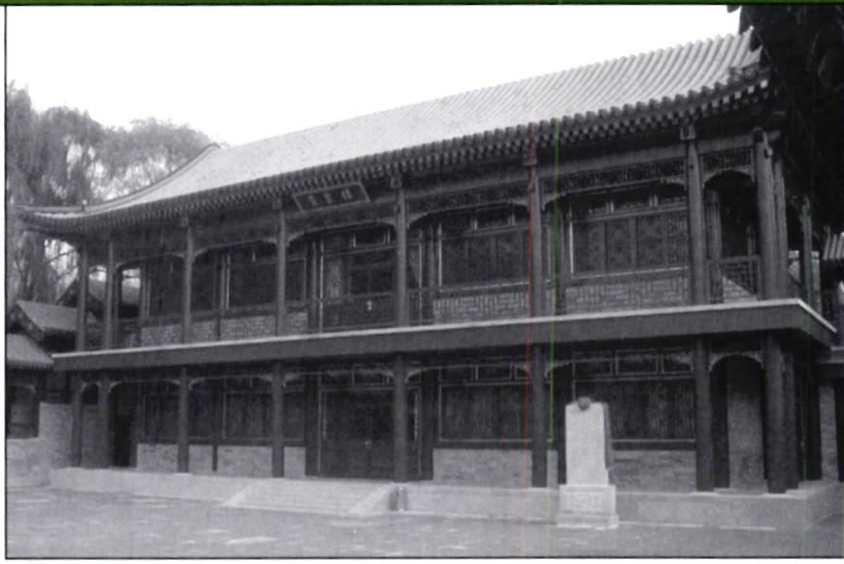
Part-time studies allow students to keep working while earning their degrees during evenings and weekends. Part-time courses tend to attract mid-career professionals with significant work experience. Because classes take place on evenings and weekends, most students live in the same city in which the course is offered.

- **EMBA**

In China, EMBA programs tend to cater to top executives—and generally have a price tag to match. Because business education has only recently arrived in China, most of the senior management of Chinese companies never had the opportunity to do an MBA early in their careers. As a result, it is not unusual to find EMBA programs in China with a high number of CEOs, general managers, presidents, and vice presidents among the student body. Many of these executives have had little chance to study English, so EMBA programs are frequently taught in Chinese, with translation of lectures by foreign professors who do not speak Chinese. These programs generally offer classes during intensive four-day weekends once a

More MBA Information

- For details about selected MBA programs, see www.chinabusinessreview.com/0401
- For a list (in English) of the 62 institutions approved by the Ministry of Education to offer MBAs, see http://cemis.britishcouncil.org/download/yearbook-8-MBA.doc
- For a list (in Chinese) of the 30 institutions approved by MOE to offer EMBAs, see http://www.mba-a.com/newsm03.htm



The Beijing International MBA program is housed in traditional courtyard-style buildings on the Beijing University campus. Photo courtesy of BIMBA.

month, allowing students to fly in from around the country.

Which course?

English-language ability often determines the type of program a Chinese student may attend. In general, the joint and imported courses are considered more rigorous because most of them are based on long-established programs with good reputations. Still, prospective students should make sure that these programs are fully accredited in their home countries. American courses are popular, as the United States is considered the world leader in business education.

Even at top PRC universities, MBA programs still have some way to go to match the top foreign offerings. "MBA programs at top Chinese universities still piggyback on their university reputations," says Jim Leininger, a Beijing-based senior consultant for Watson Wyatt Worldwide. "Even though they have all the content and case studies found in most US programs, they are still not quite at the level of the top US programs. Their students don't have quite as much experience as those in top US programs.

"From a recruiter's point of view, the intangible qualities of potential employees—such as ability to work independently, think strategically, and take initiative—are more important than the degree itself. The people who get into top MBA programs usually have these skills, so these programs act as good filters. Chinese MBA programs have made great progress in recent years, but still fall a little bit short of their foreign counterparts in fostering and developing these skills."

Which program a student should pick depends greatly on his or her current situation and future plans. As mentioned above, English-language ability is one determinant. If a prospective student's level of English is not high enough to study in English, then he or she will almost certainly have to attend a local program, though some Hong Kong programs also offer MBAs in Chinese. The prospective student's current position is another factor. If he or she is already a senior manager, the student will likely aim for an EMBA program.

The extent of internationalization a student desires also plays a role. Students wishing to gain more international experience and exposure will want to choose a joint or imported program. These programs offer students an education that will be recognized abroad and thus may help them advance in their careers beyond China. Students looking for a program geared to solving problems confronted by Chinese enterprises may prefer a local program.

Finally, the quality and size of alumni networks are factors in choosing a business school in China, just as in the United States. Most program administrators believe that students with high-level positions from a variety of professional, educational, and cultural backgrounds make the most desirable classmates. What students learn from each other is often just as important as what they learn from the curriculum, say most administrators, and students can learn more from classmates that are different from themselves. Ira Cohen, executive vice president of Universal Ideas Management Training Co., Ltd., which oversees Rutgers University's EMBA programs in China, stresses the benefits of diversity in the classroom. "The ability to work with people from other cultures is essential in today's international business environment, whether you work in a multinational or a Chinese enterprise."

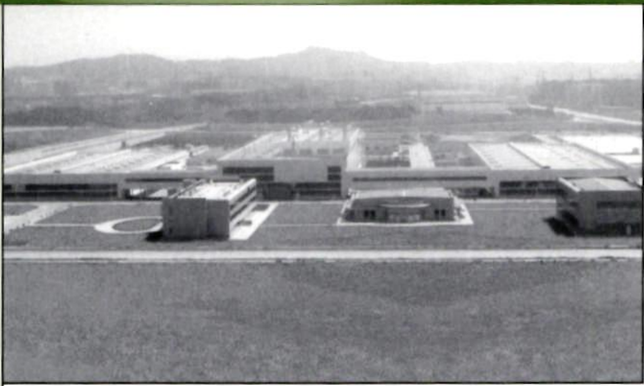
One advantage of choosing a joint program is that the alumni are generally considered alumni of both schools—and thus have two networks to tap into. Prospective students may also want to consider how much time students spend together. A few of the EMBA courses require students to live together during the intensive four-day teaching sessions, in part to allow the students to get to know each other better and strengthen future alumni networks.

Continued on page 36

Government requirements

All masters of business administration (MBA) programs must meet core requirements set by the National MBA Education Supervisory Committee, which was established by the Ministry of Education (MOE) and the State Council Academic Degree Committee in 1994. One-third of executive MBA professors in each program must be trained, and have experience teaching, overseas. Some programs try to surmount the language difficulty by hiring foreign professors of Chinese origin who can speak Mandarin. MOE also assigns each school a student quota for each program.

—*Virginia A. Hulme*



FORD'S CHINA AMBITIONS

CATHERINE GELB

Ford Motor Company, like the rest of the world's leading automakers, has ambitious goals for its future in China—the company recently announced plans to expand its investments there to $1.5 billion over the next few years. Ford is clearly aiming to take advantage of the phenomenal growth of China's auto industry—sales of passenger cars rose more than 50 percent in 2002, and more than 80 percent in the first half of 2003. Ron Tyack, president and CEO of Changan Ford Automobile Corp., Ltd., Ford's China joint venture, estimates that growth will eventually level off, but not for several years. Until then, Ford and its foreign competitors will be selling cars at unprecedented rates.

The centerpiece of Ford's commitment in China is Changan Ford—a $98 million, 50-50 joint venture with Changan Automotive (Group) Co. in Chongqing's northern industrial zone. The joint venture plant, which took about two years to build, began producing Ford Fiesta and Mondeo sedans in 2003. Ford plans to expand annual capacity at the new Chongqing plant to 150,000 from 50,000 in the next two years, and will introduce at least one new model a year. Ford has also pledged to build a second plant, a stamping facility, and an engine manufacturing plant with partner Changan Auto Group.

Chinese partner Changan, a major domestic minibus producer, produced several hundred thousand vehicles in Chongqing in 2003. The Chongqing subsidiary recently bought out its parent's stake in Changan Ford.

Ford's other major investment is a 30 percent stake in Jiangling Motors of Jiangxi, which has produced the Transit commercial van since 1997.

Chongqing's crossroads

Ford's Changan venture possesses a number of characteristics that will affect its future in China. First, the plant is located in Chongqing—a city of 31 million located hundreds of miles from the major consumer markets of China's east coast. Second, its Fiestas and Mondeos are entering the passenger car market several years behind competing models.

Moreover, the Changan venture embodies the intersection of two top PRC government priorities: the development of the western, poorer part of the country, and the development of the auto sector, an industry the government considers essential to the country's economic growth. Ford's success in Chongqing—and thus in China—may well hinge on whether the PRC government succeeds in turning western China into a developed, prosperous economic region that more closely resembles the booming east coast, and whether the government's hands-on approach to the auto sector nurtures, rather than suffocates, the industry.

CATHERINE GELB
is editor of the *CBR*.

Photo courtesy of Changan Ford Automobile Corp., Ltd.

Changan Ford is the centerpiece of the US auto company's China strategy

● Develop the West

Foreign investors in China have heard for years about the central government's Great Western Development Strategy. As the income disparities between the coast and interior have grown impossible to ignore over the past decade, the government has pledged substantial domestic resources to build up the infrastructure necessary to support investment and has tried to lure foreign funds to China's western commercial centers.

As part of this effort, the central government raised the political status of Chongqing, historically under the authority of Sichuan Province, to that of a province-level municipality in 1997. The government also established several special economic zones and implemented tax and other incentives for foreign investors. The leaders in Beijing are committed to Chongqing's development in particular. Political scientist Cheng Li even identified Chongqing's fate as tied to that of new PRC President Hu Jintao (*see* the *CBR*, May–June 2003, p.48).

The government's efforts may be starting to pay off, as not only Ford but BP plc, Cummins Inc., and other major multinational corporations have set up operations in Chongqing to capitalize on its comparative advantages. These include access to natural resources, low labor costs, and, for the auto firms, a history as a center for engine and vehicle manufacturing (Chongqing is China's motorcycle production capital).

But these sorts of incentives and advantages won't be enough to ensure the success of Chongqing-based firms. In the long run, transportation links will be critical to the city's growth. The hilly, congested city lies at the confluence of the Yangzi and Jialing rivers and is home to the largest river port in China (a port that will likely grow dramatically once the Three Gorges Dam project is complete). Two major cross-country highways—the Chengdu-Shanghai and Chongqing-Zhanjiang routes—reach the city, which also receives a weekly container train from Lianyungang, a port city on the east coast. China's leaders have reportedly committed up to ¥200 billion ($24 billion) over the next decade to improve and modernize transportation infrastructure in and around Chongqing.

● Growth of the auto industry

Changan Ford's future will also depend on the PRC government's decisions about the country's auto industry, which is seen as a "pillar" of the country's economy, both because it is a generator of employment and because high-quality, international-standard vehicles both aid and symbolize modernization. As in other pillar industries, the government takes an active role in determining the course of development. And as in other pillar industries, a result of heavy government involvement has been a carefully defined space for foreign investment. Foreign investors seeking to produce for the domestic market must form joint ventures with Chinese automakers, rather than set up their own entities, and the foreign share of these ventures is capped at 50 percent. Foreign automakers also have little choice of partner or location.

Indeed, the central government's 1994 automotive industrial policy set out local-content requirements and other criteria for foreign participation that now violate China's World Trade Organization (WTO) commitments. A revision of the auto industrial policy is to be released shortly; foreign firms are likely to face continued restrictions on investment levels and technology-transfer terms that favor domestic manufacturers to the extent possible under WTO rules.

Another goal of this new industrial policy may be consolidation of the country's large number of inefficient auto companies. Local and regional governments have blocked Beijing's past efforts to consolidate the industry, preferring to protect their homegrown enterprises—often by making it difficult for vehicles made in one city to be sold in others.

Some local and central government policies may be here to stay. Shanghai, for instance, restricts the number of license plates it issues to only a few thousand each month. And in late

2003, the central government drafted new fuel efficiency standards that are stricter than those in place in Europe and the United States.

In addition to the restrictions on foreign equity investment in auto manufacturing ventures, the government also maintains other controls over the industry's development. A recent example is the long-delayed release of regulations on nonbank auto financing. Though China's WTO commitments required that foreign auto financing services be permitted in the first year of membership, regulations were not released until November 2003. And the requirements for establishing such entities are steep, as is typical of PRC requirements for the establishment of foreign-invested financial services firms generally (*see* p.10).

