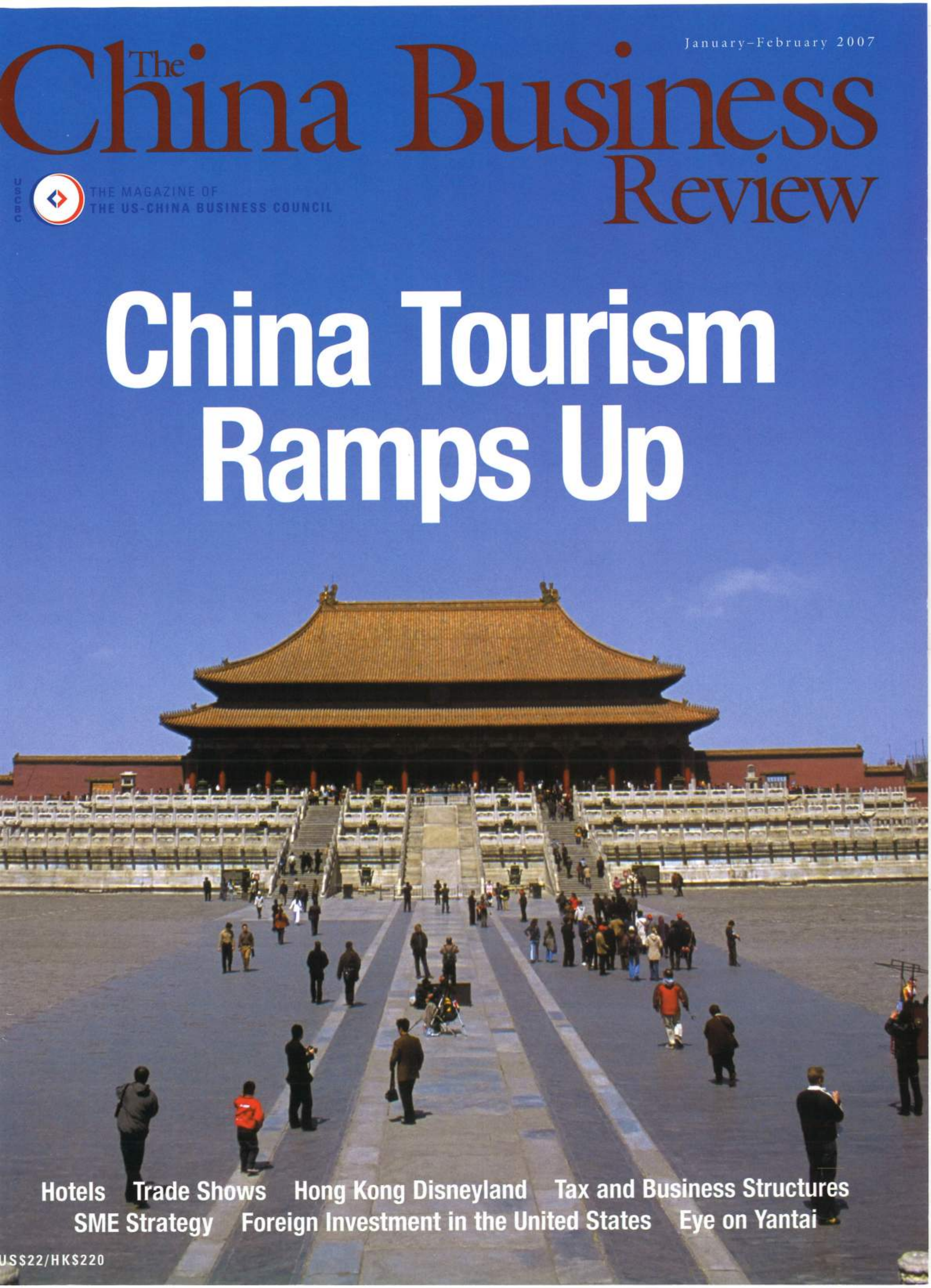
January–February 2007

The China Business Review

USCBC THE MAGAZINE OF THE US-CHINA BUSINESS COUNCIL

China Tourism Ramps Up



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SME Strategy   Foreign Investment in the United States   Eye on Yantai

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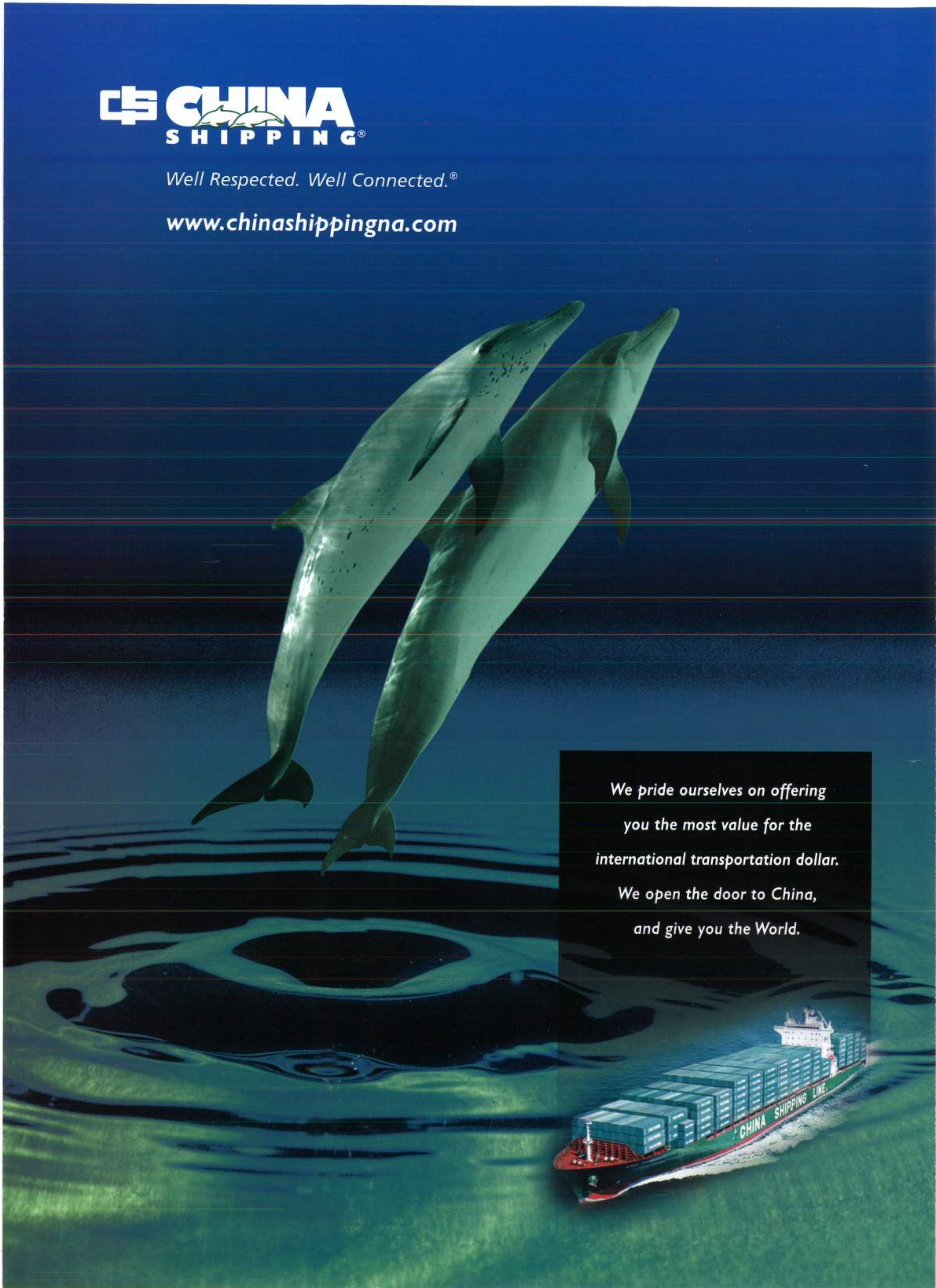
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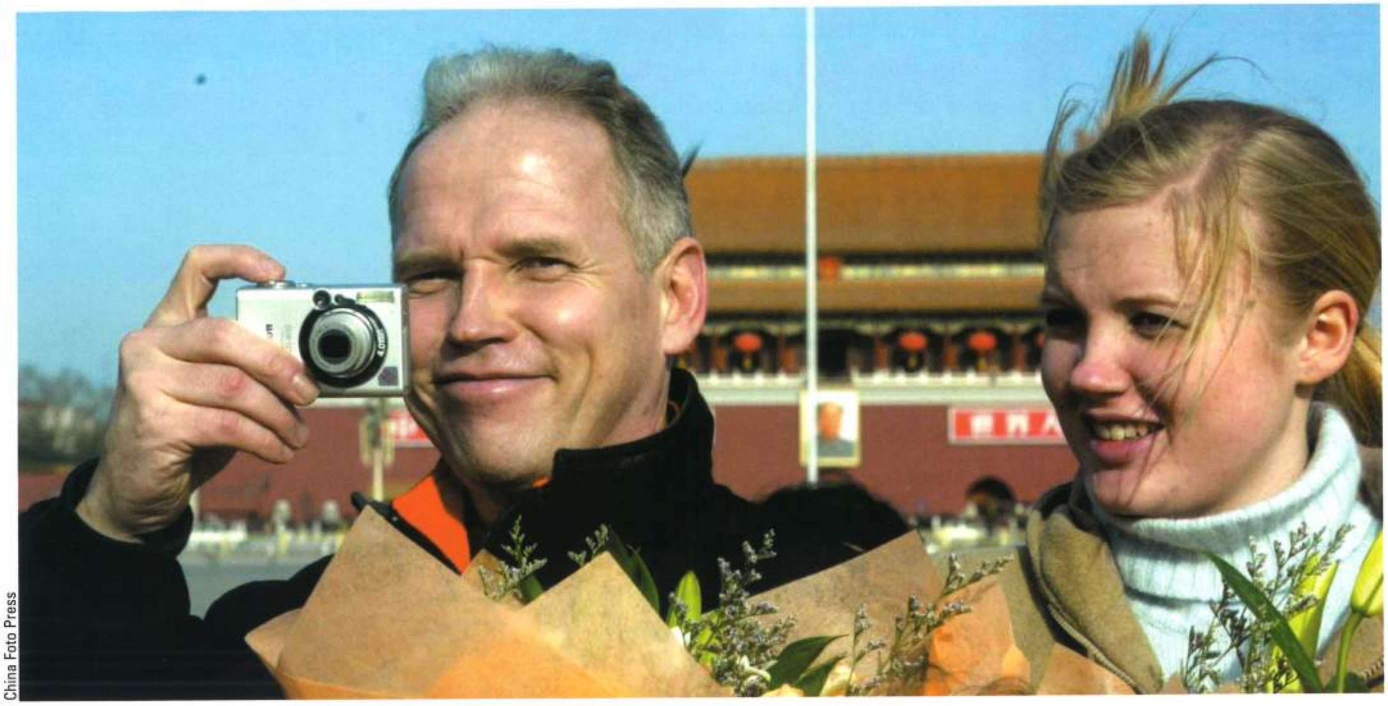

China Foto Press

The China Business Review

THE MAGAZINE OF THE US-CHINA BUSINESS COUNCIL

Focus: Travel and Tourism

Features

Departments

Cover design by Jon Howard/JHDesign, Inc.

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The *China Business Review* (ISSN 0163-7169) is published bimonthly by the US-China Business Council, 1818 N Street NW, Suite 200, Washington DC 20036-2470, USA (Tel: 202-429-0340), a nonprofit organization incorporated under the laws of the District of Columbia. Periodicals postage paid at Washington, DC, and additional mailing offices. Postmaster, please send address changes to the *China Business Review*, 1818 N Street NW, Suite 200, Washington DC 20036-2470, USA.

Annual Subscription Rates: $135 US/Canada and $177 international, print only; $156 US/Canada and $208 international, print and online; $105 online only. Single copy issues: $22, $35 airmail; issues over 1 yr: $15, $20 airmail. DC residents add 5.75% sales tax. Subscriptions to the *China Business Review* are not deductible as charitable contributions for Federal income tax purposes.

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Reprints: For bulk custom reprints (min. 100), call 1-800-960-1195
Online store: www.uschina.org/store

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The New Congress

Erin Ennis

On November 7, 2006, the Democratic Party regained control of both the House of Representatives and the Senate, though by only the narrowest margin in the Senate.

The change in the House was dramatic. Democrats needed 15 seats to take the majority; they got 31. Among the Republican incumbents that lost were several who had been in the House for more than 20 years and who had leadership or high-profile roles, including Nancy Johnson (Connecticut; first elected in 1982), Jim Leach (Iowa; first elected in 1976), Clay Shaw (Florida; first elected in 1980), and Curt Weldon (Pennsylvania; first elected in 1986).

The House

With the change in power, a new leadership will be running the House. Nancy Pelosi (Democrat [D], California) was elected Speaker of the House on November 16. Pelosi, the first woman to hold that position, has been an outspoken critic of China's human rights policies.

House committee leadership posts are expected to be given to members currently serving as ranking members. Charles Rangel (D, New York) will be Ways and Means Committee chair. Rangel has let it be known that he thinks more needs to be done on trade with China. He has also pledged, however, to work with Republicans.

At a minimum, the number of hearings and bills on China issues will likely increase in the House. These could focus on matters such as China's labor and environmental practices and the efforts of US companies in these areas. That record is positive, but could be challenged nonetheless.

The Senate

In the Senate, the Democrats have a very slim majority of 51-49, so major initiatives that do not have bipartisan support are unlikely to get far. The Senate Finance Committee has jurisdiction over trade matters, and the top Democrat and Republican have a good working relationship. Max Baucus (D, Montana) will become chair of the Finance Committee, and Charles Grassley (Republican [R], Iowa) will take the role of ranking member.

All will not be quiet in the Senate, however. At least two vocal antitrade House members were elected to the Senate: Sherrod Brown (D, Ohio), and Bernie Sanders (Independent, Vermont). Expect them to team up with members like Charles Schumer (D, New York) and Lindsey Graham (R, South Carolina) to try to come up with creative ways to force China to act on issues of concern to Congress.

What's in store?

China trade issues could play out in a variety of ways during the 110th Congress. One scenario would be a great deal of talk about China trade, but no legislation that passes both chambers. This scenario is possible because with such a slim majority in the Senate, bipartisan support will be needed to pass any bill.

On the other hand, it is also remotely possible that the Senate, and then the House, could pass a bill harmful to China trade—for instance, something along the lines of the Schumer-Graham bill, which sought to impose a 27.5 percent tariff on all US imports from China. If that were to happen, the White House could veto the measure, though President George W. Bush has vetoed only one bill in his six years in office. If Bush vetoed such a bill, the House and Senate could still decide to override the president.

No matter how you slice it, Congress will likely be busy with difficult and contentious trade issues. The business community's job will be to continue to advocate a balanced trade agenda. Business must also be prepared to show that it is living up to its claims: that US companies operating in China bring their higher labor and environmental standards to their operations there and are helping to improve working and environmental conditions.

While USCBC and its member companies will continue to educate members of Congress on the benefits of our commercial relationship with China (US exports were up another 35 percent through the third quarter of 2006, for example), positive actions by the PRC government would also help to avert possible congressional action. Progress on key issues like the exchange rate, intellectual property rights enforcement, the elimination of subsidies that violate World Trade Organization rules, and the enforcement of China's labor and environmental laws would go a long way to reducing anti-China-trade sentiment in Congress. 完

Erin Ennis *is vice president of the US-China Business Council in Washington, DC.*


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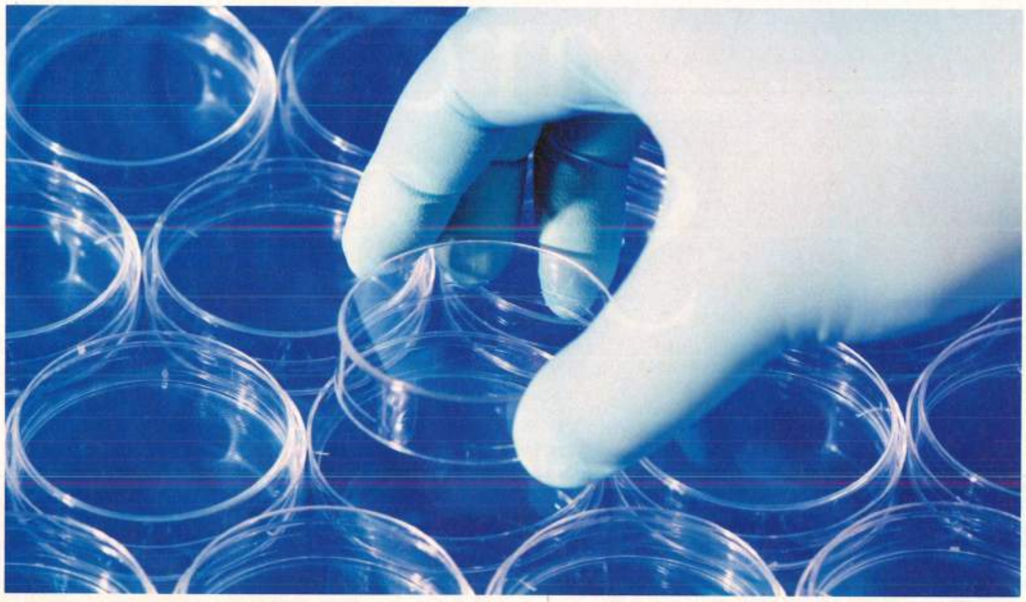
China Conference Calendar

China-related events near you

January–April 2007

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



Strategic R&D Management & Product Development: Shanghai, February 5-6

China Expo Forum for International Cooperation (CEFCO)

JANUARY 14–16

Annual event covering China's expo and conventions industry
Location: Shanghai International Convention Center
Organizer: China Council for the Promotion of International Trade (CCPIT)
Contact: Sun He
Tel: 86-10-8807-5036
E-mail: cefco@ccpit.org
http://cefco.ccpit.org

HazMat Logistics China

JANUARY 17

Conference and networking event for exchanging best practices in handling hazardous materials
Location: Shanghai: Millennium Hotel
Organizer: China Supply Chain Council
Contact: Sabrina Wei
Tel: 86-21-5102-1617
E-mail: swei@supplychain.cn
www.supplychain.cn

China Economic Forum

JANUARY 18–19

Forum on Tianjin's Binhai New Area and next moves in China's industrial development strategy
Location: Tianjin
Organizers: PRC State Council, Development Research Center; Worldcn International Events
Contact: Wang Jun
Tel: 86-21-5887-8061
E-mail: drc@drc.gov.cn
www.financial-conferences.com

Cosmoprof Shanghai 2007

JANUARY 31–FEBRUARY 3

Trade show and conference for raw material suppliers and packaging and beauty product manufacturers
Location: Shanghai New International Expo Center
Organizers: CMP Asia Ltd.; Bolognafiere Group
Contact: Amy Ng
Tel: 852-2827-6211
E-mail: amyng@cmpasia.com
www.cosmoprofshanghai.com

Strategic R&D Management & Product Development

FEBRUARY 5–6

Workshop on best practices for R&D facility management and protection of product development
Location: Shanghai: Novotel Atlantis
Organizer: Avail Corp.
Contact: Mark Nee
Tel: 86-21-6229-1717
E-mail: mnee@availcorp.com
www.availcorp.com

The 17th East China Fair

MARCH 1–6

Regional trade fair focusing on textiles, light industry, and crafts
Location: Shanghai New International Expo Center
Organizers: World Expo Group; International Trade Promotion, Co. Ltd.
Contact: Jiang Xiaoyu
Tel: 86-21-6353-9977 x 1124
E-mail: chinadeptcn@yahoo.com
www.east-china-fair.com

Stonetech 2007 Beijing

MARCH 1–7

Trade show for manufacturers of tiles, artificial granite and marble, adhesives, and more
Location: Beijing: China International Exhibition Center
Organizer: CCPIT, Building Materials Sub-Council
Contact: Sheri Jiao
Tel: 86-10-6836-2774
E-mail: sheri@cbminfo.com
www.stonetechfair.com

China International Education Exhibition Tour

MARCH 3–18

Exhibits by educational institutions, student service providers, language training centers, educational publishers, and more
Locations: Beijing (March 3–4); Chongqing (6–7); Shanghai (10–11); Nanjing, Jiangsu (13–14); Guangzhou (17–18)
Organizers: PRC Ministry of Education, Chinese Service Center for Scholarly Exchange; Reliable International Exhibition Services Co., Ltd.
Contact: Etta Ho
Tel: 86-10-8589-8181
E-mail: cieet@reliable.org.cn
www.cieet.com

China Sourcing Summit 2007

MARCH 6–8

Sourcing risks and opportunities and a look at China's economic development
Location: The Regent Shanghai
Organizers: Delegation of German Industry and Commerce Shanghai; Supply Management Institute; European Leaders in Procurement
Contact: Martin Lockström
Tel: 86-21-6597-9092
E-mail: lockstroem@supplyinstitute.org
www.supplyinstitute.org

China Conference Calendar

International Integrated Circuit China Conference & Exhibition

MARCH 6–14

Exhibits from leading design and component manufacturers
Locations: Shenzhen (March 5–6); Beijing (8–9); Shanghai (13–14)
Organizers: Global Sources; CMP Information Ltd.
Contact: Esther Guevara
Tel: 852-2814-5526
E-mail: eguevara@globalsources.com
www.english.china.iicexpo.com

2007 China Environmental Management Conference

MARCH 7–8

Strategies for cost-effective environmental management for long-term business return
Location: Shanghai: Novotel Atlantis
Organizer: Avail Corp.
Contact: Mark Nee
Tel: 86-21-6229-1717
E-mail: mnee@availcorp.com
www.availcorp.com

International Maritime Expo-China

MARCH 7–9

Latest products and technologies for the shipping, port, and offshore sectors
Location: Guangzhou: Jinhan Exhibition Center
Organizers: Guangzhou Auch Exhibition Service Co. Ltd; PDA Trade Fairs; HQ Link Pte. Ltd.
Tel: 86-20-8762-8987
E-mail: expoart@vip.163.com
www.inmexchina.com/default.htm

The 14th China International Exhibition on Packaging Machinery & Materials

MARCH 7–10

Exhibition of product packaging and a special technical seminar on radio frequency identification
Location: Guangzhou: Chinese Export Commodities Fair-Pazhou Complex
Organizers: Adsale Exhibition Services Ltd.; China Foreign Trade Center Group
Contact: Helen Chan
Tel: 852-2516-3395
E-mail: publicity@adsale.com.hk
www.adsale.com.hk

China Focus: The Globalization of China 2.0

MARCH 12–15

Ways to adapt products and services for China's demanding consumers
Location: Beijing: Tianhong Plaza Hotel
Organizer: Localization Industry Standard Association (LISA)
Contact: LISA
Tel: 41-24-453-2310
E-mail: events@lisa.org
www.lisa.org/events/2007beijing

The Fourth Guangzhou International Automotive Air-Conditioning & Cold Chain Technology Exhibition

MARCH 13–15

Trade show for manufacturers and suppliers of auto air-conditioning system parts
Location: Guangzhou: Chinese Export Commodities Fair-Liuhua Complex
Organizer: Guangzhou Best Exhibition Co., Ltd.
Contact: Catherine Tam
Tel: 86-20-8637-2516
E-mail: bestexhibitions@yahoo.com
www.84t.cn

Third China Logistics Summit

MARCH 13–15

Conference for transportation logistics professionals to discuss industry best practices and networks
Location: Shanghai: The Royal Meridien
Organizer: Eyefortransport
Contact: Ross Vincent
Tel: 44 (0) 207-375-7211
E-mail: rvincent@eyefortransport.com
www.eyefortransport.com/china

ISPO China

MARCH 14–17

Trade fair for outdoor sporting goods and fashion focusing on winter sports
Location: Beijing: National Agricultural Exhibition Center
Organizers: Messe München; China International Exhibition Corp.
Contact: Yi Zhang
Tel: 49-89-9492-0163
E-mail: zhang@ispo.com
www.ispochina.com

China Eco Expo

APRIL 4–6

Conference and trade show introducing international environmental expertise and technologies to the Chinese market
Location: Beijing International Convention Center
Organizers: Global Eco Expo; China International Conference Center for Science and Technology; China Society for Environmental Sciences
Contact: Marc Merson
Tel: 818-906-2700
E-mail: info@ecoexpo.com
www.ecoexpo.com

Event Wrap Up

WASHINGTON

November

Roundtable on China's Antimonopoly Law

Featured MJ Moltenbrey and Michael Han, partner and associate, respectively, at Freshfields Bruckhaus Deringer.

Business and Economic Development Forum

Featured PRC Embassy Deputy Chief of Mission Zheng Zeguang; cosponsored by the US-China Business Council (USCBC), International Association of Black Professionals in International Affairs, and Maryland-China Business Council.

