UNITED STATES OF AMERICA-CHINA CHAMBER OF COMMERCE | OCTOBER 2011

China Alert

55 West Monroe Street, Suite 630, Chicago, IL 60603 | Tel: (312) 368-9911 | Fax: (312) 368-9922 | E-mail: info@usccc.org
Siva Yam, CPA, CFA, President | Mai Hoang, Executive Director | Philip Wong, Esq., Legal Counsel
China Alert Editor: Paul Nash, pnash@usccc.org | Co-Editor: Philip Wong, Esq.

Inside This Issue

Announcement

We have updated our Membership Directory, which is available primarily to our members. If you are a member and have not received a copy, please contact our office. In addition, our presentation from recent conferences, titled "The Next Gold Rush for U.S. Companies and Professionals", is now available to the public. If you are interested in receiving a copy, please download an information form from our website (www.usccc.org), complete it and return it to us. We will send you a copy and put you on our mailing list. We intend to update the information contained in this presentation on a regular basis. As always, we welcome your comments and suggestions.

Message from the President

"Companies in the basic manufacturing sector will face enormous challenges over the next few years."

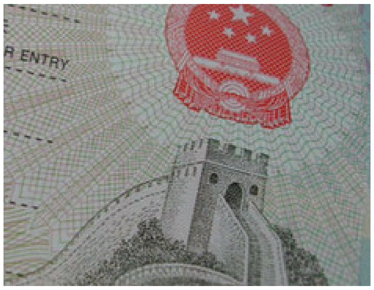
Since 1994 our organization has built itself on successfully helping U.S. companies to stay competitive in this globalized marketplace, with a particular emphasis on the manufacturing sector. Over the past 12 months, we have witnessed many changes that have had a profound effect on the way U.S. and Chinese companies conduct business together.

From our perspective, companies engaged in basic manufacturing will face enormous challenges over the next few years. This is true not only for U.S. companies but also for their Chinese counterparts. Many Chinese manufacturers today are struggling and the sector is shedding jobs at a rapid clip. Conditions in China are growing less favourable to basic manufacturing. Inflation is over 6 percent, wages are increasing, the worker-benefit system is becoming more cumbersome, the RMB is appreciating, the population is aging, and the nation's demographic structure is shifting, in large measure as the result of the one-child policy. Many low value-added manufacturing jobs are migrating to other developing countries such as Vietnam and Indonesia, while some higher value-added jobs are returning to the U.S. As India and Brazil aggressively expand their economies through various incentive programs aimed at attracting FDI to their manufacturing sectors, their capacity will continue to expand and, in time, reach excess.

We strongly believe that manufacturing is vital to America's prosperity. The USCCC is committed to assisting U.S. companies in understanding its global dynamics and remain competitive in a rapidly changing environment. In many respects, doing business in China today is not the same as it was five years ago, or even one year ago. We hope that you will join us for an exciting range of new events and educational programs exploring these changes that we have planned for the next few months and into 2012.

With regards,
Siva Yam, CPA, CFA
President, United States of America-China Chamber of Commerce

Visa and Passport



<u>Note:</u> The Chinese Consulate will be closed on Monday October 10th for Columbus Day. Please arrange to send us your visa application materials accordingly.

USCCC offers U.S. passport expediting services, including renewal, replacement and the addition of visa pages. We handle visa applications for the following countries:

- China
- Vietnam
- India
- Korea
- Brazil

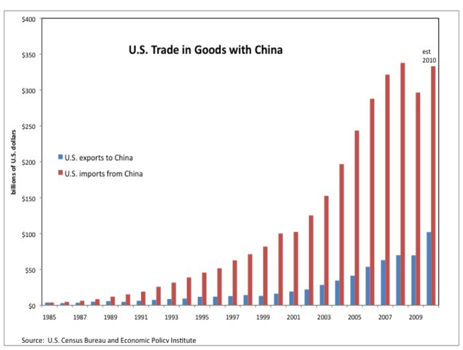
Expedited service as fast as 24 hours or, in special cases, same day.

