



China Alert

BUSINESS NEWS SUMMARY

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USCCC NEWS AND UPCOMING EVENTS

The Honorable Xia Darren, Mayor of Dalian Received with A Delegation from USCCC on Sunday, December 5, 2004.

The Honorable Xia Deren, Mayor of Dalian, received a delegation of USCCC members at the Mayor's Office in Dalian on December 5. The delegation consisted of Siva Yam, President of US-China Chamber of Commerce, Jairo Senise and Juan Gonzalez of Gruma Corporation, which is a Corporate Sponsor of USCCC and the world's largest corn flour producer. Mayor Xia has been a long time friend of USCCC. About eight years ago, in his capacity as Vice Mayor of Dalian, he led a Delegation to Chicago to sign an agreement with Bright Oceans International, a Member in the Chairman's Circle of USCCC, to establish an IT research institute in Dalian Hi-Tech Zone. Then about two years ago, USCCC hosted a reception for Mayor Xia when he returned to Chicago as Vice Governor of Liaoning Province.

Mayor Xia introduced the strategic location of Dalian as a major seaport and trade center in the Northeast of China, and he also talked about a food processing zone at the port that specifically catered for multinational food companies. The Delegation and the Mayor exchanged ideas about future cooperation between USCCC and the City of Dalian. Siva Yam, on behalf of USCCC, extended an invitation to Mayor Xia to visit the US and be guest speaker at a number of programs that USCCC will host in 2005. USCCC Delegation specifically thanked Mayor Xia for making a special effort to return back to Dalian from an important meeting in Beijing to meet with the Delegation - The Honorable Xia Deren changed an earlier flight to go back to Dalian a few hours earlier than he originally planned.

USCCC Participated at The First Annual Conference of Asian Business Leaders in Dongguan Hosted by Asian Capital Forum on November 26-28, 2004 and Commented on Challenges Facing Chinese Companies.

USCCC participated in a Roundtable Discussion regarding China & Asia: Opportunities and Challenges of the Manufacturing Industry, which was hosted by Asian Capital Forum and the Dongguan Government. The following is an excerpt of Siva Yam, President of USCCC's comments (The full text will be available soon. Please contact Paul Nash at PNash@usccc.org or Siva Yam at SivaYam@usccc.org for further information or comments).

“...there are a few challenges facing both US and Chinese companies. Ironically, despite the differences between the two nations, the US and China together have contributed to more than half of the world’s economic growth in the past few years. However, the two countries went in different directions. The economic growth in the US was primarily driven by consumer spending buoyed by low inflation and interest rate, and in China growth was driven by capital investments stemming from an overpopulated country with ambition.

Although the US might not be the largest market for Chinese exports, without the US, China would have recorded huge trade deficit. Accordingly, it is very important for the US economy to continue to grow; otherwise, China would face a difficult time. In order to fuel economic growth in the US, China will need to continue to keep inflation out of the equation, i.e., to keep the prices of its exports low and to purchase US Treasury Securities to keep interest rate low. If not, the US will face inflation pressure, which will in turn, force interest rate to go up and have a negative impact on the wealth of the American consumers.

As the world’s number one destination for foreign direct investments coupled with aggressive domestic investments in capital equipments, China has excess capacity in almost every industry. This creates an unhealthy competition among Chinese companies. Chinese companies might have good manufacturing capability; however, they have not invested significantly in research and development, and many of their products do not have name recognition in the global market. As a result, most of them are primarily contract manufacturers, and their products are low value added. From a long term perspective, the market will probably play out by itself, i.e., certain companies will go into bankruptcy or will be bought out. This may become necessary in order for Chinese companies to stay competitive; however, the process could be very painful.

The inability for Chinese companies to build their own brands is nothing unusual for a country that is still in the development stage. This is logical as China was a centrally controlled economy, whereby marketing was not even in existence, until the late 70s. For China to turn the corner this will require time and investments; they will need to better understand the consumers and to invest in research and development, marketing and promotion. Many Chinese companies are just too cash strapped to do so.