Issues Luncheon: The Midterm Elections and China Trade

Featured Peter Scher, partner at Mayer, Brown, Rowe & Maw LLP, former chief of staff to Senator Max Baucus (D-MT) and former chief agriculture negotiator for the Office of the US Trade Representative (USTR); James Jochum Mayer, partner at Mayer, Brown, Rowe & Maw LLP and former International Trade counsel and Legislative Affairs director to Senator Charles Grassley (R-IA); and Emily Beizer, consultant and legal professional at Mayer, Brown, Rowe & Maw LLP and former deputy chief of staff and Legislative Affairs director to Congressman Cal Dooley (D-CA).

December

Roundtable with PRC Vice Minister of Commerce (MOFCOM) Ma Xiuhong

Featured Ma and other PRC State Council, MOFCOM, and embassy officials; cosponsored by USCBC and the US Chamber of Commerce.

NEW YORK, NY

November

Briefing with Assistant USTR for China Timothy P. Stratford

Featured Stratford; cosponsored by USCBC and the US Council for International Business.

BEIJING

November

Luncheon with Qinghai Governor Song Xiuyan

Featured Governor Song; cohosted with the China Council for the Promotion of International Trade.

December

Issues Luncheon: A Discussion with USCBC President John Frisbie

Frisbie reported on recent meetings with PRC government officials and reviewed the prospects for US-China trade relations after the US congressional midterm elections.

SHANGHAI

November

Issues Luncheon: Stakeholders and Consumers Survey Research

Featured Alan VanderMolen, Asia-Pacific president of Edelman, and Joseph Guerrisi, vice president of Marketing at UPS Asia-Pacific.

December

Issues Luncheon: Human Resources Best Practices

Featured Guo Xin, worldwide partner and managing director, Greater China, for Mercer Human Resources Consulting, and Lisa Zhang, director of Human Resources at Dow Chemical Greater China.

Upcoming Events

WASHINGTON

Issues Luncheons

January 18, 2007

March 15, 2007

Forecast 2007 Reception and Conference

February 7–8, 2007

For more information, see p.53

USCBC Board of Directors Meets with PRC Leaders in China

USCBC President John Frisbie led a delegation of USCBC board members to Beijing for meetings with senior PRC officials November 28–29, 2006. The board group, which included USCBC Chair and Chair, President, and CEO of the Boeing Co. Jim McNerney; USCBC Vice Chair and Chair and CEO of the Dow Chemical Co. Andrew Liveris; Frisbie; and five other directors, discussed bilateral commercial issues with PRC Premier Wen Jiabao, Foreign Minister Li Zhaoxing, and Commerce Minister Bo Xilai. Chen Deming, executive vice chair of the PRC National Development and Reform Commission, attended the meeting with Premier Wen.

The delegation raised several points in the meetings: increased scrutiny on China trade by the new Congress, concerns about rising voices of protectionism in both countries, and the importance of the Strategic Economic Dialogue (SED). The delegation also stressed that more progress on market access, intellectual property rights (IPR), and other issues would help lessen pressure in the US Congress for legislation.

PRC Government

USCBC board delegation with PRC Premier Wen Jiabao in Beijing

Wen expressed his commitment to working on what he identified as the three main issues in the bilateral trade relationship: IPR protection, which he noted is also important to PRC companies; the trade deficit, by expanding US exports to China; and the exchange rate, by steadily increasing rate movement. Wen said he believes both the United States and China are against protectionism. He also said he "welcomes" the SED, noting that the United States and China need to address long-term issues and the importance of showing results in the near term.

USCBC Shanghai Hosts China Operations Conference

The US-China Business Council (USCBC) held its Shanghai China Operations 2006 conference on October 26. The conference began with a discussion on China's economy led by Hong Liang, executive director, Asia Economic Research, Goldman Sachs, Inc. Steve Maloy, general counsel, Asia-Pacific, General Electric Co., spoke on public policy and China's legislative calendar, while Jill Malila, director of Client Management, Mercer Human Resources Consulting, discussed employee retention strategies. Robert Poole, vice president, China Operations, USCBC, moderated a panel discussion on effective corporate social responsibility in China that featured Pierre Cohade, president, Asia Pacific, the Goodyear Tire & Rubber Co., and Jim McIlvenny, president, Asia Pacific and Greater China, the Dow Chemical Co. Robert A. Kapp, president, Robert A. Kapp Associates, delivered the luncheon address on US-China trade relations—the view from the United States.

In the afternoon, Toshiyuki Arai, partner, Paul, Hastings, Janofsky and Walker LLP, moderated a panel discussion on labor issues in China. Jeff Albright, president-Asia, Briggs & Stratton Corp., and Jun Ge, director, Legal Affairs, Intel China, presented. Kenneth Jarrett, consul general, US Consulate General, Shanghai, delivered the afternoon keynote on bilateral relations and the new Strategic Economic Dialogue. Ba Shusong, deputy director general, Financial Research Institute, Development Research Center of the PRC State Council, followed with a discussion of financial sector reform in China. A panel on upgrading the government relations function of China operations featured Peng Ningke, director, Government Relations, Dow Chemical (China) Investment Co. Ltd., and Liu Ran, manager, Public Affairs, UPS (China). Bill Beddow, director, Government Relations and Corporate Affairs, Caterpillar (China) Investment Co., Ltd., moderated the panel.


Robert A. Kapp, president, Robert A. Kapp Associates


Kenneth Jarrett, consul general, US Consulate General, Shanghai


Hong Liang, executive director, Asia Economic Research, Goldman Sachs, Inc.


Pierre Cohade, president, Asia Pacific, The Goodyear Tire & Rubber Co.

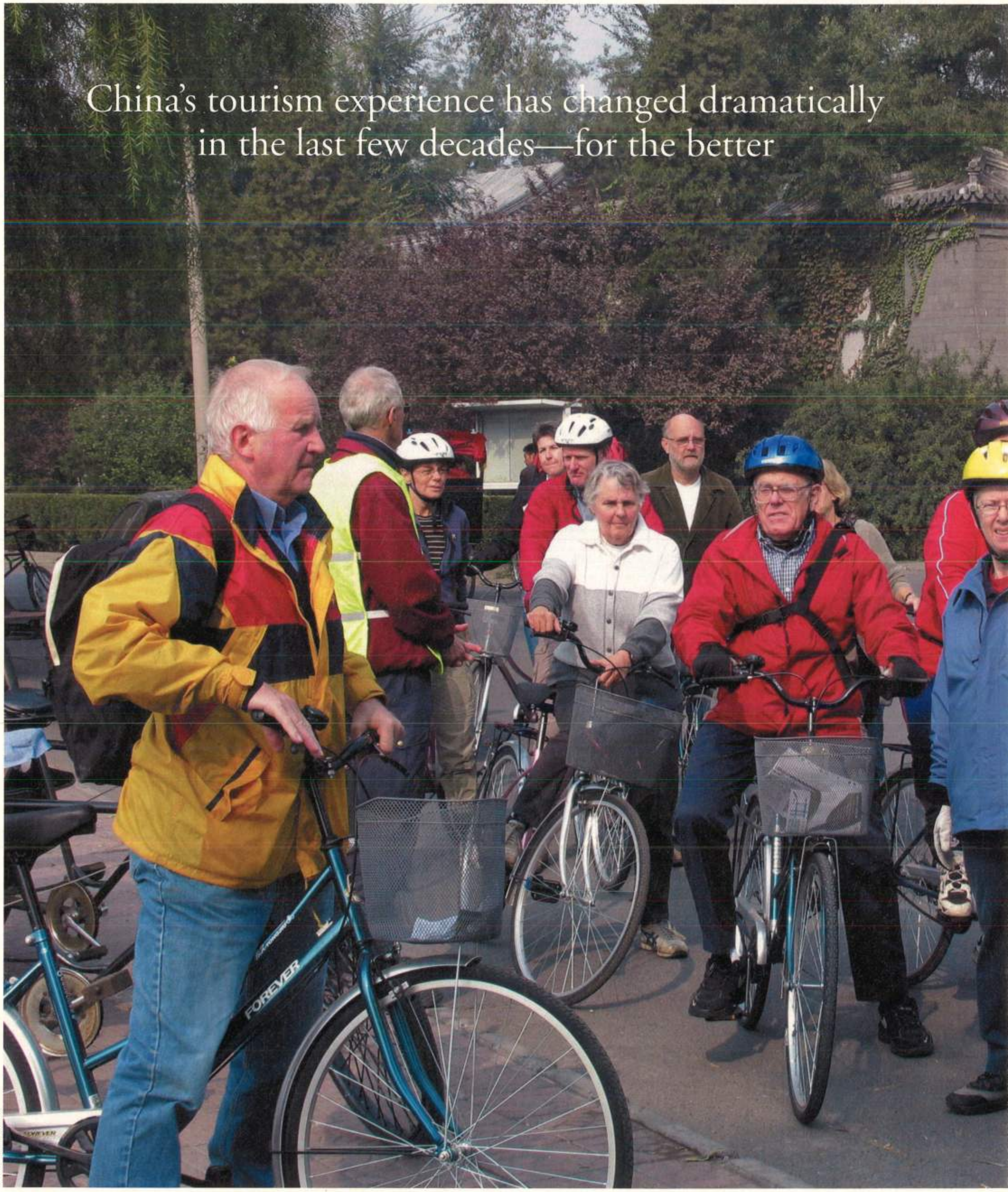
Wang Hua


Jun Ge, director, Legal Affairs, Intel China; Jeff Albright, president-Asia, Briggs & Stratton Corp.; Toshiyuki Arai, partner, Paul, Hastings, Janofsky and Walker LLP


Liu Ran, manager, Public Affairs, United Parcel Services (China); Peng Ningke, director, Government Relations, Dow Chemical (China) Investment Co. Ltd.; Bill Beddow, director, Government Relations and Corporate Affairs, Caterpillar (China) Investment Co., Ltd.

The New Face of Tourism

China's tourism experience has changed dramatically in the last few decades—for the better



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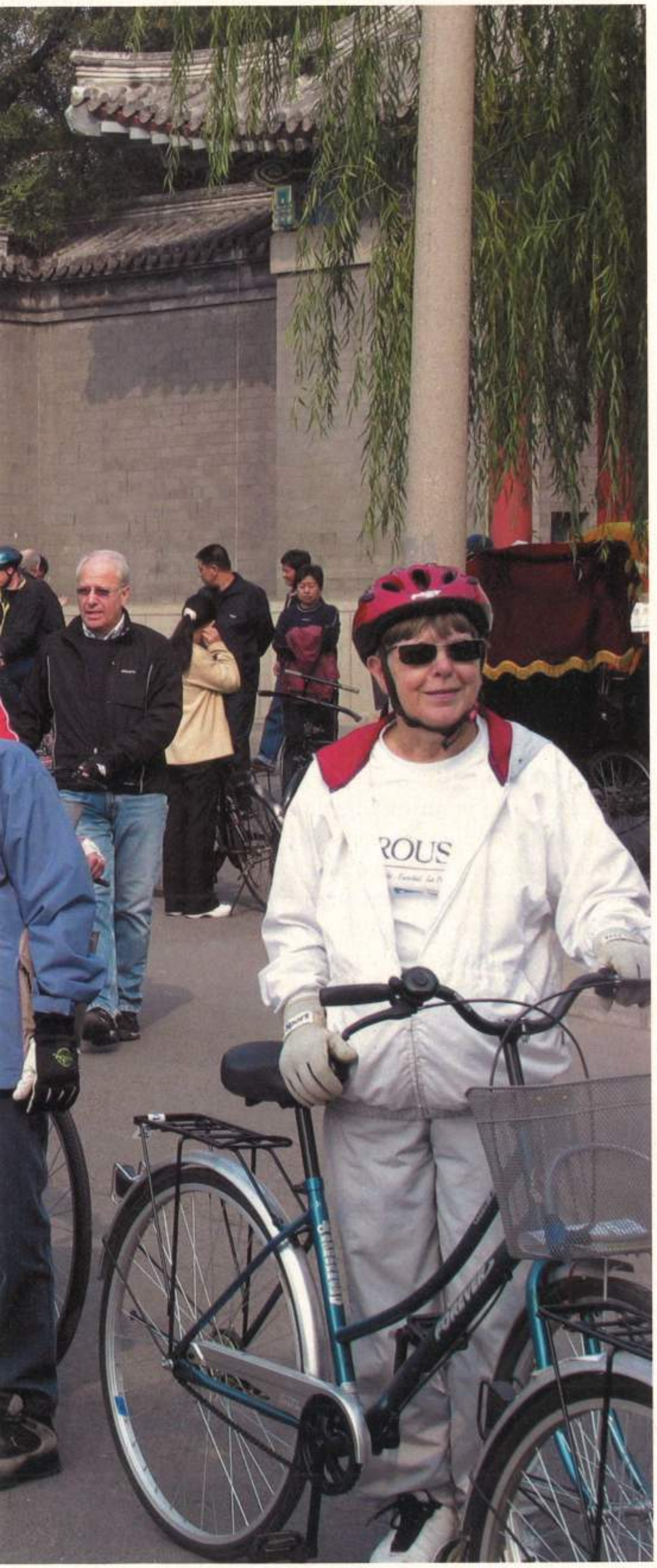
Chase Poffenberger
and David Parry



Beginning with a trickle of intrepid pathfinders in the late 1970s, foreign tourists have been making China a "must-see" destination in rapidly increasing numbers. In 1979, China hosted only 5.7 million foreign visitors, nearly all of whom were from Hong Kong, Macao, and Taiwan. By 2005, China received 120.3 million foreign visitors, more than 80 percent of whom were from Hong Kong, Macao, and Taiwan. Like the rest of its economy, China's tourism sector has changed dramatically in the last 20 years.

According to the World Travel and Tourism Council's April 2006 report on China, the country's travel and tourism industry generated $353.7 billion in 2006 and is expected to grow to $1.3 trillion in 2016, or roughly 8.7 percent per year on average. In 2006, foreign visitors were expected to spend $75.1 billion and account for 7.4 percent of China's total exports. The travel and tourism industry was expected to account for 2.9 percent of China's total GDP directly (13.7 percent when indirect effects are included). Tourism provides 17.4 million jobs in China, or 2.3 percent of total employment in 2006, and is forecast to support 20.4 million jobs, or 2.5 percent of the total, by 2016. In total, 10.2 percent of all jobs, or 77.6 million, in China depended on travel and tourism in 2006.

Most tourists to China still go on a package tour. The most common itineraries visit Beijing; Guilin, Guangxi; Shanghai; Xi'an, Shaanxi; and the Yangzi River over 12–14 days. Tourists are rushing to see the Three Gorges area before the reservoir created by the Three Gorges Dam floods it completely. With a new fleet of luxury river vessels available, the Yangzi River has become a centerpiece of many mainstream itineraries. Hotels for these tours tend to be joint ventures and range from three to five stars.

New demand for luxury

The US Baby Boomer generation is far more sophisticated and educated than its predecessors, and the same characteristics are true of boomers in other Western countries. These characteristics, combined with the trend among mid-market consumers in the United States to selectively purchase luxury goods and experiences that used to be reserved for the wealthy, are creating a broader market of travel buyers who are willing to pay a premium for an upscale travel experience to China. (Luxury tours often start at $500 per day. These tours also last about 14 days on average.)

Chase Poffenberger *is vice president, marketing, at Washington, DC-based Academic Travel Abroad (ATA).*

David Parry *is president of ATA.*

The main determinants of a luxury tour are the type of staff (guides, lecturers, tour managers), the choice of hotels or cruise ships, and how time is spent on tour. (Lower-cost tours often have more time built in for shopping and more standard meals at tourist spots.) Though luxury tours still constitute only a small portion of tours to China, top-end hotels in China are reaping the benefits of the growing appetite for luxury by adding spa services and upscale cuisine. Tour operators are also filling the demand for "authentic" travel experiences by supplementing traditional sightseeing with more hands-on learning that allows foreign tourists to connect with local people. These activities include meetings with school children and university professors; special access to sights, such as entry to the archeological pit in Xi'an to view the terra cotta warriors up close; guided tours of Beijing's *hutong* (historic residential alleys) to see daily life; a visit to a rural village; cooking, calligraphy, and *tai qi* lessons; and kite flying in Tiananmen Square.

More specialized tours are also available. Niche tours that focus on adventure, rail, history, hiking, and other areas are becoming more common, though they still account for only a small portion of the tour market. Because accommodations generally determine tour price, these niche tours, which generally do not use luxury hotels, are not necessarily more expensive.

Better service

Chinese tourists with increasing amounts of disposable income have helped raise China's service levels dramatically in a relatively short time. In many cases, Chinese tourists spend more per capita than Hong Kong tourists in China, although Hong Kong tourists still have higher incomes.

Technology has also improved tour service. With the proliferation of cell phones, service corrections can happen almost instantly. For example, if a bus breaks down, guides can obtain a new bus within half an hour. About 10 years ago, it took much longer to get government approvals for a new bus, and schedules were so disrupted that tours would miss sights. Luxury train tours also benefit from this new flexibility—staff on the train can communicate with staff on the ground about schedules and changes, and itineraries can be altered to give tourists a customized experience.

> Chinese tourists with increasing amounts of disposable income have helped raise China's service levels dramatically in a relatively short time.

Other service improvements have made trips more enjoyable. For instance, Western food is more widely available, transport is more reliable and more comfortable, hotels are cleaner, and staff throughout the sector generally speak better English and thus can help customers more easily. In general, the more stars a hotel has, the better the level of English among the staff. There is still room for improvement, however, particularly in China's western cities. And foreign tourists who do not speak English may have difficulty finding someone who speaks their language.

Tourists also have a greater range of choices and can now book airfares and obtain visas on their own. Tours often leave some meals unscheduled so that travelers can experience world-class restaurants now common in China's cities. In addition, the greater range of culinary choices means that not every meal has to be Chinese food.

Finally, safety has also improved, and most reputable tour operators offer evacuation insurance automatically as part of

Vying for Air Routes

In 2004, the United States and China signed an agreement that will raise the number of flights between the two countries from 54 per week in 2004 to 249 per week in 2010, when the agreement is fully phased in. Of the new frequencies, 84 will be for passengers, the remainder for cargo.

The US Department of Transportation (DOT) can award up to seven weekly flights to Beijing, Guangzhou, or Shanghai beginning March 25, 2007. As the last few opportunities to gain new flights under the 2004 agreement near, the competition for landing rights in China has heated up, with four US airlines vying for the right to offer new air service to China. In August, United Airlines, Inc. filed an application with DOT for daily flights between Beijing and Washington, DC. Northwest Airlines Corp. filed the same day for daily flights between Beijing and Detroit, Michigan. Continental Airlines, Inc. proposed daily service between Shanghai and Newark, New Jersey, and AMR Corp.'s American Airlines is vying for daily service between Beijing and Dallas/Ft. Worth in Texas.

The number of air passengers flying from the United States to China doubled between 2000 and 2005, according to the US Department of Commerce's International Trade Administration. Airfares are expected to remain competitive.

—*Chase Poffenberger* and *David Parry*

the package price. In addition, travel insurance to cover trip interruption, baggage loss, and other unforeseen events is widely available for China travel.

Another welcome change stemming from China's focus on the economy is the increased openness of the guides. For the most part, tourists are no longer subject to a closely scripted delivery of information, and many foreigners unfamiliar with China are surprised when their local and national guides speak their mind. The approach of local guides tends to fall along generational lines. Older guides who remember the Cultural Revolution often share stories of survival and tend to view Chinese history since the 1970s as positive, in contrast to the hardships they endured earlier. On the other hand, guides who are too young to remember the Cultural Revolution tend to be more critical of China.

2008 Olympics: More than just a game

Many professionals involved with China's tourism industry view the 2008 Olympic Games as more than a prestigious event; it is widely seen as China's debut on the world stage. Well before the country won its bid for the 2008 Olympics, it embarked on a massive infrastructure expansion program. At the national level, China is upgrading its railways and building a highway network that is based on—and that will rival—the US interstate system. Cities expanding rapidly during the economic boom of the last few years are building new roads, expressways, and rail systems.

As host city to the 2008 Olympic Games, Beijing in particular is being transformed. Visitors to China during and after the Olympics will stay in new hotels, ride new subway lines, and watch sporting events in brand new venues. Apart from the new transportation infrastructure, the city is trying to improve its "software." China's capital is not only improving the foreign language ability of workers who are likely to come into contact with foreign visitors during the Olympics, but is also making efforts to encourage greater civility among such workers and ordinary citizens.

Given the current level of international interest in China and the new infrastructure and improved service levels, experts believe that China is well poised to overcome the historical dip in tourism a host country experiences for two years before and after the Olympics. Selling travel during the Olympic Games has always been a mixed bag for tour operators. Many travel companies plan to avoid selling travel to China during the Olympics because of the widespread perception that Beijing will be crowded, prices high, and hotel rooms scarce.

Only more to come

Tourism in China has changed dramatically in recent years. On the domestic front, China's new middle class is taking to the road in unprecedented numbers, creating new demand for better facilities, infrastructure, and services, which, in turn, benefit foreign visitors. Tours to China are also changing, with greater variety in focus, cost, and level of comfort. China's newfound prominence on the world stage, which will hit new heights during the 2008 Beijing Olympics, seems to indicate that the country's tourism sector will remain vibrant for years to come. 完

Changing Impressions

Elvira Hammond, an assistant professor of history at New Mexico State University who has led three dozen groups of educational travelers to various parts of China, remembers the "old days" of travel to China. In the early 1980s, service was spotty, and American travelers faced with unfamiliar food feared they might starve. Two decades later, she marvels at the changes each time she brings another group back. "The service standard is so different now," Hammond explains. "In the past, guides used to be inflexible and often asked groups to just accept a change or omission. Today, cell phone coverage in China is greater than it is in the United States, so quality can be upgraded and changes made while a tour is under way. This has changed the nature of how service is provided."

Economic growth has brought about other changes too. Rising income levels mean that more Chinese are traveling than ever before. Despite rapidly growing tourist arrivals from the United States and the rest of the world, domestic tourists still account for 90 percent of China's tourism market. The effect of this booming domestic market on a foreign traveler's experience in China is significant.

For the first time, mainland Chinese tourists are on the same cruise ships and in the same hotels as US tourists, and many Chinese tourists speak English. Foreign tourists are now interacting with Chinese tourists during their shared experiences. Although cultural differences, over etiquette and smoking, for instance, can sometimes cause great friction, on the whole, the presence of Chinese tourists significantly enriches the experience of foreign tourists.

The massive creation of new infrastructure also plays a large role in changing Americans' perceptions of China as a tourist destination. Many American tourists are surprised by the modern architecture and rapid pace of life in cities like Beijing and Shanghai. They are also surprised by the use of cutting-edge technology in some areas—for example, the world's only commercial magnetic levitation train in operation is in Shanghai. After visiting the country, most American tourists view China as a much more dynamic society.

—*Chase Poffenberger* and *David Parry*

China Foto Press

Hospitality, Chinese Style

China's hotel industry is maturing as differentiated markets evolve and hotel companies target niche segments

Larry Yu and Ginger Smith

Tourism in China is growing phenomenally in inbound, domestic, and outbound markets. Between 2004 and 2005, inbound tourist arrivals rose by 10.3 percent from 109 million arrivals to 120.3 million; domestic travel jumped by 10 percent from 1.1 billion to 1.2 billion person-trips; and Chinese outbound travel grew from 28.9 million to 31 million tourists, up 7.5 percent. This rapid development of China's tourism industry, particularly the inbound and domestic markets, has caused Chinese and international hotel developers to jockey for market position in primary and secondary destination areas. (For inbound tourists, primary destinations include Beijing; Guilin, Guangxi; Hangzhou, Zhejiang; Shanghai; and Xi'an, Shaanxi, which normally receive well over half a million foreign tourists a year. Secondary cities generally have less than half a million foreign arrivals a year and include cities such as Changsha, Hunan; Ningbo, Zhejiang; Shenyang, Liaoning; and Wuhan, Hubei.)

When China first opened its borders to international tourism in 1978, the country suffered from a severe shortage of adequate lodging. At that time, the government owned all lodging facilities. Gradually, a few exclusive state guest houses normally used for PRC leaders opened their doors to the growing number of inbound tourists. The opening of the Jianguo Hotel in Beijing in 1982—the first Sino-foreign joint venture in the industry—ushered in a new wave of foreign direct investment (FDI) in the hotel industry that lasted through the 1980s and 1990s.

