

# China Business News in Brief

## Motorola Closes Mobile Phone Plant

Motorola closed its mobile phone joint venture in Hangzhou in March, the company said in a statement. The Motorola Cellular Equipment Co Ltd is a joint venture between the U.S.-based mobile phone maker and Hangzhou Eastern Communications. The employees will not lose their jobs. "The workers will be directly transferred to the production line of TV set-top boxes," spokesperson Chen Lei said. Motorola's mobile phone sales plunged 53% year-on-year in 2008 to 19.2 million handsets. Motorola has recently bought two set-top box companies in Hangzhou, and plans to double production in China to two million units.

## H&M Announces Beijing Store Debut

Swedish fashion retailer H&M plans to open five new stores in Beijing, Shanghai, and Hong Kong this year. H&M's first flagship Beijing store will open at

the new Qianmen development south of Tiananmen Square in April, and a second store will open one week later in the Xidan district. As part of its plan to open 225 new stores worldwide this year, H&M will open two additional stores in Shanghai and one in Hong Kong, where its first Chinese store opened in 2007. H&M currently has 13 stores in Hong Kong and China.

## Coca-Cola Announces Investment And Loses Takeover Battle

Coca-Cola has said it will invest more than USD 2 billion in China over the next three years to tap potential market growth. The investment will be channeled into new bottling plants and distribution infrastructure and marketing, the company said in a statement. China is currently Coca-Cola's third-largest market worldwide, but its fastest growing. In March, China's Ministry of Commerce said it has rejected Coca Cola's proposal to acquire China Huiyuan Juice Group,

the country's largest juice producer, for USD 2.4 billion. The government argued the deal would "restrict competition in the juice drinks market, force consumers to accept products with higher prices and reduce the types of products available."

## HSBC Expands In China

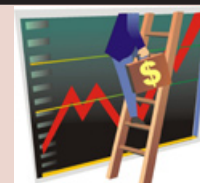
UK-based bank HSBC said it has plans to increase the number of employees from 5,500 to 6,500 and add 21 offices to its network of 79 branches. "We have great confidence in China's ability to weather the financial crisis and achieve continued economic growth," said Richard Yorke, President and Chief Executive Officer of HSBC Bank China. In 2008, HSBC China increased yuan-denominated lending by 14% while its customer deposits grew by 28%.

## Siemens Wins EUR 750 Million Contract

Industrial conglomerate Siemens has won a EUR 750 million contract with Tangshan Railway Vehicles, Changchun Railway Vehicles and the Chinese Academy of Railways. The German company will supply components including electrical equipment and chassis for 100 trains that will run on the new Beijing-Shanghai express railway.

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China Still Grows



Companies Cut Jobs



Business News

## Legal And Economic News

### Venture Capital Investments Slow

Private equity and venture capital investments in China have slowed considerably in the first two months of 2009, a new report by market research company Zero2IPO shows. In January and February, private equity and venture capital firms invested USD 419 million in 11 companies, the report said. In the first quarter in 2008, USD 3.62 billion was invested in 152 companies.



### Exports & Imports Fall Over 20%

China saw its exports and imports fall more than 20% resulting in a trade surplus of less than USD 5 billion, the General Administration of Customs said. February's exports fell 25.7% from a year earlier to USD 64.9 billion and imports dropped 24.1% to USD 60.1 billion, according to the newest governmental figures. In January, exports fell 17.5% and imports decreased 43.1%. China's trade surplus in February

totaled USD 4.84 billion, which is a sharp drop from the USD 39.1 billion registered in January.

### CIC Considers Overseas Investments

For the China Investment Corp, the current climate presents a "good opportunity" to invest in foreign companies, state media quotes a top CIC official. "To some extent, the current international situation gives the CIC a good opportunity," said CIC deputy General Manager Wang Jianxi. Wang did not mention whether the sovereign wealth fund already has identified potential targets. "The major concern is when and how we should take actions," he was quoted as saying during a panel discussion of the annual session of the National Committee of the Chinese People's Political Consultative Conference. The fund invested over USD 3 billion in U.S. asset management group Blackstone and USD 5 billion in Morgan Stanley in 2007. Both investments have suffered major losses.

