



中美總商會

# China Alert

## BUSINESS NEWS SUMMARY

FEBRUARY 15, 2005

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### **USCCC NEWS AND UPCOMING EVENTS**

#### Recent Events

On February 15, 2005, the Chamber hosted a Dinner in Celebration of the Year of the Rooster. Over 70 guests, along with The Honorable Tang Ying, Deputy Consul General of the PRC in Chicago, attended the event. Dr. William Testa, Vice President of the Federal Reserve Bank in Chicago, was the Keynote Speaker and discussed the economic forecast for 2005. He indicated that the Year of the Monkey (2004) was a relatively good year in which both the economy and employment grew in the United States. Dr. Testa predicted that the Year of Rooster should continue the trend, and he was relatively optimistic about the coming years.

#### Upcoming Events

- Executive Briefing and Dinner with the Consul General of the People's Republic of China at the Consulate General (by invitation only –priority will be given to Members in the Chairman's Circle and Corporate Sponsors). March 2, 2005.
- Trade Mission. (Postponed to Fall 2005). US- HK-Shenzhen-Dongguan-Zhongshan/Fushan-Shanghai-Hangzhou-Ningbo-Beijing for 10-12 days.
- US-China Automotive Conference. Detroit, May 15, 2005.
- Midwest Manufacturing Conference. Chicago, July 1, 2005.
- Sixth Annual US-China Trade Conference. Chicago, October 2005.

#### Travel Schedule of USCCC Personnel in China

The month of March and April will prove to be very busy for USCCC personnel and members. Over 30 USCCC members will travel to China, and Siva Yam, President will be in China from March 8 to 31. Furthermore, Mai Hoang and Ken Harkness of the Chamber may also be in China at various times to

accompany some USCCC members. Please contact Mai Hoang at [maihoang@usccc.org](mailto:maihoang@usccc.org) if you happen to be in China and would like to meet with USCCC members or personnel during that time.

### Recent Development and New Services

1. USCCC Website. **USCCC website has been completely redesigned and is now UPDATED DAILY.** It now offers news stories, USCCC newsletters, notices of upcoming events, articles, and proceedings from past events (which are available for download). In addition, a new Q & A forum (moderated) is under construction. Please log onto [www.usccc.org](http://www.usccc.org) to obtain information helpful to your business activities.
2. Visa and Passport. USCCC has recently added a passport processing service to its very popular, fast track, hassle free visa service (**USCCC will obtain an invitation letter for you, no itinerary is required, and on certain occasions, one year multiple entries**). **Beginning February 15, past users of the service will be able to log onto our website and check information, including the expiration date of their visas (if applied for through the Chamber), and other relevant details to ensure that their visas are up to date.**
3. Translation Services. Through its strategic alliance with various institutions in China, USCCC has recently completed a translation project for one of its members. The translation is of an ISO 9000 manual for an engineering company. The final manual in Chinese consists of 350,000 Chinese characters and over 250 MS Word files. Based on USCCC's survey, the cost of producing it was significantly lower than those charged by other translation companies in the US. **USCCC is pleased to be able to provide this cost effective solution to its members.**
4. Liaison Offices and Strategic Alliances in China. USCCC is currently negotiating to establish liaison offices in various parts of China. It is anticipated that in the first quarter of this year, USCCC will have liaison offices in a limited number of major industrial regions such as Ningbo and Zhongshan. In addition, USCCC is in the process of forming strategic alliances with several local chambers of commerce in China, primarily in the Dongguan area. USCCC is also currently forming its Advisory Board in China. Certain prominent business and government leaders have, in principle, agreed to serve in this capacity. We anticipate that the formation of the first Advisory Board will be completed before the second quarter of this year.
4. Membership Benefits. **USCCC has expanded various benefits to its members.** Now, General Members will receive Two Free Visa Processings, subscription to Newsletters and Q & A forum, limited company searches in China, discounts on events (including \$100 discount on our Annual Trade Conference), hotel discounts in China, listing on our Membership Directory (hot-links on our webpage for Corporate Sponsors), the use of our logo on your business cards and website indicating that you are a USCCC member, and many other benefits. (Please inform our office if you need a USCCC logo in electronic format). **USCCC membership has increased significantly in recent months. Member news will be added to the next issue of China Alert, and a complete membership listing will become available on March 15.**
5. Business Advisory Services and Small Business Assistance Center. In providing its members and the business community with business advisory services over the last three years, USCCC has developed an in-depth knowledge of bringing US and Chinese companies together. It has fostered close working relationships with governments, chambers of commerce, and business leaders in various manufacturing centers in China, such as Ningbo, Hangzhou, Zhongshan, Shunde, Jiangmen, Guangzhou, Shenzhen, and Dongguan. In an effort to expand our scope and improve our ability to help US companies stay competitive, USCCC will, beginning in 2005, provide small businesses with