On a short term basis, Chinese companies are facing four immediate challenges. First, they face the uncertainty created by the outside pressure on floating the RMB. Probably, the Chinese government would not make any changes in the near future. If someone has a chance to go to the western part of China, he or she will understand what is on the mind of the Chinese government. Outside the coastal region, China is still poor. The gap between the wealthy and the poor will widen if its exports fall. Second, many Chinese companies are being forced to keep the prices of their goods low despite the increasing cost of raw materials. The increasing cost of raw materials is primarily due to the rapid economic growth in China coupled with the surge in oil price. Given the slow down of the economy in China, the expansion in the capacity of various steel mills in China, and the non-sustainability of the current oil price based on the history and the long term outlook, it is likely that this problem will ease out in the next 12 months. Third, in the coming years, many Chinese exporters will face an increasing hostile international trade environment filled with trade disputes and anti-dumping cases filed against the Chinese. On a cultural basis, Chinese companies traditionally hesitate to defend themselves in court. To complicate the issue, Chinese companies are to some extent ignorant in handling public relations outside of China. These two factors will have a negative impact on the Chinese companies in winning those cases. For China to come out on top of the trade disputes, this will require them to better prepare through better research and investments. I anticipate that many anti-dumping cases are to be filed against China and that this will drain resources from them to compete effectively. Fourth, Chinese companies have been seen that they do not respect other’s intellectual property rights, which has a negative impact on the marketing of products produced in China as well as technology transfer. Without a doubt, the situation in China has improved; however, they still have a long way to go. It is unlikely that the condition will improve substantially in a year or two, and only time and continual improvement in living standard and education will help to correct this problem. Until then, China will continue to be under international pressure to comply with IPR regulations, and multinational corporations with proprietary technology will continue to hesitate to transfer their technologies to China.

The condition in China has improved, and Chinese companies are becoming more competitive in this global market. However, for Chinese companies to succeed, not only do they need to keep themselves up to date with the hardware, but also they need to import management technology and begin to train and retain quality employees. The lack of willingness to train and keep employees (most of them are from the farm and are with little education – this makes

training for higher level of task very difficult) will continue to restrict their ability to compete in a higher value added manufacturing segment ...”

US-China Chamber Of Commerce Has Accepted an Invitation to Support The World Kitchen Fair of Guangzhou in 2005.

USCCC has accepted an invitation to support The World Kitchen Fair of Guangzhou, which is to be held in Guangzhou from September 23 to 26, 2005. The Fair is co-sponsored by a number of international organizations and will be held at The Guangzhou Chinese Export Commodities Fair Ground, the site for the internationally known Canton Fair.

USCCC's New Website and Available Services:

As we continue to improve our capability to serve the business community, we are planning to institute a few new programs this year. Accordingly, we would like to draw your attention to the following:

1. USCCC Website. Our completely NEW website offers news stories, USCCC newsletters, notice of upcoming events, articles, and proceedings from past events (which will be available for download). It also offers a new Q & A forum (moderated).
2. Visa and Passport. USCCC has recently added a passport processing service to its very popular, hassle free visa service (no invitation letter or itinerary is required). 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. 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. Upcoming Programs.
 - a. Executive Briefing and Dinner with 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). Late February or early March 2005.
 - b. *Chinese Economic Trends: What Do They Mean For Investment, Trade, And Finance?* In co-operation with the Asia Society in Los Angeles. Los Angeles, January 27, 2005.
 - c. Chinese New Year Celebration Dinner. Chicago, February 15, 2005.
 - d. Trade Mission. March 2005. US- HK-Shenzhen-Dongguan-Zhongshan-Shanghai-Hangzhou-Ningbo-Beijing for 10-12 days.
 - e. US-China Automotive Conference. Detroit, April 2005.
 - f. Midwest Manufacturing Conference. Chicago, June 2005.
 - g. Sixth Annual US-China Trade Conference. Chicago, October 2005.
5. Membership. As we continue to expand Membership Benefits and provide better services to the community, we will need your support. If you have not become a member, please consider joining our expanding organization. The Member Benefits will include **Two Free Visa Processing, subscription to Newsletters and Q & A forum, limited company search in China, discounts on events (including \$100 for our Annual Trade Conference), discounts for hotels in China, listed on**

our Membership Directory (hot links for Corporate Sponsors on our web), use of our logo on your business cards and website indicating that you are a USCCC member and many others (please inform our office if you need a logo in electronic format).