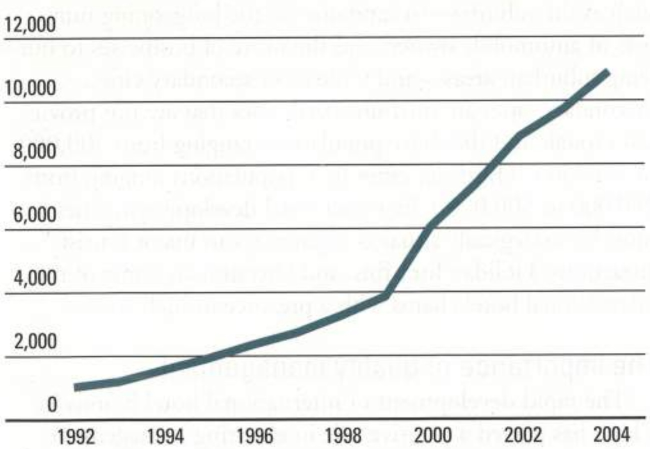
Growth in the hotel industry continued apace in the 1990s and 2000s (see Figure) and was particularly rapid between 2000 and 2004, with annual double-digit growth in the number of hotels. This growth was fueled by a number of encouraging forecasts and events: The United Nations World Tourism Organization forecast that China would become the top tourism destination in the world by 2020, China entered the World Trade Organization, Beijing won its bid for the 2008 Olympic Games, Shanghai was awarded the 2010 World Expo, and domestic tourism was growing rapidly. This growth will accelerate once the US Department of Transportation awards more US-China flights, as early as March 2007 (see p.14). The new routes are expected to generate millions of US dollars in profit per year for the selected US airline. This increase in inbound direct air travel to China will also heighten demand for high-quality hotels and stimulate FDI in the Chinese hotel industry.

The proliferation of tourist hotels in China clearly reflects domestic and international hotel developers' response to domestic and inbound travel growth. Occupancy rates have risen from 54.3 percent in 1999 to 60.3 in 2004. Increased business travel, international conferences and exhibitions held in China, competitive packages priced for leisure tourists, and more direct flights between source markets and destinations (for instance, between Amsterdam and Chengdu, Sichuan) have all boosted inbound tourism, while higher household incomes and the three week-long holidays per year instituted in the late 1990s have spurred domestic tourism.

Changing ownership

Despite the fact that various hotel ownership structures now exist in China, in 2004 half of the star-rated tourist

Star-Rated Hotels in China, 1992–2004



Source: China National Tourism Administration (CNTA), 2005

hotels were still state-owned enterprises (SOEs) (see Table 1). (Facilities outside the category "star-rated tourist hotels" include training centers, short-term apartment rentals, and government agency accommodations for staff traveling on business.) Limited liability companies owned 14.2 percent of the star-rated hotels, and another 11.6 percent were developed and owned by Chinese private entities. Just under 10 percent of hotels were collectively owned in 2004. Only 1.8 percent of tourist hotels in China were foreign-invested, and another 3.1 percent were owned by investors from Hong Kong, Macao, and Taiwan.

Though still large, the state-owned share of the hotel sector has declined from 63.4 percent in 2000, and the growing diversity in hotel ownership reflects the efforts of the PRC government to reduce its holdings of hotels, particularly unprofitable properties. This government retreat from the sector has created opportunities for the development of both Chinese and international hotel chains in China.

Table 2 shows the leading Chinese and international hotel groups and the portfolio of estimated properties they own and operate in China. Some large and medium-sized Chinese hotel development and management groups have emerged to compete with well-established international brands operating in China. For example, Shanghai-based Jin Jiang International Hotels held 22nd place in the Global Corporate 300 ranking by *Hotels* magazine in 2005.

New market segments

Chinese hotel companies are differentiated by the market segments they serve. These segments include business, meetings, resorts, economy hotels, condo hotels, and timeshares. For instance, Home Inn, a Beijing-based economy hotel chain, expanded from 11 properties in 2001 to 131 properties in May 2006. The company is planning to expand in 100 Chinese cities, each with a population of more than 4 million people. At present, the company has franchised hotels in 50 of the 100 cities. In October 2006, Home Inn became the first Chinese hotel company to be traded on NASDAQ and raised $109 million on the first day of trading. The company plans to allocate $45 million from the initial public offering for expansion and renovation and $7.5 million for debt repayment.

Many international hotel groups are also trying to differentiate themselves. Global brands from Super 8, a franchise of the Cendant Hotel Group (see the *CBR*, March–April 2005,

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Ginger Smith *is associate dean, College of Professional Studies, and associate professor of tourism studies, School of Business, at GWU.*

Table 1: Hotel Ownership and Star-Ranking Distributions in China, 2004

Ownership	% of Hotels	Total	% of Rooms	Total	% of Beds	Total
State-owned	5,482	50.3	630,106	50.1	1,263,767	53.4
Collective	1,007	9.5	97,186	7.9	183,889	7.8
Shareholding cooperative	254	2.3	25,044	2.0	47,022	2.0
Domestic joint ventures	80	0.7	10,022	0.8	17,708	0.8
Limited liability	1,547	14.2	185,005	15.0	351,265	14.8
Limited liability shares	462	4.2	56,999	4.6	103,518	4.4
Privately owned	1,264	11.6	89,304	7.2	169,164	7.2
Other	261	2.4	24,401	2.0	44,269	1.9
Foreign-invested	190	1.8	40,965	3.3	68,438	2.9
Hong Kong-, Macao-, and Taiwan-invested	341	3.1	78,819	6.4	117,598	5.0
Total	**10,888**	**100.0**	**1,237,851**	**100.0**	**2,366,638**	**100.0**
Star Ranking						
5-Star	242	2.2	87,386	7.0	140,225	5.9
4-Star	971	8.9	222,161	18.0	377,574	15.9
3-Star	3,914	36.0	495,423	40.0	941,667	39.8
2-Star	5,096	46.8	390,823	31.6	822,574	34.8
1-Star	665	6.1	42,058	3.4	84,598	3.6
Total	**10,888**	**100.0**	**1,237,851**	**100.0**	**2,366,638**	**100.0**

Source: CNTA, *The Yearbook of China Tourism Statistics*, 2005

Table 2: Leading Hotel Companies in China

Company	Hotels	Headquartered in
Jin Jiang International (Group) Co. Ltd.*	199	Shanghai, China
Home Inn Hotel Management Group**	131	Beijing, China
Inter-Continental Hotels Group plc**	59	Windsor, Berkshire, UK
Starwood Hotels and Resorts Worldwide Inc.**	43	White Plains, NY, US
Accor**	36	Paris, France
Super 8 Motels Inc.**	32	Parsippany, NJ, US
Shangri-la Hotels & Resorts**	27	Hong Kong, China
Best Western International Inc.**	25	Phoenix, AZ, US
Jianguo International Hotels Ltd.*	23	Beijing, China
Marriott International Inc.**	22	Washington, DC, US
Hong Kong CTS Metropark Hotel Management Group**	20	Hong Kong, China
Conifer Hotels Management Co. Ltd.**	20	Hong Kong, China
New Century International Hotel Management, Co., Ltd**	17	Hangzhou, Zhejiang, China
Teda Hotels Management Co. Ltd.**	15	Beijing, China
China Travel Service Hotel Corp.**	13	Beijing, China
Gloria International Hotels Ltd.**	13	Hong Kong, China
Hua Tian International Hotel Group**	13	Changsha, Hunan, China
Howard Johnson International Inc.**	9	Parsippany, NJ, US
Global Hyatt Corp.**	9	Chicago, IL, US
Days Inn Worldwide, Inc.**	5	Parsippany, NJ, US
Hilton Hotels Corp.**	4	Watford, Hertfordshire, UK
Four Seasons Hotels Ltd.**	2	Toronto, Ontario, Canada

*"Corporate 300 Ranking" *Hotels*, July 2006

**Estimated number of hotels in China based on company website.
Note: Excludes Hong Kong, Macao, and planned properties, such as the 12 new Global Hyatt properties that will be completed between 2007 and 2009.

Table 3: Most Recognized International Hotel Brands in China

International Hotel Brand	Headquartered in
Inter-Continental Hotels	UK
Shangri-la Hotels and Resorts	Hong Kong
Howard Johnson International	US
Marriott International Hotels	US
Starwood Hotels and Resorts	US
Accor	France
Best Western International	US
Hilton Hotels International	UK
Conifer Hotels and Resorts	Hong Kong
Hong Kong China Travel Service Hotel Group	Hong Kong

Source: China Tourist Hotels Association, 2006

Table 4: Hotel Financial Performance by Management, 2005

Type of Management	International chains	Domestic chains	Independent
Four-Star Hotels			
Occupancy (%)	73.1	68.9	67.6
Average daily rate	¥539	¥417	¥359
Revenue per available room*	¥394	¥287	¥243
Five-Star Hotels			
Occupancy (%)	69.6	69.3	62.6
Average daily rate	¥946	¥657	¥482
Revenue per available room*	¥659	¥455	¥302

*Reported in renminbi. In late November 2006, $1=¥7.85.
Source: China Tourist Hotels Association, "China Hotel Industry Study 2006."

p.24), to Four Seasons are strategically mapping the Chinese hotel landscape and developing successful business operations. For instance, Howard Johnson International plans to open 28 new hotels in China and sign 100 hotel management contracts in the next two years. Facing intense competition in the major cities, Howard Johnson is focusing on niche markets, such as the suburbs—to capitalize on the burgeoning numbers of automobile owners and the move of businesses to outlying suburban areas—and China's 44 secondary cities. (Secondary cities are medium-sized cities that are not provincial capitals and that have populations ranging from 500,000 to 1 million. Third-tier cities have populations ranging from 200,000 to 500,000.) To attract hotel development, cities must be strategically situated as gateways to major tourist attractions. Holiday Inn, Ibis, and Sheraton are some of the international hotel chains with a presence in such cities.

The importance of quality management

The rapid development of international hotel brands in China has played a positive role in elevating management and service standards to international levels, as international hotel companies have introduced systematic hotel management into their China operations. Standards and techniques, which vary among international hotel companies, generally cover human resources training, financial control, and sales and marketing. Because each hotel company develops its own techniques for internal use and treats them as proprietary information, few Chinese hotels have access to them.

Underlining the importance of good management practices, hotels managed in China by international brands delivered better financial results in 2005.

Chinese hotels are, however, emulating the practices of international hotel companies in an effort to compete. As a result, international hotel companies have had the effect of raising service standards across China's hotel industry.

Underlining the importance of good management practices, hotels managed in China by international brands delivered better financial results in 2005 (see Table 4). These hotels outperformed those managed by domestic brands and independently managed hotels in terms of hotel occupancy rate, average daily rate, and revenue per available room in four- and five-star categories. Hotels managed by domestic brands performed better than independent hotels, many of which are state-owned. Though they appear in all star categories, the state-owned and managed hotels are the least competitive, in part because they lack competent managerial professionals and global reservation systems, employ ineffective sales techniques, and offer lower-quality service. As a result, they cannot compete effectively with the more efficient operations of international and domestic branded companies.

Professionals needed

Although the hotel industry has a deeper pool of experienced managers to draw upon than industries opened more recently to foreign investment, its rapid expansion has created a new demand for a variety of hotel professionals (see p.20). The current shortage of competent managerial professionals, particularly in the fields of strategic management, asset management, and project management, contributes to the inefficiencies in hotel industry development and management. Most tourism and hospitality programs available in China were converted from geography, history, and foreign language programs, and only a few have a business focus. Consequently, a wide gap exists between industry expectations and college curriculum. Academic and professional training programs in market analysis and project management will be in high demand to ensure sound investment decisions and property development and management.

Other challenges

The hotel industry in China presents additional challenges for developers and managers. Intense competition may cause saturation in a number of major cities, particularly in the four- and five-star segments, especially after the 2008 Olympics. The industry will have to find ways to sustain business demand after 2008, when soaring occupancy and room rates will likely revert back to previous levels. Beijing could sustain its hotel business by highlighting its location as a center for major international events and conferences. Intensifying competition for domestic and inbound tourists, as well as competition from other emerging destinations such as Vietnam and Cambodia, also poses challenges to the hotel industry in China.

Opportunities abound

Growth in new areas and state sector reform are creating new opportunities in China's hotel industry. Efforts to clean up China's banks have led to the auctioning off of properties that have defaulted on their loans. Diligent hotel investors can find deals at these auctions through which they can expand their business in China.

Other opportunities lie in the less-developed segments of the industry. The economy segment of the hotel market and secondary cities and suburban areas will experience the highest growth. The rapid increase of car ownership in China has greatly improved Chinese citizens' mobility, and weekend "get-a-ways" to rural areas or major tourist destinations have become popular with urban car owners. As a result, economy hotels and home-stay accommodations operated by villagers have been popping up in suburban and rural areas. Condo hotels, mixed-use development, and timeshares are also becoming popular with both Chinese visitors and investors, and more demand can be expected for these lodging facilities and services in major tourist and resort destinations. Finally, brand development remains an opportunity for both domestic and international brands in China. 完


Starwood Hotels and Resorts Worldwide, Inc.

Westin Bund Center, Shanghai

Leading Hotel Managers Speak

Industry experts in Beijing, Shanghai, and Shenyang weigh in on developments in China's hotel industry

The China Business Review (CBR) *recently asked three general managers of leading hotels in China for their views on China's hotel industry. The following article consists of excerpts from interviews that Paula M. Miller,* CBR *associate editor, conducted separately with Peter Alatsas, general manager, the Westin Bund Center, Shanghai; Yoland Perras, general manager, Kempinski Hotel Shenyang; and Gerhard H. Zimmer, general manager, Sofitel Wanda Beijing and general manager delegate, Accor Beijing.*

CBR: You have managed hotels in several other countries. In what key ways does the hotel industry differ in China?

Zimmer: I feel that the dynamics are different in China because of the sheer size of the country and its unprecedented economic development. Most Chinese people are eager to learn and hunger for experience. After the 14-plus years that I have been in and out of China, I feel that China has overtaken some other Asian countries in terms of offerings and international atmosphere, especially in Shanghai, which has grown into a global city.

Alatsas: China is more fluid than many other countries, and there is a lot of energy here. One can't be passive and succeed in this environment. Also, the population is very keen on learning.

The main challenge in China is getting young people involved and interested in the hospitality industry. Finding the right people is more challenging than training them to international standards. Attracting people is a long-term process because several constituencies must be involved—including governments, educational institutions, and hotels.

All of this is happening in the middle of rapid economic development and intense competition for well-trained people in all business sectors.

Perras: Outside of the primary cities of Beijing and Shanghai, international hospitality standards are still rather new in China. Kempinski, therefore, emphasizes continuous training and coaching, and all employees focus on becoming truly hospitable and able to anticipate guests' needs and expectations. We have to internationalize our young employees and prepare them for greater responsibilities.

Also, hotels in different Chinese cities face different issues. Unlike in many other cities in China, five-star hotels in Shenyang must apply lower rates and adapt to the local economy and travel environment. Yet guests who stay at Kempinski in Shenyang expect the same five-star service they receive in high-profile cities, with efficient and personal care, and we will not cut back on services. To compensate, we exercise strict control on improvements, upgrades, and purchases so as to remain financially sound and responsible. At present, it is extremely difficult to drive up the rate for rooms, food, and beverages in Shenyang. An average night stay for a five-star hotel in Shenyang is ¥550–¥600 ($70–$76) per night, including breakfast. Moscow is the opposite; because demand is so huge there, an average night stay in a five-star hotel runs about €350 ($452), not including breakfast in most cases.

Shenyang is more like other secondary cities in which Kempinski operates. As the region's economy allows for more foreign investment, the mix of our clientele will evolve. Today, Shenyang may be where Beijing was 10 years ago, in terms of its clientele mix.

CBR: You managed the opening of the first Sofitel in China in 1992. How has opening the Sofitel Wanda Beijing differed from opening the Sofitel Hyland Shanghai so many years ago?

Zimmer: The main change is that the market has evolved greatly; today, China hosts all major international hotel companies. Another big difference is that, because of its preparations for the 2008 Olympic Games, Beijing has been experiencing an unprecedented construction boom. There is no other place in the world where there are so many super-deluxe, deluxe, and other hotels being built at the same time and with the same aim—to be ready for the Olympics. According to the China National Tourism Administration, 45,000 new hotel rooms are under various stages of construction for August 2008. In the early 1990s, the Chinese government, workers, and guests were not yet ready for five-star hotels, but when there was a hotel opening, thousands of people with good education applied for vacancies. In 2006 to 2008, when so many five-star hotels are

Peter Alatsas, General Manager, the Westin Bund Center, Shanghai

Starwood Hotels and Resorts

Peter Alatsas has more than 25 years of experience in hotel and tourism management, four of which have been in China. The Westin Bund Center, now in its fifth year of operation, opened its Grand Tower in November 2006, adding another 270 rooms to the hotel. In addition to Shanghai, Westin (part of Starwood Hotels and Resorts Worldwide, Inc.) currently operates in Beijing. Within the next four years, Westin plans to complete new hotels in Beijing; Guangzhou; Nanjing, Jiangsu; and Ningbo, Zhejiang.

Yoland Perras, General Manager, Kempinski Hotel Shenyang

Kempinski AG

Yoland Perras has been in the hospitality business for 25 years and in China for the last two years. The Kempinski Hotel Shenyang is now in its second year of operation. In addition to its Shenyang property, Kempinski AG operates in Beijing, including at the Great Wall; Bo'ao, Hainan; Chengdu, Sichuan; Dalian, Liaoning; Shenzhen, Guangdong; and Urumqi, Xinjiang. In the next two years, Kempinski plans to open hotels in Huizhou, Guangdong; Qingdao, Shandong; Sanya, Hainan; Shanghai; Tianjin; Wuxi, Jiangsu; and Yinchuan, Ningxia.

Gerhard H. Zimmer, General Manager, Sofitel Wanda Beijing and General Manager Delegate, Accor Beijing

Accor

Gerhard Zimmer has spent most of the last 14 years in the hospitality industry in China—and has 37 years of business experience in Asia. Sofitel (a division of Accor) currently operates 18 hotels in China, including in Bo'ao, Hainan; Chengdu, Sichuan; Dongguan, Guangdong; Hangzhou, Zhejiang; Hefei, Anhui; Ji'nan, Shandong; Nanchang, Jiangxi; Nanjing and Suzhou, Jiangsu; Shanghai; Xiamen, Fujian; Xi'an, Shaanxi; and Zhengzhou, Henan. The Sofitel Wanda Beijing is scheduled to open in mid-2007. In the next two years, Sofitel plans to open 12 more hotels across China, including in Chongqing; Harbin, Heilongjiang; and Macao.

opening at the same time, it has become difficult to find enough qualified staff.

Sofitel Wanda Beijing will be a new-generation Sofitel—much more luxurious and modern. The Beijing hotel will be the first Sofitel in China built in accordance with the platinum standard [a standard higher than Sofitel's five-star standard]. We will emphasize a cross-cultural interior design concept, and for the first time in China, we will have a famous French interior designer—Sybille de Margerie and her team from SM Design—work together with our main interior design company to implement a truly Sino-French concept. Sofitel Wanda Beijing will also pioneer a Michelin-star French gourmet restaurant, signature bar, and Le Spa by Accor, which will have Lancôme beauty cabins [studios] for the first time in China.

CBR: What are the top advantages to operating high-end hotels in China?

Perras: First, China's many cities with expanding markets require the services of high-end international hotels. Second, Kempinski is able to provide high-quality service throughout its operations in China while blending with traditional Chinese culture and regional diversity.

Zimmer: Every high-end international hotel company is present in China today because the market is expanding to accommodate these hotels. This gives high-end hotels the opportunity to ask for the price that is in line with the higher investment required to build such a property. Also, the purchasing power of Chinese consumers is growing—and so is their appetite for luxury goods and services.

Alatsas: China's market is vast and growing, with great demand for foreign products and services. But investors must be well informed to take advantage of the opportunities. Investors need good partners and alliances. And the PRC government must regulate the economy and industry in a progressive way that doesn't stifle the market. So far, the government has been doing a fairly good job.

CBR: What are the top challenges your company has faced in opening and operating hotels in China?

Alatsas: The first challenge, as I mentioned earlier, is to attract the right people to enter the hospitality industry. China had a strong hospitality industry in the past, but it was lost to Hong Kong and to the Chinese diaspora elsewhere during the Mao era. Trained people have been returning to mainland China in the reform era, and the industry is growing out of its infancy in this regard.

The second biggest issue is retaining qualified people once they've been trained. Westin uses several strategies to retain employees. For example, we provide the best possible salary and benefits, create an environment of trust and respect, and provide training and development programs employees can use at Westin and throughout their lives. Westin uses a computer staff-satisfaction survey system to track how staff feel about different aspects of their work. The hotel also stages many events, including events that recognize, celebrate, and reward employee accomplishments, "associates reviews" during which management updates employees on progress and on recent developments in the marketplace, annual parties where staff put on their own skits, monthly birthday parties, and sports and karaoke competitions. Westin tries to create an environment in which employees feel they are part of an extended family.

A third problem is that more locally grown managers will need to be developed for the many senior management positions open now and in the future. We will know that staffing problems have reasonably abated when hotels stop poaching staff from each other at inflated salary levels, rather than developing their own.

Perras: With the arrival of so many international hotels in the past two years and an even greater number in the next three to five years, it is becoming increasingly difficult to find reliable and knowledgeable employees from the tourism schools and universities that offer hospitality and tourism programs. Employee shortages will most likely make it difficult to sustain a five-star environment in some secondary cities as young employees move to larger cities. Hotels, therefore, must identify and retain talent as much as possible. One advantage in this area is that China has many young and talented individuals with a willingness to learn and a positive attitude rarely seen in other countries.

Through its innovative Top 100 Program, Kempinski works to identify potential talent and to promote from within. It is the duty of every general manager and department head to recruit talent based on the program. This ensures consistency and availability of the best talent throughout the Kempinski global network of hotels.

Managers at every level also need to participate in each employee's growth. Though it has only been open two years, the Kempinski Hotel Shenyang has already transferred talented people to its new properties at the Commune by the Great Wall, Beijing, and the Kempinski Hotel Beijing Lufthansa Center. The Shenyang hotel has also promoted many from within. We train and groom people in the right direction and prepare them for a better and more challenging future. In doing so, we know that we run the risk of losing people as they become more experienced and knowledgeable. But we have to take this risk and firmly believe that our commitment to their development and loyalty is the key to retaining quality individuals. It is not useful to nurture ignorance in employees at the expense of being afraid to take a risk.

Zimmer: First, it has been difficult to achieve brand recognition in China, partly because there has been no

Sofitel in Beijing, and Sofitel does not operate in major feeder markets such as Hong Kong and Singapore. With the opening of the Sofitel Wanda Beijing this year, Sofitel has finally arrived in Beijing. This will raise the visibility of the brand and enhance the Sofitel image as a deluxe hotel.

It can also be difficult to staff five-star hotels. Accor and Sofitel, which is presently the strongest brand of the Accor Group in China, have embarked on career building and China management development programs that go beyond the usual training programs. We have enrolled junior-level employees and management-level employees into the two programs to prepare them to become our future department heads and hotel managers, respectively. We also offer social benefits to our employees and are looking into supplemental health care programs.

CBR: What changes, if any, did your company make to its China hotels to better adapt to the Chinese market?

Alatsas: Many things are consistent throughout all Westin hotels, but Westin also strives to be culturally sensitive. For example, the Westin Bund Center offers eclectic Chinese cuisine, along with possibly one of the best Italian restaurants in the city and other international fare. (About 40 percent of our guests are mainland Chinese, 35 percent are from America, 12 percent are European, and most of the remainder are from other Asian countries.) The hotel also follows the norms, work practices, and work holidays observed in China. We've also incorporated some Chinese design elements into the hotel. Westin's lobby and the Banyan Tree Spa echo the five elements found in Chinese philosophy: wood, fire, earth, metal, and water.

Perras: As our motto says, Kempinski is "a Collection of Indiviuals." To be successful, Kempinski knows that it must adapt to its environment without changing its core identity. As an example, Kempinski introduced the Paulaner Bräuhaus into Beijing in 1990, and Chinese guests took to it so well that we now have the microbreweries in most of our properties in China—including in Shenyang. In Shenyang, we have kept the traditional German dishes, but to accommodate our local clientele we place all items at the center of the table so that guests can share the food in a more traditional Chinese fashion.

In Shenyang, our breakfast selection is adapted to the mix of our clientele. About 83 percent of our guests are mainland Chinese, 7 percent are Hong Kong and Taiwan travelers and travelers from other Asian countries, and 10 percent are European, American, or other foreigners. Hence, 80 percent of breakfast offerings consist of Chinese breakfast specialties, such as vegetables, congee, and noodles, but we still have freshly made morning pastries, fresh fruit, and a variety of cereals and muesli. You will find items suitable for all palates.

Zimmer: Sofitel adapts to the culture and environment of each country and city in which it locates. The hotels in China always have some Chinese art and interior design elements with just the right dose of a French touch throughout the hotel. Depending on the hotel's location in China, the nationality of our guests varies. For example, in major cities such as Shanghai, roughly 70 percent of Sofitel's guests are foreign and 30 percent are Chinese. In smaller provincial capitals, the percentages could be the other way around—70 percent Chinese and 30 percent foreign. The Western food offerings remain consistent throughout all Sofitel hotels, though the demand for Chinese cuisine is obviously stronger in provincial cities.