We can save you time and expense, reduce unnecessary paper work and minimize the risk of loss due to shipping and human error. *Please allow additional lead time for 2nd passports or if you are traveling to more than one country and require multiple visas.* ***General Members receive free visa processing twice a year at no cost (excluding consular fees).***

** We can also process the authentication of documents for use in China.*

Please contact our office directly by phone at 312-368-9911, or e-mail at info@usccc.org if you have any questions.

Trade & Investment News



U.S. Trade in Goods with China.

In the first half of 2011, China's imports & exports totaled US$1703.67 billion with a year-on-year growth of 25.8 percent. China's exports were US$874.3 billion and its imports were US$829.37 billion, up by 24 percent and 27.6 percent respectively. In June, China's imports & exports totaled US$301.69 billion with a year-on-year growth of 18.5 percent. China's exports were US$161.98 billion and its imports were US$139.71 billion, up by 17.9 percent and 19.3 percent respectively.

Chinese investors made direct investment in 1,613 overseas enterprises in 110 countries and regions from January to May, 2011. Total non-financial direct investment overseas amounted to US$20.35 billion.

Foreign direct investment (FDI) in China rose 11.1 percent year-on-year in August, following a 19.8 percent expansion in July. Net FDI totaled US$8.45 billion in August. From January to August, 2011, inbound flows rose 17.7 percent to US$77.63 billion.

Starting on October 15th, all foreign nationals working in China will be subject to a *social insurance tax*. Employees will be taxed 11 percent of their salary, while employers will contribute an additional 37 percent. The tax is intended to fund retirement benefits, medical insurance, worker's compensation, unemployment insurance and maternity insurance for foreign workers.

110th China Import and Export Fair

Please contact our office if you plan on attending the autumn session of the renowned Canton Fair between **October 15 and November 4, 2011**. The Fair is the largest and most comprehensive trade-fair in China, with the longest history, best variety of exhibitors and biggest turnover in China.

Upcoming Events

12th Annual U.S.-China Trade Conference

Monday, November 14, 2011, to Tuesday, November 15, 2011

Please save the dates for our Annual U.S.-China Trade Conference: "Leveraging China in this New Economic Order." To be held at the Chicago Marriott Downtown.

This year marks the 12th anniversary of our popular annual Conference, which aims to help U.S. companies understand and capitalize on the opportunities presented by China. Despite the global economic slowdown, China has reported impressive growth, largely as the result of fixed investment. China is now the fastest growing country for U.S. exports.

This will be a comprehensive trade conference, including:

- Dialog sessions with three panelists in Q&A format
- Breakout sessions:
  - Manufacturing
  - Consumer Products
  - Healthcare and Life Science
- More breakout sessions and networking opportunities
- Special sessions on selling to China: with topics such as "Social Marketing"
- "Case Studies" on topics including:
  - What have private company owners experienced in the last two years? What do they think about the future? Have U.S. companies changed their focus?
  - What are the risks/rewards of selling technologies to China?
  - Is China buying into the U.S.?
  - What impact is social media having on the Chinese consumer?
  - What are the recent trends in trade and customs, tax and accounting, and how are these impacting U.S.-China business?

"This year marks the 12th anniversary of our popular annual U.S.-China Trade Conference, which aims to help U.S. companies understand and capitalize on the opportunities presented by China."

The Chicago Marriott Downtown has reserved a block of rooms available for conference participants at a special rate of $189 per night. Please contact the hotel directly at (800) 228-9290 or (312) 836-0100 as soon as possible and be sure to mention that you are attending an event hosted by U.S.-China Chamber of Commerce when reserving a room.

To register online, access our web site at www.usccc.org. Click on "Event", then click on "Twelfth Annual US-China Trade Conference" and complete the registration form. For more details, please contact Mai Hoang at 312-368-9029; or by e-mail at maihoang@usccc.org; or by fax at 312-368-9922.