assistance in sourcing products from China and in understanding the Chinese markets. Products sourced will be limited primarily to those that do not require extensive engineering work, annual purchases that do not exceed US\$200,000, or products that are readily available in the market or do not require extensive tooling. Initially, we will focus on those industries that we understand well, and in which we have visited companies, such as printing and packaging, injection molding, metal stamping, casting, electronics, hardware, promotional products, textile, and accessories such as leather goods. As we continue to expand, other industries will be added. This service will enable small businesses to stay competitive by sourcing certain products directly from China (bypassing middlemen) and not requiring us to maintain a dedicated staff or to travel to China frequently (each trip will cost about US\$5,000 to \$10,000). Please contact Mai Hoang at 312-368-9030 or [maihoang@usccc.org](mailto:maihoang@usccc.org) for further information.

## U.S. INTERNATIONAL TRADE COMMISSION INVESTIGATIONS / HEARINGS NEWS

- On Wednesday, **February 23, 2005**, the ITC will hold a hearing in the final phase of its antidumping investigation of **Magnesium from China** and Russia (Inv. Nos. 731-TA-1071-1072, Final). The investigations are to determine whether an industry in the United States is materially injured or threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of less-than-fair-value imports of alloy magnesium from China and of pure and alloy magnesium from Russia, provided for in subheadings 8104.11.00, 8104.19.00, and 8104.30.00 of the Harmonized Tariff Schedule of the United States. For further information contact: Christopher J. Cassise (202-708-5408), Office of Investigations, U.S. International Trade Commission, 500 E Street SW, Washington, DC 20436.
- On **February 4, 2005**, the US Department of Commerce announced its final determination in the antidumping duty investigation of imports of certain **Tissue Paper Products from China**. It found that producers/exporters have sold certain tissue paper products in the US market at less than fair value, with a margin of 112.64 percent. The tissue paper products subject to this investigation are cut-to-length sheets of tissue paper having a basis weight not exceeding 29 grams per square meter. Tissue paper products subject to this investigation may or may not be bleached, dye-colored, surface-colored, glazed, surface decorated or printed, sequined, crinkled, embossed, and/or die cut. The tissue paper subject to this investigation is in the form of cut-to-length sheets of tissue paper with a width equal to or greater than one-half (0.5) inch. Subject tissue paper may be flat or folded, and may be packaged by banding or wrapping with paper or film, by placing in plastic or film bags, and/or by placing in boxes for distribution and use by the ultimate consumer. Packages of tissue paper subject to this investigation may consist solely of tissue paper of one color and/or style, or may contain multiple colors and/or styles. The merchandise subject to these investigations may be classified in the Harmonized Tariff Schedule of the United States in several basket categories, including: 4802.30, 4802.54, 4802.61, 4802.62, 4802.69, 4804.39, 4806.40, 4808.30, 4808.90, 4811.90, 4818.90, 4823.90, and 9505.90.40. **The ITC is scheduled to announce its final injury determination on or about March 18, 2005.** If the ITC makes an affirmative determination that imports of tissue paper from China are materially injuring, or threaten to materially injure, the domestic industry in the United States, the Department will issue an antidumping order and instruct US Customs and Border Protection to collect antidumping duties on the subject imports. If the ITC makes a negative injury determination, the investigation will be terminated and no order will be issued.

