Story of the Month

China Daily, China’s national English language newspaper posted an article, Evolving Star, on its December 10, 2007 edition featuring Shenzhen, NAROS, and its “Reaching Out” initiative. We quote it here as “Story of the Month”.

Evolving Star
By Rikki N. Massand, China Daily

At 27 years old, China’s economic darling and export leader for the past 14 years, Shenzhen is no longer an ingenue. She is a true star on the scene - yet ambitious youngsters are fast making a name for themselves, too.

To counter the competition, the city government has stepped out and joined the action in Los Angeles, with aspirations for a wider audience in the United States.

The first Chinese city to be opened up to outside world investment, Shenzhen was wildly successful in attracting flagship businesses from the US to China's Pearl River Delta.

The city is home to the global procurement centers of Wal-Mart and IBM.

Wal-Mart used its major operation and its first store in the city to expand into the rest of the Chinese market. Many retailers, including Home Depot and Best Buy, selected either Shenzhen or Shanghai for their first locations with good reason - among them the fact that Shenzhen has the highest GDP and disposable income per capita in all of China.

Shenzhen grew out of the vision of Deng Xiaoping, who set forth the principles of Special Economic Zones, which allowed for the transformation of the city through three free trade zones - Shatoujiao, Yantian and Futian.

Today Shenzhen has the fourth-largest container port in the world. Companies looking for a location to make and ship goods favor its access and port logistics.

Yet it is also alluring because of its culture and upwardly mobile environment.

"It's a young city - people are young and vigorous and the culture is very innovative. Shenzhen has a very good business climate. It's very entrepreneurial and in that way it's somewhat like American culture," says Andrew M. Pan, chief representative and managing director of Shenzhen’s Los Angeles-based representative office.
Pan arrived from China when the office opened in 2001. He says Shenzhen's migrant culture - due to open-minded city management - an influx of young professionals from other parts of China and international investment all make for an exciting city. The full-service Shenzhen office is headquartered in downtown Los Angeles, with satellite offices in Chicago and San Francisco.

The Los Angeles bureau's mission is to help US companies do business in Shenzhen, help Shenzhen-based companies come to the US and promote Shenzhen products in the US.

Pan says the range of effort results in a mutually beneficial relationship.

"IBM, Oracle and Microsoft bring a lot of good technology to the city and they hire Chinese employees, train the labor force and provide them with new skills," Pan says. "Another example is the service industry bringing technical know-how and opportunities. Wal-Mart, with its global procurement center and its first store, has provided wide training in management skills."

Growing from a small fishing village with a population in the thousands to over 12 million people today, Shenzhen is now the fourth-largest city-level economy in China. It has investors from 68 countries and regions worldwide with almost 30,000 different operations.

But other cities are developing fast.

"Looking to the future, it's a challenge that the second-tier cities of China are coming up and Shenzhen is losing its (advantaged) position in special policies, location and infrastructure," Pan admits.

He acknowledges the city's management sees the challenge and has acted. In addition to its US operations, it has offices in Frankfurt, Tokyo and Sydney. Plans have been approved for a second full-service US location in New York, likely to open next year.

One way to maintain its advantage is to support Shenzhen businesses that have the capability to expand overseas.

One that has already done it is Huawei Technologies, which now has more than 100 countries in its global network and $11 billion in annual revenue.

"Shenzhen has encouraged our city-based businesses to go global, not only to lesser developed countries in South America, Africa or Eastern Europe but also to developed countries like the US, Australia, Japan and European countries," Pan says. "The city considers this as our focus in order to take the lead in international business over other Chinese cities."

Pan says his office is providing assistance as a matchmaker - finding companies suitable overseas business partners, legal representatives, licensing, accounting services or land. Then the role turns to facilitator by arranging meetings, helping with tours and other accommodation and making contacts with government agencies. This formula is applied both for US companies heading for China and Shenzhen's businesses that are going stateside.

Pan cites a major Shenzhen telecom manufacturer that wanted to invest in the US.

"When they first came here they knew nothing. Then they found out that there are a lot of smaller companies with very good technology. They asked us to help identify some companies, so we used our middleman network, spread the information and afterwards we got proposals from seven different firms. We then selected three, sent the list to them in China and they picked the one to work with," Pan explains.