FORD IS BUILDING UP A SUPPLIER BASE LOCALLY WITH THE HELP OF SEVERAL OVERSEAS-BASED SUPPLIERS, INCLUDING LEAR CORP. AND VISTEON CORP.

All this would seem to bode ill for foreign auto investors' prospects in China. But at the same time that the government has maintained strict controls on foreign investment, it has reduced import tariffs on autos (though it still maintains a special licensing system for dealers of imported vehicles) and has allowed substantial foreign competition into the market. Ford's Tyack commented that in 2003, the 60-odd passenger car models sold in China were based on international designs. This enables companies to achieve economies of scale in materials, he explains, which benefits both the companies and the consumers.

Silver linings

Despite the considerable constraints on its business, Ford has made some headway in confronting its challenges in western China. It helps that the company can take any problems directly to the top of the Chongqing government, thanks to its position as one of the city's leading foreign investors.

By the end of 2003, Changan Ford had established about 38 dealerships and authorized a total of 60. Most are in the major coastal cities, but the venture has dealers in most of the major western cities as well. In addition to Chongqing, Ford dealerships are established in Chengdu, the capital of Sichuan, as well as in Kunming, Yunnan; Urumqi, Xinjiang; Wuhan, Hubei; and Changsha, Hunan.

For sales in Shanghai and Beijing, both about 900 miles away, Changan Ford ships cars by river to Wuhan, where they are trucked to Beijing or Shanghai. In the case of Shanghai, sometimes the cars are transshipped down the Yangzi. Ford also sends cars by truck to Guangdong. In fact, Guangzhou is more than 100 miles closer to Chongqing than to Shanghai—meaning that Ford may be on an even playing field with Shanghai-made models for sale in that city.

Tyack explains that the higher transport costs of shipping to the coast—and of bringing parts from the coast inland—are offset to some degree by Chongqing's lower operating costs compared to coastal cities. Some reports estimate that wages in Shanghai are twice as high as in Chongqing, for example.

About 70 percent of the Fiesta's parts are sourced from within China. Some parts are from Shanghai's international supplier base and others are from Fujian and elsewhere on the coast. Increasingly, though, parts are coming from Chongqing itself. Ford is building up a supplier base locally with the help of several overseas-based suppliers, including Lear Corp. and Visteon Corp. Tyack, who ran Visteon's operation in Shanghai for four years before taking on the Chongqing project, explains that Ford has "married international companies and technology with local cost structures" in western China. Ford's chairman and CEO, William Clay Ford Jr., recently announced that the company may source as much as $1 billion in parts from China next year.

Still, some parts must be imported to China for use in Changan Ford cars. The Fiesta contains a Japanese automatic transmission, as well as parts from Europe and Brazil. The Mondeo is built from imported knocked-down vehicle kits. All of these must come in by vessel. Fortunately, the shipments have direct customs clearance in Chongqing. But it will be some time before oceangoing vessels can go farther up the Yangzi than Nanjing, Jiangsu. For the near future, shipments bound for Chongqing must be transshipped in Nanjing.

Changan Ford

The joint venture employs 1,600 workers at the 50,000 m^2 plant, which was built in 14 months and which launched both the Fiesta and Mondeo within two years. The site includes a body shop, paint shop, final assembly facility, technical development center (which works on integrating and localizing products) and an administration building and canteen. Three executives from each partner oversee the joint venture. The management consists of around 50 staff from Changan and about 60 Ford employees—two-thirds expatriates and one-third Chinese who have relocated from Beijing. The rest are local Chongqing residents, 650 of whom work either in administration or technical development, and the rest divided more or less equally among the other three facilities. The plant, like other major foreign joint ventures, is built to the same quality and environmental standards as Ford's plants around the world.

Tyack describes the staff as "highly talented and eager to learn." For instance, at the start, the English-language ability of the average Chongqing resident interviewed for a position at Changan Ford was below the typical level found in Shanghai, but only two years later, the language skills of those hired have more than caught up. The joint venture imported training experts to teach and localize the Ford operating system. Communicating Ford's process, controls, and procedures took more than 200,000 hours of training before the first Fiesta rolled off the line. Indeed, on the assembly line alone there are three quality-control checkpoints to ensure the manufacturing quality and even the consumer's view of the final car.

Sealing the deal

Ford faces the same challenges as other foreign-invested carmakers in China operating in a government-directed industry that does what it can to promote its homegrown companies. But its location in western China may not be as much of a disadvantage as it might appear, because of Beijing's commitment to the region and the already significant increase in production costs in Shanghai and other coastal cities.

Yet carmakers are already experiencing the standard characteristics of the country's consumer market: demanding consumers, falling prices as new models flood the market, battles for market share, and a debate over whether these price drops are the result of overcapacity. Accounting firm KPMG estimated that passenger car capacity at the end of 2003 was about 2.7 million, while total units sold from January through October 2003 amounted to only 1.64 million units, according to Automotive Resources Asia. Some estimates project auto production capacity will reach 10 million units by 2010. Analysts point out that such capacity figures ignore the fact that of China's more than 100 automakers, only a few—mostly the large, foreign-invested enterprises—produce more than 50,000 units and thus have the economies of scale to be competitive in the long run.

Meanwhile, 20,000 Changan Ford Fiestas and Mondeos rolled off the spotless assembly line in 2003, and sales by Changan Ford dealers are well under way across China. To ensure the products appealed to Chinese drivers, the company modified the European designs on which the two China models are based. For example, unlike the 1.3- and 1.6-liter Fiestas sold in Europe, those produced in China come with automatic transmissions. The Fiestas also weathered a half-million-kilometer durability test and underwent suspension adjustments to take PRC road conditions into account. And the company has taken note of Chinese color tastes—of the seven colors of Fiesta available, gold is apparently the most popular among Chinese car buyers. These modifications are not enough to seal the deal; Changan Ford dealers must work harder than dealers in more developed auto markets, says Tyack, because of the "raw ignorance" about the product.

But as Chinese car buyers learn more about their options in an increasingly competitive market, Changan Ford can expect to face the same level of intense scrutiny of its cars by status- and quality-conscious Chinese consumers as producers in other industries have faced in China for years. The ability of Ford cars to stand up to this scrutiny may ultimately determine the company's success in China. 完

FORD FACES THE SAME CHALLENGES AS OTHER FOREIGN-INVESTED CARMAKERS IN CHINA THAT MUST OPERATE IN A GOVERNMENT-DIRECTED INDUSTRY THAT DOES WHAT IT CAN TO PROMOTE HOMEGROWN COMPANIES.

The VAT Refund Effect

Will the new VAT refund changes cut into your profits?

Matthew Mui and Kelvin Lee

China has refunded part or all of the value-added tax (VAT) on exports since 1994. But in recent years, exporters in China often have not received their VAT refund promptly. Though the PRC government does not intentionally delay export VAT refunds, government refund budget shortfalls are causing late payments. According to the Ministry of Commerce, the amount of overdue VAT refunds hit ¥160 billion ($20 billion) at the end of 2002. As a result, many analysts have predicted major changes to the export VAT refund policy to reduce the refund rates to a level that the central government can afford.

Another reason the government has decided to reduce the export VAT refund rates may be soaring exports—up 32.8 percent in the first 10 months of 2003—which not only increase VAT refunds, but have contributed to persistent trade surpluses with major foreign trading partners. These surpluses, in turn, have driven international pressure for renminbi appreciation (*see* the *CBR* September–October 2003, p.5). One of the ways to relieve this pressure is to lower export VAT refund rates, which would indirectly raise costs of exporting from China and thus shrink trade surpluses with foreign trading partners. All exporters based in China must think about how to adapt to this increasingly tough tax environment.

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Indeed, the State Administration of Taxation and the Ministry of Finance jointly issued the Notice on Adjusting Export Tax Rebate Rates (Cai Shui [2003] 222) in October 2003. The notice, which took effect on January 1, 2004, sets out four different treatments for various types of goods. Unlike the past few adjustments, which increased export VAT refund rates nearly to a full refund of 17 percent, this adjustment reduces export VAT refund rates by an average of 3 percent to 12.11 percent.

1. Export VAT refund rate unchanged

- Agricultural products currently entitled to refund rates of 5 percent and 13 percent;
- Industrial products processed from agricultural raw materials currently entitled to a refund rate of 13 percent (except goods listed in points 3 and 4 below);
- Goods currently subject to VAT at 17 percent and enjoying a refund rate of 13 percent (except goods listed in points 3 and 4 below);
- Vessels, vehicles, and their major parts; numerically controlled machines, etc. currently entitled to a 17 percent refund.

2. Export VAT refund rate raised

Export VAT refund rates for wheat flour, maize flour, cuts of ducks or goose, etc. will rise from 5 percent to 13 percent.

3. Export VAT refund eliminated

Certain scarce natural resources and ores, such as wood, wood pulp, goat hair or skin, eel fry, rare metal ores, graphite, kerosene, diesel fuel, and lubricating oil, are not entitled to any export VAT refund under the new policy. The notice also terminates consumption tax refunds on goods such as diesel fuel.

4. Export VAT refund rate lowered

The new policy reduces export VAT refund rates for certain types of goods (*see* Table 1).

How big is the impact of such a reduction?

Though reduced export VAT refunds may increase an exporter's operating costs, just how big the impact will be is not always clear. The impact can be calculated using the equation below:

VAT Payable
= Output VAT − (Input VAT − Noncreditable & nonrefundable amount)
where
Output VAT is set at zero for exports, and

Output VAT = Domestic sales amount × VAT levy rate

Unlike the past few adjustments, which increased export VAT refund rates nearly to a full refund of 17 percent, this adjustment reduces export VAT refund rates by an average of 3 percent to 12.11 percent.

where
Noncreditable & nonrefundable amount
= [FOB value × (VAT levy rate − VAT refund rate)] − [Value of tax-free raw materials × (VAT levy rate − VAT refund rate)]
The free-on-board (FOB) price includes costs such as profit margin, overhead, labor, and other materials.

Exempted, credit, refund (ECR) limit
= (FOB × VAT refund rate) − (Value of tax-free raw
materials × VAT refund rate)

ECR acts as a cap on VAT refunds. If VAT payable is negative, the amount refunded will be either the absolute value of the amount of VAT payable or the "ECR amount," whichever is less.

Case 1:
Firm entitled to a full export VAT refund under old rules

Company A manufactures in China and exports **all** of its products overseas while importing 30 percent of its raw materials.

Table 1: Reduced Export VAT Refund Rates

Types of Goods	New export VAT refund rates
i. Gasoline and unwrought zinc	11%
ii. Unwrought aluminum, yellow phosphorus, etc.	8%
iii. Coke (of coal) and semi-coke (of coal), steatite, fluorspar, etc.	5%
iv. For goods not mentioned in points 1, 2, 3, and 4(i), (ii), and (iii) above, if:	
● Current export VAT refund rates are 17% or 15%	13%
● Current VAT levy and refund rate are both set at 13%	11%

Source: Notice on Adjusting Export Tax Rebate Rates (Cai Shui [2003] 222)

Value of locally sourced raw materials = 42
Value of imported, tax-free raw materials = 18
FOB value of export = 100
VAT levy rate = 17 percent
Export VAT refund rate = 17 percent

VAT Payable
$= 0 - (42 \times 17\% -$ Noncreditable & nonrefundable amount)
$= 0 - (7.14 + 0)$
$= -7.14$ (tax refund)

where
Noncreditable & nonrefundable amount
$= [100 \times (17\%-17\%)] - [18 \times (17\%-17\%)]$
$= 0$
ECR limit
$= (100 \times 17\%) - (18 \times 17\%)$
$= 13.9$

Case 2:
VAT refund rate reduced under new rules

All details are the same as Case 1 except that the export VAT refund rate is reduced to 13 percent.

VAT Payable
$=0 - [(42 \times 17\%) -$ (Noncreditable & nonrefundable Amount)]
$=-7.14 + 3.28 =-3.86$ (tax refund)

where
Noncreditable & nonrefundable amount
$=[100 \times (17\%-13\%)] - [18 \times (17\%-13\%)]$
$=3.28$

ECR limit
$=(100 \times 13\%) - (18 \times 13\%)$
$=10.66$

Case 3:
Firm entitled to full export VAT refund under old rules

FIE B manufactures in China and exports **50 percent** of its products overseas while importing 30 percent of its raw materials (assuming that all of them are tax-free materials).