### China Remains Top Auto Market

For the first time in eight months, vehicles sales topped 800,000 in February, cementing China's rank as top automobile market in the world. A total of 827,600 vehicles were sold in February, up 24.72% year-on-year, the China Association of Automobile Manufactur-

ers said. Vehicle output rose 23.08% to 807,900 units. Passenger car sales in February rose 24.23% from a year earlier to 607,300 units, the association said. The government has offered several benefits to car buyers including scrapping a part of the road fees and halving the sales tax on small vehicles. In January, China overtook the United States for the first time as the largest automobile market in the world in terms of units sold.

### Shanghai Metro To Count 13 Lines By 2012

Shanghai's metro system will cover 500 km of track by 2012, with nearly 350 stations citywide. A further 300 km of underground tracks will begin construction from 2012. The rapid expansion of the subway system is evident across Shanghai, as stations and tunnels are being built throughout the commercial and residential areas. The municipal government's stated objective is to have 13 lines in operation by 2012, with "a metro station every 900 meters in urban areas." Currently, the Shanghai metro counts 162 stations and 234 km of track. Both of Shanghai's airports are "expected to be directly connected to Metro Line 2 in time for next year's World Expo."

### Chinese Urban Unemployment Rises

China's urban unemployment rate is expected to rise to 4.6% in 2009, according to the Ministry of Human Resources and Social Security. In 2007, unemployment in urban areas was four per cent. The governmental figures do not cover rural unemployment and the 20 million migrant workers that reportedly lost their job in the last months.

## Contact The CBC Office Nearest To You:

### For Europe and the United States

CBC Marketing Research & Business Consulting  
Marktgassee 32  
3011 Bern  
Switzerland

Tel: (+41) 31 560 3000  
Fax: (+41) 31 312 5886  
Email: cbc@cbcnow.com

### For Japan

CBC Creative Assist  
HIK Building 1F 4-10-8  
Takadanobaba Shinjuku-ku  
Tokyo 168-0075  
Japan  
Tel: (+86) 21 5155 2000  
Fax: (+86) 21 5155 2099  
Email: cbc@cbcnow.com

### For India

CBC India Pvt Ltd  
B-806 Sagar Tech Plaza Sakinaka Junction  
Andheri Kurla Road Andheri (East)  
400072 Mumbai  
India  
Tel: (+91) 22 6770 3718  
Fax: (+91) 22 6645 9842  
Email: cbc@cbcnow.com

### For China, Beijing

CBC Marketing Research & Business Consulting  
512 New World Taihua Office Tower  
5-5 Chongwenmenwai Dajie  
100062 Beijing  
China

Tel: (+86) 10 6709 1622  
Fax: (+86) 10 6709 1633  
Email: cbc@cbcnow.com

### For China, Shanghai

CBC Marketing Research & Business Consulting  
CBC Building, 49a Wuyi Road  
200050 Shanghai  
China

Tel: (+86) 21 5155 2000  
Fax: (+86) 21 5155 2099  
Email: cbc@cbcnow.com

### For China, Guangzhou

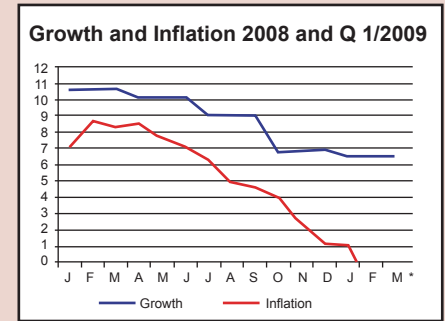
CBC Marketing Research & Business Consulting  
Room 1901, Unit 10, 19th Floor  
Ganglü International Center CTS Center  
219 Zhongshanwu Road  
510030 Guangzhou  
China