He adds that the telecom company then bought three smaller technology firms in Silicon Valley and New Jersey and has since opened a headquarters in Dallas, employing over 400 people.

"We helped them from the beginning. Most importantly they are building a research and development center here in order to catch the newest technology developed in the US," Pan says.

While some progress has been made, it will take time before Shenzhen's outreach creates the economic growth
and number of jobs that foreign investment has generated in Shenzhen over the past 25 years.

"It takes time to educate Chinese businesses, for them to understand the American market. Plus, the American market is the most difficult to enter in the world," Pan says.

(Source: China Daily 12/10/2007 page 6)

NAROS Update

NAROS Attends China Business Video Conference with Hong Kong

On Dec. 5, 2007, North American Representative Office of Shenzhen, P.R. China (NAROS) attended the China business video conference with Hong Kong, which was co-organized by the Hong Kong Association of Southern California, Association of Corporate Counsel, Hong Kong Corporate Counsel Association, Hong Kong Trade development Council, and supported by the National U.S. Hong Kong Business Association. This event was sponsored and also hosted at the Morrison & Foerster LLP in downtown LA. Valuable knowledge was gained by a thorough lecture of intellectual property rights, due diligence, and business relationships of doing business in China/Hong Kong.

NAROS staff in attendance included Robert Fraser and Grace Chen.

Andrew Pan Attends 2008 American-Chinese CEO Society (ACCS) Gala

On Jan. 19, 2008, Andrew Pan, Chief Representative of North American Representative Office of Shenzhen, P.R. China (NAROS) took part in 2008 American-Chinese CEO Society (ACCS) gala at The Pacific Palms Conference Resort in City of Industry. About 300 business leaders from both American and Chinese business communities attended the gala and celebrated the fast-growing bilateral U.S.-China business connection.

William Overholt, Director of Center for Asia Pacific Policies, Rand Corporation delivered a keynote speech entitled “Asia, America, and the Transformation of Geopolitics”.

Mr. Pan initiated the discussion with Robert Sun, President of ACCS and his associates that NAROS would like to work with ACCS in the future, potentially as strategic partners.

NAROS Attends 2008 China Business Update & Outlook in San Diego

On Jan. 25, 2008, North American Representative Office of Shenzhen, P.R. China (NAROS) attended the all day event of 2008 China Business Update & Outlook organized by the Asia Desk of San Diego World Trade Center at UCSD. Dirk Thomas, Co-CEO, Summit View Partners, came from Hong Kong to speak at the event at the request of NAROS. His presentation was well received.

Ron Roberts, San Diego County Supervisor, Yao Sufeng, Commercial Counselor of China Consulate General at Los Angeles were among the speakers.
The panel discussions included China economy, market, manufacturing and China business strategy. All speakers were experts on their subjects and offered interesting subject matter. Some of the information included China is a big market for medical diagnostic and imaging products as well as water recovery and processing systems. Shenzhen has been frequently mentioned by speakers and our table top exhibit attracted attention.

Attendees from NAROS were Andrew Pan, Robert Fraser, Alex Cree and Theresa Chen.

**NAROS Celebrates the Holidays at the Hilton Hotel in San Gabriel**

On January 4, 2008, North American Representative Office of Shenzhen, P.R. China (NAROS) celebrates the holidays at the Hilton Hotel, San Gabriel.

This dinner celebration brought all staff along with their family and friends together for a fun night at the Trinity restaurant in the Hilton Hotel. NAROS would like to thank all their employees for their hard work and contribution in 2007.

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**U.S./China/Shenzhen Business News**

**SMIC to Expand with Two Fabs in Shenzhen**

Semiconductor Manufacturing International Corp. (SMIC), China’s largest semiconductor manufacturing company based in Shanghai will launch a semiconductor manufacturing complex in Shenzhen in cooperation with the Shenzhen municipal government.

The Shenzhen campus will include an R&D center, a 200 mm production line, and a 300 mm line that will use 45 nm bulk CMOS technology licensed from IBM in late December.

“The 300 mm fab will introduce advanced process technology licensed from IBM. With the support of the Shenzhen municipal government in financing, incentive policies and ways of operations, we expect this project to break ground in the first half of 2008,” Richard Chang, CEO of SMIC said on the press conference.

SMIC will register an independent legal entity, the Semiconductor Manufacturing International (Shenzhen) Corp. Ltd., to complete the project.