Value of locally sourced raw materials =42
Value of tax-free raw materials imported =18
FOB value of export =50
VAT levy rate =17%
Export VAT refund rate =17%

VAT Payable
$=50 \times 17\% - (42 \times 17\%) -$ Noncreditable & nonrefundable amount)
$=8.5 -7.14 + 0$
$=1.36$ (tax payable)

where
Noncreditable & nonrefundable amount
$=[50 \times (17\%-17\%)] - [18 \times (17\%-17\%)]$
$=0$
(Note: Since ECR acts as a tax refund cap, it does not apply when companies owe tax.)

Case 4:
VAT refund rate reduced under new rules

All details are the same as Case 3 except that the export VAT refund rate is reduced to 13 percent.

VAT payable
$=(50 \times 17\%) - [(42 \times 17\%) -$ Noncreditable & nonrefundable Amount]
$=8.5 - (7.14 - 1.28)$
$=2.64$ (tax payable)

where
Noncreditable & nonrefundable amount
$=50 \times (17\%-13\%) - 18 \times (17\%-13\%)$
$=1.28$

Case 5:
All raw materials sourced domestically, under new rules

All details are the same as Case 4 except that **all** raw materials are sourced domestically.

VAT payable
$=(50 \times 17\%) - [(60 \times 17\%) -$ Noncredit & nonrefundable Amount]
$=8.5 - (10.2 - 2)$
$=0.3$ (tax payable)

Table 2: Case Summaries

Case	VAT Payable (VAT Refund)	Noncreditable & Nonrefundable Amount
1. 100% export + 30% tax-free imported raw materials + full VAT refund (17% refund rate)	(7.14)	0
2. 100% export + 30% tax-free imported raw materials + 13% refund rate	(3.86)	3.28
3. 50% export + 30% tax-free imported raw materials + full VAT refund (17% refund rate)	1.36	0
4. 50% export + 30% tax-free imported raw materials + 13% refund rate	2.64	1.28
5. 50% export + 0% tax-free imported raw materials + 13% refund rate	0.3	2

Note: Vat payable/refunded is a cash flow impact, while the noncreditable and nonrefundable amount will hit the bottom line.
Source: Matthew Mui and Kelvin Lee

where
Noncredit & nonrefundable amount
$= 50 \times (17\% - 13\%) - 0 \times (17\% - 13\%)$
$= 2$

VAT is a tax that is passed on to the end customers and can be collected from the customers. Theoretically, no one along the value chain except the end customers needs to bear the VAT burden. As such, tax payable/refunded should have no effect on the bottom line. But if it is treated as a noncreditable and nonrefundable amount (NCNR), which is booked as the cost of goods sold, it is a real cost.

Counter measures

Based on these hypothetical cases, it is clear that the tax burden in the wake of this reduction of export VAT refund rates can be substantially higher than before. The extent of the impact depends greatly on sales mix and raw materials sourcing. In short, the greater the export portion of total sales, the bigger the impact will be. Moreover, a company may suffer a bigger hit if it relies on domestic raw materials for which part of the input VAT will be disallowed and included in the NCNR amount.

To alleviate the impact of the export VAT rebate reduction, companies must consider what percentage of their output they export, as well as what portion of their inputs they import. Export-oriented enterprises may wish to consider restructuring their operations during future expansions, possibly setting up a separate arm focusing on export operations. An old but effective operation model—the toll-processing factory, a set-up in which one company contracts processing work to another but retains ownership of the materials and final products, even across borders—may be an option that can eliminate this hassle. Or, companies may want to consider moving export operations to an export-processing zone.

In the meantime, increasing the amount of imported raw materials seems to be the preferred short-term option to ease the pain of falling export VAT refund rates. Still, other factors, such as logistics and management efficiency, may weigh as heavily as the tax burden, especially for companies that consider importing raw materials instead of sourcing locally. Companies must perform a thorough cost-benefit analysis considering these restructuring ideas. 完

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The MBA Boom

Continued from page 27

Paying the way

All students are eligible for student loans from PRC commercial banks. Some schools have arranged for students to obtain loans from a particular bank. For instance, Shanghai Jiaotong students can borrow from Shanghai Pudong Development Bank, while students at Renmin University in Beijing can borrow from the Bank of China.

Most programs offer scholarships and awards to outstanding students after several courses have been completed. EMBA students tend to be fully sponsored by their companies, but most companies, wary of the difficulty of retaining an MBA graduate, only partially sponsor their employees—and require that they return to the company after graduation. Some employees, reluctant to be tied to the company that has sponsored their studies, prefer to pay their own way and have the freedom to change jobs after graduation.

The job search

Post-graduation job placement seems to be less of an issue for MBAs in China than in other countries, in part because many of the students already hold full-time positions and do not need to find jobs upon graduation. Another factor is China's strong economy. As China-Europe International Business School (CEIBS) MBA Program Director Gerald Fryxell put it, "We have certainly benefited from being in China, which has such a booming local economy. We were able to place all of our 2001 graduates within three months of graduation. More recently, however, placement does seem to be getting more challenging." Graduates of schools in less economically vibrant areas of China may face a longer job search. And as more MBA graduates flow into the job market over the next few years, competition for the best jobs will undoubtedly increase.

Paying the price for skilled managers

Companies face a dilemma. Of course they want skilled managers trained to international standards, but so do their competitors. Retention of skilled managerial staff is a severe problem among companies in China. And companies have much at stake—many pay a large portion, if not all, of the cost of their employees' MBA studies. Companies must come up with ways to keep these employees in which they have invested so much.

Incentive packages take many forms and often include both sticks and carrots. The main stick used is a contract that requires the employee to remain at the company for a certain number of years after completing a company-sponsored MBA—the so-called "golden handcuffs." If the employee leaves before the time is up, he or she must pay a stiff fine. This approach does not always work, as another employer may be willing to buy out the employee's contract. If this happens, the company may not have actually lost money, but it has lost valuable time and effort in training—and is once again without a trained manager.

Carrots used include better benefits, such as higher pay or more vacation time. But packages that include a promotion to a position with significantly more responsibility and that convey a sense that the company truly values the employee seem to be most effective (*see* p.16).

Another problem companies may face, according to Patrick Powers, director of China operations for the US-China Business Council, is jealousy among employees who were not chosen to get an MBA. "Internal competition to get advanced training can be fierce, and failure to have a clear selection process can lead to bickering and bitterness among staff who don't make the cut. This envy tends to be worse when the chosen employee has been sent abroad for schooling," he says, "but sending bright, capable staff to local MBA programs is still a good perk for a company's best staff. And when a company makes it clear to the employee that it has a career path planned for the employee once he or she has the MBA in hand, retention tends to be less of a problem."

Next lessons: Expansion and competition

Outside of Beijing and Shanghai, offerings are much slimmer, but foreign universities are beginning to offer MBAs in the interior. For instance, Missouri-based Webster University recently set up a program in Chengdu, and the Chinese University of Hong Kong is cooperating with Xi'an Jiaotong University to establish an EMBA course in Xi'an, Shaanxi.

Interest in MBA education remains strong, though applications fell slightly in 2003 for the first time since China began offering the MBA entrance examination, or *gongshang ruxue kaoshi*, in the mid-1990s. Competition for the best students is fierce, particularly in Beijing and Shanghai. In these two cities, there may well be some consolidation under way. Indeed, the foreign partner of one joint program reviewed for this article has suspended its program in Beijing indefinitely because it could not recruit enough students. Such competition among Chinese MBA programs is sure to intensify as new programs emerge—to the benefit of both students and the employers who hire them. 完

WTO: China Enters Year Three

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goods reached their final bound duty rate on January 1, 2004. Most of China's agricultural products reached their final bound rate on January 1, though import licensing and quota restrictions remain (*see* Tables). The average agriculture tariff in 2004 is 17 percent.

Tariffs on the import of complete vehicles dropped on January 1, 2004 to 34.2–37.6 percent, down from last year's tariff range of 38.2–43.0 percent. The import quota for autos and auto parts totals $10.49 billion, meeting China's commitment to raise the 2004 quota 15 percent from 2003.

Tariffs on chemicals also fell substantially. As part of its WTO commitments, China signed the Chemical Tariff Harmonization Agreement, which requires it to lower the average tariff on basic and intermediate chemical products to 5.5 percent and 6.5 percent, respectively, by 2004. In an attempt to meet this requirement, China dropped its tariff on basic chemical imports to zero, thus reducing the average tariff on all imported chemicals to 6.9 percent, down from China's pre-WTO tariff level of 14.7 percent.

The National Development and Reform Commission (NDRC) has confirmed that the import quota distinction between state and nonstate traders of processed oil was eliminated on January 1. Now any domestic company may apply directly to MOFCOM for an import permit.

As part of China's WTO commitments, six categories of goods were initially set aside as "Products Subject to Designated Trading"—a mechanism by which the listed goods would be temporarily under China's state trading regime. This designation will be eliminated in year three, liberalizing trade in steel, acrylic, natural rubber, timber, plywood, and wool. Since January 1, China has allowed nonstate traders to deal in numerous products subject to import licensing, import quotas, and import tendering. Import quota and license requirements were lifted on gasoline, tires, and road tractors. Products no longer subject to import tendering include bulldozers, printing machinery, machine tools, satellite earth stations, and circuit breakers.

Nontariff barriers

Throughout the first two years of China's WTO membership, China's tariff-rate quota (TRQ) system on agricultural products has acted as a nontariff barrier on imports of foreign agricultural goods. Specific barriers included complex licensing procedures, allocation of quota in commercially unviable quantities, lack of transparency in rule setting, and adoption of vague or scientifically suspect phytosanitary requirements.

In response to calls from WTO members to bring its agricultural TRQ administration process into compliance with WTO rules, MOFCOM and NDRC published rules in September 2003 governing the management of TRQs for imported agricultural products. The regulation is an important step in addressing concerns about transparency in China's TRQ allocation process. Yet the rule does not completely resolve problems with transparency, conformity to international standards, and assessment of value-added tax, particularly regarding wheat, corn, and soybean imports.

Standards certification and testing are also, in effect, barriers to imports. China does not recognize any testing or certification that occurs outside of China. Importers must have their products retested in China—a process that can be prohibitively expensive. China also has yet to implement the regulatory framework necessary to allow foreign-invested testing and certification organizations to conduct conformity assessment services for the domestic market. Majority-owned ventures were to be allowed in this area by no later than December 11, 2003.

Finding that WTO spirit

Observers note that China's recent WTO implementation actions have rested with agencies belonging to the central government in Beijing, not at the local level as some have speculated. The main obstacles to implementation are government protectionism and industry protectionism rather than a lack of understanding or resources (*see* p.15). It is thus up to China's central government to apply pressure internally, if necessary, to make sure its year-three commitments are fully implemented.

Severe acute respiratory syndrome and the change of PRC government leadership may have curtailed China's WTO implementation in year two. To be meaningful, China's implementation in year three must reflect the full terms and spirit of China's WTO entry agreements and ensure that market access is allowed as negotiated. Though China has moved forward on liberalization in some of its services commitments—such as book retail operation and tourist agencies—its tendency to delay regulations or redefine its commitments particularly in areas that open the economy broadly to foreign participation, such as in trading rights and distribution, do not reassure companies that China will implement its year-three commitments fully. 完

The Key to Retention: Committed Employees

Continued from page 17

- **Pay differs by entity**

In the past, salary levels in China have varied by entity, with representative offices (ROs) generally offering the highest salaries, followed by wholly foreign-owned enterprises (WFOEs) and then joint ventures. This trend will likely continue, though recently top-level WFOE employees have been earning higher salaries than their counterparts in ROs, a reflection of the demands placed on top management at WFOEs to turn a profit.

- **Domestic competition is on the rise**

Most foreign companies operating in China have assumed that they have an advantage in attracting and retaining employees because of their status as foreign companies. Though working for a foreign company is still prestigious, domestic companies are beginning to offer highly competitive salaries along with their traditional advantages: providing more secure employment (domestic companies are less likely to fire an employee) and a more familiar corporate culture. Foreign companies also have a difficult time fighting the perception that there is a glass ceiling for Chinese staff, especially when top managers in China and around the world are not Chinese.

From compensation to commitment

Effective compensation is only one of several factors that play an important role in employee retention. The heart of retention is long-term employee commitment.

When analyzing retention, it is important to distinguish between "satisfied" employees and "committed" employees. Certainly, a company can make employees more satisfied by raising their salaries, which will likely encourage the employees to stay longer at the job. But what happens when another company offers them even more money? Employees motivated simply by money will leave; those who are truly committed to the organization are more likely to stay.