For more information, please visit the U.S. International Trade Commission's website:

<http://www.usitc.gov/>

## **UPCOMING TRADE FAIRS/EXHIBITIONS (FEB 15<sup>TH</sup> TO APR 15<sup>TH</sup>, 2005) IN CHINA**

- 19 - 22 February: Education & Careers Expo, Hong Kong.
- 25 - 28 February: 2005 Hong Kong International Fur & Fashion Fair, Hong Kong. [www.hkfurfed.com.hk](http://www.hkfurfed.com.hk)
- March: China International Show on Special Purpose Vehicles, Beijing. [www.ceieac.net](http://www.ceieac.net)
- 1 - 3 March: SPINEEXPO – Shanghai Spring/Summer Edition (Living / Textiles & Apparel Materials, Products & Machinery), Shanghai. [www.spinexpo.com](http://www.spinexpo.com)
- 1 - 4 March: Hong Kong International Jewelry Show, Hong Kong. [www.hkjewellery.com](http://www.hkjewellery.com)
- 3 - 6 March: The 5th China (Xiamen) International Stone Fair 2005 / 2005 China International, Xiamen. [www.stone-exhibition.com](http://www.stone-exhibition.com)
- 8 - 11 March: The 12<sup>th</sup> China International Exhibition on Packaging Machinery & Materials, Guangzhou. [www.adsale.com.hk](http://www.adsale.com.hk)
- 8 - 11 March: The 12<sup>th</sup> South China International Exhibition and Symposium on Pre-press and Printing Industries, Guangzhou. [www.adsale.com.hk](http://www.adsale.com.hk)
- 8 - 11 March: The 5<sup>th</sup> South China International Digital Imaging & Advertising Equipment Exhibition, Guangzhou. [E-mail: pfp@adsale.com.hk](mailto:pfp@adsale.com.hk)
- 8 - 11 March: The 9<sup>th</sup> China International Exhibition on Beverage, Brewery and Wine Technology, Guangzhou. [E-mail: pfp@adsale.com.hk](mailto:pfp@adsale.com.hk)
- 11 - 13 March: 3<sup>rd</sup> China/Hong Kong International Golf Show, Hong Kong. [E-mail: info@newwayfairs.com](mailto:info@newwayfairs.com)
- 15 - 17 March: electronicaChina - International Trade Fair for Components, Assemblies and Photonic Technologies with PCIM China - & ProductronicaChina 2004 - International Trade Fair for Electronics Production, Shanghai. <http://fair.electronicchina.de>
- 15 - 17 March: ProPak China (The 11<sup>th</sup> International Processing, Packaging and End-line Printing), Shanghai.
- 16 - 18 March: Shanghai International Exhibition for Packaging and Food Processing Technology, Shanghai, [www.packtech-foodtech.com](http://www.packtech-foodtech.com)
- 16 - 19 March: 17<sup>th</sup> International Linkage Industry, Mould & Die Exhibition (Chang Ping, Dongguan), Dongguan, [www.paper-com.com.hk](http://www.paper-com.com.hk)
- 16 - 19 March: 13<sup>th</sup> International Plastics Exhibition (Chang Ping, Dongguan), Dongguan, [www.paper-com.com.hk](http://www.paper-com.com.hk)
- 21 - 23 March: International Fabric Show Spring, Hong Kong, [www.messefrankfurt.com.hk](http://www.messefrankfurt.com.hk)