Tel: (+86) 20 2227 3200  
Fax: (+86) 20 2227 3201  
Email: cbc@cbcnow.com



# Stimulus Package Ensures Growth

Since fall 2008, China sees economic growth shrinking as exports and imports dive and FDI contracts. The government announced a USD 586 billion stimulus package to hold growth on an 'acceptable level'. On several occasions, the government had to revise its growth expectations for 2009 and eventually said it targets 8% growth this year.



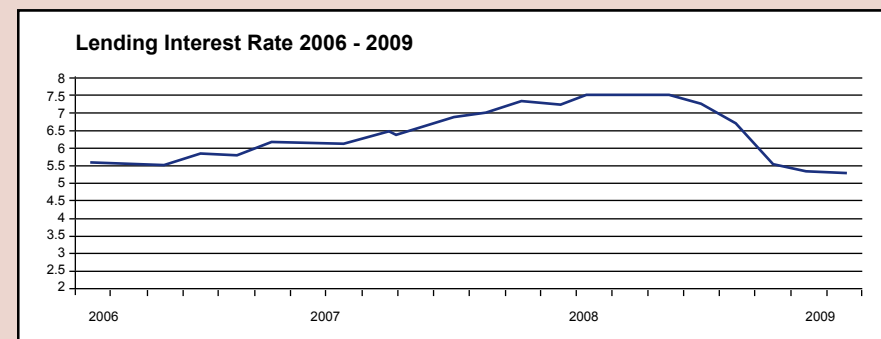
\*Prediction for March 2009

## Predictions for 2009

The worldwide economic downturn has not only cut growth to almost half but also eliminated inflation. The Chinese government cut interest rates very aggressively in the last months from almost 7.5% to 5.31% within four months.

2009 is the year of the ox. According to the Chinese horoscope, the ox is the sign of prosperity achieved through fortitude and hard work. President Hu Jintao and Premier Wen Jiabao know that it takes a lot of work to boost the economy and have therefore announced a USD 586 billion (RMB 4 trillion) stimulus package that is spent as follows:

- 45%, railways, highways, airports, electricity networks



- 25%, rebuilding projects in earth quake-hit areas
- 9%, agriculture
- 9%, eco-friendly environment development
- 7%, dwellings for low-income people
- 4%, technological innovation and structural adjustment
- 1%, healthcare, culture, education and training

During the National People's Congress in Beijing in March, Premier Wen Jiabao disappointed some economists as he said China does not plan to enhance its stimulus package. For 2009, the government announced its highest budget deficit ever, a RMB 950 billion (USD 139 billion), to boost spending and cushion the impact of the economic slowdown. China could spend much more. The USD 950 billion are a mere 3% of its GDP. The United States spend 12% of its GDP figure.

"We are ready to put forward new stimulus policies at any time," Wen said in March. The question is probably not if but when the Chinese government is going to announce a new package. "One thing politicians need to keep in mind is that any stimulus takes three to six months to become effective," Chinese newswires quoted an economist working for a large French bank. There is indeed the fear that the government is too prudent with its investments. On the other hand, Beijing knows that it has done a much better job than most (developed) countries in the past years by controlling its financial markets and a gradual opening up policy.

## China Statistics and Numbers

- The Chinese government has reportedly set aside RMB 20 billion to help farmers buy home appliances as part of its overall plan to boost domestic consumption.

- Poland's Secretary of State Slawomir Nowak said in Shanghai that his country will cut the budget for the 2010 Expo pavilion by 70%. Poland originally allocated RMB 222.1 million for the event, but now wants only to spend RMB 65 million.

- Some 992 listed Chinese companies expect "steep declines or losses in revenue" for 2009, state media reports. Total net profits of the companies are predicted to fall 43.74% this year.