Thus, compensation can be considered a kind of "hygiene" issue for companies. Good hygiene is something that no one notices until it's absent. It is the same for compensation. If you have a substandard compensation system, everyone will notice and employees will leave the company. But having a strong compensation program does not always lead to highly committed employees.

Employee commitment was one of the *WorkChina* survey's key areas of focus. The survey's questions were designed to examine what motivates employees to stay at a company, work hard, and produce results. Commitment measures such intangibles as pride in the company, belief in its long-term success, and whether employees would recommend it as a place to work.

Watson Wyatt's global research has consistently shown a high correlation between employee commitment and company success. In fact, the latest research shows that companies with highly committed employees have a 200 percent greater return to shareholders over three years than those whose employees showed low commitment. The implication of these statistics is clear: increasing employee commitment has a real, positive impact on the bottom line.

Drivers of commitment

Since committed employees are critical to a company's long-term success, companies must determine the key factors that foster employee commitment and focus on these areas. Watson Wyatt has found that many areas affect employee commitment. Below are the top five factors most closely linked to an employee's level of commitment.

- **Clear communication**

Employees were more committed to their company when they felt their company communicated clearly and effectively with them about business goals, the steps to achieve those goals, performance criteria, and compensation.

- **High job satisfaction**

Employees who saw their work as meaningful and who felt a sense of accomplishment also expressed higher commitment levels.

- **Inspired leadership and management**

Employees were more committed to companies that provided effective leadership and management—management that demonstrated to workers that the company wants to retain the best staff and motivate its employees for success.

- **Effective performance management systems**

Companies that created clear, objective performance management programs that instilled a "pay for performance" philosophy in the organization also had higher commitment levels.

- **Positive work environment**

Finally, employees were more committed to organizations that they felt created a safe, healthy working environment and provided them with the tools that they needed to do the job well.

Two areas that are often cited as keys for retention in China are conspicuously missing from this list—compensation and training and development. In fact, both of these areas were listed as top reasons why employees would choose to leave their companies. But, as mentioned above, it is essential to distinguish between programs that increase short-term employee satisfaction from programs that foster long-term commitment. Compensation and training and development are important but will not increase employee commitment by themselves.

The holistic approach

Companies operating in China must look at how to attract, retain, and foster long-term commitment in their employees holistically—they must create a complete system that finds the particular mix of priorities that will encourage employees to stay and to work productively.

Watson Wyatt's research shows that companies that succeed in China do so by implementing two main strategies. First, these companies build a foundation by ensuring that they provide competitive salaries and training opportunities for their employees. This provides a stable environment that ensures that most employees remain. Second, companies build on this foundation by focusing on long-term commitment to the organization. This should include a review of the company's policies and practices in the five drivers of commitment listed above.

Doing business in China will continue to be challenging for all companies, both foreign and domestic. Creating an HR system that addresses all of the factors relevant to retention and fosters long-term commitment to the organization is central to any company's long-term success in China. 完

China's Changing Labor Relations

Continued from page 23

A path for employers

In a climate where full enforcement of labor laws is still the exception rather than the norm, it is not difficult for an employer to stand out simply by implementing sound industrial relations policies within the workplace. These policies must involve genuine worker representation if they are to succeed in heading off legal problems. This may mean working with local level ACFTU branches or, given the union federation's limitations, helping workers to form their own grievance or bargaining committees. Since most of China's workers lack exposure to these concepts, good policies involve inviting outside experts, such as the ILO, to provide training for these committees.

Finally, corporations must find ways to insist that their vendors and suppliers in China abide by basic labor laws and international labor standards. Codes of conduct and privately hired monitors will be ineffective as long as there is no real threat of sanctions for noncompliance. At least one US-based retail corporation has taken the innovative step of including a labor rights clause in its letter of credit arrangements with direct suppliers not only in China but worldwide, creating the real threat of non-payment if the supplier violates the standards. Better still, companies might include such language in their contracts with both suppliers and vendors, with a clause similar to that requiring arbitration in the case of commercial disputes. The push from below for better legal implementation is only beginning to gain momentum. Companies can gain rather than lose from these changes, if they are willing to push from above. 完

Sales and Investment

SEPTEMBER 16–NOVEMBER 15, 2003 *Compiled by Isaac Cheng and Doris Grage*

The following tables contain 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*. Contracts denominated in foreign currencies are converted into US dollars at the most recent monthly rate quoted in the International Monetary Fund's International Financial Statistics.

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.

Advertising, Marketing & PR

INVESTMENTS IN CHINA

Toyota Motor Corp. (Japan)/Star Group Ltd. (Hong Kong)
Formed partnership to produce six weekly prime-time Chinese television shows encouraging car ownership. 11/03.

CMP Asia, a subsidiary of United Business Media plc (UK)/BolognaFiere SpA (Italy)
Formed joint venture, CMP Sinoexpo, to organize two major annual trade fairs in Shanghai. (UK:65%-Italy:35%). $3.1 million. 10/03.

Architecture, Construction & Engineering

CHINA'S EXPORTS

China Henan International Cooperation Group Co. Ltd.
Won contract from Zambia's state power utility Zesco Ltd. to build a power substation at Kansanshi, Zambia. $8 million. 11/03.

CHINA'S IMPORTS

Takuma Co. (Japan)
Won contract to build waste incineration plant in Beijing with capacity to treat one-seventh of Beijing's waste. $36.5 million. 11/03.

Aker Kvaerner ASA (Norway)
Won contract to provide engineering services on two chemical plants producing pure terephthalic acid. $170 million. 10/03.

F.L. Smidth Group (Denmark)
Won orders for 15 vertical cement mills from Anhui Conch Cement Co., Three Lions Cement Co. in Zhejiang, Shandong Shanlu Cement Co., Yunfu Tianshan Cement Co. in Guangdong, Yufeng Cement Co. in Guangxi, and Qinling Cement Co. in Shaanxi, and Liaoning Bohai Cement Co. $38.9 million. 09/03.

KMD Architects and Planners Inc. (US)
Won design contract from Jie Fang Daily News & Media Group in Shanghai. 09/03.

Automotive

INVESTMENTS IN CHINA

NIDEC (Dalian) Ltd., a subsidiary of NIDEC Corp. (Japan)
Will build a second factory to produce auto engines in Dalian, Liaoning. $30 million. 11/03.

Behr GmbH & Co. (Germany)/Shanghai Automotive Co. Ltd., a subsidiary of Shanghai Automotive Industry Corp.
Will form joint venture, Shanghai Behr Thermal Systems Co. Ltd., to develop, manufacture, and market automotive air conditioning and engine cooling products. (Germany:50%-PRC:50%). $15 million. 10/03.

Cheung Woh Technologies Ltd. (Singapore)/Changshu Zhongming Automobile Element Co. Ltd.
Formed joint venture, Tysan Precision Engineering (Suzhou) Ltd., to manufacture seat recliners and other automotive components in Suzhou, Jiangsu. (Singapore:50%-PRC:50%). $6 million. 10/03.

Dana Corp. (US)/Dongfeng Motor Corp. (Hubei)
Signed letter of intent to form joint venture to manufacture commercial-vehicle axles and components. 10/03.

DENSO Corp. (Japan)/Fawer Automotive Parts Co., Ltd., a subsidiary of China-FAW Group Corp. (Jilin)
Formed a joint venture to produce car air conditioning systems in Tianjin. (Japan:60%-PRC:40%). $12.25 million. 10/03.

Hitachi Ltd.(Japan)/Shanghai Highly (Group) Co. Ltd.
Will form joint venture, Hitachi Highly Automotive Products (Shanghai) Ltd., to manufacture and market engine starters and starter parts. (Japan:67%-PRC:33%). $21 million. 10/03.

Jiffy Lube International, a subsidiary of Royal Dutch/Shell Group (the Netherlands)/Shanghai Automotive Industry Corp.
Will form auto maintenance joint venture to start chain of quick-lube service stores in Shanghai. (the Netherlands:50%-PRC:50%). $30 million. 10/03.

Abbreviations used throughout text: ABC: Agricultural Bank of China; ADB: Asian Development Bank; ASEAN: Association of Southeast Asian Nations; AVIC I and II: China Aviation Industry Corp. I and II; BOC: Bank of China; CAAC: General Administration of Civil Aviation of China; CATV: cable television; CCB: China Construction Bank; CCTV: China Central Television; CDB: China Development Bank; CDMA: code division multiple access; CEIEC: China National Electronics Import and Export Corp.; China Mobile: China Mobile Communications Corp.; China Netcom: China Netcom Corp. Ltd.; China Railcom: China Railway Communications Co., Ltd.; China Telecom: China Telecommunications Group Corp.; China Unicom: China United Telecommunications Corp.; CIRC: China Insurance Regulatory Commission; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CNOOC: China National Offshore Oil Corp.; CNPC: China National Petroleum & Gas Corp.; COFCO: China National Cereals, Oils, and Foodstuffs Import and Export Corp.; COSCO: China Ocean Shipping Co.; CSRC: China Securities Regulatory Commission; DSL: Digital Subscriber Line; ETDZ: economic and technological development zone; GSM: Global System for Mobile Communication; ICBC: Industrial and Commercial Bank of China; IT: information technology; LNG: liquified natural gas; MII: Ministry of Information Industry; MOFTEC: Ministry of Foreign Trade and Economic Cooperation; MOU: memorandum of understanding; NA: not available; NORINCO: China North Industries Corp.; PAS: personal access system; PBOC: People's Bank of China; PetroChina: PetroChina Co., Ltd.; RMB: renminbi; SARFT: State Administration of Radio, Film, and Television; SEZ: Special Economic Zone; Import-Export Corp.; SINOPEC: China National Petrochemical Corp.; SINOTRANS: China National Foreign Trade Transportation Corp.; UNDP: United Nations Development Program; SME: small and medium-sized enterprise; WFOE: wholly foreign-owned enterprise

Mitsubishi Fuso Truck and Bus Corp. (Japan)/Anhui Xingma Automobile Co.

Signed MOU to form joint venture to produce and sell large trucks. (Japan:50%-PRC:50%). $80 million. 10/03.

PSA Peugeot Citroen (France)/Dongfeng Motor Corp. (Hubei)

Will buy out other shareholders in auto production venture, Dongfeng Peugeot Citroen, to expand 32% stakes to 50/50 joint venture. (France:50%-PRC:50%). 10/03.

Yanfeng Visteon Automotive Trim System Co. Ltd., a joint venture between Visteon Corp. (US) and Shanghai Automotive Industry Corp./Dongfeng Electronic Technology Co. Ltd., a subsidiary of Dongfeng Motor Corp. (Hubei)

Formed auto components joint venture in Wuhan, Hubei. (US:40%-PRC:60%). $30 million. 10/03.

Robert Bosch GmbH (Germany)

Will build auto parts plant to produce fuel injection pumps in Jiangsu. $675 million. 09/03.

Centurion Industries Ltd., a subsidiary of Guorun Holdings Ltd. (Hong Kong)/Zhejiang Geely Holdings Group Ltd.

Signed MOU to expand original investment in auto joint venture, Zhejiang Geely Guorun Automobile Co. Ltd., to produce Geely's Beauty Leopard, the first Chinese-made sports car. (Hong Kong:46.8%-PRC:53.2%). $113.6 million. 09/03.

Hino Motors Ltd. (Japan)/Shanghai Diesel Engine Co.

Formed joint venture in Shanghai to produce truck engines. (Japan:50%-PRC:50%). $30 million. 09/03.

Hyundai Autonet Co. (South Korea)/Shenzhen Hangsheng Electronics Stock Co. (Guangdong)

Will set up joint venture, Tianjin Hyundai Hangsheng Electronics Co., to produce electronic devices for vehicles in Tianjin. (South Korea:50%-PRC:50%). $1.25 million. 09/03.

Kowloon Motor Bus Holdings Ltd. (Hong Kong)

Signed agreement to buy 35% stake in Shenzhen Public Transportation Group Co. $60.1 million. 09/03.

Value Century Co. Ltd., a subsidiary of Guorun Holdings Ltd. (Hong Kong)/Shanghai Maple Automobile Co. Ltd., a unit of Zhejiang Geely Holdings Group Ltd.

Will form joint venture, Maple Guorun Automobile Co. Ltd., to produce Geely's Gale Wind and M203 economy cars in Shanghai. (Hong Kong:46.8%-PRC:53.2%). 09/03.

Volkswagen AG (Germany)/Shanghai Automotive Industry Corp.

Will form joint venture to build engine factory in Shanghai. $278 million. 09/03.