Sponsors: Katten Muchin Rosenman LLP • Gruma Corporation • Plante and Moran, PLLC Briggs & Stratton • Wanxiang America Corporation • Institute of Executive Coaching and Leadership Delta Air Lines • The Jordan Company *Media Sponsors:* Manufacturers' News • China Daily • *Co-Organizer:* Precision Metal Forming Association

Upcoming Programs

- **Workshop:** *The Nuts and Bolts of Selling into China* (1st qtr 2012)
- **Cross-cultural and Language Workshop** *(1st qtr 2012*
- **Conference:** *Healthcare in China: The Next Gold Rush for U.S.* Companies (1st qtr 2012)
- **Roundtable Discussion (Web-Based):** *The Challenges Facing Today's Manufacturers (January 2012)*

USCCC and Member News

USCCC has entered into cooperative agreements with Nantong City (Jiangsu) and The Association for Exchange and Promotion of China's Bohai Gulf Region Entrepreneur Culture (AEPEC). It has also signed an agreement to develop wellness centers in China with the Tasly Group, a leading Chinese biopharmaceutical company. Tasly already plans to invest $40 million in a new, 430,000-square-foot production facility and training center for traditional Chinese medicine in the Shady Grove Life Sciences Center in Rockville.

USCCC co-hosted two investment forums with Changzhou in Atlanta and Detroit in May. A delegation of over 75 business and government leaders from Changzhou, led by the Honorable Han Jiuyun, Vice Mayor, met with over 500 business leaders. Several executives from leading U.S. companies with investments in Changzhou joined Mayor Han in making a presentation on their experience and the opportunities in Changzhou.

USCCC also hosted a delegation from Nanjing led by the Honorable Zheng Zeguang, Vice Mayor and former Secretary, Ministry of Foreign Affairs for North America and Oceania in July; and another from Dalian, led by The Honorable Xiao Shengfeng, Executive Vice Mayor in September. The USCCC joined a private reception for a visiting delegation led by The Honorable Chen Haibo, hosted by Lapmaster International LLC, a USCCC member.

Katten Muchin Rosenman LLP has announced that former Chicago Mayor Richard M. Daley has joined their law firm of more than 600 lawyers with offices in Chicago, New York, Los Angeles, Washington D.C., and Charlotte as well as an office in London and one with a license pending to open in Shanghai later this year. Mayor Daley, who joined Katten after 22 years as mayor and more than 40 years in government, will be Of Counsel to the firm and, in that role, will draw on his vast knowledge, experience and relationships globally to contribute to the continued growth of the firm.

Wanxiang Group's Dr. Lu Guanqiu, Chairman of the Board, paid a visit to the company's subsidiary, Universal Solar, in Rockford, IL, where it manufactures solar panels. As a part of President Barack Obama's "100,000 Strong" initiative, Wanxiang officials agreed to sponsor a number of Chicago High School students, selected by the City of Chicago, to a Summer internship at Wanxiang Polytechnic in Hangzhou to study Chinese as well as Clean Energy Science. Wanxiang America, headquartered in Elgin, IL, is the U.S. subsidiary of Wanxiang Group, one of the largest companies in China with $8 billion in revenues. It currently has 4,100 employees in the U.S. and over 45,000 worldwide.

Andrew Rice, USCCC Director, has been named Board Chairman (2011-2012) of The Association for Corporate Growth® (ACG) after serving as Vice Chairman. Since 1990, Andrew, SVP International Business at the Jordan Company ("TJC"), has helped coordinate over 45 wholly-owned start-up operations, joint ventures and acquisitions in China and other countries. The Jordan Company is a worldwide private equity leader in the middle market that has made over 80 acquisitions, JVs and Greenfield start-ups overseas. It is a leading global middle-market private equity firm. Together with its affiliates, TJC has sales of more than $7 billion worldwide with businesses in a variety of industries.

Tony Dickel, USCCC Director (Hong Kong), has become Hong Kong Chairman of The Institute of Executive Coaching (IEC). Established in 1999 as a centre of excellence for executive coaching in Australia and the Asia-Pacific, the IEC has trained over 2,500 coaches. Prior to establishing the IEC's Hong Kong office, Tony was founder and CEO of the ground-breaking MRI China Group, a leading multinational recruitment solutions, outsourcing talent management and talent market research organization employing more than 200 people across six countries in the region, with more than 100 in the mainland of China.