(Source: Shenzhen Daily)

**NBA to Initiate in China**

The National Basketball Association (NBA) announced that it will partner with Li Ka Shing Foundation, ESPN and three Chinese companies including Bank of China Group Investment, Legend Holdings Limited and China Merchants Investments to set up NBA China in which NBA holds the majority of 89% stakes and the others collectively secure 11% stakes with the investment of US$ 253 million.

The new company will be established before the opening of the Beijing Olympics in August this year, to conduct all of the league’s businesses in China such as merchandising and marketing of television and other media.

The NBA currently has relationships with 51 Chinese television broadcasters, including a partnership of more than 20 years with national network CCTV. The league currently maintains 16 marketing partnerships with a combination of Chinese corporations and U.S.-based multinationals.

More than 500 unique NBA products are available in China at Wal-Mart, Carrefour, Adidas stores and many other retail locations.

(Source: Forbes.com)

**NYSE Launches Office in China**

NYSE Euronext, the world’s leading liquid exchange operator and the U.S.-based provider of financial products and services, set up its office in Beijing, China on December 11, 2007, after NASDAQ, the U.S stock exchange, approached to China capital market by opening an office in Beijing on Dec. 3, 2007.

As the parent company of New York Stock Exchange, NYSE Euronext has already had 36 clients from China on its list. As China is becoming more important capital market in the world, the company expects it can contract with more potential corporations in China.

(Source: Reuters)


**NASDAQ Opens Office in Beijing**

Looking for more Chinese potential clients and facilitating foreign investors to Chinese equities running well, NASDAQ set up its representative office on Dec. 3, 2007 in Beijing.

Since China government lifted its restriction on capitalizing overseas, many Chinese qualified companies issued their IPO in foreign stock markets. There are forty-nine Chinese enterprises listed in Hong Kong Stock in 2007 and raised funds of US $28.6 billion.

Many Chinese companies prefer to list in Hong Kong for its less strict corporate governance rules than the U.S. NASDAQ seems to step forward to face the competition from others, including Chinese domestic stock markets in Shenzhen and Shanghai respectively.

(Source: Reuters)

**Citigroup Plans its First Venture in China**

Citigroup Inc. will set up its first investment banking venture in Henan, China, jointly with Central China Securities.

The new venture in which the U.S. bank is optimistically expected to have 33% stakes, will involve China's domestic investment banking business and also the country's securities business.

In spite of its loss from the U.S. subprime loan crisis and the downsizing of 4,200 employees, Citigroup remains a large and attractive company that will remain profitable through the Asia market.

(Source: Reuters)

**Morgan Stanley Advances its Presence in China**

Morgan Stanley intends to enter into a strategic cooperation agreement with Shanghai-based China Fortune Securities to build up another investment banking joint venture.

If both of them could finalize the agreement with the approval from local government, Morgan Stanley would become the first foreign bank to have two investment banking ventures in China.

Besides Morgan Stanley, many western banks have already eyed on China's growing capital market; Goldman Sachs launched its presence by securing 33 percent stake in a venture formed with Gao Hua Securities in 2004, while UBS approached to Beijing Securities this year.

(Source: Reuters)

**China Carmakers Aim at U.S. Auto Market**

China carmakers begin to reach U.S market as the country's automotives industry matures.

Several Chinese auto companies like BYD Auto, Chamco, display their products at the annual Detroit auto show.

Despite the global competition in the U.S., Chinese companies make a move toward the U.S. market by offering products that are not line with the world’s premiers.

"Aside from the price advantage, Chinese carmakers also focus the quality and designing of the products by keeping on studying international marketing," said Shufu Li, chairman of Zhejiang Geely Holding Group, one of the Chinese domestic automobile manufacturers.

(Source: BBC News)

**China's Yingli to Research More into U.S. Manufacturing**

Yingli Green Energy Holding Co. Ltd., a vertically integrated photovoltaic (PV) product manufacturer in China, plans to invest US$ 20-30 million in a U.S. manufacturing plant to expand its overseas sales.
"The plant will mainly produce solar modules, which will enhance its overall capacity to reach 600 MW in 2009," said it's Chief Financial Officer Bryan Li. "The investment will cover the manufacturing equipment, land and other facilities," Li added.