Aviation/Aerospace

CHINA'S IMPORTS

Boeing Co. (US)

Won contract for 30 Next-Generation 737 airplanes from Air China, Hainan Airlines, Shandong Airlines, Shenzhen Airlines, and Xiamen Airlines, to be delivered in 2005 and 2006. $1.7 billion. 11/03.

Airbus SAS (France)

Won contract from China Southern Air Holding Co. in Guangdong for four A330-200 airplanes, to be delivered in 2005. 10/03.

Parker Hannifin Corp. (US)

Won contract from AVIC I to provide fuel, hydraulic, and flight control actuation systems for the regional ARJ21 jet. $275 million. 09/03.

INVESTMENTS IN CHINA

Boeing Co. (US)/Shanghai Airport Authority, Shanghai Airlines Co. Ltd.

Will set up a maintenance and repair joint venture in Shanghai to service Boeing aircraft and reconfigure passenger planes as freighters. (US:51%-PRC:49%). $100 million. 10/03.

Thales SA (France)/Aerostrong Technology Co. Ltd., a subsidiary of China Spacesat Co. Ltd. (Shanghai)

Formed telematics joint venture, AeroThales, in Beijing to offer services based on satellite positioning systems and GSM communications such as vehicle fleet management or stolen car tracking. (France:49%-PRC:51%). 09/03.

OTHER

China Airlines, Ltd. (Taiwan)/China Eastern Airlines Corp. Ltd. (Shanghai)

Launched joint flights between Shanghai and Taipei, Taiwan, via Okinawa for shorter transit times. 09/03.

General Electric Aircraft Engines, a subsidiary of General Electric Co. (US)/Shenyang Liming Aero Engine Corp. Ltd. (Liaoning)

Signed contract to cooperate in producing CF34-10A engines for the regional ARJ21 jet. 09/03.

Banking & Finance

CHINA'S IMPORTS

Credit Suisse First Boston Corp. (US)

Hired by ICBC to advise on securitization of existing nonperforming loans. 10/03.

INVESTMENTS IN CHINA

Hana Bank (South Korea)

Signed contract to purchase Korea First Bank's 50% stake in Qingdao International Bank of China and inject additional $16 million in capital. $8.5 million. 11/03.

AIG Global Investment Corp. (Asia) Ltd., a subsidiary of American International Group, Inc. (US)/Huatai Securities Co., Suzhou New District High-Tech Industrial Co. Ltd., Jiangsu Communications Holding Co. Ltd., Guohua Energy Investment Corp.

Will form joint venture, AIG Huatai Fund Management Co. Ltd., to manage investment of AIG's premium revenue in China and offer fund products to investors. (US:33%-PRC:67%). $12 million. 10/03.

Morgan Stanley (US)/Shanghai Shengrong Investment Co. Ltd.

Signed agreement to form asset management joint venture to restructure state assets in Shanghai. 10/03.

OTHER

Citigroup Inc. (US)
Purchased $1.8 billion pool of Bank of China's nonperforming Hong Kong loans. 11/03.

Hong Kong Exchange and Clearings Ltd. (Hong Kong)
Will open Beijing office to strengthen connections with Chinese companies listing in Hong Kong. 10/03.

Australian Stock Exchange/Shenzhen Stock Exchange (Guangdong)
Signed MOU to establish closer ties with exchange programs and information sharing. 09/03.

HSBC Holdings plc (Hong Kong)
Signed agreement appointing CCB as its custodian bank. 09/03.

Chemicals, Petrochemicals & Related Equipment

CHINA'S IMPORTS

Inventa-Fischer AG (Switzerland)
Won contract from Jiangsu Senjo Chemical Fibre to build polyester chips and melt plant in Taicang, Jiangsu. $52.2 million. 10/03.

Inventa-Fischer AG (Switzerland)
Won contract to build polyester plant for Zhejiang Euro-Asia Film Material Co. in Shaoxing, Zhejiang. $58 million. 10/03.

Process Chemicals Co. (India)
Signed two-year contract with Dalian FTZ Richon International Trade Co. for bulk drugs and fine chemicals, including calcium d-saccharate, iodoform, sodium iodide, potassium iodide, and nikethamide. $2.2 million. 09/03.

INVESTMENTS IN CHINA

Lucite International Ltd. (UK)
Will construct methyl methacrylate plant at Caojing, near Shanghai, China. $60 million. 10/03.

BASF AG (Germany)
Will construct and operate an integrated polyurethane facility in Shanghai. $1 billion. 09/03.

OTHER

Royal Dutch/Shell Group (the Netherlands)
Signed four new licenses for its coal gasification technology with two new fertilizer plants in Yunnan, and two existing fertilizer plants owned by SINOPEC. 09/03.

Distribution, Logistics & Related Services

INVESTMENTS IN CHINA

Stonepath Group Inc. (US)
Agreed to purchase 55% stake in Shanghai freight forwarder Shaanxi Sunshine Express International Co. Ltd. $5.5 million. 11/03.

FedEx Corp. (US)
Will set up new regional headquarters in Shanghai. 10/03.

Education

INVESTMENTS IN CHINA

Silicon Graphics Inc. (US)/Beijing Normal University
Signed agreement to establish BNU-SGI Bioinformatics Education Center using SGI equipment. 09/03.

Electronics, Hardware & Software

CHINA'S IMPORTS

NCR Corp. (US)
Signed contract with CCB for security-enhanced ATM machines and software. $17 million. 10/03.

Wavecom SA (France)
Won contract from TCL Mobile Communication Co. Ltd. in Guangdong to supply its technology for use in several of TCL's new handset projects. 10/03.

Cirmaker Industry Co. Ltd., a subsidiary of Cirmaker Technology Corp. (Taiwan)
Won contract from Baoding city government to provide digital television set-top boxes to Baoding, Hebei. $13.6 million. 09/03.

INVESTMENTS IN CHINA

Hyundai Heavy Industries Co. (South Korea)/Jiangsu Nanji Tonghua Electrical Group Ltd.
Will set up joint venture, Jiangsu Hyundai Nanji Electrical Group Ltd., to produce power transformers, switchboards, and other electrical equipment. (South Korea:65%-PRC:35%). $60 million. 10/03.

Infosys Technologies Ltd. (India)
Will set up a software development center in Shanghai. $5 million. 10/03.

Jazz Semiconductor, Inc. (US)
Will purchase 17% stake in semiconductor foundry Shanghai Huahong NEC Electronics Co., a joint venture between Shanghai Huahong (Group) Co. and NEC Corp. of Japan. $700 million. 10/03.

Microsoft Corp. (US)
Announced establishment of its first PC Innovations Lab in Beijing to support technical innovations by domestic PC and hardware manufacturers. $2.2 million. 09/03.

NEC Corp. (Japan)/Shenyang Neusoft Co. (Liaoning)
Will cooperate to develop and market business software, with NEC supplying production and financial management software for sale under the Neusoft label. 09/03.

Taiwan Semiconductor Manufacturing Co. Ltd.
Will increase investment in its Shanghai semiconductor plant in the next four years to double capacity to 70,000 wafers per month. $898 million. 09/03.

OTHER

Konica Minolta Holdings Inc. (Japan)/Legend Group Ltd. (Beijing)
Forged an alliance to market PC printers. 10/03.

Motorola Inc. (US)
Transferred ownership of MOS-17 wafer fabrication facility in Tianjin to China's Semiconductor Manufacturing International Corp. in Shanghai in exchange for an equity stake. 10/03.

Fortress Corp. (Hong Kong)
Won exclusive retail rights to all Hisense Electrics Co. Ltd. audio-visual products sold in Hong Kong. 09/03.

Thomson SA (France)/TCL International Holdings Ltd., a subsidiary of TCL Corp.
Signed MOU to merge respective global television and digital video disc businesses and assets in joint venture. (France:33%-PRC:67%). $521 million. 11/03.

Energy & Electric Power

CHINA'S IMPORTS

Alstom SA (France)
Won contract from Shanghai Baosteel Group Corp. to provide maintenance services to co-generation power plant in Shanghai for eight years. 10/03.

Hamon & Cie SA (Belgium)
Won contract from Shanxi Huaze Aluminum Electricity Co. Ltd. for air-cooling equipment for power generation facilities. $20.4 million. 10/03.

Itochu Corp. (Japan), Hitachi Ltd. (Japan)/China Dongfang Electric Corp. (Sichuan)
Jointly received order from Shanxi Lujin Wangqu Power Co. to provide turbines and a power generator for a coal-fired power plant in Shanxi. $166 million. 09/03.

INVESTMENTS IN CHINA

China Resources Power Holding Co. Ltd. (Hong Kong)/ Zhengzhou Dengfeng Electricity Power Co. (Henan)
Will form joint venture to build thermal power plant in Zhengzhou, Henan. (Hong Kong:75%-PRC:25%). $217 million. 10/03.

Poly Investments Holdings Ltd. (Hong Kong)
Bought stake in two power plants in China from Asian Power Development Ltd. $20.7 million. 10/03.

Mitsubishi Electric Corp. (Japan)
Will build plant to produce factory automation equipment in Dalian, Liaoning. $11.9 million. 10/03.

Environmental Equipment & Technology

CHINA'S IMPORTS

Veolia Water, division of Veolia Environnement (France)
Signed contract to operate wastewater treatment plant in Lugouqiao, Beijing. $58.2 million. 10/03.

Zenon Environmental, Inc. (US)
Won two contracts from Datong Power Plant Co. Ltd. and Beijing Yanshan Petrochemical Co. Ltd. for wastewater treatment using its membrane technology. $6 million. 11/03.

Gamesa Corporacion Tecnologica SA (Spain)
Received contracts from Ningxia Electric Power Co. for 12 wind turbines and from Gansu Jieyuan Electric Power Co. for 36 turbines. $28.5 million. 09/03.

Salcon Bhd. (Malaysia)
Received build-operate-transfer contracts from Linqu County and Anqui, Qingzhou, and Changyi, all in Shandong, to supply water for 50 years. 09/03.

INVESTMENTS IN CHINA

Nippon Steel Corp. (Japan)/Shougang Group (Beijing)
Will form joint venture in Beijing to manufacture and market dust-free coke-cooling facilities. (Japan:60%-PRC:40%). $1 million. 09/03.

OTHER

PBA Holdings Bhd. (Malaysia)/China International Water and Electric Corp. (Beijing)
Agreed to explore water-related projects in developing countries, including water management systems that integrate water treatment, water distribution, and computerized billing. 09/03.

Food & Food Processing

INVESTMENTS IN CHINA

Danisco A/S (Denmark)/Henan Tianguan Group Co. Ltd.
Will form joint venture, Danisco Tianguan (Nanyang) Co., Ltd., to produce xanthan gum as a food additive in Nanyang, Henan. (Denmark:80%-PRC:20%). 10/03.

Suntory Ltd. (Japan)
Will form joint venture, Suntory Shanghai Foods Co., with other Shanghai firms to operate a new beverage plant in Shanghai to meet growing demand. (Japan:93.6%-PRC:6.4%). $15.6 million. 10/03.

Yakult Honsha Co. (Japan)
Will establish subsidiary, Shanghai Yakult Co., to produce and sell fermented milk drinks. $27.7 million. 10/03.

OTHER

Gallaher Group plc (UK)/Shanghai Tobacco (Group) Corp.
Will swap manufacturing and distribution access for Gallaher's Memphis brand in Chinese cigarette market for manufacturing and distribution access for Shanghai Tobacco's Golden Deer brand in Russian market. 11/03.

Forestry, Timber, & Paper

CHINA'S IMPORTS

Metso Paper Inc. (Finland)
Won order from Fuzhou Wood-Based Panel Plant for equipment, engineering services, and process automation for its main particleboard production line in Fujian. $14.6 million. 10/03.

Metso Paper Inc. (Finland)
Won order from Homanit Co. Ltd., a chipboard joint venture of Germany's Homanit GmbH, Robin Resources (Malaysia) Sdn. Bhd., and Chinese parties, for a high density fiberboard production line in its Yichun, Jiangxi, factory. 10/03.

Metso Paper Inc. (Finland)
Won order from Shandong Bohui Paper Holdings Co. Ltd. for pulp production line. 09/03.

Metso Paper Inc. (Finland)
Won order from Shandong Chenming Paper Holdings Co. Ltd. for folding boxboard coating line. $16.8 million. 09/03.

Insurance

INVESTMENTS IN CHINA

American International Group, Inc. (US)
Purchased 9.9% stake in PICC Property & Casualty Co. 11/03.