CBR: A large number of hotels are being built in China, mostly for the 2008 Olympics. Are you concerned that there will be too many empty rooms throughout China after Olympics-related tourism dies down?

Alatsas: The risk of surplus hotel rooms is a challenge in most Olympic cities—but I think China will be different because the 2008 Olympic Games are riding on the back of massive economic expansion. China's hotel boom will be absorbed; coastal cities are least likely to experience a problem. It's not a problem on the supply side, but a positive on the demand side. Most of the infrastructure China is building for the Olympics would be built even without the games—the Olympics are just expediting the process.

Perras: No, I am not afraid of an oversupply of hotels. Though more accommodations will be needed for the Beijing 2008 Olympics, China will increase its marketability during the Olympics by showcasing many regions previously unfamiliar to the world. China will open its doors to people, and hotels will have a major role in promoting and marketing the country. The country is cleaning up its many historical sites and enhancing its infrastructure—as well as manners and behavior. In addition, many travel agents will become more aware of tourist hot spots in China. China is smart to prepare for the period after the Olympics. The Beijing 2008 Olympics will help to "demystify" China and will showcase the country like never before in the history of the games.

Zimmer: I believe that the Olympic Games have created the greatest marketing opportunity for China, especially for Beijing. Though there will be some adjustments in the market after the games, the overall worldwide appetite to visit China will be much greater. And with the country's improved infrastructure, larger airport capacity, and more flights, the travel and tourism industry—including hotels—will face a bright future. In addition, after the Olympic Games are over, China will host other events—such as the World Expo 2010 in Shanghai—that will ensure the country remains on the world's radar screen. 完

Showtime in China

Wang Jun/Photocome

Wang Chunlei

With annual GDP growth rates of nearly 10 percent in recent years and continued economic reform, China has become one of the world's largest markets for the sale of raw materials and products. Boosted by economic prosperity and the steady growth of foreign trade as a result of China's entry to the World Trade Organization (WTO), China's exhibition industry has registered average annual revenue growth of nearly 17 percent since 2001 (see Table). And since September 2001, international exhibition giants, such as Deutsche Messe AG, Messe Düsseldorf GmbH, Messe München GmbH, Reed Exhibitions Ltd., and VNU Expositions, Inc., have entered the Chinese exhibition market, equipped with abundant capital, well-known trade shows, and professional experience.

US exhibition companies can help China improve its trade show industry and reap generous profits, but should consider the risks

Another important development is the emergence of five convention and exhibition economic belts, the Yangzi and Zhu river deltas, Bohai Bay area, and Northeast and Central China. Many trade shows have taken place as far west as Chongqing; Chengdu, Sichuan; and Xi'an, Shaanxi. Messe Düsseldorf China has launched several trade shows, and has set up representative offices in Chongqing and Shenyang, Liaoning.

Conventional conventions

Domestic Chinese exhibition companies have traditionally remained far behind foreign exhibition organizers in branding and operating globally. China has hosted more than 3,000 exhibitions since 2002, but only a few renowned exhibitions, such as the Chinese Export Commodities Fair, Beijing International Printing Technology Exhibition, China International Textile Machinery Exhibition, and the International Exhibition on Die and Mold Technology and Equipment, are internationally competitive. The Chinese convention and exhibition industry is plagued by multiple small exhibitions that revolve around a handful of themes, which has resulted in vicious competition and wasted resources. The inability of these small exhibitions to attract exhibitors and buyers has slowed China's progress in building a professional, brand-oriented exhibition industry.

Four factors contribute to the current malaise of China's convention and exhibition industry: poor industry positioning in many cities, government involvement in industry management, less competitive domestic exhibition enterprises, and outdated professional education and training. The PRC government manages the industry according to specific categories and levels, an arrangement that adds unnecessary red tape to the planning process. Each government department oversees exhibitions that correspond to its industry and level. For example, if a trade show organizer plans to launch an exhibition in Shanghai, it must receive approval from the relevant municipal government department according to several criteria, including the exhibition's theme and organizers' qualifications.

To date, the China Convention and Exhibition Society (CCES) and China Association for Exhibition Centers (CAEC) are the only national exhibition industry associations in China, and only CAEC is membership-based. CCES is mainly concerned with research while CAEC—supervised by the Ministry of Civil Affairs and State-Owned Assets Supervision and Administration Commission—provides its members with research, information, international exchange opportunities, and professional training programs.

Signs of improvement

Despite these shortcomings, the industry is moving toward international legal, operating, and branding standards and is making great strides in innovating industry administration, destination marketing, and brand cultivation. In an

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effort to establish a healthier and more standardized environment for the exhibition industry, the PRC government has made some changes in regulations that benefit foreign trade show organizers and exhibitors.

violation complaint offices that are staffed by local officials who, along with show organizers, may temporarily remove suspected counterfeit products from the exhibitions. If the show organizers choose not to form an IPR complaint office, local IPR authorities under those four agencies should handle any IPR violations at the event and must destroy any IPR-infringing exhibition articles, boards, and advertising materials. Recognizing the importance of trade shows in China to US businesses, the US Department of Commerce has encouraged US companies to attend exhibitions and has solicited comments on how to better protect IPR at trade shows.

Many well-known exhibitions in China now attach greater importance to the protection of IPR.

A regulatory boost

Although foreign capital first entered the Chinese exhibition market about 10 years ago, it was primarily used to launch joint ventures in the few cities in which such investment was permitted. In early 2004, the Provisional Rules on the Establishment of Foreign-Invested Convention and Exhibition Companies, issued by the PRC Ministry of Commerce (MOFCOM), allowed foreign investors to set up convention and exhibition companies in mainland China either as wholly foreign-owned entities or as joint ventures. These rules extended the benefits previously available to investors from Hong Kong and Macao under the Closer Economic Partnership Arrangement to foreign investors on the mainland, though foreign investors are more likely to be approved if they can demonstrate a track record of organizing international exhibitions. Currently only 15 foreign exhibition companies operate in China, but the relaxed regulatory environment should attract more soon.

More emphasis on IPR protection

The presence of foreign exhibition companies and exhibitors has had a positive impact on the domestic exhibition market, particularly in the area of intellectual property rights (IPR). Many foreign companies have found competitors touting illegal imitations of their products at trade shows and have demanded better IPR protection.

In January 2006, the State Administration of Industry and Commerce, National Copyright Administration, State Intellectual Property Office, and MOFCOM jointly issued the Regulation on IPR Protection at Trade Shows, which encourages sponsors of trade shows to set up IPR

Growth of China's Exhibition Industry, 2001–05

	Number of exhibitions	Number of UFI-approved exhibitions*	Total area of venues (million m²)	Total number of venues	Total revenue ($ million)
2001	2,387	5	1.1	117	9.0
2002	3,075	6	1.8	177	11.2
2003	3,298	17	2.5	212	10.4
2004	3,560	19	2.9	240	13.5
2005	3,800	23	3.2	NA	16.0

Note: NA = not available; * Excluding Hong Kong
Sources: PRC Ministry of Commerce; China Convention and Exhibition Society

Many well-known exhibitions in China now attach greater importance to the protection of IPR. In Guangdong, where numerous exhibitions take place, the provincial Intellectual Property Office (IPO) recently issued two documents on the protection of IPR at trade fairs. Moreover, the Guangdong IPO recently dispatched IPR enforcement officials to prominent trade fairs held across the province, and in October 2005, officials announced 276 suspected enterprises and 39 cases of copyright infringement at the popular Canton Fair, according to reports from the Guangdong government.

A jump in UFI-approved events

UFI, a global exhibition industry association based in France, has in recent years certified a spate of large, high-quality exhibitions in China. UFI uses various criteria to select its members and to certify events. For example, to be certified, an exhibition must have already taken place twice, and foreign exhibitors must constitute at least 10 percent of the entire show or foreign visitors must constitute 5 percent of the visitors. In 2006, UFI approved 717 international events, and by the end of September, UFI had certified 59 Chinese exhibitions, including 22 events in Hong Kong. In addition, 42 Chinese exhibition organizers and associations, including CAEC and the Shanghai International Exhibition Co., Ltd., became UFI members. Finally, in November 2006, UFI brought its three-day 71st annual meeting to Beijing, the first time such a meeting has taken place in mainland China.

Exhibiting abroad

An increasing number of Chinese enterprises and exhibitors have begun to eye the global market and have found one way to expand abroad: attending exhibitions in foreign countries. In 2005, 86 organizations in China arranged for more than 26,000 enterprises to attend 950 overseas trade shows, up 27 and 28 percent, respectively, over 2004, according to MOFCOM. For example, in 2005, 6,833 Chinese exhibitors participated in trade shows in Germany, ranking China second in terms of the number of attendees at German trade fairs, according to the Association of the German Trade Fair Industry. The number of Chinese buyers that attended shows in Germany also rose between 20 and 30 percent in the last two years, according to a 2004 report on China's conference and exhibition industry.

Into the future

The internationalization of the Chinese convention and exhibition market has allowed domestic and foreign interests to merge and compete on the same stage. In 2005, the Chinese convention and exhibition industry launched 38 foreign-invested programs and used $3.6 million in foreign capital, according to MOFCOM. Also in 2005, China National Pharmaceutical Group (Sinopharm), the largest state-owned pharmaceutical company in China, and Reed Exhibitions launched Reed Sinopharm Exhibitions Co., Ltd., the first joint venture between a private company and a state-owned enterprise in China's exhibition industry.

Before foreign exhibition companies plunge into the China market, however, they must become familiar with China's exhibition industry. Trustworthy partners can help mitigate risks, but as in other sectors, companies must perform thorough due diligence on all prospective partners (See the *CBR*, November–December 2006, p.16). Moreover, foreign exhibitors must ensure that their intellectual property is protected at trade shows. As more global trade shows set up in China, foreign exhibition companies would do well to test the waters of China's exhibition market, while taking precautions to avoid potential pitfalls. 完

Tips for US Trade Show Organizers

Although only a few US exhibition companies, such as VNU Expositions, Inc. and Advanstar Communications, Inc., had entered China by the end of 2006, recent signs point toward increased injection of US capital into the Chinese exhibition industry. On May 15, 2006, the US-based International Association for Exhibition Management (IAEM) and China Council for the Promotion of International Trade (CCPIT) signed a new agreement to boost trade show activities between the two economic giants.

Success in the Chinese exhibition market

As in other industries in China, foreign investors in the exhibition industry must prepare carefully and be ready to commit a significant amount of time to the venture. Cultural and business differences make face-to-face meetings essential. For example, decisionmaking in China tends to be much slower than in the United States, businesspeople prefer to close deals in person, and the PRC government often gets involved in local events. Because of these differences, on-the-ground experience is necessary to succeed in China's exhibition market, and foreign companies exhibiting for the first time in China should seriously consider temporarily recruiting local staff.

To learn more about the convention and exhibition industry in China, foreign investors should attend the China Expo Forum for International Cooperation, hosted by CCPIT, UFI, IAEM, and the Society of Independent Show Organizers (SISO) and held in a different Chinese city each January (see p.8).

The next step is to formulate a strategy, which may include finding a suitable local partner. Many industrial associations and local exhibition companies, particularly UFI members and veteran state-owned exhibition companies, such as the China International Exhibition Center Group Corp. (CIECGC) and Shanghai International Exhibition Co., Ltd., have expertise in certain industries. In addition, foreign investors can turn to CCPIT's local branches for support. Finally, conducting business is often easier with local partners. They not only have a wealth of knowledge about local conditions, but can also help the venture jump through the inevitable bureaucratic hoops more quickly.

Exhibiting in China

The most important issue for US exhibitors is how to choose the right trade shows in China. US exhibitors can obtain important information from the PRC Ministry of Commerce, CCPIT, China Association for Exhibition Centers, or local convention and exhibition associations. Another good source is the UFI website, which lists the names and websites of approved events in China (www.ufinet.org). UFI is also a useful resource for contacting relevant associations in the United States, including IAEM and SISO. Finally, the US Commercial Service, with offices in the US embassy in Beijing and consulates across China, may also have useful information.

Some of the best exhibitions in China are sponsored by related industry associations. For example, the first UFI-approved event in China, the Beijing International Printing Technology Exhibition, was sponsored by the Printing and Printing Equipment Industries Association of China and CIECGC. Since 2002, Messe München GmbH, CCPIT Machinery Sub-Council, and the China Construction Machinery Association have cosponsored Bauma China, a biennial international trade show for construction machinery, building material machines, and construction vehicles and equipment.

—Wang Chunlei

China is Slated to Become the Number-

Mainland China's tourism industry has grown steadily since 2001...

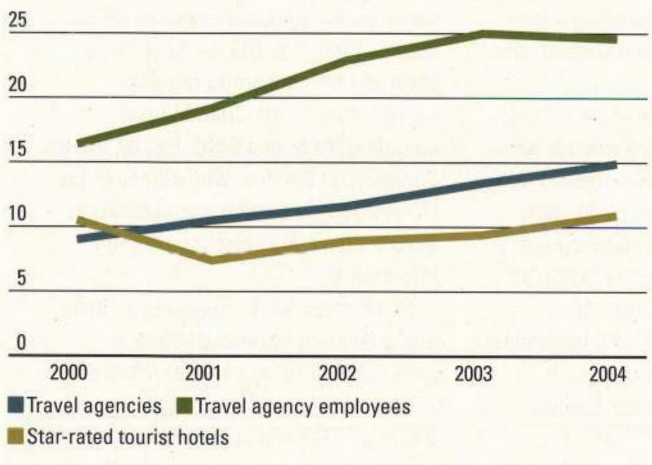
Growth of Tourism in China, 2001–06 ($ billion)

	2001	2002	2003	2004	2005*	2006*
Personal travel & tourism	54.4	58.7	62.5	72.2	83.5	99.2
Business travel & tourism	15.9	16.8	17.4	21.2	27.0	35.1
Government operating expenditures on tourism-related services	5.9	6.3	6.7	7.5	8.2	9.3
Visitor exports**	19.0	21.8	18.7	27.8	32.7	36.9
Other exports	12.0	13.4	18.1	24.3	31.4	38.2
Capital investment	42.8	50.5	64.9	84.3	107.9	135.1

* Estimates
** Expenditures by international visitors on goods and services within China

...and tourism-related businesses have proliferated.

Growth of Tourism Infrastructure, 2000–04 (thousand)



Rapid expansion is expected to continue.

Projected Growth of Tourism in China ($ billion)

	2006	2016	% annual growth*
Tourism-related employees (million)	77.6	90.0	1.5
Travel & tourism economy GDP	301.2	1,076.7	8.5
Capital investment	135.1	475.6	8.3
Visitor exports	36.9	99.1	5.4
Government operating expenditures on tourism-related services	9.3	23.8	4.9

* Annual growth is projected real growth for 2007–16

China's tourism sector ranks third worldwide...

China's Tourism Economy in Context, 2006 ($ billion)

Rank	Country/Region	Tourism economy*	% of total GDP
1	United States	1,390.8	10.5
2	Japan	446.5	9.4
3	China	301.2	13.7
20	India	41.8	5.3
23	Hong Kong SAR	33.2	17.1
24	Thailand	29.6	14.3
29	Indonesia	27.1	8.7
33	Malaysia	21.4	14.6
45	Macao SAR	12.3	93.6
59	Vietnam	6.3	10.9

Note: SAR = Special Administrative Region
* Defined as all economic activities in the tourism sector

...and second in capital investment.

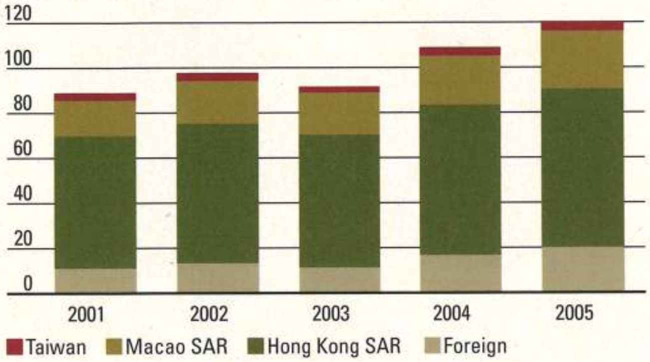
Capital Investment in Tourism in Context, 2006 ($ billion)

Rank	Country/Region	Capital investment	% of total investment
1	United States	282.0	10.7
2	China	135.1	9.9
3	Japan	56.0	5.1
14	India	15.6	7.2
17	Indonesia	8.6	12.8
25	Malaysia	7.0	17.0
27	Hong Kong SAR	6.7	15.4
34	Thailand	4.6	9.4
38	Macao SAR	3.8	84.0
59	Vietnam	1.5	8.3

Three Global Tourist Destination by 2010

Hong Kong and Macao supplied the majority of inbound tourists...

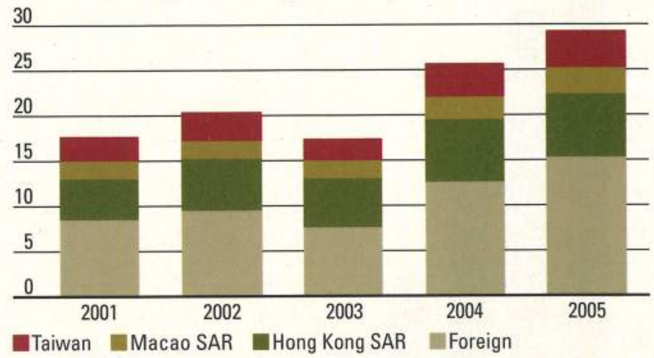
China's Inbound Tourism, 2001–05 (million)



Note: Arrivals based on nationality or passport, not residence

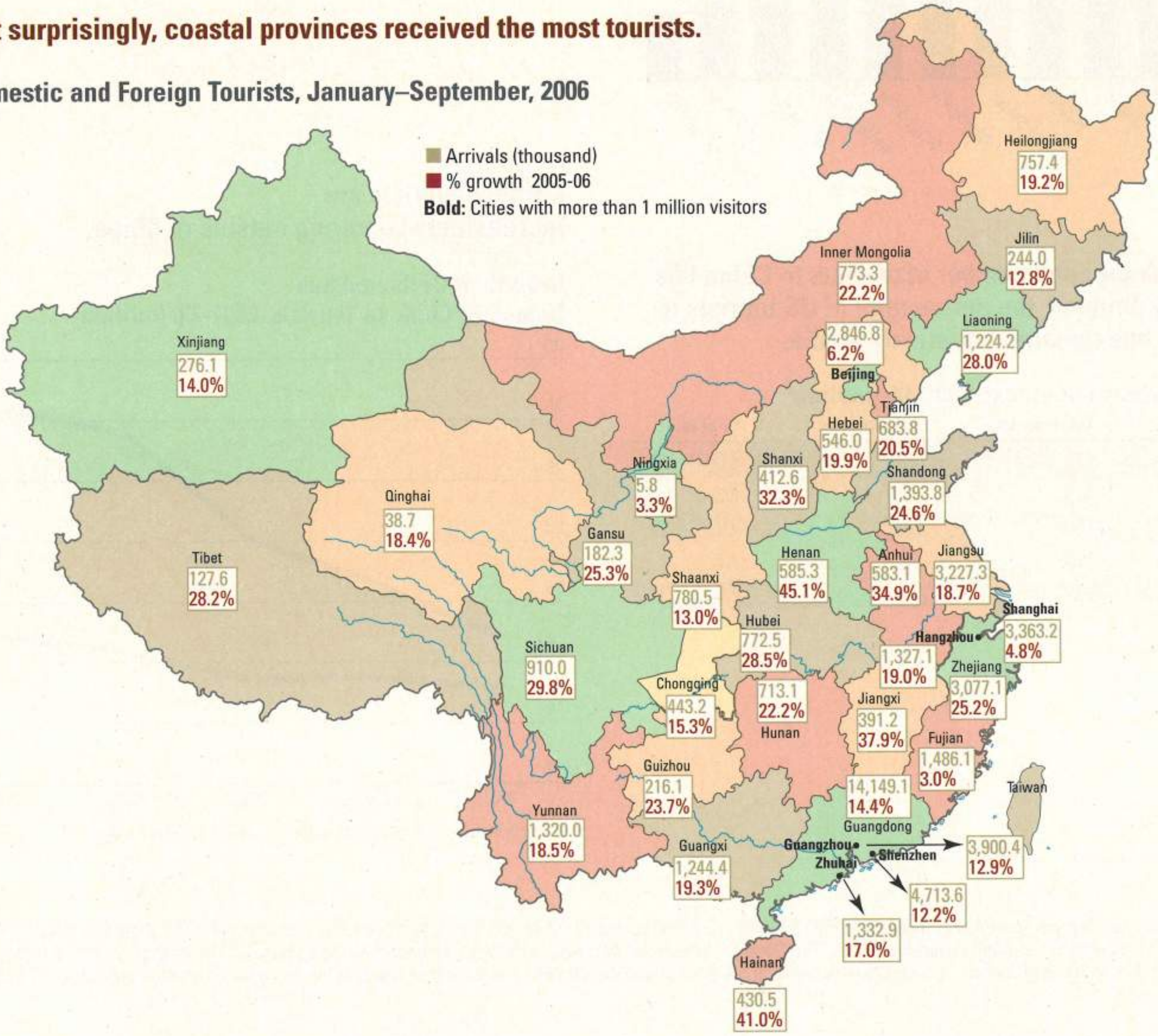
...as well as sizable amounts of foreign exchange.

Tourism Foreign Exchange Receipts, 2001–05 ($ billion)



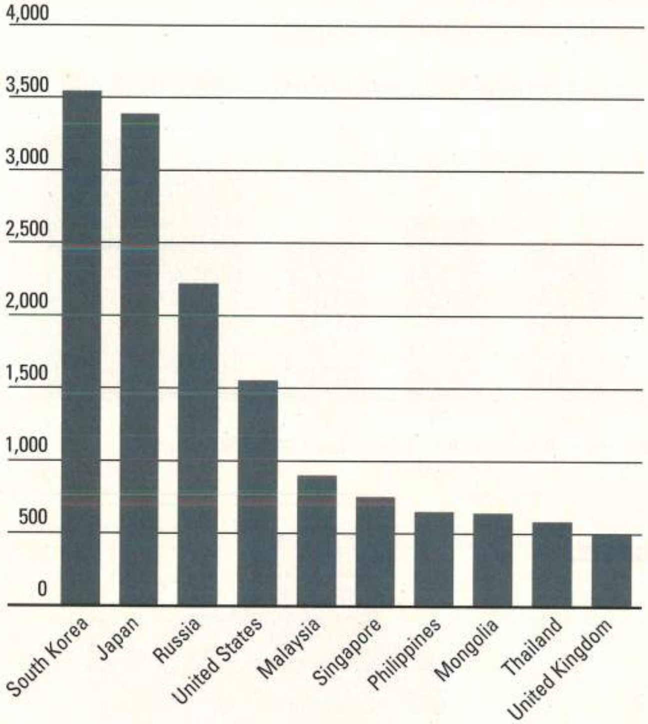
Not surprisingly, coastal provinces received the most tourists.

Domestic and Foreign Tourists, January–September, 2006



In 2005, the United States was among the top five sources of visitors to China.

Top 10 Foreign Countries of Origin, 2005 (thousand)



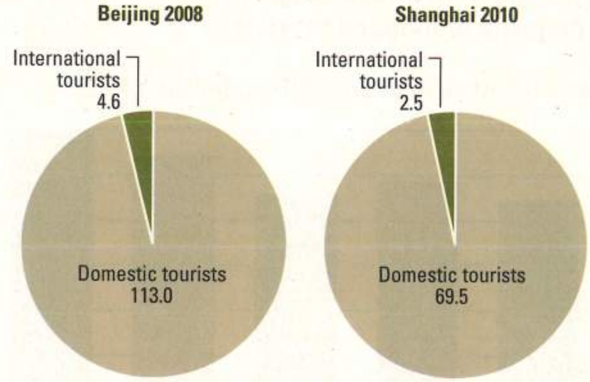
Though the total number of tourists to China has nearly doubled, the percentage of US tourists in China has remained relatively stable.

US Tourists in Context, 2001–05 (million)

	Total tourists	US tourists	% of total
2001	11.2	0.9	8.0
2002	13.4	1.1	8.2
2003	11.4	0.8	7.0
2004	16.9	1.3	7.7
2005	20.3	1.6	7.9

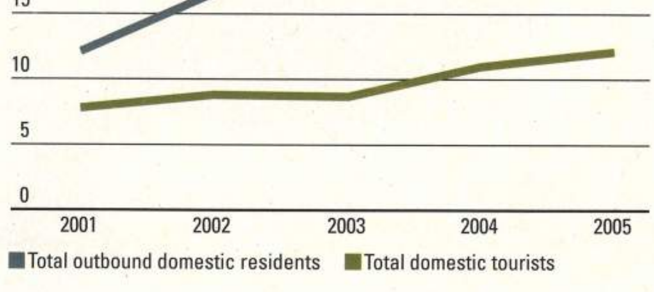
Beijing will host the Olympics in 2008 and Shanghai the World Expo in 2010.