- 22 - 24 March: International Trade Fair for the Floor Coverings Industry in Asia and China, Shanghai, [www.keylong.com](http://www.keylong.com)
- 22 - 24 March: Hong Kong International Film and TV Market, Hong Kong, [www.hkfilmart.com](http://www.hkfilmart.com)
- 22 - 25 March: The 5th International Exhibition of Timber and Wood Product for Furniture and Building Industries, Shanghai, [www.woodbuildchina.net](http://www.woodbuildchina.net)
- 22 - 25 March: The 7th International Forestry and Woodworking Machinery and Supplies Exhibition (Incorporating FurniTek China/WoodBuild China), Shanghai, [www.woodmacchina.net](http://www.woodmacchina.net)
- 22 March - 6 April: Entertainment Expo Hong Kong, Hong Kong, [www.eexpohk.com](http://www.eexpohk.com)
- 23 - 25 March: The 3rd Shanghai International Power Station and Transformer Exhibition, Shanghai, [www.epetee.com](http://www.epetee.com)
- 23 - 25 March: The 5th China International Expo on Electric Power Tech & Equipment, Shanghai, [www.epetee.com](http://www.epetee.com)
- 25 - 28 March: The 6th China Shenzhen International Machinery & Moulds Industry Exhibition, Shenzhen, [www.simmexpo.com](http://www.simmexpo.com)
- 29 - 31 March: Zhejiang International Textile and Apparel Machinery Expo (13th), Hangzhou, [www.cpexhibition.com](http://www.cpexhibition.com)
- 30 March - 1 April: Sino-Corrugated 2005, Shanghai, [www.sino-corrugated.com](http://www.sino-corrugated.com)
- 30 March - 1 April: China International Trade Fair for Apparel Fabrics and Accessories, Beijing, [www.intertextile.com](http://www.intertextile.com)
- 4 - 6 April: 1st Asia Expo- Shanghai, Shanghai, [www.kenfair.com](http://www.kenfair.com)
- 6 - 8 April: The 6th International Exhibition on Nuclear Power Industry 2005, Shanghai, [www.coastal.com.hk/nuclear](http://www.coastal.com.hk/nuclear)
- 6 - 9 April: Expo Build China 2005, Shanghai, [www.expobuild.cn](http://www.expobuild.cn)
- 6 - 9 April: The 7th Hortiflorexpo China, Shanghai, [www.hortiflorexpo.com](http://www.hortiflorexpo.com)
- 11 - 17 April: The 9th China International Machine Tool Show, Beijing, [www.cimtshow.com](http://www.cimtshow.com)
- 12 - 15 April: China Sourcing Fair: Electronics & Components, Shanghai, [www.chinasourcingfair.com](http://www.chinasourcingfair.com)
- 13 - 16 April: China International Glass Industrial Technical Exhibition, Shanghai, [www.ceramsoc.com](http://www.ceramsoc.com)
- 14 - 16 April: InterSource Hardware Asia, Hong Kong, [www.intersource-hardware-asia.com](http://www.intersource-hardware-asia.com)

- 14 - 16 April: Intersubcon Asia, Hong Kong, [www.intersource-hardware-asia.com](http://www.intersource-hardware-asia.com)
- 14 - 17 April: Hong Kong Electronics Fair 2005 (Spring Edition), Hong Kong, [www.hkelectronicfairse.com](http://www.hkelectronicfairse.com)
- 14 - 17 April: Hong Kong Electronics Parts Procurement Square 2005, Hong Kong, [www.hkelectronicfairse.com/hkepps/eng.htm](http://www.hkelectronicfairse.com/hkepps/eng.htm)
- 15 - 17 April: Shanghai International Audio & Visual Exhibition, Shanghai, [www.siaav.tech-ex.com](http://www.siaav.tech-ex.com)

\* The USCCC offers comprehensive arrangement services to assist those who wish to attend any of these trade fairs/exhibitions. From time to time, USCCC will organize Trade Delegations to visit potential business partners and factories in conjunction to attending the trade shows. For further information, please feel free to contact us by email at [info@usccc.org](mailto:info@usccc.org) or by telephone at (312) 368-9911.