Chairman's Circle

Direct Supply, Inc.

Corporate Sponsors

Bunn-O-Matic Corporation

Brinks Hofer Gilson & Lione

Crescent Manufacturing Company

Del-Nat Tire Corporation

Elkay Manufacturing Company

Gold Coast Florida Regional Center

JNC Group

Han Feng Inc.

Navistar, Inc.

Ningbo Xuelong Group

RR Donnelley Print Solutions

Siemens Energy & Automation, LDA

Trust for Science Technology & Research

UOP - A Honeywell Company

Whiteco International

China's turning point is an opportunity for U.S. firms

By Siva Yam and Paul Nash

As the United States grapples with persistent economic uncertainty, China finds itself negotiating a difficult but anticipated turning point in its economic development model. Its dominant industrial base and market-share of global trade in basic, low-cost manufacturing is weakening.

Today, many Chinese manufacturers, who account for nearly half the country's GDP, are struggling. They are shedding jobs at a rapid clip as wages rise, the worker-benefit system becomes more cumbersome and the Chinese population ages. There is little cause to be optimistic about China's low-cost manufacturing sector in the face of a slowing global economy, rising trade protectionism in the West, and a consumer price inflation rate in China over 6 percent (well above the 4 percent targeted for 2011). Also, the RMB has been allowed to appreciate over 3 percent this year, reaching its highest level relative to the U.S. dollar in 17 years, while foreign governments keep up their pressure on China to revalue its currency further upward.

As a result, more low value-added manufacturing jobs are migrating to neighbouring developing countries such as Vietnam and Indonesia, and some higher value-added jobs are returning to the U.S.

The Chinese government recognizes that in order to sustain its annual growth target of 7 percent, which it considers vital to the nation's social development and stability, it has to press forward with a new round of economic restructuring. One of the primarily goals of this restructuring is to engineer a shift in the industrial base away from low-cost and low-skill export production towards more innovative, precision manufacturing. This is a daunting task, for hundreds of millions of Chinese migrant-workers, largely drawn from starkly less-prosperous rural areas, depend on basic factory jobs for income and advancement.

China wants to foster an environment conducive to this goal by encouraging the integration of science and technology into export manufacturing, which is turning increasingly to higher value-added products like mobile hand-sets, fuel-efficient automobiles, high-speed trains and commercial aircraft. China has increased its expenditure on R&D dramatically in recent years, targeting 2.2 percent of annual GDP. It is also stepping up its efforts to expand its educational capacity with notable success. China's quickly proliferating universities are now graduating more engineering and science students than their U.S. counterparts.

"Innovation", rather than "production", is the new catchword mandated by the government's 12th 5-year plan, which begins this year.

And while Chinese manufacturers are introducing new methods and ideas into production, they are also beefing up their supply chain capabilities. Policymakers, meanwhile, are actively trying to promote greater and more balanced domestic consumption, to check inflation and to lower local government debt. Nonetheless, concern and debate continue to mount over China's current imbalances in credit growth, fixed asset investment and income distribution, problems that put into question the sustainability of an economic "miracle" that has reduced the country's poverty rate from 53 percent in 1981 to 2.5 percent today.

How can American companies adjust to the changes taking place in China today and benefit from them? This is a fundamental question concerning the competitiveness of the U.S. economy, which also must remain innovative and flexible. When China emerged as the world's largest industrial producer (the so-called "factory of the world") over a decade ago, American firms found competitive advantages there and U.S. jobs were at stake. Capital transferred overseas at an astonishing rate and redundant American workers were slow, some would argue, to transition into higher value-added goods and services sectors.

While American investment in China has declined since the onset of the global financial crisis, there is little doubt that China will remain one of the most attractive foreign investment destinations for several years to come.