Projected Number of Tourists, 2008 and 2010 (million)



Chinese tourists are increasingly venturing outside of China.

Growth of Outbound and Domestic Chinese Tourists, 2001–05 (million)



Sources: China National Tourism Administration; PRC National Bureau of Statistics, *China Statistical Yearbook 2006* and *China Monthly Statistics*, 2002; Stephanie Hemelryk Donald and Robert Benewick, *The State of China Atlas: Mapping the World's Fastest Growing Economy* (University of California Press, 2005); World Travel and Tourism Council, "China, China Hong Kong SAR and China Macau SAR: The Impact of Travel & Tourism on Jobs and the Economy," 2006.

The Walt Disney Co.

Disneyland in Hong Kong

Through its latest amusement park, Disney is learning how to bring the magical kingdom to the Middle Kingdom

Paula M. Miller

Hong Kong Disneyland opened on September 12, 2005, marking the Walt Disney Co.'s first park in China and 11th park worldwide (the other parks are in France, Japan, and the United States). Though the park hit a few bumps in its first year of operations, Disneyland quickly became one of the top three most popular attractions in Hong Kong. The park received more than 5 million visitors in its first year, just missing its goal of 5.6 million visitors. Though it is currently the smallest Disneyland park, after planned expansions, Hong Kong Disneyland will eventually handle many more visitors per year. Disney's second year of operations already looks more promising. But to win the hearts of Chinese tourists, Disney must do more than attract guests to a new park. First, it must teach the public about the "wonderful world of Disney."

Ownership structure

The Walt Disney Co. owns 43 percent of Hong Kong Disneyland, and the Hong Kong Special Administrative Region government owns 57 percent; currently, no other

Paula M. Miller is associate editor of the CBR.

"Disney has to work twice as hard to market itself in mainland China because most Chinese have not grown up with Disney."

Disney park is partly government-owned. In a recent interview with the *CBR*, Josh D'Amaro, vice president, Sales and Travel Trade Marketing, the Hong Kong Disneyland Resort, said, "Disney has a strong relationship with the Hong Kong government. Hong Kong has been working to boost tourism and has been aiming to attract families instead of just businesspeople and shoppers. According to Hong Kong Tourism Board figures, overnight family visitors to Hong Kong in the first half of 2006 grew 24 percent over the first half of 2005; 36 percent of overnight family visitors brought along their children, compared to 20 percent in 2005. We like to think Disneyland played a role in this change—people don't just come to Hong Kong for business and shopping anymore."

Park visitors

According to D'Amaro, Hong Kong Disneyland's summer 2006 visitor boom ran from July to the beginning of September. That summer, roughly 50 percent of the park's visitors came from mainland China. During the rest of the year, about one-third of park visitors came from Hong Kong, one-third from mainland China, and one-third from Taiwan and Southeast Asian countries such as Singapore, Malaysia, and Thailand—and other parts of the world. D'Amaro continued, "Hong Kong Disneyland receives a mix of family and nonfamily visitors, such as young adults, married couples without children, and the elderly. About half of the families have been from mainland China."

Marketing the mouse—and more

As one might expect, there are challenges to building and marketing a Disneyland park outside of the United States. "Disney has to work twice as hard to market itself in mainland China because most Chinese have not grown up with Disney," notes D'Amaro. "South China has some 'Disney spillover'—meaning people in southern China are generally more familiar with Disney because they live near Hong Kong. It is much easier [to market the park] in the United States, where kids learn about Disney from an early age, and their parents and grandparents know us too."

To help guests become more familiar with Disney and Disneyland attractions, the park gives tourists an introduction after they enter the park. One of the first buildings in the park, the Disneyland Story, exhibits artwork and film footage on Disney history, from the creation of Mickey Mouse through the construction of Hong Kong Disneyland.

"We have also been running tests on tour groups from two operators in mainland China. When these tour groups arrive at the park, they are greeted by a Disney host who introduces them to Walt Disney [the founder of the company], the park's attractions, characters, and other background. For example, the character Buzz Lightyear explains *Toy Story* and the Buzz Lightyear Astro Blaster attraction. The feedback has been very positive," said D'Amaro.

Disney has launched numerous marketing initiatives to raise awareness of, and spark interest in, Hong Kong Disneyland. These efforts include establishing cooperative advertising programs with travel agents and the Hong Kong Tourism Board; offering "salute programs" to travel agents and airline and hotel industry staff that operate in the region so that they can visit the park and act as park ambassadors; and creating a website to introduce Disney culture, news, and promotions to travel agents. D'Amaro said that Disney has placed advertorials in mainland magazines to inform the public about Disneyland and inspire them to visit the Hong Kong Disneyland website—and order a vacation planning kit. Disneyland is also moving its marketing team into South and Southeast China to better focus on those regions.

Disney runs promotions throughout the year. "One big promotion we have been running is called 'Stay and Play for Two Days.' This was created mainly to give mainland tourists a chance to experience the park for a longer period of time. Because many Chinese tourists cross into Hong Kong by bus, they arrive at Disneyland mid-day. Under the promotion, if a guest stays at a Disneyland hotel and purchases a one-day ticket, we give the guest a second day at the park for free," D'Amaro explained. In addition, the company has offered special hotel rates for Hong Kong residents.

Disneyland also administers a student program in which student groups enter the park 30 minutes before the park's opening and receive a special introduction and tour of the park. "We are building on the program to make it more educational. For example, we hope that soon students can learn physics by studying light, sound, and motion on Space Mountain," said D'Amaro. Disney began offering other youth programs, such as performance opportunities in the park and school fun days, to primary and secondary schools in Hong Kong during the 2006 Christmas season.

Park traditions and adaptations

Because the Hong Kong park is inspired by the original Disneyland in Anaheim, CA, many aspects of the park remain the same, explained D'Amaro, who worked at Disneyland in California for eight years before relocating to Hong Kong. "For example, the Hong Kong park offers classic attractions such as Space Mountain, the Sleeping Beauty Castle, and Mad Hatter Teacups. Also, after visitors enter the park, they pass through Mainstreet, USA, which looks almost exactly like it does in California—like an American town in the early 1900s."

Disney took local culture into account when planning the park, however. For example, it consulted a *feng shui* master to help with the park's placement, orientation, and design. Along with following *feng shui* principles, the park's hotels have no floors that are designated as fourth floors—because "four" is considered an unlucky number in Chinese culture. Furthermore, the park opened on September 12 because it was listed as an auspicious date for opening a business in the Chinese almanac.

Hong Kong Disneyland has modified many aspects of the park to better suit its Chinese visitors. "Our cast members are extremely diverse, understand various cultures, and many speak three languages. Signs, audio-recorded messages, and attractions are also in several languages. For example, riders can choose from English, Mandarin, or Cantonese on the Jungle River Cruise. Also, the park serves a wide variety of food offerings—ranging from classic American fare, such as burgers, to Chinese, Japanese, and Indian cuisine," D'Amaro said. (At one time, Disney planned to serve shark's-fin soup for business dinners and special events because the soup is commonly served at Chinese banquets. But after protests by animal- and environmental-rights activists, the item was removed from the menu.)

Certain park elements, rides, and festivals have been created just for the Hong Kong park. D'Amaro explained that because many people in Hong Kong and mainland China love to take photos, Disneyland set up Fantasy Gardens in the Fantasyland area of the park. In the gardens, guests can have their photos taken with, or get autographs from, Mickey Mouse, Winnie the Pooh, and other characters.

Though other Disneyland resorts operate hotels, Hong Kong Disneyland runs two hotels that are unique to the park: the Victorian-style, 400-guestroom Hong Kong Disneyland Hotel and the Art Deco-style, 600-guestroom Hollywood Hotel. The park also features a lake with boat rentals and a 3.5 hectare arboretum.

Popularity contest

According to D'Amaro, the most popular attractions at the Hong Kong park to date have been Mickey's PhilharMagic, which is a three-dimensional theater that incorporates smell and touch; Space Mountain, the classic roller coaster; *Disney in the Stars*, the evening fireworks show above the Sleeping Beauty Castle that is choreographed to classic Disney music; parades; and character greetings.

Hong Kong Disneyland launched three new attractions in summer 2006—Stitch Encounter and UFO Zone, which are unique to Hong Kong Disneyland, and Autopia, which has been modified from the original ride in California. "Stitch Encounter is a new attraction in which audience members can interact with Stitch—the fuzzy blue alien from *Lilo and Stitch*. It is a fully interactive show that runs in English, Mandarin, and Cantonese—depending on the showing," D'Amaro said. UFO Zone is an interactive, water-based play area. In Autopia, riders drive electric cars through a futuristic highway. According to Disney, the Hong Kong park has the first all-electric version of Autopia, the cars' pick-up is smoother, and the special effects and landscaping have been improved.

"One of our goals is to continually enhance the park so that when guests return to Disneyland, they see something new. For instance, since Halloween is fairly popular in Hong Kong, we prepared the park for Halloween by setting up a Villains Lair—with Disney villains—decorated the park with pumpkins, and set up trick-or-treat stations. The winter holiday season is a very popular time for the park. Beginning November 11, we set up the Mainstreet Christmas tree, hold holiday parades, change costumes, and add theatrical snow. For the Chinese New Year, characters change costumes again, the decorations change, and we hold lion dances," continued D'Amaro.

Future expansion

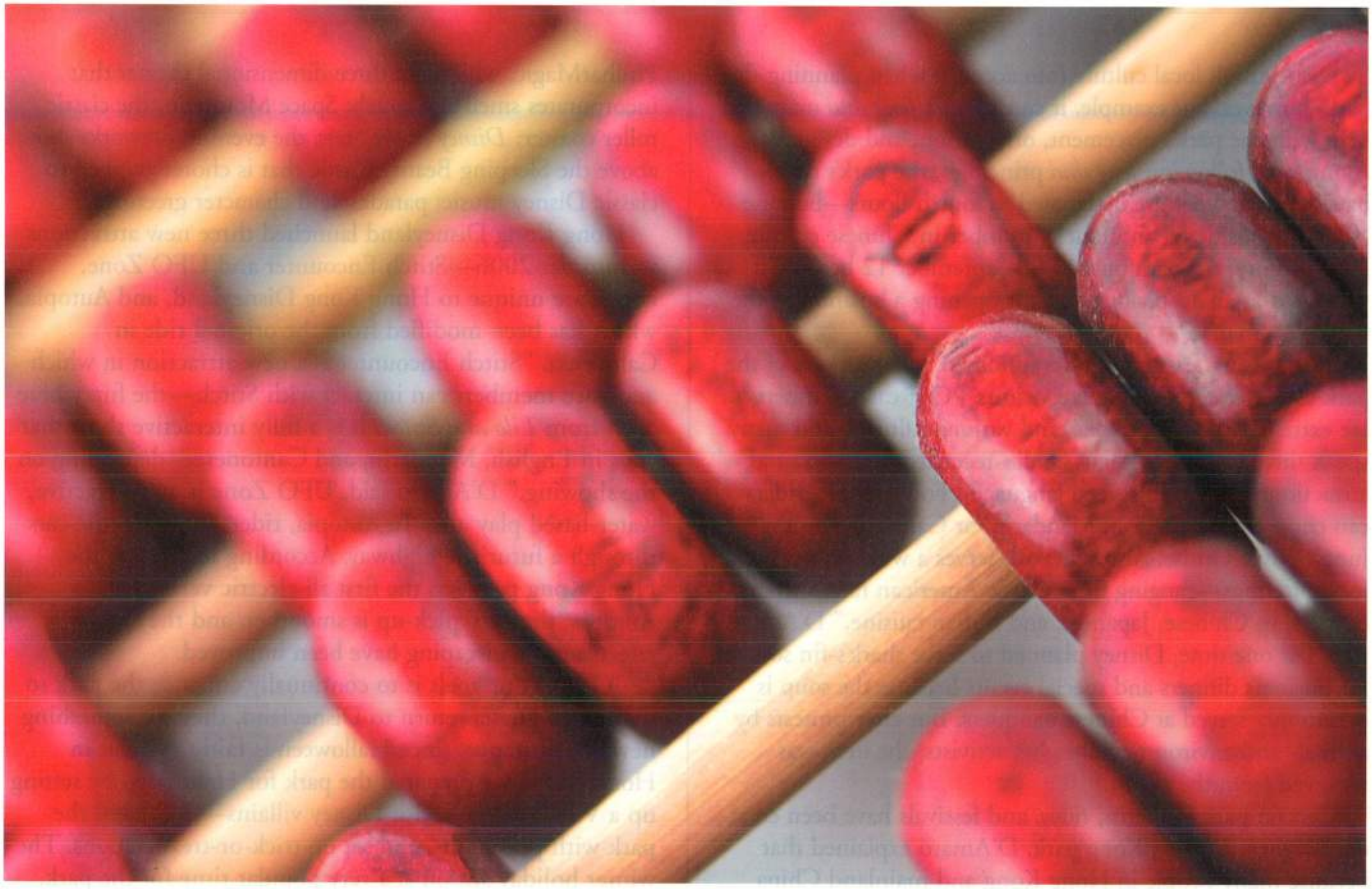
Though there has been much in the press about Disney's plans to set up a larger amusement park in Shanghai, the company is not yet ready to make an official announcement. With China's vast population—and doting parents and grandparents willing to spend money on the family's only child—it can only be a matter of time before Disney sets up a park on the mainland. 完

Highlights of Disney's Operations in China

The Walt Disney Co. entered mainland China in the 1930s and now has offices in Beijing, Guangzhou, and Shanghai. Disney operates four business segments in China: parks and resorts, media networks, studio entertainment, and consumer products. Mickey Mouse animation first appeared on Chinese Central Television in 1986. According to Disney, China now broadcasts roughly 11 hours of Disney-branded programming every week, reaching more than 260 million viewers. Beginning with the *Lion King* in 1995, China has chosen 23 Disney movies for distribution in the country; since 1998, Disney has released more than 330 video compact-disc titles and 120 DVD titles, which are available in 8,500 retail outlets throughout the country. Disney's core consumer products in China feature Mickey Mouse, Winnie the Pooh, and the Princesses. Disney has more than 4,200 Disney corner outlets that sell branded consumer-product merchandise to 25 million consumers in more than 25 cities in China.

In terms of live entertainment, Disney's musical the *Lion King* played for a record-breaking 101 performances in 2006 and was seen by more than 160,000 people in China. Disney also has an Internet group that handles online gaming, mobile content, and Internet sites.

—*Paula M. Miller*



Aligning Tax and Operational Strategies

Foreign investors must choose carefully among myriad legal vehicles to meet their China objectives

Thomas Quinn, Michael Ho, and Alexander Pan

While most foreign companies are enthusiastic about the China market, China also tops the list of countries that pose the greatest tax challenge in the Asia-Pacific region, according to a 2005 PricewaterhouseCoopers survey on regional tax challenges. Companies that want to successfully manufacture, source, distribute, and conduct research and development (R&D) operations in China must understand the written and unwritten rules of doing business in that country before making any irreversible commitments. They must also establish a tax-efficient structure to support the company's operational strategies.

Understanding Chinese tax incentives

Before making any investments in China, corporate management should make an effort to understand the various Chinese tax incentives that are designed to attract foreign investment. In general, industry- or location-oriented tax incentives may be granted to a foreign-invested enterprise (FIE) based on the nature of its business or the location of its incorporation and operation. Industry-oriented incentives are offered primarily to FIEs engaged in manufacturing. For example, qualified manufacturing FIEs can enjoy a five-year tax holiday. FIEs that PRC authorities recognize as having high-tech status and manufacturing FIEs that export more than 70 percent of their products may also enjoy additional tax incentives.

Location-oriented incentives, including reduced tax rates and financial support programs, are aimed at encouraging foreign investment in certain areas to promote economic development. Two such areas are Beijing Zhongguancun, China's version of Silicon Valley, and Shanghai Pudong Lujiazui, China's financial center. The PRC government has also provided tax incentives specific to western, central, and northeastern China in its efforts to "balance" China's economic growth. In addition, China has set up different development zones for foreign investors, including export-processing, high-tech, free-trade, and bonded logistics zones, among others.

Sourcing strategies

To take advantage of China's low-cost manufacturing capabilities, US companies can procure products directly from China or set up their own production facilities there. Sourcing operations in China can be structured in different ways, depending on the company's business objectives. The resulting tax consequences may differ significantly.

Representative office

For companies without an extensive presence in China, setting up a China representative office (RO) can be one of the most effective and cost-efficient ways to manage sourcing and procurement activities. Typically, a China RO acts as a business liaison with Chinese suppliers, researches market information, coordinates logistics for goods delivery, and arranges meetings and visits for corporate management or customers. Companies can establish multiple ROs in China depending on business needs. There are no capital requirements for establishing an RO, and the set up process is quite straightforward.

It should be noted, however, that a China RO that engages in procurement activities may be subject to income tax and business tax on deemed profits, which are generally determined based on a markup percentage of the RO operational cost. China may grant tax exemptions based on the nature of activities carried out by the RO, and companies must provide supporting documents to the tax authorities for review and approval.

The China RO structure allows a foreign company to establish a presence in China at minimal cost. Because an RO's business scope is limited, however, the RO structure is suitable for companies whose procurement activities in China are relatively few or low in volume.

Wholly foreign-owned service company

A service wholly foreign-owned enterprise (WFOE) may engage in a wider range of procurement activities in China than an RO, including vendor qualification, quality control, logistics management, and operational and business consultancy. In general, profit derived by a service WFOE is subject to PRC income tax at the statutory rate of 33 percent because it is ineligible for tax holidays and incentives available to manufacturers. In addition, services provided by the service WFOE are subject to a 5 percent business tax.

Because the service WFOE offers a greater business scope, many multinational corporations (MNCs) with medium-sized and large procurement operations in China and MNCs that seek to closely monitor the quality of branded products made under contract by unrelated Chinese suppliers use the service WFOE structure. In such an arrangement, the PRC suppliers sell exports directly to non-PRC affiliates of MNCs, which retain the majority of the supply chain profits. Only a limited amount of service income is taxed in China.

Onshore trading company

Despite the advantages of the RO and service WFOE structures, they have some limitations: ROs and service WFOEs cannot keep and manage inventory in China, and they cannot consolidate goods from different Chinese suppliers. To meet these needs, foreign companies may establish a China trading company, such as a foreign-invested commercial enterprise (FICE). It should be noted, however, that if the FICE exports goods from China, it will directly bear the cost of the nonrefundable portion of the export value-added tax (VAT), which is 4 percent for most goods. (The standard Chinese VAT rate is 17 percent. Under the current VAT refund system, the refund rate for most exported goods is capped at 13 percent. As a result, the FICE must absorb the nonrefundable 4 percent VAT as part of the cost of goods sold.)

Bonded logistics zones

Approved by the PRC central government, bonded logistics zones (BLZs) are designated areas that are deemed to be outside of China's customs and VAT jurisdictions. Goods entering a BLZ from other areas in China are treated as exported goods while goods that move from a BLZ into China are treated as imported goods. With the assistance of logistic companies, foreign companies can use a BLZ as a distribution hub to store, repackage, consolidate, and distribute goods purchased from other countries to overseas markets. No duty or VAT is imposed on goods in the BLZ that are not imported into China.

Foreign enterprises may also consolidate products manufactured by multiple Chinese suppliers in a BLZ for overseas distribution and for distribution into the China market. In this second case, the foreign company would be able to sell to Chinese customers in foreign currency without routing the goods overseas. In addition, China suppliers that are part of a toll- or import-processing arrangement (see below) can sell their finished goods to the foreign company for distribu-

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tion within China without routing the goods overseas. Thus, a BLZ allows foreign companies to distribute China-made goods into the China market.

Offshore trading company

Foreign companies can use an offshore trading company to purchase goods from China and resell them to customers and affiliates. Unless this arrangement is structured properly, however, the profit earned by the offshore trading company will be subject to the US Subpart F rules, which tax US shareholders immediately without any tax deferral benefits. Companies can structure this arrangement properly by using exceptions and exclusions under the Subpart F rules. For example, an offshore trading company may qualify for the "manufacturing exception" if it engages in substantial manufacturing and meets other requirements.

Toll-processing arrangements

Toll processing is one of the most popular procurement structures that foreign companies use. Typically, under a toll-processing arrangement, the foreign party provides the Chinese processing factory with raw materials and equipment for the production of finished goods for export. The foreign party—that is, the principal—holds legal title to the raw materials, the work in process, and the finished goods during the entire processing cycle. The Chinese processing company receives a processing fee in return for its work. For PRC tax purposes, the imported raw materials and equipment are free from PRC import tax—that is, from VAT and customs duties—provided that all finished goods are shipped out of China. For US income tax purposes, a properly structured toll-processing arrangement may allow a US-owned foreign company that acts as a principal in the arrangement to accumulate income without immediately subjecting such income to US taxation. Under such an arrangement, the principal always holds legal title to the direct materials and exerts substantial management and control over the toll processor in quality control, production planning, and procurement. The principal must also satisfy other requirements.

One of the major limitations of the toll-processing arrangement in China is that the foreign principal that purchases the materials cannot obtain credit or a refund for the input VAT costs associated with locally sourced raw materials. Therefore, the full VAT amount becomes part of the manufacturing cost.

Import-processing arrangements

Import processing is an alternative to the toll-processing arrangement. Under this scheme, the Chinese processing factory can buy raw materials overseas under a bonded program to make goods for export. As more foreign companies move production facilities to China, import processing is becoming popular among manufacturing FIEs.

FIEs that make products mainly for overseas markets must understand the potential cost of the nonrefundable portion of VAT, however. Depending on the FIE's business model, this VAT cost can be reduced or eliminated. For example, if the FIE is established in an export-processing zone, no customs duties or VAT will be imposed on production and export operations.

Sales strategies

China is emerging as one of the world's fastest-growing consumer markets. In the 2006 Member Priorities Survey of the US-China Business Council [the publisher of the *CBR*], 57 percent of respondents said that the primary goal for their China operations is to serve the China market. Only about 18 percent invest in China as an export platform to the US market.

In the past, China restricted the ability of FIEs to distribute products or provide services within China. If they wished to tap into China's domestic market, FIEs could, in most cases, distribute only self-manufactured products and could not bundle their products with products made or imported by other suppliers. In addition, unless the FIE obtained special licenses, merchandise imports had to be processed by government-designated import/export agents. These restrictions, along with other market entry barriers, prevented foreign companies from creating efficient distribution channels within China.

To fulfill its World Trade Organization commitments, however, the PRC government issued a series of new regulations over the last two years, which have opened China's trading and distribution sectors. Now, foreign companies can set up their own distribution channels and restructure their existing distribution practices to gain operational efficiency. Some of the options include the following.

Establishing a FICE

Foreign companies can establish a wholly foreign-owned FICE anywhere in China without restriction on the location or number of distribution branches (see the *CBR* July–August 2006, p.16). With government approval, a FICE can conduct full trading and distribution operations, including wholesale, retail, or commission agency services. A FICE can also obtain approval to conduct franchise services within China. By establishing a FICE, foreign companies, especially those with multiple manufacturing subsidiaries in China, can streamline their sales and marketing efforts and present a single "face" in China's domestic market.

For PRC income tax purposes, trading profits are generally taxed at the maximum tax rate of 33 percent and are ineligible for favorable manufacturing tax incentives. Therefore, foreign enterprises should properly structure their China FICE operations to gain tax efficient results. For instance, foreign enterprises may consider charging the FICE royalties for trademarked products and should carefully justify intercompany transfer prices between the FICE and the manufacturing entity. (Forthcoming rules on transfer pricing documentation appear to signal the authorities' intent to scrutinize these transactions more closely.)

Distributing through a manufacturing entity

Under the new regulations, a manufacturing FIE may obtain government approval to expand its "manufacturing only" business to include distribution functions. With an expanded business scope, a manufacturing FIE can bundle its own products with imported or locally purchased goods for domestic distribution within China. As long as its manufacturing income is still more than 50 percent of total business income, the FIE may retain its manufacturing incentives and tax holiday.

Using a free-trade zone trading company

Even before the new regulations, foreign enterprises had used free-trade zone trading companies (FTZ-TCs) to support their regional processing or distribution operations. Under the old regulations, however, FTZ-TCs faced numerous restrictions on distribution within China. For example, an FTZ-TC could neither retain inventory outside FTZ boundaries nor perform full distribution functions to support its domestic customers.

Recent changes allow an FTZ-TC, with government approval, to set up sales branches outside of the FTZ. Because only a few FTZ-TCs have been approved to engage in domestic distribution, it is still unclear how the relevant customs and foreign exchange regulations may affect the efficiency of domestic distribution branches. Alternatively, foreign enterprises may consider setting up FICEs and FTZ-TCs separately. This may provide greater tax efficiency and certainty by allowing the FTZ-TC to take full advantage of favorable customs and VAT benefits.