Based in Baoding, China, Yingli made its U.S. stock market debut last June and is now using the cash raised to increase capacity.

(Source: Reuters)

**Best Buy Sticks to its China Expansion**

Best Buy, the top-ranked U.S. electronics retailer, announced on this Thursday that it will keep working on its business strategy in China even though its China chairman and vice president Lu Weimin has resigned from the company.

The company plans to open two Best Buy stores each year in the country.

Best Buy, which opened its first China store in Shanghai on January, 2007, would open another shop in the city's financial hub soon.

(Source: Reuters)

**Burger King Expands in Asia and China**

Burger King, an U.S fast food manufacturing and retailing corporation, is eyeing Asia to be its top priority for its global expansion strategy.

The company recently detailed its strategy publicly in Hong Kong, "Asia, certainly in the next two or three years, will become the most important and fastest-growing piece of our business. In five years, China will be a big part of Asia, but so will Japan, so will Hong Kong and so will Indonesia."

The company has 11,290 outlets worldwide at present, which 200 are located in Asia where McDonald’s and KFC prevail.

(Source: Reuters)

**Doing Business in China**

**Annual Business License Renewals in China**

All foreign invested enterprises (FIEs) in China are required to submit a range of other documents and licenses to the authorities for checking and renewal if necessary. The so-called annual inspection is a bureaucratic process, but also a good time to take stock and ensure all your paperwork is up to date.

Luckily, the authorities do try to make it is easy as possible for you - you can either submit your details via the internet, or by going to an office where officials from a total of seven different agencies come together temporarily for this process.

These seven agencies are as followed:

- Bureau of Commerce (BOCOM)
- Administration of Industry and Commerce (AIC)
- Economic Committee
- Financial Bureau
- State Administration of Taxation (SAT)
- State Administration of Foreign Exchange (SAFE)
- China Customs

The procedure for the annual inspection for FIEs is described as below.

Every company needs to apply for and obtain the annual inspection documents from the same office of the State Administration for Industry and Commerce from which they have obtained their original business license. They must also download the annual inspection report form from the relevant provincial and municipal SAIC website.

Companies must also select one of two options to apply for annual inspection – they can apply either through the internet or by taking their documentation directly to the authorities.

As we have mentioned, there are seven sets of documentation you need to bring together – one for each authority – as follows. Note that all photocopied documents need to be stamped with the corporate seal.

The Bureau of Commerce (BOCOM)

- original of annual inspection report
- original and photocopy of approval certificates of foreign invested enterprises
- audit report issued by CPA firm, or photocopy of capital verification report for enterprises set up after July 1, 2005
- for enterprises in encouraged industries, photocopy of encouraged project confirmation certificate
- for advanced technology enterprises and export enterprises, photocopies of certificates for these two kinds of enterprises

The Administration of Industry and Commerce (AIC)

- photocopy of annual inspection report
- audit report issued by CPA firm, or photocopy of capital verification report for enterprises set up after July 1, 2005 and annual financial report as above
China to Further Open its Financial Market to Foreign Investors

"Foreign firms may approach to China domestic securities ventures under the 33.33 percent limit on foreign holdings," said the Chinese government on December 13, 2007.

According to a fact sheet issued by China on Dec. 13, 2007, such joint ventures may carry out brokerage and wealth management business, as well as underwrite bonds and local currency A-share listings in primary markets.

The new issuance also provides that the approval on the qualification of foreign institutions will be less restricted than before; foreign firms, including banks, may issue debt and shares in the domestic market to raise fund for their expansions in China.

(Source: Reuters)

Shenzhen Facts

- Shenzhen’s GDP in 2007 increases 14.7% over 2006 and reaches US$ 94 billion, ranking 4th among mainland China cities.
- Shenzhen’s GDP per capita in 2007 exceeds US$ 10,628; Disposable income per capita reaches US$ 3,454, increasing 10.2%.
- Shenzhen’s total import and export in 2007 exceeds US$ 287.5 billion, ranking 1st in China.
- Total throughput of Shenzhen Port in 2007 exceeds 21 million TEU, increasing 14.2%; Total throughput of Shenzhen Airport in 2007 exceeds 20.6 million passengers, increasing 12.3%.
- Total tourists visiting Shenzhen in 2007 exceeds 25.6 million, increasing 10.5%.