6. 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 U.S. 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 U.S. 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 have visited companies in, 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 call Mai Hoang at 312-368-9030 for further information.

NEW SERVICES

VISA PROCESSING SERVICE

- Fast and Reliable
- Documents Required:
 - o a completed application form (downloadable from our website)
 - o a recent 2 x 2" photo
 - o a valid passport
 - o credit card information or a check
 - o the USCCC will issue your Invitation Letter - you DO NOT require one from China
- Fees are as follows:

Consular Fees (Dollars in US)	
Single Entry	\$50
Double Entries	\$75
Six Month Multiple Entries	\$100
One Year Multiple Entries	\$150
Expedition Fees	
24 Hours	\$30
48 Hours	\$20
USCCC Fees	
Processing Fee	\$50
Additional Fee For One Year Multiple Entries	\$30
Expedition Fee (For 24 and 48 Hours)	\$20

- USCCC Members Free (Twice a Year for the Same Application)

US PASSPORT PROCESSING SERVICE (FOR EXPEDITION ONLY – TYPICALLY 24 HOURS)

- Fast and Reliable
- Documents Required:
 - o a completed application form (downloadable from our website)
 - o two recent 2 x 2” photos
 - o passport if for renewal or adding pages
 - o credit card information or a check
 - o an authorization letter for USCCC to process the passport (a sample letter can be downloaded from our website)
- Fees are as follows:

US State Department Fees (Dollars in US)	
New Application	\$55
Passport Renewal	\$55
Adding Pages	Free
Expedition Fees	\$60
USCCC Fee	\$50

BUSINESS CARD TRANSLATION

Business Card	\$50 per person
Typesetting (Camera Ready)	\$50 for the first person and \$10 Additional for each additional person from the same company

DOCUMENTS TRANSLATION

Since a majority of its members are manufacturers, USCCC provides its members and the business community with cost efficient translation services for a wide range of documents with an emphasis on the technical and engineering aspects such as ISO compliance manual.

CUSTOMIZED TRIPS TO CHINA

In addition to hosting our regular trade missions, we also organize special delegations for individual companies wishing to visit china and meet with their potential business partners. On your behalf, we will identify, screen, interview and possibly visit potential partners; set up meetings; arrange transportation, lodging, interpretation and others. We will also translate your business cards and company brochures into Chinese, as well as provide you with pre-trip executive briefings including cross-cultural and language training.

For further information, please contact our office at 312-368-9911 (telephone); 312-368-9922 (facsimile); or info@usccc.org.

U.S. INTERNATIONAL TRADE COMMISSION INVESTIGATIONS / HEARINGS NEWS

- In December the ITC voted 6-0 to impose anti-dumping duties on imports of **wooden bedroom furniture from China**. The ITC determined that the imports injured or threatened U.S. industry. Imposition of anti-dumping duties requires final affirmative determinations both from the Department of Commerce on dumping and from the USITC on injury. The Commerce Department made its final affirmative determination in November, calculating dumping margins ranging up to 198 percent. In 2003 imports accounted for nearly a 60 percent share of the U.S. market for wooden furniture. Imports from China in 2003 amounted to \$1.2 billion, according to the Commerce Department.
- In December the ITC voted 6-0 to impose anti-dumping duties on imports of **carbazole violet pigment from China** and India. In 2003, imports of the pigment, used as color agents in the production of paint and coatings, amounted to \$4.2 million from China and \$0.4 million from India. The duties range up to 217 percent for imports from China and up to 69 percent for imports from India.
- Earlier this month the ITC voted to impose anti-dumping duties on imports of **non-canned, warm-water shrimp and prawns from China**, amongst other countries. The Commerce Department calculated dumping margins of up to 112.81 percent for China. Shrimp producers in China have decried the dumping allegations, claiming that they can farm shrimp at much lower cost than U.S. producers, who fish wild shrimp and face rising fuel, equipment and labor costs.
- Earlier this month the ITC voted to impose anti-dumping duties of up to 266.83 percent on certain imports of **crepe paper from China**.