#### **U.S.-CHINA TRADE AND BUSINESS NEWS**

- The economy of Jiangsu Province experienced strong growth in 2004. Total imports and exports amounted to more than US\$100 billion and total actual use of foreign investment exceeded US\$40 billion. Total imports and exports to and from Suzhou in 2004 amounted to US\$103.2 billion, up 57.2% on a year-on-year basis. Exports accounted for US\$50.774 billion, an increase of 55.6%. Newly registered foreign investment in Suzhou in 2004 reached US\$14.7 billion, up by 17.7% on a year-on-year basis. Actual foreign investment used was US\$9.5 billion, up by 39.6%, US\$5.033 billion of which was verified.
- While the gap between China's steel imports and exports narrowed last year, China will continue to be a net steel importer over the next few years, according to analysts cited by the China Daily. China imported 29.3 million metric tons of steel products last year, down 7.87 million tons, or 21.2%, the first year-on-year decrease in six years. The decrease resulted from higher international steel prices. China's export of steel products, however, jumped 104.6 percent to 14.23 million tons last year.
- China's Department of Foreign Investment Administration at the Ministry of Commerce has released its 2003-2004 list of 'Top 500 Foreign Investment Enterprises in China'. The enterprises are ranked by sales and were qualified after the 2004 annual joint inspection. The top ten were: Shanghai Volkswagen, Hong Fu Jin Precision Industry (Shenzhen) Co., Ltd., Faw-volkswagen, Tech-Front (Shanghai) Computer Co., Ltd., Motorola (China) Electronics Ltd., Shanghai General Motors Corp., Ltd., Great Wall Technology Co Ltd., China Hewlett-Packard Co., Ltd., China Limited Bo Zhong Operating Company and Dell Computer (China) Co., Ltd. Shanghai Volkswagen supplanted Motorola (China) Electronics Ltd., which held first place for three consecutive years. Its annual sales revenue jumped from RMB12.068 billion in 2003 to RMB 56.708 billion in 2004. Hong Fu Jin Precision Industry (Shenzhen) Co. moved up to second place in 2004 from third place in 2003, its annual sales revenue increasing RMB16 billion over the previous year. Faw-volkswagen climbed from fifth place in 2003 to third place in 2004, with annual sales revenue of RMB48.973 billion, RMB15.630 more than in the previous year. Total sales revenue of the Top 500 enterprises amounted to RMB2.100854 trillion, RMB577.298 billion more than 2003, a year-on-year

increase of 37.89%. The average sales revenue was RMB4.202 billion, RMB1.155 billion more than that in 2003, an increase of 37.91%. The listed enterprises span twenty-five provinces, cities and autonomous regions across China. 135 were in Guangdong and 101 in Shanghai. Eastern regions were still the first choice for foreign investors; 444 (88.8%) of the Top 500 are located in eastern China, 5 less than in 2003. The Top 500 enterprises are in various industries, including information communication equipment, electronic appliances, automobiles, electric power, steel, real estate, commercial services, high-technology. Foreign investment came from more than 30 countries and regions. 170 of the Top 500 companies received investment from Hong Kong, the largest source. Other major sources included Japan, Virgin Island, USA, Korea and Singapore, their respective number of enterprises being 60, 40, 30, and 20. Approximately 70% came from Europe.

- In 2004 total imports and exports to and from the nine provinces in the Pan-Pearl River Delta in 2004 amounted to US\$433.44 billion, up 27.5% on a year-on-year basis, according to China Customs. This accounted for 37.5% of total national imports and exports. The imports and exports of eight provinces excluding Guangdong amounted to US\$10.39 billion through Guangdong Port, a growth of 43.4%. The ports of Guangdong and Hong Kong are the main gateways of international trade with the Pan-Pearl River Delta.
- China's trade surplus for January 2005 climbed to a record-high US\$6.48 billion, according to China Customs statistics cited by Xinhua News Agency. China's total trade volume for January 2005 reached US\$95.06 billion, up 33.1% from last January. Exports increased to US\$50.77 billion, with a year-on-year rise of 42.2%, while imports reached US\$44.29 billion, up 24%. Foreign-funded ventures saw export growth of 42.4% and import growth of 30%. Collective, private, and other enterprises reported export growth of 77.3% and import growth of 33.9%. China's trade volume with the Europe Union, the United States and Japan reached US\$15.89 billion, US\$14.33 billion, and US\$12.86 billion respectively, or year-on-year growth of 36.4%, 30.8% and 28.4% respectively.
- Trademark registration in China soared in 2004, according to Xinhua Online. Some 588,000 applications were made during the year, an increase of 30% from 2003 and more than double the number in 2001. Overseas applications also rose, exceeding 60,000 in 2004, a 29.8% increase over 2003.