MetLife, Inc. (US)/Capital Airports Holding Co. (Beijing)
Signed agreement to form life-insurance joint venture, Sino-US MetLife Insurance Co. Ltd., in Beijing. 10/03.

HSBC Insurance Brokers Ltd., a unit of HSBC Holdings plc (UK)/Shanghai Hua Yu Asset Management Ltd. and Beijing Zhong Ke Engineering Co.
Signed agreement to form joint venture, Beijing HSBC Insurance Brokers Ltd., to offer insurance brokerage and risk management services to domestic and international clients. (UK:24.9%-PRC:75.1%). $1.9 million. 10/03.

Internet/E-Commerce

INVESTMENTS IN CHINA

Paystone Technologies Corp. (Canada)/Jingzhengtong Information Network Technology Corp. (NA)
Will form joint venture to offer online payment services. $9 million. 10/03.

OTHER

Sohu.com
Signed agreement to deliver The Walt Disney Co.'s online and wireless content and services in China, including design, production, and hosting services for Disney's Chinese website. 11/03.

Light Industry/Manufacturing

INVESTMENTS IN CHINA

Fuji Xerox Co. (Japan)
Will implement advanced production management system in its Shanghai and Shenzhen factories to improve links to headquarters in Japan. $9.2 million. 10/03.

Fujitsu General Ltd. (Japan)/Little Swan Group Co. (Jiangsu)
Will set up joint venture, F.G.L.S. Electric Co., in Jiangsu to produce and sell motors for air conditioners. (Japan:50%-PRC:50%). $6.3 million. 10/03.

Cheung Kong (Holdings) Ltd., Hutchinson Whampoa Ltd.(Hong Kong)/Guangzhou International Toy Center (Guangdong)
Will form joint venture to develop toy production center and theme park in Guangzhou. $145 million. 09/03.

Machinery & Machine Tools

INVESTMENTS IN CHINA

Hyundai Heavy Industries (Japan)/Changlin Co. (Jiangsu)
Will form machinery manufacturing joint venture in Changzhou, Jiangsu. (Japan:60%-PRC:40%). $29.9 million. 11/03.

Shingchang Electrics Co., U-Chang Precision Co. Ltd. (South Korea), Tokai Rika Co. Ltd. (Japan)/Guizhou Guihang Automotive Components Co. Ltd.
Will form joint venture, Suzhou Huachang Mechanical and Electrical Co., to manufacture automotive key locks and switches in Suzhou, Jiangsu. (South Korea:45%-Japan:20%-PRC:35%). $3 million. 10/03.

OTHER

Cincinatti Lamb, a unit of Unova Industrial Automation Systems (US)/Shenyang Machine Tool Co. (Liaoning)
Signed alliance to share technical information and process knowledge while using Cincinnati Lamb's system integration. 10/03.

Media, Publishing & Entertainment

INVESTMENTS IN CHINA

NHN Corp. (South Korea), PCCS Co. Ltd. (Hong Kong)
Formed joint venture in Hong Kong to produce content for the PRC online gaming market. (South Korea:42.9%-Hong Kong:57.1%). $7 million. 10/03.

Warner Brothers Entertainment Inc. (US)/Shanghai Film Group, Shanghai United Circuit
Signed agreement to open 10 new multiplex movie theaters. 10/03.

Metals, Minerals & Mining

CHINA'S INVESTMENTS ABROAD

Korea Resources Corp. (South Korea)/Xi'an Xijun New Materials Co. Ltd. (Shaanxi)
Formed rare earth joint venture, Xi'an Maxsun New Materials Co. Ltd., to research, develop, and produce fluorescent powder and soft magnetic materials. (South Korea:49%-PRC:51%). $5.1 million. 10/03.

INVESTMENTS IN CHINA

Alcan Inc.(Canada)/Ningxia Electric Power Development and Investment Co. Ltd., Qingtongxia Aluminum Co. (Ningxia)
Will establish joint venture to build 150-kiloton prebake smelter in Ningxia. (Canada:50%-PRC:50%). $300 million. 10/03.

The Yates Companies, Inc. (US)/Jiangxi Copper Co. Ltd.
Will form joint venture to produce super-thin copper foil in Nanchang, Jiangxi. $70.1 million. 10/03.

Michelago Ltd. (Australia)/Laizhou Jincheng Gold Mining Co. Ltd. (Shandong)
Signed letter of intent for an exploration joint venture covering an existing gold mining region in Jiaodong Peninsula (Shandong). 09/03.

Sparton Resources Inc. (Canada)
Signed letter of intent with Cana-Trimax Investment Inc., to acquire its part in a joint venture in Yunnan with Yunnan Nuclear Brigade 201 for mineral exploration in the Luxi Gold Belt. 09/03.

ThyssenKrupp AG (Germany)/Anshan Iron and Steel Group Corp. (Liaoning)
Formed partnership to set up three new plants for auto sheet production in Changchun, Jilin; Guangdong, and Shanghai. $75 million. 09/03.

Petroleum, Natural Gas & Related Equipment

CHINA'S IMPORTS

Hyundai Heavy Industries Co., Ltd. (South Korea)
Received order from CNOOC China, a joint venture between CNOOC and SINOPEC, to build a 472 km-long undersea oil pipeline connecting Ningbo, Zhejiang, to oilfields in the East China Sea. $130 million. 10/03.

Technip-Coflexip (France)
Won contract from Cangzhou Cang Hua Chemical Industry to design and build petrochemical factory in Guangzhou. $50 million. 09/03.

CHINA'S INVESTMENTS ABROAD

CNOOC
Signed agreement to purchase equity stake in and secure LNG flows from Gorgon natural gas project in western Australia. 10/03.

INVESTMENTS IN CHINA

BP Global Investment Ltd., a subsidiary of BP plc (UK)/Sinopec Zhenhai Refining & Chemical Co.
Formed joint venture, BPZR (Ningbo) LPG Co., to market Zhenhai's liquefied petroleum gas production to domestic consumers. (UK:50%-PRC:50%). $25 million. 10/03.

BP plc (UK)/Guangzhou Development Industrial Shareholding Corp. (Guangdong)
Signed agreement to form joint venture, BP Guangzhou Development Oil Products Co. Ltd., to build and operate an oil depot in Nansha, Guangdong. (UK:40%-PRC:60%). $86 million. 10/03.

Xinao Gas Holdings Ltd. (Hong Kong)/Zhuzhou City Coal Gas (Hunan)
Formed piped-gas joint venture in Zhuzhou, Hunan. (Hong Kong:55%-PRC:45%). $16.3 million. 10/03.

Pacific Oil & Gas Ltd. (Hong Kong)
Signed agreement with Xiamen municipal government in Fujian to build a 1,400 MW power plant. $350 million. 09/03.

Xinao Gas Holdings Ltd. (Hong Kong)/Kaifeng City Development Co. (Henan)
Formed piped gas joint venture in Kaifeng, Henan. (Hong Kong:90%-PRC:10%). $10 million. 09/03.

OTHER

Gladstone Power Energy Corp. USA Holdings (US)/China United Coalbed Methane Co. Ltd. (Beijing)
Signed agreement to explore coalbed methane resources in Huangshi, Hubei, over 30 years. 10/03.

PTT plc (Thailand)/SINOCHEM
Signed MOU to set up a 10-member committee to investigate areas of cooperation in oil and gas exploration, production and transportation, trading, and marketing in Thailand and China. 10/03.

Pharmaceuticals

INVESTMENTS IN CHINA

Meiji Seika Kaisha Ltd., Nichimen Corp. (Japan)/Shandong Lukang Pharmaceutical Group Co. Ltd.
Will form pharmaceutical joint venture. $20 million. 10/03.

Orchid Chemicals and Pharmaceuticals (India)/North China Pharmaceutical Co. Ltd. (Hebei)
Will form joint venture to produce sterile cephalosporin bulk actives and formulations. (India:50%-PRC:50%). $25 million. 09/03.

Ports & Shipping

CHINA'S IMPORTS

Nippon Yusen K.K. (Japan)
Won 10-year contract from China's Baoshan Iron & Steel Co. to transport iron ore from western Australia to Shanghai from 2005. 11/03.

INVESTMENTS IN CHINA

Modern Terminals Ltd. (Hong Kong)/Suzhou city government
Will construct four-berth container terminal, Suzhou Modern Terminals, in Jiangsu, with handling capacity of 1 million twenty-foot-equivalent-unit containers per year. (Hong Kong:70%-PRC:30%). 11/03.

Rail

CHINA'S IMPORTS

Alstom SA (France)
Won contract from Shanghai Mass Transit Yangpu Line Development for 28 six-car trains. $214.1 million. 10/03.

Harsco Corp. (US)
Won contract from Ministry of Railways for railway track maintenance equipment. $68 million. 10/03.

Raw Materials

INVESTMENTS IN CHINA

JFE Steel Corp. (Japan)/Guangzhou Iron & Steel Enterprises Holdings Inc. (Guangdong)
Will form joint venture to produce surface-treated steel sheets for use in construction, cars, and consumer electronics. (Japan:51%-PRC:49%). 11/03.

Hanglas Group (South Korea), Saint-Gobain Group (France)/China Luoyang Float Glass Group Co. (Henan)
Formed flat glass joint venture in Qingdao, Shandong, to supply construction and automotive markets. (South Korea:45%-France:45%-PRC:10%). $52.66 million. 10/03.

Raute Precision OY, a subsidiary of Raute OYJ (Finland)
Won orders from Fu Yao Glass Co. Ltd., Guangzhou CSG Glass Co., and one other Chinese float glass producer for three new glass batch plants. $4.9 million. 10/03.

Real Estate & Land

CHINA'S INVESTMENTS ABROAD

Xinjiang Construction & Engineering (Group) Co. Ltd./Jasatera Bhd.(Malaysia)
Signed MOU to develop 324,000 m^2 commercial area in Tanjung Lumpur, Malaysia. $105 million. 09/03.

INVESTMENTS IN CHINA

Kerry Properties Ltd. (Hong Kong)
Signed agreement to purchase 50% stake in residential property project in Beijing's Chaoyang district from Beijing Huayuan Property Co. $175.1 million. 09/03.

Sino Prosper Holdings Ltd. (Hong Kong)/Beijing Jingyi Zhiye Investments Co. Ltd.
Signed letter of intent to plan joint property redevelopment project in Nanjing, Jiangsu. (HK:51%-PRC:49%). $24.2 million. 09/03.

Retail/Wholesale

CHINA'S INVESTMENTS ABROAD

China Steel Corp., President Department Store (Taiwan)/Nanjing Central Market Department Store (Jiangsu)
Will open hypermarket joint venture in Nanjing. $16 million. 10/03.

Decathlon SA (France)/Shanghai Zhonglu Industry
Will form joint venture to open retail sporting goods outlets in China. (France:65%-PRC:35%). $6 million. 10/03.

Eastman Kodak Co. (United States)
Bought 20% stake in China Lucky Film Corp. (Hebei) and signed 20-year cooperation agreement. $100 million. 10/03.

OTHER

Izumiya Co. Ltd. (Japan)/Lianhua Supermarket Holdings Co. Ltd. (Shanghai)
Signed agreement to cooperate on product development and distribution of each other's products. 11/03.

Telecommunications

CHINA'S IMPORTS

Nokia Corp. (Finland)
Won contract from China Unicom to expand its GSM network capacity in Zhejiang by 200,000 subscribers. $10 million. 11/03.

Alcatel Shanghai Bell, a joint venture of Compagnie Financière Alcatel SA (France) and MII
Won contract from China Mobile to upgrade networks in Chongqing, Guizhou, and Zhejiang. $50 million. 10/03.

LM Ericsson AB (Sweden)
Won contract from China Netcom for a gateway for Beijing fixed-line network. 10/03.

Kentz International Ltd. (Ireland)
Won contract from CSPC Nanhai Petrochemicals Project, a joint venture between CNOOC and Royal Dutch/Shell Group, to install telecommunications network in its petrochemical complex in Guangdong. $12 million. 10/03.

Lucent Technologies Inc. (United States)
Signed contract with Fujian postal and telecom administration to provide 5ESS and 5E-XC switches for network enlargement projects in Fuzhou, Xiamen, and Quanzhou, all in Fujian. $20 million. 10/03.

Nokia Corp. (Finland)/Shenzhen SEG Communication Co., Ltd.
Will jointly construct digital TETRA mobile radio system for Shenzhen Metro Co., Ltd. to enable secure communications for personnel on the Shenzhen Metro train network. 10/03.

Siemens AG (Germany)
Won contract from China Unicom to expand capacity by more than 1 million users in its GSM networks in Beijing, Jilin, Liaoning, Shandong, and Shanghai. $84 million. 10/03.