The ITC will be closed on JANUARY 17, 2005, MARTIN LUTHER KING, JR. DAY

For more information, please visit the U.S. International Trade Commission's website:
<http://www.usitc.gov/>

UPCOMING TRADE FAIRS/EXHIBITIONS (JAN 15TH TO MAR 15TH, 2004) IN CHINA

- 18 - 21 January: Hong Kong Fashion Week for Fall/Winter, Hong Kong. E-mail: exhibitions@tdc.org.hk
- 18 - 21 January: World Boutique (Living / Textiles & Apparel Materials, Products & Machinery), Hong Kong. E-mail: exhibitions@tdc.org.hk
- 19 - 22 February: Education & Careers Expo, Hong Kong.
- 25 - 28 February: 2005 Hong Kong International Fur & Fashion Fair, Hong Kong. www.hkfurfed.com.hk
- March: China International Show on Special Purpose Vehicles, Beijing. www.ceieac.net

- 1 - 3 March: SPINEEXPO – Shanghai Spring/Summer Edition (Living / Textiles & Apparel Materials, Products & Machinery), Shanghai. www.spinexpo.com
- 1 - 4 March: Hong Kong International Jewelry Show, Hong Kong. www.hkjewellery.com
- 3 - 6 March: The 5th China (Xiamen) International Stone Fair 2005 / 2005 China International, Xiamen. www.stone-exhibition.com
- 8 - 11 March: The 12th China International Exhibition on Packaging Machinery & Materials, Guangzhou. www.adsale.com.hk
- 8 - 11 March: The 12th South China International Exhibition and Symposium on Pre-press and Printing Industries, Guangzhou. www.adsale.com.hk
- 8 - 11 March: The 5th South China International Digital Imaging & Advertising Equipment Exhibition, Guangzhou. E-mail: pfp@adsale.com.hk
- 8 - 11 March: The 9th China International Exhibition on Beverage, Brewery and Wine Technology, Guangzhou. E-mail: pfp@adsale.com.hk
- 11 - 13 March: 3rd China/Hong Kong International Golf Show, Hong Kong. E-mail: 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 11th International Processing, Packaging and End-line Printing), Shanghai.

* 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 or by telephone at (312) 368-9911.

U.S.-CHINA TRADE AND BUSINESS NEWS

- The U.S. Treasury department, in a report to Congress last month, stated that it found no evidence that China manipulated its currency during the first half of 2004. A currency peg or intervention, it said, does not in itself meet the technical requirements of currency manipulation. It also pointed out that China has strengthened its commitment to move to a market-based, flexible exchange rate and is moving forward with preparations to do so.
- According to China's Ministry of Commerce (MOFCOM), China contributed 12% to global commodity trade growth in 2004. This was 0.3% higher than in 2003. In the first 11 months of 2004, China's foreign trade surpassed US\$1 trillion, a year-on-year increase of 36.5%. It predicts that total foreign trade in 2004 will have amounted to US\$1.1 trillion, making China the third largest trading nation in the world. It also predicts that in 2004 China's imports and exports from

and to the United States will have amounted to more than US\$167 billion, compared to more than US\$190 billion for Europe, and more than US\$600 billion for Asian countries.

- China's Ministry of Commerce (MOFCOM) last month announced that the Chinese government has decided to establish a tax on exports of textile and apparel merchandise, effective from January 2005. The tax is one of eight measures aimed at encouraging the export of high-value added products, as well as promoting the sound, stable and sustainable development of China's textile export industry.