## **NEW REGULATIONS**

- On February 1, 2005, China's Ministry of Commerce (MOFCOM) put into effect the 'Administrative Rules on Franchise Operation.' 'The Rules' contain 42 articles in 9 chapters which lay out the requirements, rights, and obligations of the franchisee and franchiser. Foreign enterprises are placed on the same footing as domestic enterprises in terms of setup, rights and obligations, information disclosure, and advertising.
- International business visitors to Beijing may now extend their visa for 6 to 12 months, as often as they wish. Previously, foreign visitors were only able to renew their visa twice, each time for a period of only 3 months. Residency permits may now be extended to 5 years for foreign professionals, investors, and legal representatives. For further information, please telephone the Exit-Entry Administration Division of the Beijing Municipal Public Security Bureau on 86-10-84020101.

- China's Ministry of Commerce (MOFCOM) has recently published the 'Interim Measures on the Automatic Export Licensing Administration for Textile Products'. It will also implement automatic licensing administration on textile exports destined for the US, the EU and Hong Kong, taking effect March 1, 2005. Licensing applies to commodities listed in the 'Catalogue of Textile Products Subject to Automatic Export Licensing'. Application for automatic licensing must be made to the licensing office before these commodities are declared for export. The licensing office must issue the license within 10 working days of receiving an application. A single license is issued for each application, for use at a single port, and is valid for three months. For further information, please visit the following pages:  
[http://wms.mofcom.gov.cn/article/200502/20050200344998\\_1.xml](http://wms.mofcom.gov.cn/article/200502/20050200344998_1.xml)  
[http://wms.mofcom.gov.cn/article/200502/20050200344999\\_1.xml](http://wms.mofcom.gov.cn/article/200502/20050200344999_1.xml)

For further information about the USCCC and how we may serve your needs, please feel free to contact us at:

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Attention: Siva Yam, CPA, CFA, President

For comments or suggestions on the China Alert newsletter, please contact:

Paul Nash, Editor, at [pnash@usccc.org](mailto:pnash@usccc.org)

***\* The information provided herein has been obtained from sources deemed to be reliable and is solely for informational purposes.***



## **CHALLENGES FACING CHINESE COMPANIES IN THE POST-WTO ERA**

*BY SIVA YAM, CPA, CFA AND PAUL NASH, MA*

Despite their political and economic differences, the United States and China have together contributed to more than half the world's economic growth over the past few years.

Capital spending has driven economic growth in China; in the United States it has been consumer spending. Consumer spending in America, particularly during the recent recession, has been buoyed by inflated real asset values and declining savings rates caused by historically low interest rates. China unknowingly or knowingly fuels this growth engine with its manufacturing might, over-capacity in almost all industries, and demand for U.S. Treasury securities.

The United States is China's largest export market. Although China has moved up the ranks to become the United States' third largest trading partner, it remains the source of its largest trading deficit. Without its exports to the U.S. market, China's own staggering demand for imports, especially for raw materials and natural resources such as oil, would have shifted its trade balance far into the red. China's acute unemployment problem, together with its skewed distribution of wealth, has placed its economy in a position where any significant overheating or slowing down will threaten to destabilize the nation socially and politically.

It is important for China to continue fueling U.S. consumption, the growth engine of the American economy. But in order to do so it will have to keep down the cost of its exports to the United States. It will also have to continue purchasing U.S. Treasury securities aggressively in order to deter inflationary pressures and keep U.S. interest rates in check. Low interest rates allow the value of real assets to rise—they increase the wealth of those Americans who own homes or real estate—which provides further impetus to spend.

Economic growth in the United States has not created as much actual wealth as economic growth in China has done. In China, economic growth has produced a large middle-class, despite the fact that the majority of Chinese still live in poverty. Structural problems are becoming more apparent in China's economy, however, which has long been oriented towards spending on capital assets. Capital spending is encouraged partly by high unemployment (the result of uncontrolled population growth in the 1950s, 60s and early 70s), and partly by a culture that places great emphasis on larger investment projects. Total capital outflows and capital investment have reached unprecedented levels in China, to the detriment of smaller, more market-sensitive ventures and consumer spending. Many now wonder just how long this trend can continue before it unsettles economic stability. In the years to come, it will surely draw out the challenges already facing Chinese manufacturers.