- Foreign banks in Shanghai reported a 230% increase in after-tax profits in 2008, the China Banking Regulatory Commission said. Total profits for the companies stood at RMB 9 billion.

- Chinese banks issued RMB 1.62 trillion in new loans in January, up 101% year-on-year, the Ministry of Finance said. Economists say this sharp rise in loans takes off the pressure to further cut interest rates.

## Foreign Companies Cut Jobs In China

*China may still be the best performing major economy in the world, but this has not prevented domestic and foreign companies to lay off millions of workers throughout the country.*

Early this year, the government had to announce that 20 million or one out of seven migrant workers, is out of work. The weakest in the workforce are hit the hardest and provincial and city authorities use plenty of money from the stimulus packages to keep some of these people busy with cleaning and maintenance jobs. Shanghai looks even cleaner nowadays than it already did before the crisis, outshining most Western cities. The government will also try to increase job opportunities by ramping up the development of agriculture and rural infrastructure projects.

Foreign companies, which used to praise China for its low labor costs and promising domestic market, had to rethink their approach. Dell, Logitech, Intel, Motorola and Electrolux all dismissed workers. In late March, Nike said it halts production at three shoes factories in China (and one in Vietnam) as consumer demand is falling. The American company works with 180 apparel and footwear factories in China, employing some 200,000 people throughout the country.

Not only production is dropping. Service oriented firms such as Maersk, AOL, 3i and Ernst&Young are among the many that recently announced dismissals and office closures.

Chinese companies feel the heat, too. In southern China's Guangdong province, an estimated 62,000 export-oriented companies closed down in 2008. Chinese high-tech companies including Suntech and Lenovo also announced mass layoffs in the last months.

## 27% Of Foreign Firms Lay Off Workers

A more accurate picture provides a survey by Fesco, a state-owned employment firm, which revealed that 27% of 356 polled foreign firms have decided to cut jobs in China. "China has never experienced a mass layoff scenario of the type it is experiencing now," said Susan Munro, a labor expert at law firm O'Melveny & Myers. More unemployment means the risk of social unrest increases. But it also means that salaries for blue collar jobs decline and more people are willing to accept a pay and working conditions that do not meet the standards of the labor law.



## In The News

### Swiss Companies Remain Optimistic

A survey by the Swiss Chamber of Commerce found that Swiss companies in China remain confident for 2009. "Two thirds of the respondents are confident or very confident for 2009 and 78% expect successful operations in the coming five years", says Christian Guertler, President of SwissCham Shanghai. 6% anticipate smaller market shares while 70% expect to grow at a faster pace than their markets. Although rising labor costs are a top concern, only few companies are planning to move operations to places with lower labor costs. Not surprisingly, the global economic slowdown (76.3%) is the primary concern. Finding enough suitable talent is another challenge.

## Core Business of CBC

### Market Research

CBC Marketing Research uses a variety of quantitative and qualitative methodologies ranging from traditional focus groups and in-depth interviews to CATI surveys and internet-based research.

#### Quantitative Research:

- Telephone interviews (CATI)
- Personal interviews (CAPI)
- Street intercept interviews
- Central location testing
- Online research
- Mystery shopping
- Car clinic

#### Qualitative Research:

- Focus groups

- Mini focus groups
- In-depth interviews

#### Other:

- Desk research
- Retail research

### Business Consulting

CBC Business Consulting helps you to successfully setup your company and find the right partners for your expansion in China. We also provide feasibility and industry studies and offer sourcing and office-in-office services.

- Market entry strategies
- Industry studies
- Location evaluation
- Partner evaluation

- Company registrations
- Feasibility studies

### Executive Search

CBC Executive Search works with a large number of companies to meet their talent and executive needs in China. We directly approach all our highly educated and experienced candidates working in different business sectors including the following.

- Automobile
- Chemicals
- Finance
- IT
- Healthcare
- Retail
- Textile