Services strategies

Except for a few highly regulated industries, such as telecom, banking, and insurance, China has opened up many service sectors to foreign investors and removed numerous foreign ownership restrictions. Two commonly used structures are the service WFOE and the R&D center.

Service WFOEs

A service WFOE can be structured to provide back-office support services, such as technical support, customer service, and shared service, for affiliated companies both inside and outside China. The capital requirement for establishing a service WFOE is relatively low. For example, the requirement in Beijing is only ¥100,000 ($12,800). In general, a service WFOE's profits are taxed at a rate of 33 percent.

R&D centers

R&D centers that have an investment of more than $2 million and of which 80 percent of the staff have a university degree are eligible for various incentives provided by the PRC government. In China, R&D centers can be structured to support their foreign affiliates' R&D activities and to facilitate the production activities of their local affiliated manufacturers. Because of the abundant supply of high-quality, low-cost Chinese engineers and PRC government support for the high-tech industry, foreign companies, including Microsoft Corp., IBM Corp., General Motors Corp., Intel Corp., and E. I. du Pont de Nemours & Co., have established more than 750 foreign-owned R&D centers.

In China, qualified R&D centers may be eligible for the following tax incentives: exemptions totaling 17 percent on VAT and related import duties on equipment used for R&D activities; exemptions totaling 5 percent on business tax imposed on income from technology transfers, development, related consulting, and technical support services; current-year income tax deductions of up to 150 percent on certain qualified R&D expenditures; five-year graduated tax holidays if the R&D center also qualifies as a manufacturer; and additional tax holidays and reduced tax rates if the R&D center qualifies as a "new- and high-tech enterprise" or as a "technologically advanced enterprise."

Under "contract R&D" arrangements, foreign enterprises can subcontract certain R&D functions to affiliated China research centers that can be formed as FIEs. If the R&D arrangement is properly implemented, the intangibles developed can be protected and wholly owned by the foreign enterprise. Foreign companies should compensate the China R&D centers with arm's-length service fees to comply with China's transfer pricing regulations.

Another way foreign companies can enhance their global tax efficiency is to use an R&D cost-sharing arrangement (CSA), which allows both the China R&D center and its offshore affiliates to jointly develop and own the intellectual property created. If properly structured, the CSA would be tax-efficient because it could mitigate future royalty payments and related royalty withholding tax. Although China has no formal CSA regulations, the PRC State Administration of Taxation issued a rule in 2004 that provides some guidelines for China's tax treatment of CSAs.

Careful planning

Taxes, especially indirect taxes, remain a critical element in the cost of doing business in China. Major indirect taxes include the business tax and VAT, which are administered by local and state tax bureaus, respectively. Though the taxes are meant to be mutually exclusive, both bureaus will occasionally assess liabilities on the same transaction.

Companies should note, however, that PRC authorities have implemented many incentives aimed at encouraging foreign investment. These incentives greatly alleviate the tax burden for taxpayers informed enough to apply for them. Foreign investors and companies seeking high rewards in China should carefully consider how to align their tax and operational structures in the region. 完

Strategies for SMEs

Smaller companies going to China need to think ahead, plan carefully, and remember the "Six Ds"

Steven H. Ganster

The last decade can be described as the "gold rush" period in China. Fortune 1000 companies scrambled to grab a share of the newly opened China market, which boasted more than 1 billion consumers and a latent market opportunity that could be prospected for decades to come. Larger multinational corporations (MNCs) such as General Motors Corp., Procter & Gamble, E. I. DuPont de Nemours & Co., and General Electric Co. dominated this period.

In the last few years, a steady stream of small and medium-sized enterprises (SMEs) has poured into the mainland. While some seek the same "gold" as the MNCs that entered China in the 1990s, many more are being pressured to come to China by their North American customers, who are moving their own manufacturing operations to Asia. Others, in the wake of more international competition in their home markets, are looking toward China with a sometimes desperate need to lower costs.

Learning from others' mistakes

The challenges of being successful in China are daunting even for large companies with nearly unlimited resources. The last decade witnessed numerous failed investments and partnerships in China, even by premiere international companies. For smaller firms, the challenges are even greater. A China initiative can be all-consuming for an SME, straining limited resources and posing unfamiliar risks.

The vision of more than 1.3 billion consumers with their wallets open was intoxicating to many western executives wanting to be "first in." In their rush to enter China, however, many companies left good business judgment at the border. A review of some of the mistakes made by larger firms over the last 10–15 years yields useful lessons for SMEs.

■ **Perform rigorous due diligence in partner selection** The PRC government offered partner companies to hungry CEOs, who often formed joint ventures without proper due diligence. These partners generally had a deficit in capabilities, a surplus in nonperforming assets, and many off-the-book liabilities.

■ **Base plans on more than just a "snapshot" view of the market** Many companies made investments based on a current—and often inaccurate—view of the China market. The pace of change is so rapid in China that their plans were obsolete before they were fully implemented.

■ **Assess the competition realistically** Management often underestimated the breadth and intensity of competition. Factories appeared seemingly overnight, causing excess supply and price wars. As a result, even though management forecasts were generally reasonable on a volume basis, they fell short on a value basis by as much as 30 percent.

■ **Be prepared for tough times** When China's economy overheated in the mid- to late 1990s, western companies started to pull back, leaving their local management with few resources to sustain their China operations. Few anticipated the staying power needed to weather the market storms. China no doubt will witness periods of turbulence as its economy continues to expand.

Companies investing in China today can learn much from these painful lessons. SMEs should be aware, however, that they may face critical challenges that may differ, at least in intensity, from those facing a larger MNC.

SME challenges

Successful SMEs often rely on a strong or differentiable value proposition based on a specific technical competence aimed at a niche market segment. They have carved out a space in the market based on patented technology or process expertise developed over many years. Entering China typically requires that they transfer this intellectual property (IP) in some form to the local market. Given China's lack of legal protection for IP rights and track record of IP abuse, the risk that a company's "crown jewels" could be compromised is high. For an SME, this leakage could deal a fatal blow.

Another risk arises from the fact that SME management is typically thinner than that of a large, diversified company. A China initiative often requires key functional managers to dedicate substantial time and thus draws their attention away from the core business or other new projects. The CEO, top engineer, supply chain director, and other senior executives generally need to be part of the core China team and spend time in-country to get a direct sense of the opportunities and challenges. This investment of senior personnel can result in a high opportunity cost to the company.

In a similar vein, an SME likely has limited international experience and infrastructure, resulting in a steeper learning curve and a greater need to rely on third-party organizations, which can be expensive. In part because of the relatively high costs of hiring outside experts, SME management tends to prefer a "do-it-yourself" approach and may hesitate to work with third parties and to invest in the necessary outside counsel and support. This hesitation can result in management turning to unreliable and unqualified resources that present a friendly and convenient "China face" (for instance, the uncle of an assembly line worker who has "great connections" with a local vice mayor).

The financial risks of an investment in China can have more calamitous consequences for an SME than for a larger firm that can better absorb a failure or an underperforming operation. On the other hand, if management waits too long to respond to the need to go to China, it may have already compromised the company's financial health, heightening risks and limiting strategic options.

SMEs have some potential advantages over larger firms, however. Their decisionmaking structures are often flatter and more nimble, enabling them to move more quickly when needed. If the company is privately held, management may have more flexibility in the strategy's design and rollout because it is not handicapped by Wall Street expectations. An SME's family-style management and organization often fit well with local Chinese management, making it easier to work together in a partnership.

To go or not to go?

In most cases, the breadth and depth of resource gaps are significantly larger among SMEs than MNCs. As a result, an SME must carefully measure its China "readiness" and be creative in addressing its organization's shortfalls. A company's readiness profile falls into one of four quadrants (see Figure). Many SMEs have Type B profiles, in which the urgency to do something in China is high but the organization has a number of critical competency gaps that it needs to address before it can effectively respond.

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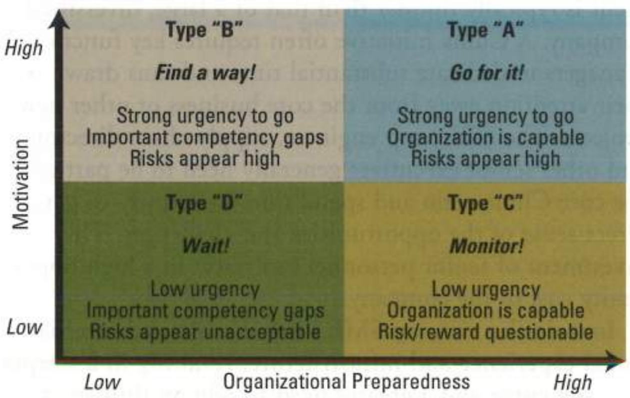
A Company's China Readiness Positioning



Source: Technomic Asia

Overall, there are five main motivations to go to China:

- **Attractive new market** China presents an attractive market opportunity to support the development of a market entry or expansion strategy. This opportunity must be thoroughly substantiated to identify market potential where the SME can make money.
- **Customer pull** It appears critical to further explore a foray into China to defend or expand key customer relationships. SMEs in this situation should use direct customer probes to develop a clear and specific understanding of what their customers need from them in terms of localization.
- **Competitive threat** There is evidence of a growing competitive threat from China, either from western competitors that have set up there or from local Chinese players that have begun to penetrate existing customer bases. SMEs facing this situation should carefully measure this threat and identify possible countermeasures.
- **Cost savings** The SME urgently needs to capture the benefits of lower operating costs in China. In this case, companies should evaluate the best structural option to achieve these benefits at the lowest risk. There are often better and less risky alternatives than setting up a manufacturing facility.
- **Stakeholder push** Stakeholders are pressing management to consider expansion into China and require a clear and substantiated evaluation of the benefits and risks of doing so. Though not a legitimate motivation in itself to *invest* in China, stakeholder pressure can be a reason to take a serious look.

For many SMEs (or MNCs for that matter), the drivers to go to China will be a mix of the above factors, some being important now (customer pull) and others evolving in importance over time (an attractive new market). At the outset, management must clearly understand the drivers motivating them to go to China *and* the urgency to address them, along with the consequences if they do not. While this exercise may seem straightforward, companies often perform only a cursory evaluation during this crucial phase of the planning process. As a result, management does not have a clear idea of how urgently it must respond to them. Without this insight, management cannot accurately weigh financial investment, IP exposure, opportunity cost, and other risks.

Things to consider

While certainly not a comprehensive list, the strategic principles described below will give SMEs some things to think about as they plan their future course in China.

Put strategy before structure

Management needs to have a clear idea of its objectives in China before designing an investment structure. In many cases, a company will pursue a joint venture simply because it was approached by a local Chinese firm. But the structure a company chooses must flow from its strategy and goals. Most industries in China today face few limitations in company ownership, and the process for setting up various structures is well established. What is more challenging is to identify a valid business case for an investment in China based on the five motivations above. The right business structure will often present itself once this strategic foundation is in place.

Start small and simple and build on success

Companies new to China should start with a low-risk initiative and proceed in phases. When a company limits the scope of what it takes on until it establishes a successful footprint, subsequent expansion is easier and carries less risk. For instance, companies transferring some manufacturing to China should move well-established production processes and limit the number of products. Transferring an older process line—one where potential IP theft has less consequence—is also wise. Companies can also work with the prospective partner on a contract basis before establishing a joint venture to become more familiar with its capabilities and management.

Consider "strange bedfellows" as partners

SMEs may want to consider going to China with a key customer or supplier in North America. In this way, both parties can exploit their joint China resources as much as possible and spread the risks. Remember that these customers or suppliers are also probably working feverishly to develop their own China response. Frequently, it will be in their interest to help their partners get to China.

Know your costs and think "total cost"

China's cost advantage is much more than labor. To take advantage of these lower costs, a company needs to understand its own costs clearly (both variable and fixed costs) and where and how large the gaps are with Chinese competition. This insight can dramatically affect how a company sets up in China as well as with whom. For instance, if an

SME finds that it simply cannot make a product at a competitive cost, it might consider finding a manufacturing partner that can do so on a contract basis while the SME maintains sales and distribution control. Often a local Chinese producer will be content to maintain a steady and predictable volume at a low margin and allow its foreign partner to control the marketing. It should also be noted that costs may not always be as low as expected after logistics costs, quality problems, time to delivery, and other factors are taken into account.

In many cases, a local city government promised subsidies and benefits, such as tax breaks, to a foreign investor but in the end did not deliver because of a policy reversal at a higher government level or even a change in government officials.

"China-fy" your business

Simply transplanting a western business model to China operations is not the best approach. For example, some companies in the West have achieved a high level of automation in their manufacturing process. In China, however, the use of manual labor may be more cost efficient. In these cases, taking out some of the automation may make sense. In the area of value chain positioning, some companies have found that they can gain more market power (and margin) by going up- or downstream from their normal value chain positioning because of China's less developed market structure.

Companies going to China should perform due diligence in just about every aspect of their business.

Control without ownership

SMEs would do well to consider creative structures like contractual joint ventures or strategic contract manufacturing relationships. In this way, companies can combine their strengths, such as technology, marketing capabilities, and offshore customers, with the China partner's strengths, such as manufacturing capabilities and local channel access, in a mutually dependent business relationship. Many companies find that they can accomplish 80 percent of their objectives *without* investing in a local facility.

Joint venture in a "clean" company

It is better to start fresh with selective assets in a new company than to purchase equity from a local partner. A new company can also help optimize tax benefits on start up. Avoid the mistakes of the 1990s, when MNCs bought into existing operations and inherited a lot of unforeseen baggage that suffocated operations.

Export if possible

Exporting is especially helpful if a company needs to bridge the gap until the China market matures enough to support its operation. By controlling the revenue stream, an SME can dilute the risks of the investment. This approach will also gain local government support.

Work closely with local government on setup

China's numerous industrial zones are aggressively competing for foreign investment to generate local jobs and tax revenue. Companies can exploit this competition to optimize benefits in tax abatement, land use costs, infrastructure support, and other areas. Be aggressive in negotiations, and compare alternatives. Experience shows that final costs after a tough negotiation process can be as low as half of the total costs from the industrial zone's initial offer—but be sure to validate these proffered benefits.

Above all, observe the "Six Ds"

China is complex and often requires more time and expense to investigate than many companies anticipate, which means "due diligence, due diligence, due diligence." Companies going to China should perform due diligence in just about every aspect of their business, from potential partners, suppliers, and hires to the area in which they plan to locate. In the West, insights on a prospective partner, such as financial information, may be readily obtained. In China, however, a company may have two or even three sets of books—but the *real* numbers remain in the head of the owner. The right type or quality of raw material or tooling may not be available in China or obtainable only at a high cost. Even for something as simple as getting a lease in an industrial zone, one has to check carefully to ensure that the lessor has the proper land-use right certificate to the property and the authority to issue the lease under the terms promised.

There is no excuse for entering China naively today. The last 15 years of foreign investment activity has provided a wealth of experience that newcomers can draw upon. SMEs in particular, because of their unique challenges in expanding into China, need to tap this experience as they make their way into one of the most exciting but competitive markets in the world. There is gold in China—but careful planning and good execution are required to mine it profitably. 完

The Shifting Landscape of CFIUS

Foreign acquisitions in the United States are coming under greater scrutiny

David Marchick and Richard Mintz

The proposed acquisition of six port operations in the United States by Dubai Ports World, a company owned and controlled by the government of Dubai, one of the seven members of the United Arab Emirates, seized the attention of the American people last spring. A survey by the Pew Research Center for the People and the Press revealed at the time that a remarkable 41 percent of Americans said they followed the issue—just slightly less than the 43 percent of those who said they followed the war in Iraq. In the US Congress, intense focus on the issue resulted in nearly a dozen congressional hearings over a three-week period and the introduction of 20 bills that would have restricted foreign investment in one way or another. Ultimately, because of congressional hostility, Dubai Ports abandoned its proposal to acquire the US assets from the British company, the Peninsular and Oriental Steam Navigation Co. (P&O).

A changing environment

Dubai Ports threw in the towel on this acquisition despite the fact that the transaction had already been cleared by US regulatory authorities. Indeed, the Committee on Foreign Investment in the United States (CFIUS), which is composed of 12 US government agencies and chaired by the US Department of the Treasury, had already reviewed the transaction and, after securing security commitments from Dubai Ports, found no issues that would lead the US president to block the transaction on national security grounds. (Under the 1988 Exon-Florio Amendment to the Defense Production Act, the president has the power to block foreign acquisitions of US companies if they threaten US national security.)

Before the uproar over Dubai Ports, the tragic events of September 11, 2001 and a critical report on the national security screening process by the US Government Accountability Office led to increased CFIUS scrutiny of foreign acquisitions. But the Dubai Ports controversy introduced a new element of regulatory risk: congressional involvement. Indeed, the Dubai Ports transaction fell apart in part because Congress was frustrated by the lack of information provided by CFIUS and the perceived lack of transparency in the CFIUS process.

As a result, the nature of CFIUS review has changed dramatically even without the passage of proposed legislation to toughen it. Foreign companies eyeing US acquisitions need to understand the shifts in expectations and behavior surrounding CFIUS review so that they can anticipate and respond to any potential objections before they become problems. Chinese companies need to be particularly attuned: Recent transactions involving Chinese companies—including China National Offshore Oil Corp.'s (CNOOC) proposed acquisition of Unocal Corp. and Lenovo Group Ltd.'s successful acquisition of IBM Corp.'s personal computer division—have drawn intense congressional attention and suggest growing apprehension in some quarters in the United States about China's economic power and ambitions.

Since the CNOOC bid and Lenovo acquisition, and in the wake of the Dubai Ports debacle, the CFIUS landscape has changed in several ways.

Increased Treasury communication with Congress

In a departure from past practice, Treasury has recently begun briefing Congress on every transaction that CFIUS reviews. This is noteworthy because even though confidentiality provisions in Exon-Florio do not prohibit the executive branch from sharing information with Congress, the law does not specify what information CFIUS *should* share with the legislative branch. Separately, Treasury has encouraged parties to politically sensitive transactions to explain particular transactions to Congress. Treasury officials now regularly scour business pages in news periodicals for announcements of deals and are quick to reach out to parties to transactions that may raise national security issues.

US Department of Homeland Security (DHS) involvement

President George W. Bush added DHS to CFIUS in 2003, significantly shifting the committee's balance of power in favor of security agencies. DHS, in turn, has intensified CFIUS's focus on the protection of assets that are deemed essential to the national and homeland security of the United States and of "critical infrastructure," such as those in the information technology and transportation sectors.

Greater level of scrutiny

Statistics show a more cautious mood surrounding CFIUS review. For example, the number of second-stage CFIUS reviews, or "investigations," has increased dramatically: In the first ten months of 2006 alone, there were seven investigations. In contrast, from 2003 to 2005, CFIUS conducted only two investigations each year. Similarly, the number of withdrawals—a proxy for abandoned or problematic transactions—has gone up dramatically.

More government resources devoted to CFIUS review

Both Treasury and DHS have beefed up staffing and are devoting more resources to Exon-Florio review. They have also required much more detailed submissions by parties to a transaction and imposed more inspections, audits, and more intrusive security requirements as a condition for approval. Equally important, DHS and other security agencies have been requiring tougher security agreements with foreign acquirers as a condition for receiving CFIUS approval. Such agreements frequently require changes in corporate governance, background checks on key employees, and strict reporting requirements to the US government. Since DHS joined CFIUS in the spring of 2003, the agency has negotiated 24 security agreements with acquirers, more than 10 of which were negotiated during the first nine months of 2006.

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***Richard Mintz** is a partner in the Washington, DC, office of Brunswick Group LLC, an international communications and public affairs consultancy. Formerly a senior official in the Clinton administration, Mintz assesses and manages political risk for cross-border transactions and investments.*

More cautious approach by the private sector

Companies have responded to the changing CFIUS environment by filing for review more often and on a much broader range of acquisitions. In 2005, there were 65 CFIUS filings; as the *CBR* went to press, 102 filings had already been made in 2006.

Implications for Chinese investors

This stepped-up scrutiny comes just as Chinese companies are beginning to make significant acquisitions abroad. Leading Chinese companies will likely seek to grow through takeovers in part to acquire global brands but also to strengthen their management and operational skills.

Chinese companies that seek to invest in the United States, particularly in sensitive sectors, will receive additional scrutiny for a number of reasons. These include China's sheer size and importance as the United States' third-largest trading partner; state ownership interests in Chinese companies, which triggers additional scrutiny under a 1992 amendment to Exon-Florio; and longstanding US government concerns about the transfer of dual-use technology to China and potential espionage. All of these factors are translating into a higher level of wariness vis-à-vis China. In a recent survey of 400 US opinion leaders conducted by Brunswick Group LLC, 54 percent of respondents thought it was "too easy" for foreigners to buy US assets, and that figure jumped to 69 percent when the acquirer was identified as Chinese.

The only case in which a US president formally blocked a CFIUS-approved deal under Exon-Florio occurred in 1990 and happened to involve a PRC company: President George H. W. Bush ordered the China National Aero-Technology Import and Export Corp. to divest all of its interest in MAMCO Manufacturing Inc., a Seattle-based company that produced metal parts for aircraft. Seventeen years down the road, in a much more complicated economic and political environment, Chinese companies will need to develop sophisticated strategies to secure CFIUS approval and avoid problems in Congress.

In particular, Chinese companies pursuing US acquisitions need to focus on the CFIUS process early on and not treat it as an afterthought. The risks associated with securing CFIUS approval should be factored into a company's economic and political due diligence from the beginning, and the acquirer should spend time and effort to line up allies in advance, initiate communication with relevant agencies and Congress, know who the opposition is—and have a crisis plan in place should things go wrong.

Chinese companies can also take a page from the Japanese experience of the 1980s by setting up offices in Washington, DC, as a base from which to shape public opinion and demonstrate the economic benefits of foreign investment in the United States. Chinese firms will need to think about ways to show their commitment to creating jobs in the United States, complying with US laws and regulations, and being good employers. The PRC government, through its embassy in Washington, has recently stepped up its public diplomacy efforts in the United States. Chinese companies should complement those efforts through their own initiatives.

Finally, while Washington is a crucial constituency, it is not the only one: Japanese companies, emulating the strategy of their US counterparts, have been savvy about contributing to local community development, donating millions of dollars to local organizations that range from Little League baseball teams to pediatric cancer research centers. Chinese companies seeking to invest in the United States should consider similar grassroots approaches in tandem with a more strategic approach toward CFIUS review.

Worries of protectionism

While observers around the world acknowledge that the United States has legitimate national security interests, many are increasingly concerned that CFIUS could become a commercial, protectionist, or political weapon. For example, some cite Eller & Co., a Dubai Ports rival, as the principal instigator in raising the political alarm with Congress over the proposed acquisition. Eller claimed that, as a partner of P&O in the management of the Port of Miami operations, it would become an "involuntary partner" of the Dubai government-owned company if Dubai Ports were to acquire the P&O stakes. In Washington's partisan climate, Democrats in Congress quickly seized the opportunity to outflank Republicans on a national security issue, using it as a convenient hammer to attack the president's standing on national security.

There is an important note of caution here for the United States. If CFIUS is perceived abroad as just another tool in a protectionist arsenal or as a partisan political football, the flow of inbound capital critical to the functioning of the US economy could slow. Moreover, other countries could adopt punitive or retaliatory measures. China, in particular, could use its new mergers and acquisitions regulations, which were issued in the summer of 2006, to protect its domestic industry. The regulations heighten government scrutiny of foreign acquisitions but leave the parameters of approval vague. Paralleling CFIUS, the regulations require proposed acquisitions of Chinese domestic companies in "important industries" that may affect national economic security to be approved by the PRC Ministry of Commerce. The ministry has the power to nullify the deal or order modifications, such as divestitures.

Though some hiccups along the way are to be expected, more Chinese investment in the United States is both welcome and inevitable. Just as certain US investments in China have run into political and regulatory roadblocks, some Chinese investments in the United States could also face challenges. With a smart and comprehensive strategy, however, Chinese companies can and will successfully maneuver around the regulatory and political obstacles they face, thereby further integrating the US and PRC economies for the benefit of both countries. 完

China's New Gateway to the Northeast

Hardy Simes

The history of Yantai, Shandong, as an important seaport dates back more than 1,000 years to the Tang Dynasty. As one of China's four designated major ports during that period, Yantai received the first Japanese envoys, and the first Chinese missions to Korea set sail from Yantai. Cell phones and internal-combustion engines may have replaced the silk and paper trade in Yantai, but the city still boasts an impressive port and a strategic location. Focused public investment in transportation infrastructure, energy, and environmental protection have turned Yantai into one of China's most rapidly growing—and cleanest—second-tier port cities.

A city of 6.5 million, Yantai sits on the northern shore of the Shandong peninsula, across from Dalian, Liaoning, on the Bohai Bay (see map). In 2005, the city's GDP hit $24.5 billion, up 17.6 percent from 2004 (see Table 1). Several big stores are rushing to capture a market in which the per capita urban disposable income is ¥12,452 ($1,587). Following the opening of Wal-Mart Stores, Inc.'s new store in Yantai, Metro AG and Carrefour SA are negotiating the establishment of their first stores in the port city. In terms of trade in 2005, Yantai's total shot up 43.6 percent from its 2004 level to reach $11.5 billion, with exports growing 44.2 percent to $6.5 billion.