NEW REGULATIONS

- Last month the Office of the U.S. Trade Representative released its "2004 Report to Congress on China's economic reforms over past three years, saying that China has made progress but problems still remain. The USTR said China deserves "due recognition" for the "tremendous efforts" it has made to reform its economy. The report, however, says: "while China's efforts to fulfill its WTO commitments are impressive, they are far from complete and have not always been satisfactory, and China at times has demonstrated difficulty in adhering to WTO rules." Among the areas of particular concern for the United States, according to the report, are intellectual property rights, trading rights and distribution services, insurance, express delivery, telecommunications services, industrial policies and transparency, and agriculture. The report notes that most of China's key WTO commitments, including trading rights and distribution services, were to be phased in fully by December 11. "This coming year -- 2005 -- will therefore provide a critical glimpse at what to expect of China as a WTO member once its full range of commitments are in place," the report says. The report says the Bush administration will continue to press China to comply fully with its WTO commitments, with particular emphasis on ensuring effective protection of U.S. patents, trademarks and copyrights in China. The administration is also committed "to working with China to resolve problems in our trade relationship before they become broader bilateral irritants," the report says. The full text of the report is available in PDF format at:
http://www.ustr.gov/assets/Document_Library/Reports_Publications/2004/asset_upload_file_281_6986.pdf
- China's Ministry of Commerce (MOFCOM) last month announced that the Chinese government has decided to establish a tax on exports of textile and apparel merchandise, effective from January 2005. The tax is one of eight measures aimed at encouraging the export of high-value added products, as well as promoting sound, stable and sustainable development of China's textile export industry.
- According to the WTO Agreement on Textiles and Clothing, on January 1, 2005, all existing absolute quota for textiles shall come to an end to realize global textile trade integration. In order to ensure the smooth transition to the integration and the accuracy of statistics, after the integration, companies shall continue to declare to the customs their textile exports using the 10-digit HS code. Specific codes shall be based on the Parameter Database of the Customs Entry Clearance System. Please refer to the Customs Clearance Handbook or the website of MOFCOM.
- Beginning January 15, 2005, eligible Chinese nationals who wish to visit the United States temporarily for business (B-1) or tourism (B-2) will be issued visas that are valid for 12 months and multiple entries. The previous maximum validity for U.S. visas issued for these purposes was six months and for multiple entries. The Chinese Ministry of Foreign Affairs has also agreed

to reciprocally issue to U.S. citizens visiting China on temporary business and tourism visas valid for 12 months and multiple entries.

SPECIAL REPORT: CHINA'S COMMERCIAL SERVICES SECTOR FURTHER OPENED UP TO FOREIGN DIRECT INVESTMENT

by Zack Dong, Sonnenschein Nath & Rosenthal LLP, China Practice Group

The Chinese government recently issued the Measures for the Regulation of Foreign Investment in the Commercial Sector, effective June 1, 2004 (the "Measures"), further opening up the retail and distribution sector to foreign direct investment, subject to a few exceptions. These developments are significant in view of China's traditional policy encouraging foreign investment in the manufacturing sector while imposing restrictions in the service sector. Major service providers overseas are expected to take advantage of the new policy to establish and expand their market presence in China by leveraging their brand names and service capabilities. Highlights of the Measures are:

I. A foreign-invested business in a particular industry may engage in any or all of the following activities:

1. commission agency;
2. wholesaling;
3. retailing; and
4. franchising

II. A foreign investor may use any of the following forms to do business:

1. joint venture (foreign shareholder may hold controlling interest);
2. wholly owned subsidiary (permitted after December 11, 2004); and
3. other forms permitted under Chinese law

III. Requirements

There is no additional minimum registered capital requirement except as provided in the PRC Company Law applicable to all Chinese companies.

The term of operation is limited generally to 30 years, but can be extended to 40 years if the business is located in China's Central and Western Regions.

Other general requirements for foreign invested enterprises, e.g., the ratio between total investment and registered capital, generally apply.

IV. Approval

The establishment of foreign-invested commercial enterprises is subject to government approval at the central or provincial level (depending on the nature of the operation).

Note: *The views expressed in this report are those of the author and are not given as legal advice. Zack Dong practices in Sonnenschein's International (China) Corporate and Securities Practice Group. His practice focuses on cross-border transactions with Asia, particularly China, including mergers,*

acquisitions, joint ventures, divestitures, as well as international franchising, licensing, distribution, and contract manufacturing. He can be reached by telephone at (312) 876-8075 or by e-mail at zdong@sonnenschein.com.

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

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Email: info@usccc.org

Attention: Siva Yam, CPA, CFA, President

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

Paul Nash, Editor, at pnash@usccc.org

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