

China Business Advisory

2008 Issue 3

Dec 2008



TABLE OF CONTENTS

1. China Update:
 - China's Economic Presents for Christmas
2. SB Highlight of the Month
 - Merger and Acquisition Services
 - Business Matching Opportunities
 - Client Testimonials

China's Economic Presents for Christmas

China announced additional stimulus measures just in time for Christmas:

- Special assistance for Hong Kong, Macau & Taiwan
- Tariff rate adjustments
- A fifth round of interest rate cuts, and
- New incentive packages for nine hardest-hit industries.

Hong Kong Assistance

The top priority is to promote measures to strengthen economic cooperation between Hong Kong and the mainland. *"The motherland will always be Hong Kong's strong backstop,"* Chinese Premier Wen Jiabao was quoted by China News Service as saying during a recent visit to Hong Kong and Macau. *"The central government will spare no effort in supporting the special administrative region's government and the economic stability of Hong Kong to maintain its economic development and prosperity."*

China's new "14 Point Program" which to date has been spelled out only in broad strokes, will include the following:

- **Trade settlement of RMB in Hong Kong.** *"This will be a first step",* said Hang Seng Bank economist Irina Fan. *"It's all part of the bigger picture of building Hong Kong as a settlement center for RMB and allowing RMB business outside of mainland China."*
- **Improvements to Hong Kong's basic infrastructure,** including speeding up construction of the Hong Kong-Zhuhai-Macao Bridge and the high-speed train connecting Hong Kong and Guangzhou.
- **Strengthened economic cooperation between Hong Kong and the Pearl River Delta region,** by encouraging Hong Kong firms to participate in the construction of Shenzhen railway and other projects within neighboring Guangdong Province.
- **New incentives for small and medium-sized enterprises (SMEs)** will include increased tax rebates on exports and other assistance to encourage increased domestic sales. Guarantees will also be given to help SMEs, which has been hit the hardest by declining export sales, as incentives for capital expenditures to retool for domestic China sales.
- **China's new Individual visit scheme** will allow Shenzhen's large non-resident population to obtain Hong Kong travel permits. About half of Hong Kong's overseas visitors originate from China – and spending by Chinese visitors accounted for 20 percent of Hong Kong's overall retail sales in 2007. China is also formulating a plan to allow short-term auto travel between Hong Kong and China without requiring dual license plates.
- **Other incentives** include a promise to open more mainland services to Hong Kong and to ensure the safe and stable supply of food, water, electricity and natural gas.

Macau and Taiwan Assistance

President Hu Jintao, noting Macao's *"remarkable progress ... over the past nine years"*, also pledged supportive measures to help Macao *"overcome difficulties and realize moderately diversified economic development."* China also pledged (Dec 22) nearly US\$19 billion worth of aid to Taiwanese firms doing business on the mainland.

Tariff Rate Adjustments

The Ministry of Finance (Dec 19) announced decreased import tariff rates on more than 670 items including energy-related products such as coal, fuel oil and stone materials, raw materials, hi-tech products, machinery parts and household appliances. At the same time, higher export tariffs were announced for high energy-consuming and pollution-producing sectors by next year as part of China's initiative to control energy consumption and pollutant emissions.

Interest Rate Cut

China cut the benchmark one-year lending and saving interest rates to 5.31 percent and 2.25 percent, respectively, effective December 22, the fifth since September. Along with the rates cut, the reserve requirement for the country's commercial banks was cut by half of a percentage point, which means the lenders will have more money for lending.

Special Industry Support

China also announced a special package to revive nine industries that have been hardest hit by the global crisis, including light industry, textile, steel, non-ferrous metal, automobile, petrochemical, ship-making, electronics and telecommunications.

"China will resort to tariff and trade policies to facilitate export of labour-intensive and core technology-supported industries, and encourage domestic companies to conduct overseas merger and acquisition," Li Yizhong, Minister for Industry and Information Technology, said.

What Does It All Mean

At a time when the news from the West continues to get worse, it may be comforting to believe that the China economy "must" be in the same boat. The truth is that the China economy is the strongest in the world with a large cash surplus and that it is committed to retool China's economy to enhance its infrastructure and provide continued employment for its huge workforce, as it retools to transition from the world's exporter to domestic consumer. It is doing this while continuing to buy US Treasury Bonds, to provide funding for US's economic bail-out policies.

As reported in www.china-briefing.com (Dec 24), factory closures in China have been principally of "businesses involved in low end manufacturing with high labor pools and large export markets" mostly in Guangdong, and to a lesser extent in Shanghai and the Yangtze River Delta. "However, these are mainly SME style operations and are not significant financial investors in the PRC, although they do possess sizable labor pools."

Businesses in China that are manufacturing for sale to the domestic market remain very strong. China's National Bureau of Statistics reported that retail sales rose 21.9 percent to US\$ 1.5 trillion in the first 11 months of 2008. Retail sales in China have risen quickly over the past three decades. In 1978, sales amounted to US\$ 22.7 billion. Those figures jumped to US\$160.4 billion in 1992, US\$ 728 billion in 2003 and US\$ 1.3 trillion in 2007.

In other words, the world may be heading for the deepest recession since the Great Depression, but China appears to have things under control. Maybe companies in other countries should think imports - not exports.

SB Highlight of the Month

Mergers and Acquisitions

Despite the discouraging global economic situation and continuing weakening forecasts for the coming year, smart investors are actively looking for value-for-money investments by taking advantages of lower valuations and more relaxed regulatory environment. Whether companies are looking to invest, expand, revitalize or relinquish their business, Sino-Bridge has the strategic connections, expertise and people to help you through the entire process, from start to finish.

For more information, please contact: leochan@amdfk-sinobridge.com

Business Matching Opportunity with a Chinese Manufacturer

The economic tsunami has not scared off companies in China to explore overseas marketing opportunities. Our client, a market leader in producing state-of-the-art water meters in China for home, commercial, industrial and agricultural uses has engaged Sino-Bridge as their international marketing consultant. The company, with the help of Sino-Bridge, will be participating at 2009 Water Energy Technology Environment Exhibition (WETEX) in March 10-12 in Dubai, the largest trade fair of its kind. We are now helping the client to actively search for cooperation opportunities in the areas of OEM, ODM, or distributorship in different countries and would like to open up dialog with interested parties before the trade show.

For more details, send email inquiry to joyceluo@amdfk-sinobridge.com

Client Testimonials

Thanks to our clients' wonderful support, our new web page "Testimonials" on www.amdfk-sinobridge.com goes live this week. Your encouragement is the best motivation that propels us forward to staying ahead of your needs.