The Chinese market for U.S. goods and services, already the largest outside North America, is expanding. Many U.S. regions in 2010 experienced higher growth in exports to China than to any other country. This is consistent with the longer-term trend. Total U.S. exports to China from 2000 to 2010 increased 468 percent, from $16.2 billion to $91.9 billion, while U.S. exports to the rest of the world increased only 55 percent. Leading exports to China include electronics, agricultural products, chemicals, transportation equipment and machinery.

Continued on next page...

But the U.S. is falling behind in its share of imports into China. In 2000, imports from the U.S. represented 10 percent of all China's foreign imports, but this dropped to 7 percent in 2010. Japan, the European Union, South Korea and Taiwan rank ahead of the U.S. This is troubling considering the attractive resources, technology and agricultural goods and services that the U.S. has to offer to a country with such a large emerging middle-class. While still many times less than America's, China's per capita GDP is approaching that of the U.S. before the First World War.

China has a vested interest in the economic well-being of the United States. As the nation's largest foreign creditor, holding $1.2 trillion of Treasury debt, China is naturally concerned. It is attempting to move more quickly to facilitate improved economic and commercial ties with America, and to strengthen its commitment to a strategy of opening its markets to American companies and effectively utilizing foreign investment. Larger American companies clearly see opportunities. Coca-Cola, for instance, recently announced that the company and its bottling partners will invest $4 billion in China between 2012 and 2014.

The Opportunities for Small and Medium-sized U.S. Firms

Small and medium-sized U.S. companies, however, must become better attuned to emerging trends in China in order to take advantage of the world's second largest economy. The next "gold rush" for U.S. companies will come in areas such as precision, technology-based and high-value-added manufacturing, as well as in education and training, foods and agriculture.

Luxury goods (including yachts and private aircraft) will do well over the next 10 years as an ideology of symbolism overshadows the practicalities of success. However, entrepreneurs with foresight and patience should be prepared for a whole new market to develop as rich Chinese turn to intangibles that are spiritual, cultural and superstitious in nature, when luxury goods no longer satisfy the psychological needs of a more self-confident and self-probing middle-class.

Opportunities continue to exist for U.S. auto-parts companies with niche products, engineering capabilities and brand recognition. But these companies will have to move with a greater sense of urgency because the window is closing. The car industry will likely saturate quickly as China simply cannot accommodate a high level of traffic outside of remote rural areas. Many U.S. car and auto-parts manufacturers regard China as a "promised land" into which they can grow at an accelerating pace, which will probably not prove to be the case for all. American companies hold a competitive edge limited primarily to design and engineering, engine and transmission manufacture, and electronics.

Especially attractive opportunities will blossom in healthcare. China's healthcare industry offers tremendous potential for foreign investment and trade in goods and services. Chinese demand for high-quality healthcare is burgeoning in tandem with the growing wealth of the nation's middle and upper-classes. Nearly 100 million Chinese, for instance, now suffer from diabetes, currently representing an annual expenditure of $6.9 billion. According to the International Diabetes Federation, the number of diabetics in China is projected to balloon to half a billion by 2030, largely the result of rapid urbanization, changing diets and increasingly sedentary lifestyles.

Faced with increasing strains on the public healthcare system, which cannot handle a growing and aging population, the Chinese government has, of necessity, promulgated a series of policies aimed at stepping up foreign involvement. The possibilities for American investment and know-how are significant in an industry estimated at over $300 billion.

Rather than viewing China's growth and competitiveness as a threat, American firms can look to China as a strategic partner and to its changing economic landscape as a source of fresh opportunities. American exports to China last year amounted to more than $100 billion worth of goods and services, supporting hundreds of thousands of U.S. jobs and boosting the profitability of hundreds of American companies. The opportunities for trade and investment will only increase in the coming years for small and medium-sized companies that understand how China is changing and are prepared to respond.

For further information or comments, please contact:
U.S.-China Chamber of Commerce
55 West Monroe Street, Suite 630, Chicago, IL 60603 | Tel: (312) 368-9911 | Fax: (312) 368-9922 E-mail: info@usccc.org