Statistics from the first three quarters of 2006 indicate that Yantai's economy shows no signs of slowing down. By September 2006, Yantai's year-on-year GDP had expanded 17 percent, and total trade had jumped 34.6 percent to exceed $10 billion, nearly 80 percent of which came from foreign-invested enterprises (FIEs). Over the same period, FIE exports had jumped 42.6 percent to $4.5 billion, and their utilized foreign direct investment (FDI) had soared 44.2 percent, according to Yantai's statistics bureau.

By land, air, or sea

One of Yantai's biggest advantages is its integration with both regional and national transportation networks by air, land, and sea. Yantai's airport boasts 140 flights per week on 35 domestic and international air routes, including regular flights to Incheon and Daegu, South Korea; Hong Kong; and Osaka, Japan. Highways connect Yantai with neighboring Shandong cities Weihai, 86 km to the east, and Qingdao, 276 km to the south. Direct trains to Beijing; Ji'nan and Qingdao, Shandong; and Shanghai further enhance Yantai's land transportation.

Ranked the 12th largest port hub in China in 2005, Yantai's 74 berths—34 of which can handle vessels of 10,000 deadweight tons (DWT) and 15 are deep-water ports capable of handling vessels of 60,000 DWT—are the centerpiece of Yantai's overall transportation infrastructure. Its ports handled 41 million tons of cargo and 546,000 twenty-foot equivalent units (TEU) in containers in 2005, and cargo and container traffic was expected to double to

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Yantai's strategic location, modern port facilities, and green environment make it an attractive city for foreign companies

80 million tons and 1.1 million TEU, respectively, in 2006, according to the China Ports and Harbors Association.

The central government has taken notice of Yantai's position as a significant port in Northeast China. A plan released in 2004 by the PRC Ministry of Communications and National Development and Reform Commission calls for the development of the Bohai Bay area into a metropolitan coastal port hub that will rival the Yangzi and Pearl river deltas by 2010. The plan also aims to integrate Yantai's development as a container handler with the expanding roles of Dalian, Tianjin, and Qingdao as major port cities in the region. By 2010, Yantai expects to handle 160 million tons of cargo and 3 million TEU of containers.

One of the more unusual transportation projects in the region is the $400 million transoceanic railway project that will feature barges capable of ferrying fully loaded cargo trains across the Bohai Bay between Yantai and Dalian, thus effectively making Dalian an extension of Yantai's railroad network. The four-hour, 147 km ferry route will cut 400–1,000 km from train routes along the eastern coast. The ferry is scheduled to be fully operational this year and is expected to almost double its annual cargo capacity to 12.4 million tons by 2012. The route will become a valuable link connecting Yantai not only to Russia and Northeast China's natural resources and heavy industry but also to Jiangsu, Shandong, Shanghai, and Zhejiang to the south.

Early start on foreign investment

As one of the first cities that welcomed foreign investment, Yantai has already racked up several billion dollars' worth of investment. In 2005 alone, Yantai attracted $1.8 billion in utilized FDI and $6.3 billion in contracted foreign capital, up 36.4 percent and 50 percent, respectively, from 2004. The largest sources of FDI in Yantai were Hong Kong (29 percent), South Korea (20 percent), the United States (10 percent), and Taiwan (9 percent), according to 2005 data from the Yantai Investment Development Board (YIDB). The city's proximity to South Korea has made it a magnet for investment from that country. For example, LG Electronics, Inc. operates its largest overseas production facility in Yantai. As China's biggest mobile phone production plant, the facility churns out 10 million cell phones each year. Although the city hosts fewer US investors, Yantai serves as a base for Shanghai GM Dongyue Automotive Ltd.'s production plant, which has an annual capacity of 600,000 cars. Foreign investment in industrial

Yantai at a Glance

Yantai by the Numbers, 2005

	$ billion	% growth over same period in 2004
GDP	24.5	17.6
Population (million)	6.5	0.2
Urban	1.8	1.1
Rural	4.7	0.1
Total foreign trade	11.5	43.6
Total exports	6.5	44.2
Primary products	1.8	27.6
Industrial/finished products	4.7	51.5
Exports by market		
United States	1.7	26.9
Japan	1.5	23.0
South Korea	0.9	15.0
European Union	0.9	14.2
Total imports	5.0	42.8
Foreign direct investment		
Contracted	6.3	50.0
Utilized	1.8	36.4

Government Contacts

Chinese Communist Party Secretary: Sun Yongchun
Mayor: Sun Yongchun
Vice Mayors: Li Shuqin, Liu Xiaojie, Sun Bingxian, Tian Mingbao, Wang Guoqun, Zhang Guangbo, Zhang Jianhua, Zhang Renqiang

Useful Links

China Council for the Promotion of International Trade—Yantai Subcouncil
www.ccpit-yantai.org
Yantai Investment Development Board
www.yantaifdi.gov.cn
Yantai Development and Reform Commission
www.jhw.yantai.gov.cn
Shandong Provincial Department of Foreign Trade & Economic Cooperation
www.shandongbusiness.gov.cn

Major Development Zones

National-Level Zones
Yantai Economic and Technological Development Area
www.yeda.gov.cn
Yantai Export-Processing Zone
www.yantaiepz.gov.cn
Yantai High-Tech Industry Development Zone
www.apec-yantai.com

Provincial-Level Zones
Haiyang Industrial Park
www.hyip.gov.cn
Laiyang Economic Development Zone
www.lyedz.net.cn
Laizhou Economic Development Zone
www.lzedz.gov.cn
Longkou Export-Oriented Industrial Processing Zone
www.lkedz.gov.cn
Mouping Economic Development Zone
www.mpdz-invest.gov.cn
Penglai Export-Oriented Industrial Processing Zone
www.plkfq.net
Qixia Economic Development Zone
www.qxkfq.gov.cn
Zhaoyuan Economic Development Zone
www.zydz.cn

manufacturing represents 82 percent of Yantai's total, with machinery, food, textiles, and electronics leading the way. Manufacturing dominates Yantai's foreign investment base, but the area's mild climate and relatively good soil have also made agriculture and food processing leading industries in the area. To strengthen Yantai's current advantages in the textile, shipbuilding, foodstuff, and electronics industries, local officials have tapped the city's education centers and talented workforce.

There are areas for improvement, however, particularly in local administration. Foreign investors noted that senior city leaders demonstrated a willingness to listen and respond to investors' concerns and to streamline bureaucratic processes. But as is the case with many rapidly transforming Chinese cities, foreign investors mentioned that lower-level bureaucrats often do not understand the foreign company's business and selectively enforce local regulations. As a result, companies often dedicate more time to local government affairs—and less to other business needs.

Powering up

Amid the blackouts, power shortages, and altered production schedules that parts of China have had to cope with in recent years, Yantai enjoys an uninterrupted power supply of 2.1 million kilowatts (kW)—a result of Shandong's abundant coal supply. According to local foreign-invested manufacturers, their Yantai facilities have never been asked to shut down or alter production schedules, in contrast to the companies' experiences in other parts of China. Anticipating growing demand for power, Yantai plans to build five new power plants, including a nuclear one, to boost supply by another 9.8 million kW over the next four years. Industry has generally been spared water, gas, or heat shortages.

Top 10 Foreign Investors in Yantai

	Foreign companies	Country/ Region
1	General Motors Corp.	United States
2	Hongfutai Precision Electronics Co., Ltd.	Taiwan
3	Mitsubishi Corp.	Japan
4	Daewoo Shipbuilding and Marine Engineering	South Korea
5	The Timken Co.	United States
6	Yantai Raffles Shipyard Co., Ltd.	Singapore
7	Doosan Infracore Co., Ltd.	South Korea
8	Yantex Holding GmbH	Germany
9	Asahi Breweries, Ltd.	Japan
10	Yantai Yazaki Automotive Parts Co., Ltd.	Japan

Sources: Shandong Provincial Government; Weihai Municipal Government Finance Bureau; Yantai Investment Development Board; Yantai Municipal Bureau of Statistics

Retaining talented workers

Average salaries in the city have climbed 11 percent in 2006, but local manufacturers say that wages are still relatively low. With nearly 100,000 college students and another 20,000 students in technical training schools in Yantai, FIEs there are generally satisfied with the skills of local entry-level workers. Although some companies cite difficulties filling positions in advanced finance, information technology, skilled maintenance, and electrical-related fields, FIEs are generally content with the relatively low turnover rate when compared with those of other cities. They also compare Yantai's workforce to those of Suzhou and Wuxi, Jiangsu, a few years ago.

Because the region is perceived as isolated, however, foreign companies often find it difficult to entice upper-level management from other company facilities to Yantai. But the city's smooth traffic, clear skies, and long beaches have won over most local and expatriate staff that have made the move. Some wealthy Beijing residents own apartments and homes in Yantai for seaside weekend getaways—a testament to the pleasant living conditions in the city.

A breath of fresh air

In Chinese, Yantai literally means "smoke platform," a name that dates back to the Ming Dynasty, when neighboring hills used to send smoke signals to warn of pirates. Today, a clean physical environment complements Yantai's business environment. In 2005, Yantai's air quality was rated "good" on more than 360 days, and over the last five years, Yantai has invested about $1.9 billion in more than 1,500 environmental protection projects. In recent years, the city has garnered awards from the PRC State Environmental Protection Administration as a national-level Clean City and as a Model City for Environmental Protection. Given the high levels of pollution in other Chinese cities, many investors will no doubt appreciate Yantai's strong emphasis on environmental protection.

Future opportunities

Yantai's business environment has received high marks, including ranking first for business climate and investor satisfaction among 67 cities and development zones in a survey conducted by the Japan External Trade Organization. Although the more economically robust cities of Dalian and Qingdao eclipse Yantai, investment opportunities are booming in this coastal city as it develops its own manufacturing base and emerges as a logistics and distribution hub that connects China's northeast and the coast. 完

Sales and Investment

September 16–November 15, 2006

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

Compiled by Bryan Klein

Advertising, Marketing & Public Relations

INVESTMENTS IN CHINA

WPP Group plc (UK)
Acquired a 51% stake in Chengdu Apex Advertising Co., Ltd. 11/06.

CA Mobile, Ltd., Cyber Communications, Inc., Dentsu Inc. (Japan)
Will form a cell phone advertising WFOE, tentatively named Beijing Dianyi Advertising Co. Ltd. $836,000. 10/06.

Ogilvy & Mather Worldwide (US), a unit of WPP Group plc (UK)
Acquired a 70% stake in Internet advertising agency Beijing Century Harmony Advertising Co. Ltd. 10/06.

Agriculture

CHINA'S IMPORTS

ICL Fertilizers, a unit of Israel Chemicals Ltd.
Signed three-year agreement to provide 2 million tons of fertilizer to China. 09/06.

OTHER

Multi Commodity Exchange of India Ltd./Zhengzhou Commodity Exchange (Henan)
Signed MOU to develop common business opportunities. 09/06.

Architecture, Construction & Engineering

INVESTMENTS IN CHINA

Biaxis (M) Sdn Bhd, Sunway GD Foundation Engineering Co. Ltd., a sub-subsidiary of Sunway Holdings Inc. Bhd (Malaysia)
Formed a WFOE, Sunway GD Biaxis Foundation Engineering (Shanghai) Co., Ltd. 10/06.

Automotive

CHINA'S EXPORTS

Chery Automobile Co., Ltd. (Anhui)
Signed MOU under which it will supply 100,000 1.6L and 1.8L engines annually to Italy's Fiat spA. 10/06.

CHINA'S IMPORTS

BorgWarner, Inc. (US)
Will provide its DualTronic transmission technology to Shanghai Automobile Gear Works Co. Ltd., a subsidiary of Shanghai Automotive Industry Co. Ltd. 10/06.

CHINA'S INVESTMENTS ABROAD

Great Wall Motor Co., Ltd. (Hong Kong), Republic of Tatarstan (Russia)
Will form WFOE to manufacture off-road vehicles in Russia. $100 million. 11/06.

Vietnam Daewoo Motor Co., Ltd., a subsidiary of GM Daewoo Auto & Technology Co. (South Korea)/Zonda Bus Group (Jiangsu)
Formed joint venture, Vietnam Zonda Bus Manufacture Co., to assemble bus chassis in Vietnam. $60 million. 11/06.

INVESTMENTS IN CHINA

Cummins, Inc. (US)/Beiqi Foton Motor Co., Ltd. (Beijing)
Will form joint venture, Beijing Foton Cummins Engine Co., Ltd., to manufacture diesel engines in Beijing. (US:50%-China:50%). $126 million. 10/06.

Manganese Bronze Holdings plc (UK)/Zhejiang Geely Automobile Co. Ltd.
Will form joint venture to manufacture London black taxicabs in Shanghai. (UK:37.6%-China:62.4%). $98 million. 10/06.

Peugeot Motorcycles, a subsidiary of PSA Peugeot Citroën SA (France)/Ji'nan Qingqi Motorcycle Co., Ltd. (Shandong)
Will form joint venture to manufacture scooters in Shandong. 10/06.

OTHER

Ricardo plc (UK)
Signed head of agreement with Chongqing-based Lifan Industry (Group) Co., Ltd. to develop a new family of car engines and transmissions. 10/06.

Aviation/Aerospace

CHINA'S EXPORTS

Xi'an Aero-Engine (Group) Ltd., a subsidiary of AVIC I (Shaanxi)
Will provide aircraft engines and parts to General Electric Co. and France-based Snecma, a subsidiary of SAFRAN Group. $317 million. 11/06.

CHINA'S IMPORTS

Airbus SAS (France)
Will provide Shanghai Airlines Co., Ltd. with five A321 aircraft. 10/06.

Airbus SAS (France)
Signed a general terms agreement to supply 150 A320 aircraft to China Aviation Supplies Import & Export Group Corp. 10/06.

The Boeing Co. (US)
Signed contract with China Southern Airlines Co. Ltd. to provide six 777 freighter planes. $1.4 billion. 10/06.

The Boeing Co. (US)
Signed contract to provide six 737-800 jets to Xiamen Airlines, a subsidiary of China Southern Airlines Co. Ltd. 10/06.

Thales SA (France)
Will supply Air China Ltd. with in-flight multimedia entertainment systems for 15 Boeing 787s; China Eastern Airlines Corp. Ltd. with in-flight multimedia entertainment systems for 15 Boeing 787s; Hainan Airlines Co., Ltd. with in-flight entertainment systems for 7 Airbus A330s and 1 Boeing 787; and Shanghai Airlines Co., Ltd. with in-flight entertainment systems for 9 Boeing 787s. 10/06.

Rolls-Royce Group plc (UK)
Will supply Hainan Airlines Co., Ltd. with 50 AE 3007 engines for its Embraer ERJ 145 aircraft. 09/06.

Sabre Airline Solutions, a subsidiary of Sabre Holdings Corp. (US)
Will build a flight operations control center for Air China Ltd. $15 million. 09/06.

INVESTMENTS IN CHINA

The Timken Co. (US)
Will establish the Timken (Chengdu) Aerospace and Precision Products Co., Ltd. to manufacture and sell aerospace bearings. $15 million. 11/06.

Turbomeca, a subsidiary of SAFRAN Group (France)/Beijing Changkong Machinery Corp., a subsidiary of AVIC II
Formed joint venture, Beijing Turbomeca Changkong Aero-Engine Control Equipment Co. Ltd., to assemble and test fuel control and hydromechanical units of turboshaft helicopter engines. 11/06.

The Boeing Co. (US)/Shanghai Airlines Co., Ltd., Shanghai Airport (Group) Co., Ltd.
Will form joint venture, Boeing Shanghai Aviation Services Co., Ltd., to provide services, maintenance, and equipment. (US:60%-China:40%). $103 million. 10/06.

Banking & Finance

CHINA'S EXPORTS

China Orient Asset Management Corp. (Beijing)
Will sell nonperforming loans to Japan-based ORIX Corp. and Switzerland-based UBS AG. $243 million. 09/06.

CHINA'S IMPORTS

GE Consumer Finance, Inc., a subsidiary of General Electric Capital Corp. (US)
Signed agreement to provide consultancy, software, IT, and other services to Guangdong-based Shenzhen Development Bank Co., Ltd. 10/06.

A10 Networks, Inc. (US)
Won contract to provide identity security technology to CCB. 09/06.

Wincor Nixdorf AG (Germany)
Will provide 900 ATMs to CCB. 09/06.

INVESTMENTS IN CHINA

IBM Corp., Lehman Brothers Holdings, Inc. (US)
Formed a WFOE, the China Investment Fund, to invest in mid-stage and mature Chinese firms. $180 million. 10/06.

Royal Bank of Canada/China Minsheng Banking Corp. Ltd. (Beijing), China Three Gorges Project Corp. (Hubei)
Will establish fund-management joint venture in China. (Canada:30%-China:70%). $25 million. 10/06.

Fortis NV (the Netherlands)/Shenergy Co. Ltd., a subsidiary of Shenergy Group (Shanghai)
Will establish joint venture, Shenergy Group Finance Co. (the Netherlands:10%-China:90%). 09/06.

OTHER

Northern Trust Corp. (US)
Signed agreement to become the overseas custodial agent of Shanghai-based Bank of Communications Co., Ltd. 11/06.

General Electric Capital Corp., a subsidiary of General Electric Co., Wal-Mart Stores, Inc. (US)/Shenzhen Development Bank Co., Ltd. (Guangdong)
Jointly issued a cobranded credit card in China. 10/06.

Nasdaq Stock Market, Inc. (US)/Shanghai Stock Exchange
Signed MOU to increase communication and information exchange. 10/06.

Bank of Shanghai
Signed contracts to provide financing for five Taiwan-invested companies in Shanghai. 09/06.

DnB NOR ASA (Norway)
Will finance the acquisition of two bulk carriers for Shanghai Time Shipping Co. $38.4 million. 09/06.

Euronext NV (the Netherlands)/Shanghai Stock Exchange
Signed MOU to enhance cooperation in capital markets. 09/06.

The Export-Import Bank of China (Beijing)
Will provide Nepal with concessional credit to construct a Nepal-PRC joint venture hydropower plant. $200 million. 09/06.

Chemicals, Petrochemicals & Related Equipment

CHINA'S IMPORTS

Air Products and Chemicals, Inc. (US)
Signed contract to provide gaseous oxygen, nitrogen, and argon to Hebei-based Tangshan Guo Feng Iron and Steel Co., Ltd. 09/06.

Air Products and Chemicals, Inc. (US)
Signed contract to provide oxygen, nitrogen, and argon to Hebei-based Tangshan Fu Feng Steel Co., Ltd. 09/06.

Aker Kvaerner ASA (Norway)
Will provide engineering and technical services for JiaLong Petrochemical Fiber Co., Ltd.'s new purified terephthalic acid plant in Fujian. 09/06.

CHINA'S INVESTMENTS ABROAD

China National BlueStar (Group) Corp., a subsidiary of China National Chemical Corp. (Beijing)
Acquired France-based Rhodia's organic silicon production unit. 10/06.

INVESTMENTS IN CHINA

Kemira Oyj (Finland)
Will acquire an 80% stake in Chongqing-based Lanjie Tap Water Materials Co., Ltd. 11/06.

Quaker Chemical Corp. (US)
Purchased remaining 40% stake in joint venture from Jiangsu-based partner, Wuxi Gao Ren Jie Chemical Co. 11/06.

Akzo Nobel NV (the Netherlands)/Ningbo Chemical Industry Zone (Zhejiang)
Signed MOU to build new facilities to produce ethylene amines and chelating agents and organic peroxides. (the Netherlands:80%-China:20%). 10/06.

BASF Aktiengesellschaft (Germany)/Sinopec (Beijing)
Signed agreement to expand their petrochemicals joint venture in Nanjing, Jiangsu. $500 million. 10/06.

Cognis Oleochemicals GmbH, Golden Hope Overseas Capital, a subsidiary of Golden Hope Plantations Bhd (Malaysia)/Lonkey Industrial Co., Ltd. (Guangdong)
Formed joint venture, Guangzhou Keylink Chemical

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

Co., to produce, distribute, and sell methyl ester sulphonates in China. (Malaysia:51%-China:49%). 10/06.

Distribution, Logistics & Related Services

INVESTMENTS IN CHINA

OAO Rosneft Oil Co. (Russia)/Sinopec (Beijing)
Will form service station joint venture in China to sell both companies' crude oil products. 11/06.

Mizuno Corp. (Japan)
Will construct a distribution facility outside Shanghai to conduct quality control on finished products. $4.3 million. 10/06.

Singapore Petroleum Co. Ltd.
Established subsidiary, Singapore Petroleum (Guangdong) Pte Ltd., to provide car-care services and to distribute and market its lubricants in China. $2.2 million. 10/06.

Education

INVESTMENTS IN CHINA

ComfortDelGro Corp. Ltd. (Singapore)/By-Hour Driver Training Center (Chongqing)
Will form joint venture, Chongqing ComfortDelGro Driver Training Co. Ltd. (Singapore:80%-China:20%). $6.6 million. 10/06.

Electronics, Hardware & Software

CHINA'S IMPORTS

CNA Group Ltd. (Singapore)
Signed contract with Hong Kong-based Chyau Fwu Group to provide security, public announcement, and satellite systems for the Chyau Fwu Green Plaza in Beijing. $2.5 million. 10/06.

CNA Group Ltd. (Singapore)
Will develop and implement a security system for Liuting International Airport in Qingdao, Shandong. $1 million. 10/06.

CNA Group Ltd. (Singapore)
Will supply and install balancing valves for the Digital Beijing Building's air-conditioning and piping systems. $266,000. 10/06.

Software Radio Technology plc (UK)
Will provide the People's Liberation Army Air Force with the TETRA radio system. $9.4 million. 10/06.

Advanced Micro Devices, Inc. (US)
Signed contract to provide Shanghai-based Founder Technology Group Corp. with AMD64 processors. 09/06.

INVESTMENTS IN CHINA

TPV Technology Ltd. (Hong Kong)
Acquired Royal Philips Electronics NV's remaining 20% stake in Philips Consumer Electronics Co. of Suzhou Ltd. $17 million. 11/06.

ILOG SA (France)
Will purchase a 35% stake in Shanghai FirstTech, Ltd. $1.8 million. 10/06.

OTHER

IBM Corp. (US)
Will move global procurement headquarters from New York to Shenzhen, Guangdong. 10/06.

Energy & Electric Power

CHINA'S IMPORTS

PV Enterprise Sweden AB
Will supply Hebei-based JingAo Solar Co., Ltd. with 3-MW photovoltaic modules. 11/06.

Alstom SA (France)
Will supply equipment for four 300-MW turbogenerators to a power plant in Pushihe, Liaoning. 10/06.

Alstom SA (France)
Will supply equipment for four 300-MW turbogenerators to a power plant in Hohhot, Inner Mongolia. 10/06.

Alstom SA (France)
Will supply equipment for four 100-MW turbogenerators to a power plant in Longkou, Shanxi. 10/06.

Renewable Energy Corp. ASA (Norway)
Signed five-year contract with Jiangsu-based Suntech Powerholdings Co., Ltd. to provide silicon wafers for solar power. $180 million. 10/06.

Vestas Wind Systems AS (Denmark)
Will supply 50 V80-2.0 MW turbines to Fujian-based Longyuan Pingtan Wind Power Co., Ltd. 10/06.

Vestas Wind Systems AS (Denmark)
Will supply 53 V52-850 kW turbines to Fujian-based Huaneng Shantou Wind Power Co. Ltd. 10/06.

CHINA'S INVESTMENTS ABROAD

Power Co. No. 1, a subsidiary of Electricity of Vietnam/Yunnan Power Grid Corp.
Formed joint venture to construct a hydroelectric power plant in Vietnam. $28 million. 11/06.

INVESTMENTS IN CHINA

Vietnam National Coal-Mineral Industries Group/China Guodian Corp. (Beijing), Chongzuo Municipal Government (Guangxi)
Will form joint venture to build and manage a coal power plant in Guangxi. $864.8 million. 11/06.

Daiki Axis Co., Ltd. (Japan)/Celestial Nutrifoods Ltd. (Beijing), Shanghai Nikki Environment System, Inc.
Will form joint venture to produce biodiesel fuel in Heilongjiang. $66.5 million. 09/06.

OTHER

Electricité de France SA/China Datang Corp. (Beijing)
Signed cooperation agreement to jointly develop power-generation investment projects in China. 10/06.

Electricité de France SA/ Guangdong National Power Co.
Signed MOU to extend existing cooperation to the nuclear power sector and explore future investment. 10/06.