UT Starcom, Inc. (US)
Won contract from China Netcom for an expanded deployment of PAS in several cities in Heilongjiang. $32 million. 10/03.

Lucent Technologies (US)
Won contract from China Unicom for CDMA2000 equipment for six provinces and municipalities. $230 million. 09/03.

Nokia Corp. (Finland)
Won contract from China Unicom for GSM equipment in Shanghai. $33 million. 09/03.

UT Starcom, Inc. (US)
Won contract from China Netcom for PAS equipment in Chengdu, Sichuan. $30 million. 09/03.

UT Starcom, Inc. (US)
Won contract from China Telecom for PAS equipment in Liaoning. $20 million. 09/03.

UT Starcom, Inc. (US)
Won contract from China Telecom for PAS equipment in Zhejiang. $27 million. 09/03.

INVESTMENTS IN CHINA

Panasonic Mobile Communications Co. (Japan), UTStarcom, Inc. (US)
Will form mobile handset joint venture, Universal Communications Technology Hangzhou, in Zhejiang to build W-CDMA and TD-SCDMA handsets for domestic and international markets. (Japan:51%-US:49%). $10 million. 11/03.

OTHER

Intel Corp. (US)
Signed MOU with Shanghai Telecom and Guangdong Telecom to speed up deployment of wireless internet access. 10/03.

Microsoft Corp. (US)/Shenzhen Zhongxing Telecom (ZTE)
Signed agreement to develop telecommunications software. 09/03.

Sun Microsystems Inc. (US)/Beijing ZRRT Communications Technology, China Unicom
Signed agreement to form strategic marketing alliance for Java-based wireless data applications and services. 09/03.

Tourism & Hotels

INVESTMENTS IN CHINA

Hongkong & Shanghai Hotels Ltd. (Hong Kong), Starwaly Properties (Group) Pty. Ltd. (Australia)
Signed agreement to form joint venture to build a Peninsula hotel in Shanghai. 11/03.

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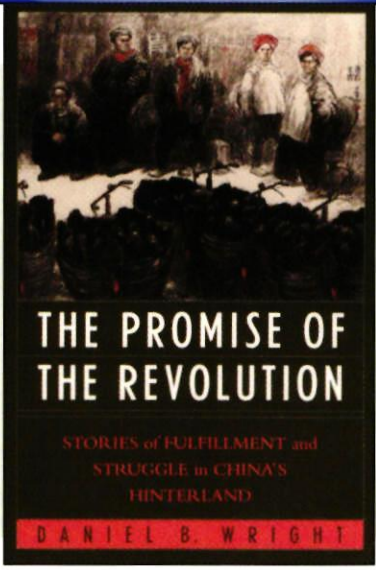


The Promise of the Revolution: Stories of Fulfillment and Struggle in China's Hinterland

by Daniel B. Wright. Lanham, MD: Rowman & Littlefield Publishers, Inc., 2003, 216 pp. $24.95 softcover, $65.00 hardcover.

Not three feet of flat land, not three days without rain, not a family with three grams of silver, goes an old Chinese saying about Guizhou, one of China's poorest provinces. Daniel Wright spent two years living in Duyun, a small, gray city in southeastern Guizhou. His stay there was funded by a fellowship from the Institute of Current World Affairs, his aim "to gain an in-depth understanding of life as it is lived by the people." In return, he wrote fascinating monthly briefs on his observations of daily life among different strata of Guizhou society. These briefs formed the basis for *The Promise of the Revolution: Stories of Fulfillment and Struggle in China's Hinterland.*

Wright talked to village elders, proud to have witnessed the Red Army pass through on the Long March in 1935, as well as to their grandchildren, who couldn't care less about such ancient history. He stayed with farmers scratching a scant living from the shallow mountain soil, but found that, in nearly every family, everyone of working age who could be spared from the farm was off working in a city, whether in nearby Duyun or farther away in one of the great coastal cities. He spent a few days chatting with migrants working as push-cart haulers in Duyun and joined the annual crush of migrants returning to work in Guangzhou by train after a visit home for Chinese New Year.

He met rural families unable to afford to send their children to school and interviewed officials from the China Youth Development Foundation and Project Hope, which support rural schools and grant scholarships to students too poor to pay the necessary fees. He even visited Qiannan Computer Vocational-Technical School, a "school established by social forces" (a politically correct term for a private school).

Like other Chinese localities, Guizhou is trying to reform its state-owned enterprises (SOEs), most of which are the legacy of Mao Zedong's "Third-Line" policy, which moved entire factories to remote parts of the interior to protect them from foreign attack. Wright talks with current and former SOE workers, some of whom have gone into business for themselves.

Wright conveys government officials' hope that tourism will help absorb some of the unemployed in Guizhou, which has plenty of natural beauty. He recounts a trip to a resort on a rare bit of grassland tucked away in the mountains, as well as former Premier Zhu Rongji's advice to those trying to develop tourism in Guizhou: "Just focus on making good use of your abundant natural resources.... There is no need to invest in all kinds of crazy stuff (*luanqibazao*), like fancy hotels.... Just make sure you build decent bathrooms, and keep them clean...."

Wright observes the resurgence of religion and the emergence of the local nouveau riche—and checks out who plays, and who works, at the Guiyang Golf Club.

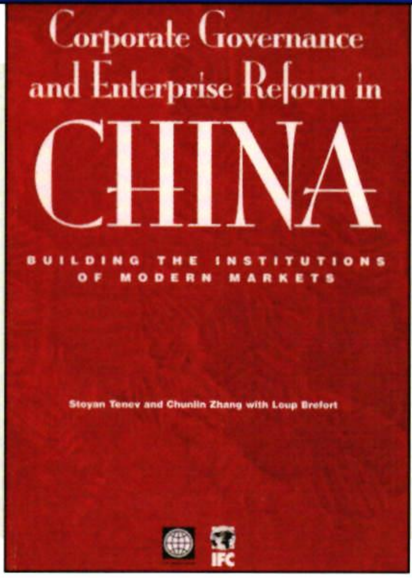
One of the most valuable aspects of *The Promise of the Revolution* is Wright's ability to let the people he meets speak for themselves. Even when he paraphrases, their voices come through loud and clear. Here he describes the daily grind facing his neighborhood "milk lady":

> *Every morning at 7:00 A.M., Li Fangfang and her husband ride their three-wheel, flatbed bicycles to a wholesale milk distributor, package and load 2,000 six-ounce bags of fresh milk onto their bicycles, and prepare the delivery list. Ms. Li then rushes home to prepare lunch for her child. Just after lunch, she and her husband begin their deliveries. From 1:00 to 8:30 P.M., the two of them on separate routes, Li Fangfang and her husband deliver fresh milk to over 400 families. Their reward for this back-breaking work, which Ms. Li and her husband now do seven days a week, is only 20 yuan (U.S. $2.40) between them, per day.*
>
> *...Six hundred yuan per month, she says, is barely enough to make it, and that's if they are very careful with their money, and no one gets sick. If a family member were to fall ill, they have no medical insurance.... Though she speaks with long sighs between her sentences, I could hear a healthy sense of fight in her voice: "No matter how difficult it is, I'd rather work for myself than for some factory boss who becomes wealthy off my hard work. Though not much, at least the money we make is our own," she said.... Our neighborhood "milk lady," in her effort to adjust to the blows government reform has dealt her, is not about to give up.*

Few foreign businesspeople get outside of China's main cities, yet that is where most Chinese still live—in rural areas, towns, and small provincial cities. And, as Wright discovered, that is where some of the simmering tensions that now have the full attention of China's leaders—rural economic stagnation, disintegrating education and healthcare systems, excess labor and high unemployment, intense resentment of corrupt and high-handed local officials—are beginning to come to a boil. Readers who want to know what life is like for ordinary Chinese outside of the big cities should delve into this slim, well-written, engaging, and eye-opening volume.

—*Virginia A. Hulme*

Virginia A. Hulme is associate editor of *The CBR.*



Corporate Governance and Enterprise Reform in China: Building the Institutions of Modern Markets

by Stoyan Tenev and Chunlin Zhang. Washington, DC: World Bank, March 2002. 168 pp. $25.00 softcover.

Corporate Governance and Enterprise Reform in China: Building the Institutions of Modern Markets is the most comprehensive account of Chinese corporate governance practices available today. The work clearly delineates the governance problems that China is facing while it builds modern financial institutions and efficient capital markets and explains why the current efforts to clarify the ownership rights of Chinese firms are crucial to the nation's overall economic reform program. Although the work expresses only the authors' opinions, its sponsorship by the International Finance Corp., where Stoyan Tenev is head economist for East Asia, and the World Bank, where Chunlin Zhang is a senior enterprise restructuring specialist, demonstrates the central importance of governance issues in emerging market economies.

According to the authors, the poor performance of state-owned enterprises (SOEs) stems largely from the flawed ownership and control system. SOEs often have inadequate incentive structures, and local governments shield corporations from market discipline. The authors argue convincingly that the establishment of an effective corporate governance system would help rectify these problems. Indeed, the creation of the State Asset Management Commission at the 2003 National People's Congress illustrates the government's efforts to streamline control of SOEs.

Tenev and Zhang launch their discussion of the state of corporate governance in China by summarizing the role of corporate control in the country's economic reforms since 1978. Initial efforts to boost efficiency through managerial performance incentives failed to produce significant results because the managers faced no penalties for poor performance. Further efforts to diversify ownership by corporatizing firms confused the matter because firms were left under an array of local government and ministerial claimants that both owned and regulated the companies. This blatant conflict of interest produced incentives for local governments to influence and protect companies under their jurisdiction.

The book tackles several critical aspects of corporate reform in China, including the corporate governance of small and medium-sized enterprises; ownership and control of large listed corporations; and the role of the stock market, transparency, and information disclosure. Tenev and Zhang assert that dominant state ownership and the government's ability to appoint managers and directors is the most important impediment to better corporate governance and improved capital market efficiency. The authors examine the level of state control of publicly listed firms and demonstrate that by controlling roughly two-thirds of all equity shares, the state effectively maintains control over 95 percent of all listed firms. The book methodically examines the size, structure, composition, and characteristics of Chinese boards of directors, a crucial level of analysis for understanding the mechanics of corporate control.

Tenev and Zhang present several important recommendations for improving corporate governance in China. Paramount among these is reducing the political control over firms by separating the state's corporate control from its cashflow rights. Tenev and Zhang propose

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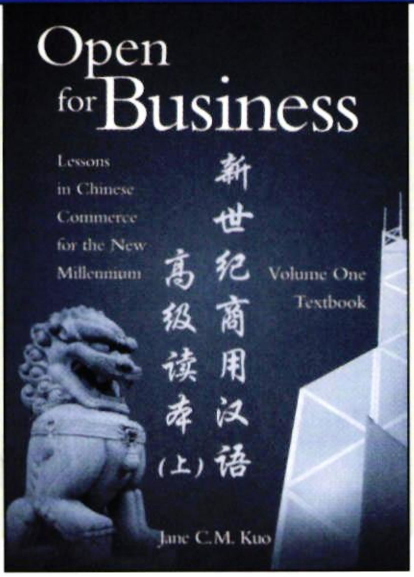

Open for Business: Lessons in Chinese Commerce for the New Millennium

by Jane C.M. Kuo. Boston, MA: Cheng & Tsui Co., 2001. 344 pp. (Vol. 1), 480 pp. (Vol. 2), softcover. Prices: Vol.1 and Exercise Book, $39.95; Vol. 2 (including exercises), $39.95; CDs for Vols. 1 and 2, $39.95 each.

Open for Business is a textbook for advanced students of Chinese interested in improving their business-related vocabulary. Each chapter takes the following format: first, the text; second, background information on the lesson's topic; third, vocabulary; fourth, grammar and usage explanations; and fifth, a section explaining synonyms. The text and the vocabulary are in simplified characters, traditional characters, and English, while the vocabulary section also has pinyin. Grammatical explanations appear in English; sample sentences appear in simplified characters and English only. The book wraps up with three indexes, all ordered alphabetically in pinyin: vocabulary, terms with grammar and usage explanations, and synonyms. Exercises—fill-in-the-blanks, completing sentences, matching, and reading comprehension questions—reinforce the lessons.