One challenge is the enormous excess capacity building up in China. Excess capacity has generated unhealthy, cut-throat competition amongst Chinese companies. Most, if not all, Chinese companies are having difficulty finding enough orders to keep their factories running to capacity. They may have the manufacturing capability, but they still have neither the marketing savvy nor the R&D support to build their own brands and control their own marketing campaigns. To complicate matters, Chinese manufacturers in the near-term face external hurdles created by their own success. Three hurdles stand out most prominently in this respect: (a) rising material and shipping costs; (b) intensifying pressure to float the RMB; and (c) anti-dumping actions overseas.

Rapid growth in China's consumer and industrial consumption, coupled with uncertainty in the Middle East, has put tremendous upward pressure on the price of raw materials, particularly iron and steel, oil

and oil-derivative products. Unfortunately, many Chinese companies are unable to pass on higher costs to their customers because they do not control their markets. They are caught in the middle, working through agents who source from a number of suppliers in industries plagued by huge excess capacity.

Several changes could alleviate these pressures. The prices of oil and oil-derivative products could ease. From an historical perspective, oil prices have seldom risen above US\$40 per barrel, and it is unlikely that current price levels are sustainable. Also, China is rapidly developing its own steel-making capacity. While this capacity may address shortages in the supply of steel, it may not ease the price of iron ore or coke, though an economic slowdown would likely ease price pressures in the future.

It is unlikely that the Chinese government will make any significant change in exchange-rate policy in the near-term. Nevertheless, some 'window dressing' tactics, such as an increase in interest rates, might be employed. Any significant change in the exchange rate, however, would jeopardize China's exports, which are essential to the growth and stabilization of the economy. China is still very much a developing country, and people living in inland regions are still very poor. Most foreign business travelers visit only Shanghai, Beijing, Guangzhou, Shenzhen, and other more industrialized areas. If they were to visit other places inland, they would likely come to see the rationale behind China's rigid exchange rate policy in relation to rural poverty and its importance to the country as a whole.

The problem of excess capacity in China is expected to get worse before it gets better. Continued expansion of manufacturing capacity is unavoidable, but it is doubtful that it is sustainable. Any slowdown in capital spending would jeopardize employment and adversely impact neighboring countries, such as Japan and Korea, as well as other countries that supply machinery to China, such as Germany. In the long run the problem will correct itself in the regular course of economic development. However, many growing pains will be felt along the way. Some companies, not just state-owned enterprises but also private entities, will go bankrupt or be bought out. From an optimistic perspective, this may not necessarily be bad for China. It will force many companies to modernize both their manufacturing and management processes. It will also speed up capital market development and lead to greater transparency in the legal system. It will prove to be an unsettling route at best, and it is essential that China steers a careful course to avoid a crisis.

China has emerged as the world's manufacturing center, yet many Chinese companies have come to realize that they are primarily low-value-added contract manufacturers with little or no control over their marketing. Many of them sell their products under private labels or through a third party. Lack of name recognition, original design, and R&D capability, together with a reputation (justified or not) for producing poor-quality or counterfeit goods, has left many Chinese companies confined to the low-value-added, commodity-type product segment of the market. Although conditions are changing, the gap between China and the United States remains significant. In addition, most Chinese companies are, compared to Fortune 500 companies, relatively small and cash-strapped. China's difficulty in allocating resources to name-branding and research has resulted in part from the lack of fully developed capital markets, little transparency, and poor stakeholder protection, as well as aggressive expansion in capital investments. Chinese companies are taking steps to overcome these hurdles by making acquisitions overseas or acquiring licenses, but many of them falter in these endeavors from inexperience. While finding sufficient orders to keep their factories running to capacity is the biggest challenge, it is also, ironically, an opportunity for Chinese companies to become more competitive globally. Ultimately, we believe that they will, in spite of these challenges, one day be just as competitive as their counterparts in Japan and Korea.