Environmental Equipment & Technology

CHINA'S IMPORTS

Hyflux Utility Ltd., an affiliate of Hyflux Ltd. (Singapore)
Won contracts to operate a wastewater treatment plant and to develop and operate a water recycling plant for 25 years in Langfang, Hebei. $19 million. 10/06.

Salcon Bhd (Malaysia)
Won contract to operate a water treatment plant for 30 years in Haining, Zhejiang. 10/06.

Keppel Seghers Technology Group, a division of Keppel Corp. Ltd. (Singapore)
Won contract to provide technologies and services to the first waste-to-energy plant in Changzhou, Jiangsu. $8.4 million. 09/06.

INVESTMENTS IN CHINA

China Water Affairs Group Ltd. (Hong Kong)
Purchased an additional 10% stake in its joint venture with the government of Zhoukou, Henan. $633,000. 10/06.

Veolia Environnement SA (France)
Won two 50-year joint venture concession agreements from Shandong Environmental Protection Administration to develop and operate hazardous waste treatment centers in Ji'nan and Qingdao, Shandong. (France:66.6%-China:33.3%). 10/06.

Food & Food Processing

INVESTMENTS IN CHINA

PB Gelatins, a subsidiary of Tessenderlo Chemie NV (Belgium)/Zhejiang Feipeng Gelatin Industry Co., Ltd.
Will form gelatin-manufacturing joint venture, PB Gelatins (Pingyang) Co., Ltd. (Belgium:80%-China:20%). 10/06.

Forestry, Timber & Paper

CHINA'S IMPORTS

Cathay Forest Products Corp. (Canada)
Will provide lumber to China. $1.33 million. 10/06.

Metso Corp. (Finland)
Will supply a second tissue production line to Fujian Hengan Holding Co., Ltd. $25.4 million. 09/06.

INVESTMENTS IN CHINA

Good Fellow Group Ltd. (Hong Kong)
Will purchase the remaining 30% stake of Beijing Wen Fu Cun Forest Resources Development Co. Ltd. from FeiFei SenWang Resource Group Co., Ltd. $38.5 million. 10/06.

CVC Asia Pacific Ltd., a joint venture between CVC Capital Partners Ltd. and Citigroup Inc. (US)
Purchased Sichuan-based Plantation Timber Products Group Ltd. $150 million. 09/06.

Stora Enso Oyj (Finland)
Signed contract with the government of Beihai, Guangxi, to secure 76,140 acres of land and plantations. 09/06.

Healthcare Services & Investment

INVESTMENTS IN CHINA

IBA Health Ltd. (Australia)/Huashan Information Technology Co., Ltd. (Shanghai)
Will establish joint venture to provide healthcare services in China using multimedia channels. $7.7 million. (Australia:51%-China: 49%). 11/06.

Human Resources & Labor

INVESTMENTS IN CHINA

SEEK Ltd. (Australia)
Will purchase a 25% stake in Zhaopin Ltd. $20 million. 10/06.

Infrastructure

CHINA'S IMPORTS

International Road Dynamics, Inc. (Canada)
Signed contracts with Jiangsu-based Xuzhou PAT Control Technology Co., Ltd. to provide bending plate weigh-in-motion scales. $1.9 million. 10/06.

INVESTMENTS IN CHINA

NWS Holdings Ltd. (Hong Kong)
Acquired a 20% stake of the Guangdong City Northern Ring Road No. 2 from Guangzhou Development Industry (Holdings) Co., Ltd. $84.4 million. 10/06.

Internet/E-Commerce

INVESTMENTS IN CHINA

Citigroup Global Market Holdings, Inc. (US)
Acquired a 6.9% stake in Shanghai-based SINA Corp. $99.1 million. 11/06.

Light Industry/Manufacturing

INVESTMENTS IN CHINA

Baring Private Equity Partners (Hong Kong)
Acquired a 25% stake in Zhejiang-based Ningbo Airtac Automatic Industrial Co., Ltd. 11/06.

China Glass Holdings Ltd. (Hong Kong), Pilkington International Holdings BV, a subsidiary of Nippon Sheet Glass Co. Ltd. (Japan)
Will form a joint venture to manufacture low-iron glass in Jiangsu. $41.8 million. 10/06.

Frigoglass SA (Greece)
Will build its first Chinese production plant for manufacturing commercial beverage coolers in Guangdong. $18.8 million. 10/06.

Machinery & Machine Tools

CHINA'S IMPORTS

The Timken Co. (US)
Will provide Jixi Coal Mine Machinery Co., Ltd. with roller bearings, technical training, and design recommendations to improve equipment performance. 10/06.

INVESTMENTS IN CHINA

The Carlyle Group (US)
Will acquire a 50% stake in Xugong Construction Machinery Co., Ltd. $227.9 million. 10/06.

Hitachi Construction Machinery Co., Ltd. (Japan)
Will establish Hitachi Construction Machinery China Group in Hefei, Anhui. 10/06.

Volvo Construction Equipment, a subsidiary of AB Volvo (Sweden)
Will purchase a 70% stake in Shandong Lingong Construction Machinery Co., Ltd. 09/06.

Media, Publishing & Entertainment

CHINA'S IMPORTS

Viacom, Inc. (US)
Signed contract to provide Baidu.com, Inc. with television and music video programming on the web. 10/06.

FreeHand Systems, Inc. (US)
Entered agreement with Beijing-based People's Music Publishing House to distribute digital sheet music on the Internet and in domestic music stores. 09/06.

CHINA'S INVESTMENTS ABROAD

Televisió de Catalunya SA (Spain)/Shanghai Media Group
Will co-produce a miniseries to be aired in Spain and China. $1.3 million. 10/06.

INVESTMENTS IN CHINA

Ticketmaster, a subsidiary of IAC InterActiveCorp (US)/Beijing Gehua Cultural Development Group, China Sports Industry Group Co. Ltd. (Beijing)
Will form joint venture, Beijing Gehua Ticketmaster Ticketing Co. Ltd., to provide ticketing services for the 2008 Beijing Olympics. 10/06.

OTHER

Twentieth Century Fox Home Entertainment LLC (US)
Reached agreement to distribute entertainment products through Guangdong-based Zoke Culture Group. 11/06.

Metals, Minerals & Mining

CHINA'S IMPORTS

Companhia Vale do Rio Doce (Brazil)
Signed seven-year contract with Maanshan Iron & Steel Co., Ltd. to provide 7.3 million tons of iron ore per year. 09/06.

Companhia Vale do Rio Doce (Brazil)
Signed contract extension to 2031 with Beitai Iron & Steel Group Co., Ltd. to provide 4.2 million tons of iron ore per year. 09/06.

CHINA'S INVESTMENTS ABROAD

CDB (Beijing), Jinchuan Group Ltd. (Gansu), Shanghai Baosteel Group Corp.
Acquired a nickel mine in the Philippines. $1 billion. 11/06.

China Vision Resources Ltd., a subsidiary of CITIC (Beijing)
Purchased one-third of E. Oppenheimer & Son Ltd.'s 3.3% stake in UK-based Anglo American plc. $768.7 million. 11/06.

CITIC (Beijing)
Will establish aluminum plant in Egypt. $938 million. 11/06.

Shanghai Merchants Holdings Ltd.
Will purchase a 6.6% stake in Australia-based Aztec Resources Ltd. 11/06.

Vietnam Steel Corp./Kunming Iron & Steel Group Co., Ltd. (Yunnan)
Established a joint venture in Vietnam to mine, market, and sell iron ore in Vietnam. (Vietnam:55%-China:45%). $175 million. 11/06.

Ord River Resources Ltd. (Australia)/China Nonferrous Metals International Mining Co., Ltd. (Beijing)
Formed joint venture in Laos to develop a bauxite resource site. (Australia:49%-China:51%). 09/06.

INVESTMENTS IN CHINA

Goldrea Resources Corp. (Canada)
Will acquire an 80% stake in the Daye Gold Mine from the municipal government of Rushan, Shandong. $18.2 million. 11/06.

iPackets International, Inc. (Canada)/China Coal Information Institute (Beijing), Henan Yongan Investment Guarantee Co.
Will form joint venture in Henan to produce, sell, and support iPacket's IP Mine solutions. 10/06.

Mineracoes Brasileiras Reunidas SA, a subsidiary of Companhia Vale do Rio Doce (Brazil)/Pioneer Iron & Steel Group Co., Ltd., Zhuhai Yueyufeng Iron & Steel Co., Ltd. (Guangdong)
Formed joint venture, Zhuhai Yujia Mineral Products Co., Ltd., to build a steel pellet plant in Guangdong. (Brazil:25%-China:75%). 09/06.

Petroleum, Natural Gas & Related Equipment

CHINA'S IMPORTS

AMEC plc (UK)
Will provide project management and engineering services to PetroChina Guangxi Petrochemical Co.'s development of refineries in Guangxi. 10/06.

Petroliam Nasional Bhd (Malaysia)
Secured 25-year contract to supply 3 million metric tons of LNG annually to Shanghai LNG Co. Ltd. $25 billion. 10/06.

Royal Dutch Shell plc (the Netherlands), Suez SA, Total SA (France)
Signed agreement to supply LNG to CNOOC. 10/06.

Uhde GmbH, a subsidiary of ThyssenKrupp Technologies AG (Germany)
Will design and construct a methanol-to-gasoline plant for Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd. $76.9 million. 10/06.

CHINA'S INVESTMENTS ABROAD

CITIC (Beijing)
Will acquire an oil field in Kazakhstan from Canada-based Nations Energy Co. Ltd. $1.9 billion. 10/06.

OAO Rosneft Oil Co. (Russia)/Sinopec (Beijing)
Formed joint venture, Vostok Energy Ltd., to explore and extract oil and gas in Russia. (Russia:51%-China:49%). 10/06.

Tharwa Petroleum Co. (Egypt)/Sinopec (Beijing)
Established joint venture, SinoTharwa, to build oil rigs in Egypt. (Egypt:50%-China:50%). $18 million. 10/06.

INVESTMENTS IN CHINA

Sasol Ltd. (South Africa)
Acquired a 50% stake in two liquefied coal projects in northwestern China. $24 billion. 10/06.

Royal Dutch/Shell plc (the Netherlands)
Acquired 75% stakes in Beijing Tongyi Petroleum Chemical Co., Ltd. and in Xianyang Tongyi Petroleum Chemical Co., Ltd. 09/06.

Pharmaceuticals

INVESTMENTS IN CHINA

Baxter International Inc. (US)/Guangzhou Baiyunshan Pharmaceutical Co. Ltd. (Guangdong)
Will form joint venture to manufacture and sell prenatal nutrition products. (US:50%-China:50%). 11/06.

Sunnylife Global, Inc. (US)/Shandong Luyin Pharmaceutical Co., Ltd.
Formed joint venture to develop and produce Chinese herbal medicine and biotechnology in Shandong. (US:58%-China:42%) $12.5 million. 11/06.

Bayer Healthcare AG (Germany)
Acquired the Western over-the-counter cough and cold drugs unit of Qidong Gaitianli Pharmaceutical Co., Ltd. 10/06.

Granules India Ltd./Hubei Biocause Pharmaceutical Co., Ltd.
Will form joint venture, Granules Biocause Ltd., to manufacture ibuprofen in China. (India:50%-China:50%). 10/06.

OTHER

Jiangxi Jade Biochemistry Ltd., a wholly owned subsidiary of AMDL, Inc. (US)/Jiangxi Baikang Medicine Co., Ltd.
Signed MOU to increase sales, distribution, manufacturing, and licensing of both companies' products in China. 11/06.

Pfizer CenterSource, a unit of Pfizer, Inc. (US)/Shanghai Pharmaceutical (Group) Co., Ltd.
Signed licensing agreement that allows Shanghai Pharmaceutical to manufacture selected steroid active pharmaceutical ingredients. 10/06.

GlaxoSmithKline plc (UK)/Simcere Pharmaceuticals Group (Jiangsu)
Signed licensing agreement that allows Simcere to market and manufacture the influenza drug zanamivir in China, Indonesia, Thailand, and Vietnam. 09/06.

Ports & Shipping

CHINA'S EXPORTS

Shanghai Zhenhua Port Machinery Co., Ltd.
Signed contract to provide container cranes to Hong Kong-based Hutchison Whampoa Ltd. 10/06.

Shanghai Zhenhua Port Machinery Co., Ltd.
Signed contract to provide container cranes to Germany-based MSC Bremerhaven GmbH & Co. KG for its terminal in Bremerhaven, Germany. 10/06.

Jiangsu Rongsheng Heavy Industries Group Co. Ltd.
Will supply two ice-class panamax ships for Bermuda-based Golden Ocean Group Ltd. $69 million. 09/06.

CHINA'S INVESTMENTS ABROAD

Shanghai International Port (Group) Co., Ltd.
Acquired a 40% stake in a Belgian terminal from Denmark-based A.P. Møller-Mærsk A/S. 09/06.

INVESTMENTS IN CHINA

Mitsui Engineering & Shipbuilding Co. (Japan)/China State Shipbuilding Corp. (Beijing)
Established joint venture, Shanghai CSSC Mitsui Diesel Engine Co., Ltd., to manufacture ship diesel engines. $287 million. 09/06

Rail

CHINA'S EXPORTS

China Civil Engineering Construction Corp. (Beijing)
Signed contract with the Nigerian government to design, build, and maintain a railway line between Lagos and Kano. $8 billion. 10/06.

CHINA'S IMPORTS

Bombardier, Inc. (Canada)
Will supply 51 metro trains to Shanghai Shensong Line Mass Transit Co., Ltd. $104 million. 11/06.

Alstom SA (France)/Datong Electric Locomotives Co., Ltd. (Shanxi)
Will jointly manufacture 500 triple-axle locomotives for the PRC Ministry of Railways. $1.5 billion. 10/06.

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Jonathan Anderson, Chief Economist for Asia Pacific, UBS AG

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INVESTMENTS IN CHINA

NWS Holdings Ltd., Promisky Investment Ltd. (Hong Kong)/ China International Marine Containers (Group) Co., Ltd. (Guangdong), China Railway Container Transport Co., Ltd. (Beijing)
Formed 50-year joint venture to develop and manage rail container terminals in 18 Chinese cities. (Hong Kong:32%-China:68%). $1.5 billion. 09/06.

Raw Materials

CHINA'S EXPORTS

Sinoma International Engineering Co., Ltd. (Beijing)
Won contract from Saudi Arabia-based United Cement Co. to build a cement plant in Saudi Arabia. $230 million. 09/06.

INVESTMENTS IN CHINA

CRH plc (Ireland)
Will purchase a 26% stake in Jilin Yatai (Group) Co., Ltd.'s cement production units. 10/06.

HeidelbergCement AG (Germany)
Will acquire an 80% stake in Liaoning Gongyuan Cement Group Co., Ltd. 10/06.

Real Estate & Land

INVESTMENTS IN CHINA

Hi Sun Technology (China) Ltd. (Hong Kong)
Acquired commercial property in Beijing for leasing and expansion. $4.4 million. 11/06.

Shanghai Forte Land Co., Ltd. (Hong Kong)
Acquired four properties in Hangzhou, Zhejiang, to develop residential and commercial projects. 10/06.

Ocean Equity Holding Ltd., Winnington Capital Ltd. (Hong Kong)
Each purchased a 9.9% stake in a Chongqing real estate development project from Hong Kong-based Shui On Land Ltd. 09/06.

Research & Development

INVESTMENTS IN CHINA

SavaJe Technologies, Inc. (US)/Hangzhou Dianzi University School of Computer Science and Software Engineering (Zhejiang)
Formed partnership to establish a new research and development facility to support SavaJe's China operations. 09/06.

Retail/Wholesale

INVESTMENTS IN CHINA

Calvin Klein, Inc. (US)
Will open high-end store in Beijing. 11/06.

Duskin Co., Ltd., Mitsui & Co., Ltd. (Japan), President Chain Store Corp. (Taiwan)
Will form joint venture, Duskin Shanghai Co., to provide rental cleaning-tool services. (Japan:92.35%-Taiwan:7.65%). $4.4 million. 09/06.

Office Depot, Inc. (US)
Acquired majority stake in AsiaEC.com, Ltd. 09/06.

Warburg Pincus LLC (US)
Will purchase a 49% stake in Beijing Wangfujing Department Stores (Group) Co., Ltd. $300 million. 09/06.

Telecommunications

CHINA'S EXPORTS

Huawei Technologies Co., Ltd. (Guangdong)
Will build a national Internet protocol network for Versatel Holding Deutschland GmbH. $38.5 million. 11/06.

Huawei Technologies Co., Ltd. (Guangdong)
Will provide 500,000 broadband lines to India's Mahanagar Telephone Nigam Ltd. $44.9 million. 11/06.

Huawei Technologies Co., Ltd. (Guangdong)
Will build rural telecom networks in Ghana. $30 million. 11/06.

Huawei Technologies Co., Ltd. (Guangdong)
Will provide P.T. Telekomunikasi Indonesia Tbk. with wireless telecom equipment. 11/06.

ZTE Corp. (Guangdong)
Will supply telephone equipment to Ghana and Lesotho. $30 million. 11/06.

ZTE Corp. (Guangdong)
Will provide P.T. Telekomunikasi Indonesia Tbk. with wireless telecom equipment. 11/06.

Alcatel Shanghai Bell Co., Ltd.
Will provide a network access point, a network management center, and a national microwave network and develop a fiber optic network for Venezuela's CVG Telecommunications CA. $45 million. 10/06.

Huawei Technologies Co., Ltd. (Guangdong)
Will develop a central transport and a national access system for Venezuela's CVG Telecommunications CA. $70 million. 10/06.

ZTE Corp. (Guangdong)
Will develop a national access system for Venezuela's CVG Telecommunications CA. $25 million. 10/06.

Huawei Technologies Co., Ltd. (Guangdong)
Signed contract to provide its GSM technology to Ufone, a subsidiary of Pakistan Telecommunication Co. Ltd. $550 million. 09/06.

CHINA'S IMPORTS

ECtel Ltd. (Israel)
Will implement its revenue management system in Zhejiang for a Chinese wireless operator. 11/06.

Motorola, Inc. (US)
Will supply Shenzhen Telling Telecom Development Co. with 12 million mobile phones. $1.6 billion. 11/06.

Semiconductor Manufacturing Co., Ltd. (Taiwan)
Will provide 90-nanometer process chips to Beijing-based Datang Telecom Technology Co., Ltd. 11/06.

Semiconductor Manufacturing Co., Ltd. (Taiwan)
Will provide 90-nanometer process chips to Shanghai-based Spreadtrum Communications Inc. 11/06.

Compagnie Financière Alcatel (France)
Will provide GSM/EDGE solutions and a GPRS support node to Shaanxi Mobile Communication Co., Ltd. 10/06.

Compagnie Financière Alcatel (France)
Will provide and install GSM/EDGE solutions for Jiangsu Mobile Communication Co., Ltd. 10/06.

Freescale Semiconductor, Inc. (US)
Will supply wireless basestations to Beijing-based Datang Mobile Communications Equipment Co., Ltd. 10/06.

Microsoft Corp. (US)
Will license its software to Hunan Talkweb Information System Co. Ltd. for use in mobile phone devices. 10/06.

Nortel Networks Corp. (Canada)
Will provide metro networking technology to Shanghai Telecom Co., Ltd. 10/06.

Proxim, Corp. (US)
Will provide integrated voice and data services to China Netcom Gansu. 10/06.

A10 Networks, Inc. (US)
Will provide identity management and security technology to Sichuan-based Chengdu Telecom. 09/06.

A10 Networks, Inc. (US)
Will provide identity management and security technology to Sichuan Telecom Corp., a wholly owned subsidiary of China Telecom. 09/06.

PacificNet Epro, a subsidiary of PacificNet, Inc. (Hong Kong)
Will provide consulting and training services to China Telecom. 09/06.

CHINA'S INVESTMENTS ABROAD

Huawei Technologies Co., Ltd. (Guangdong)
Established operations hub in Mexico. $20 million. 11/06.

China Electronics Corp. (Beijing)
Will acquire remainder of Royal Philips Electronics NV's mobile phone business and will market and sell mobile phones globally under the Philip's brand for five years. 10/06.

CVG Telecommunications CA (Venezuela)/Huawei Technologies Co., Ltd. (Guangdong)
Will jointly build a mobile phone factory in Venezuela. 10/06.

INVESTMENTS IN CHINA

Microsoft Corp. (US)/Comtech Group, Inc. (Guangdong)
Signed agreement to jointly introduce a Microsoft-integrated mobile phone line and to license Microsoft software and source-code to Comtech. 10/06.

OTHER

Trafficcast International, Inc. (US)/China Mobile (Beijing)
Will jointly deploy a cellular probe traffic information system in Shanghai for China Mobile users. 11/06.

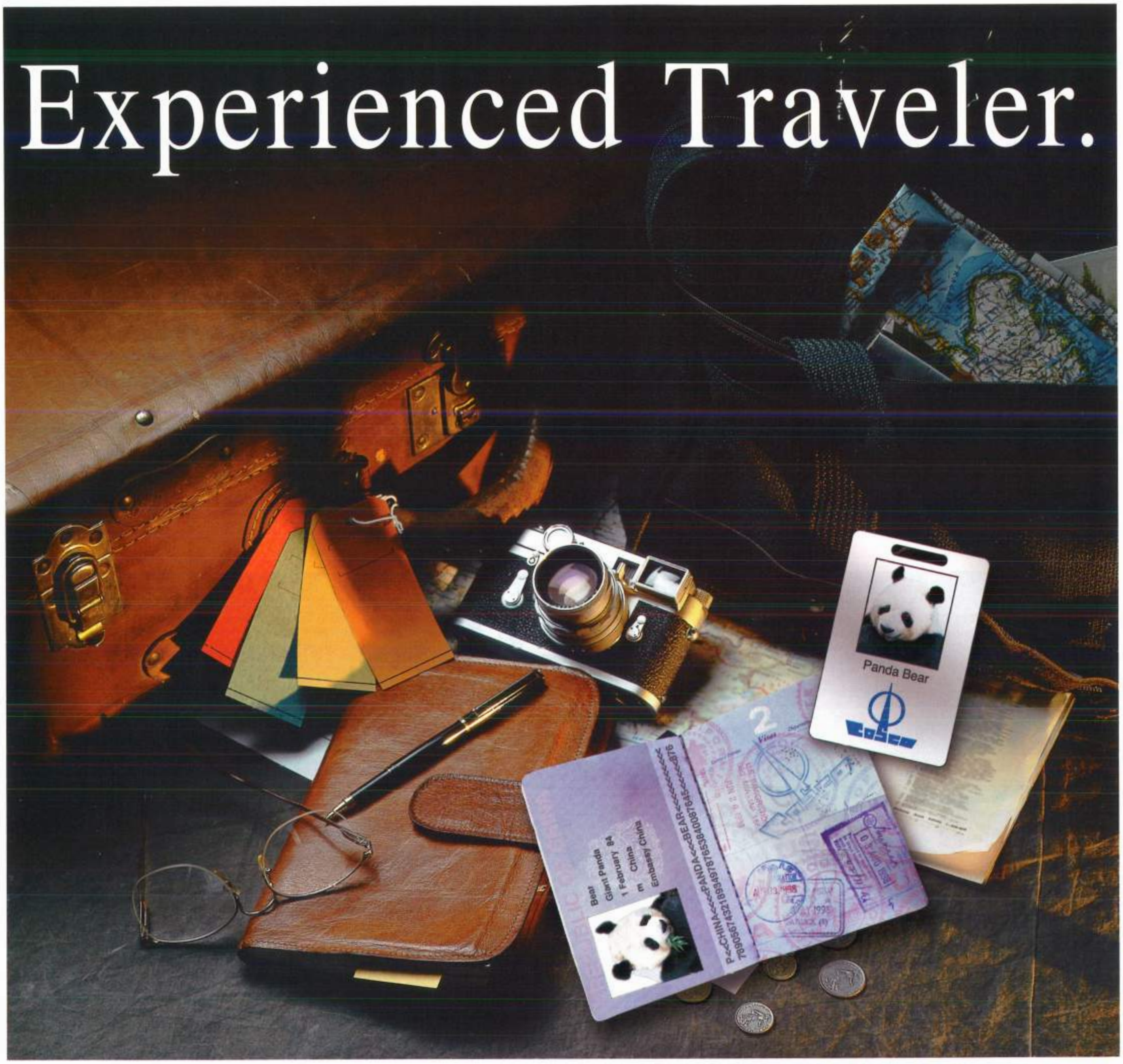
SavaJe Technologies, Inc. (US)
Will open its first representative office in Shanghai. 09/06.

SavaJe Technologies, Inc. (US)/Longcheer Technology (Shanghai) Co., Ltd.
Signed strategic agreement to develop and deploy mobile technologies to Europe and China. 09/06.

Tourism & Hotels

INVESTMENTS IN CHINA

Leighton Holdings Ltd. (Australia)/China State Construction Engineering Corp. (Beijing)
Will construct and develop Melco International/Publishing & Broadcasting Ltd.'s casino project in Macao. 10/06.



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