So far, this sounds like most Chinese textbooks. What sets this one apart is its subject matter, which covers a range of topics relevant to China's current business and economic environment, such as private enterprise, market research, marketing trends, brand consciousness, interest and foreign exchange rates, management, foreign trade, China's "pillar" enterprises, and "hot topics" including environmental protection, the Internet, intellectual property rights, and technology transfer. For students of Chinese used to textbooks published in the PRC, many of the example sentences are refreshing:

"Doing business through 'guanxi' can prevent being cheated."

"The constitution has articles that guarantee people's freedom of speech and religion."

"Politics and economics are closely related."

"The government has adopted various measures to prevent bribery and corruption."

"Before signing contracts, companies should carry out due diligence to prevent fraud."

In short, this set of textbooks is a welcome addition to the rather narrow range of options for students of business Chinese.

—*Virginia A. Hulme*

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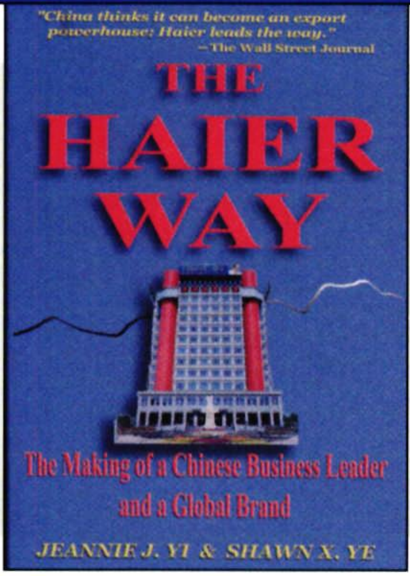
several methods for reducing state ownership in a systematic manner, including equity swaps, auctions, partnerships with institutional investors, and converting existing state shares into preferred non-voting shares. These approaches could protect the state's financial interests while freeing firms from government control and minimizing financial market disruptions. Next, the authors argue that allowing foreign and domestic institutional investors to play a larger role in the financial markets will have a stabilizing effect, as the presence of these investors will likely influence the managerial structure and corporate governance practices of firms. In fact, large qualified foreign institutional investors have recently been approved to purchase domestic A shares. Finally, the authors advocate strengthening the rights of minority shareholders to voice their opinions, to determine the timing and agenda of board meetings, and to bring civil lawsuits and class actions against fraudulent corporations and directors.

The main weakness of the book is that it includes only sparse references to and examples of actual companies and their practices. Fuller use of anecdotes and illustrations would provide a richer understanding of the issues. Increasingly, Chinese firms are publicly disclosing information about their boards of directors, management compensation, stock option ownership, and minority shareholders. Indeed, a firm-level perspective on corporate governance is essential to understanding the practical implications of these issues.

This book would be useful to readers generally interested in China's contemporary economic reforms. It is strongly recommended for readers with a keen interest in corporate control and financial institution-building, as it provides an expert overview and analysis of some of the core issues that the Chinese government will be attempting to resolve over the coming years.

—*Richard Daniel Ewing*

Richard Daniel Ewing is a non-resident fellow of Chinese studies at the Nixon Center in Washington, DC, and a finance major at the Wharton School of the University of Pennsylvania.



The Haier Way

by Jeannie Yi and Shawn Ye. Dumont, NJ: Homa & Sekey Books, 2003. 280 pp. $24.95 hardcover.

The story of Haier Group is a great tale of transformation and innovation in China's manufacturing industry. Jeannie Yi and Shawn Ye's account of the evolution of Chinese white goods manufacturer Haier, *The Haier Way*, is a respectable rendition of how the Qingdao General Refrigerator Factory, an inefficient collectively owned enterprise, transformed itself into the modern appliance powerhouse it is today. Central to the story is the leadership of CEO Zhang Ruimin.

Foreign managers will find that the book's greatest strength is that it reveals successful techniques for managing and integrating formerly state-owned enterprises into entrepreneurial companies in China. Foreigners may find Zhang's use of self-criticism, a vestige of the Cultural Revolution, to motivate the employees of an acquisition target surprising, but such criticism is a common management tool in Chinese companies. Zhang's navigation of labor issues with the employees of the Yellow Mountain Television Co., which Haier took over, illustrates the differences that exist between China's state-owned and entrepreneurial enterprise cultures. Particularly compelling is the story of how Zhang threatened to shut down Yellow Mountain after its employees protested about the introduction of one-year employment contracts renewable based upon performance. Haier challenged the "iron rice bowl" mentality and prevailed against striking workers as well as the local authorities who had initially sided with the workers.

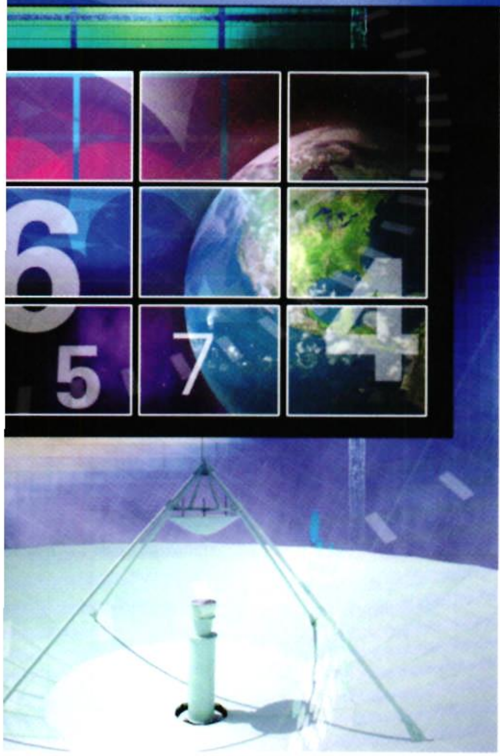
More important, this segment of the book, which describes how Haier solved a myriad of problems and successfully absorbed Yellow Mountain, provides an invaluable roadmap for how to resolve the inevitably delicate integration issues that arise when an entrepreneurial company acquires a state-owned company.

The narrative parts of the book are constructed solidly and seem well-researched, but at times are overly focused on Zhang—Ye and Yi spend much of the book describing Zhang's leadership philosophy and accomplishments. The authors also try too hard at times to validate the Haier business model through comparisons with western business models. Analogies between Zhang Ruimin and Jack Welch often seem strained. In attempting to demonstrate the novelty of Zhang's management, the authors miss a critical point: that it was not so much the substance of Zhang's theories that was key to Haier's success but the manner in which these theories were implemented that give Haier its advantage. Zhang consistently emphasized quality in management, process, and products and integrated all of these concepts through skillful application of Chinese cultural traditions.

As the first to recognize the significance of the Haier story, Yi and Ye deserve praise for bringing to light the first of what will eventually be many Chinese company success stories. For managers of foreign-invested enterprises in China, *The Haier Way*, is worth a read.

—*Auria Styles*

Auria Styles is manager, Business Advisory Services, at the US-China Business Council in Washington, DC.



The Rise of Independent TV Producers

Foreign media companies are pressing PRC regulators to open up China's cable TV market. (The 2003 Catalogue Guiding Foreign Investment in Industry forbids foreign investment in program production, publishing, and broadcasting.) In fact, some foreign TV production companies have already slipped their programming into the mainland by way of China's growing number of independent production companies. These companies are not only intermediaries for foreign media companies, but also major content providers for local TV networks.

The emergence of independent TV production companies is a result of China's competitive TV advertising market. China's TV broadcasters currently rely mainly on advertising for their revenues. To attract advertising from increasingly choosy advertisers, these broadcasters must constantly boost the quality and variety of their programs. The demand for good programming in turn has spawned a growing number of independent TV producers. Beijing-based Enlight TV Production Co. Ltd. provides one example. Established in October 1998, the company currently produces programs that are broadcast daily over some 230 TV stations across China. Meanwhile, its revenue from selling ads (independent producers often get paid in ad slots rather than cash) rose to ¥150 million ($18.1 million) in 2002 from ¥4 million ($483,840) in 1999.

Roughly 80 percent of programs broadcast by China's TV stations today come from independent producers. Independent programming dominates most content categories, with the exception of news, which is still tightly regulated by the government. What advantages do independent TV producers have compared with state-owned TV producers and networks? First, their programs better reflect most viewers' daily lives, or at least a vision of daily life that viewers want to see—independent producers frequently survey China's TV viewers to gauge their programming preferences. Second, these companies generally produce more innovative and entertaining TV programs. And last, they have started to cooperate with foreign media companies in bringing foreign programming into China. Tanglong International Media, for example, began importing programs from Viacom's Nickelodeon Channel in 2001, while Hainan Holdings inked a deal to introduce Disney's cartoons to mainland audiences in the same year.

The most popular foreign programs have traditionally been drama shows imported from Hong Kong and Taiwan, but South Korean programming has recently been making inroads in China. With the exception of the drama shows from Taiwan, most of the programs are dubbed, though some are subtitled.

Recently, imports of new types of programming, such as news, science, and educational programs have begun to increase—but they have yet to attract a large audience. PRC law does not permit the broadcaster to show the program's country of origin or the name of the original program producer.

With an increasing number of private companies entering China's TV programming sector, growing competition not surprisingly has begun to take its toll. At the end of 2002 more than 1,000 independent companies were producing TV programs. By the middle of 2003, many of these companies had either merged or closed their doors. But though more mergers will undoubtedly follow in the next few years, independent companies will nevertheless continue to dominate China's TV programming industry. 完

This article has been adapted from recent MFC Insight Briefs, a weekly telecom information service (www.mfcinsight.com).

A town in Zhejiang celebrates its entrepreneurial spirit

Sock Hop

One weekend last fall, I had the privilege of attending the Fifth Annual China Sock Industry Expo as an honored guest. The event was hosted by Zhuji, Zhejiang—a medium-sized city roughly 200 km south of Shanghai. The city is known as the one and only sock capital of the world—and why not? According to the handbooks amply supplied by expo organizers, Zhuji currently produces 8 billion pairs of socks a year—accounting for 65 percent of China's sock output and 35 percent of sock production worldwide.

As I walked around town after my arrival, aware of the one-in-three chance that the socks on my feet had been produced in Zhuji, I could not resist looking at people's feet to observe trends in local sockwear. I hoped to spy more than the average variety of foot garb, but people in Zhuji did not seem to care more about their socks than people in Shanghai, Beijing, or anywhere else. The townspeople seemed to be living fairly well though—storefronts were occupied, children and parents played badminton on the sidewalks, and fruit stands were well stocked. I quickly concluded that the 8 billion socks must be having a positive impact on the community, if not of the fashion variety.

The expo officially kicked off the next morning in the main square of Datang, a suburb of Zhuji where most of the sock factories operate. On a cool, overcast Saturday morning, with fog rising above the surrounding hills, I joined hundreds of official invitees and thousands more curious locals in witnessing a huge celebration—fireworks, dances by local elementary school students, fiery speeches by government and Chinese Communist Party leaders, and a colorful confetti shower.

Over the next two hours, shuttled via luxury bus, my delegation enjoyed a tour of the exposition center bursting with sock sales booths; a completely mechanized sock factory; and a mechanized, chemical-fiber factory.

By the time my delegation headed back to Shanghai later that afternoon, I was feeling a bit exhausted. I had never before seen so many socks in a single day, nor had I ever absorbed so many details of the sock-making process—spinning chemical fiber thread, thread dyeing, sewing, marketing, selling—not to mention celebrating new annual sock production records.

I thought that the day's events must have been old hat for the other delegation members, most of whom were Chinese and many years older than I. Surely in China this kind of celebration is a common expression of pride for a local accomplishment, with officials and townsfolk sharing credit for mutual economic success.

It turns out I was only partly right. The delegation included several local economists from the Shanghai Academy of Social Sciences, a group of retired diplomats from Beijing, and a handful of reporters and assistants. As I spoke with some members of this highly educated and distinguished group, two things became clear to me. First, this trip was, in part, a vacation—a chance to escape from the bustle and pollution of Beijing and Shanghai and to enjoy a good old-fashioned celebration. Second, the trip provided a chance for these academic and political elites to experience firsthand the new homegrown, successful entrepreneurial spirit that is exploding throughout the country.

After all, in 15 years the Zhuji government's small-scale textile investments have grown into a multibillion dollar, world-class production center, with thousands of private companies, cutthroat competition, streams of domestic and foreign buyers, and a rock-solid local tax base. Their story has been repeated throughout China, but especially in Zhejiang, one of China's main engines of domestically invested, market-oriented growth. For PRC economists and officials, cities like Zhuji are an important barometer of current and future trends in the Chinese economy. They also really know how to throw a party.

—Adam Ross

Adam Ross is a research associate at the US-China Business Council's Shanghai office. Photo credit: Government of Datang, Zhejiang.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