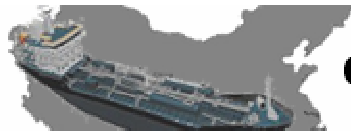




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China White Paper

**Doing Business in
China**

2011

www.universalcargo.com

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Doing Business in CHINA by Devin Burke

The Following is a study on doing business in China based upon several books I have read and 26 plus years of doing business with Chinese, and 17 years with the country of China. The two most recent books being CHINA UNCOVERED by Jonathan Story and CHINA Inside out by Bill Dodson. So because of what my wife calls my propensity for long term (or short term) memory loss due to either being in my fifties with about 10 gigabytes worth of memories crammed into a 1 gig brain, or that concussion I suffered years back learning how to snowboard, (don't try it without a helmet like I did) most of what is talked about here is from these two wonderful books that I highly recommend picking up on Amazon.

CHINA NOW and GOING FORWARD

Chinese citizens have freedoms now that anybody 45 or older living in China would never have imagined in 1980 or before. People can now start their own business, buy their own home, car, choose where to send their children to school, or even send their child abroad for study. The media, Television, Newspapers, Magazines, cable TV, Movies are almost the same as in the West. It is mind numbing. It is ironic that China actually has more freedoms than many other countries in the world. Who would have thought this 20 years ago?

Of course the Chinese Govt still is in the censoring business, and will aggressively target anything that is seditious, or blatantly coming against the Govt or Ruling Party. However, as long as you know what not to say, usually opinions can be expressed quite freely. It is actually estimated that less than 5% of the population is a true communist.

Right now the Ruling party has pretty much lost control of the freedom they have released upon a society that was living under heavy oppression for decades. If something happens anywhere where there is corruption revealed, or abuses brought upon citizens either from a corrupt official or someone that holds power, the first reaction is to try and cover it up with the help of the local authorities. However the days where officials can get away with rape, beatings, graft, etc, without being caught are over. Because it just takes a few angry citizens to start posting online on a Bulletin Board System (BBS), or a Forum on sites like SINA.COM, QQ.COM, PEOPLE.COM, TIANYA.COM or NETEASE.COM or the Cyberspace flooded with thousands of bloggers on blogs like "chinaSMACK ", and before you know it, the Controlling authorities involved have no choice but to deal with the problem with swift justice. There is cases where an Official that got away with corruption for years or decades, all of a sudden was left hanging to dry and as an example (so the Govt can save face) was executed for his crimes.

By Jan '10 , China had 384 million internet users. That is more than the population in the US. Compare that to the U.S. 70% uses the internet.

The increase of Internet users in China is expected to climb by at least 15% every year. By now it is safe to assume at least a third of the population uses the internet at 500 million, and will be at about 40% by 2015. Chinese users create 3,000 websites daily, with 162 million bloggers commenting on social issues every day.

The internet Café industry is a \$20 billion industry. One big use is for the online gaming business, which brings in an average of \$2.5 billion annually. The Chinese are fanatic over gambling.

The Chinese also find themselves addicted to the fantasy world or virtual world of the internet. One statistic is that about 51% of users polled in '07 said that they have adopted a completely different persona online (compared to about 17% of Americans do this). Another poll discovered that 24% of users "felt more online than offline" with their lives, compared to 4% in the U.S. feel this way.

When protests occur, and they seem to be happening more frequently, the Govt works very diligently to try and block several sites, or censor. However the populace knows how to navigate around the internet and accessing world news sites everywhere to keep informed. Even though sites like Facebook or Youtube are blocked, people know how to access through various VPN remote access sources. I personally was in Shanghai in Dec '10 and received a FB message from a friend in Shanghai, and this is what that person told me.

The Central Govt in China has come up with their own tool which is called the "Net Nanny" which is always keeping sites in check, and employs people to blog their propaganda.

However the average citizen is fully aware of this and there is now counter sites that counter the propaganda with coded messages that for the most part go undetected.

One site was called the GRASS-MUD HORSE, with a fictitious icon as an ALPACA. However the Chinese characters for this name (Cao Ni Ma) can also be translated "F... Your Mother".

So these types of sites are just thumbing their noses at the ruling party, and getting away with it. The craze got so big, that there was even stuffed toy Alpaca's sold in stores, with songs and videos created (one had 1.4 million views before Youtube was blocked) as well with cartoons built around this mythical creature. One was that it lived in a desert called "Ma Le Ge Bi", which means RIVER CRABS. However this word also sounds like the word for HARMONY which was a play on the Govt policy that states their goal to create a "Harmonious society". Now the word Harmony has become a code word among bloggers for being censored (that they have been harmonized).

With all of this on the Govt's hands they have to also be careful about how much they actually block or censor so they do not dissuade and scare away their precious Foreign Investors they are also courting with the other hand.

It is estimated that there are over 600,000 middle class in China. Compare that to only 300,000 people in the US. The middle class in China as being defined as someone making between \$6,000 to \$50,000 in U.S. dollars, which goes a lot farther in China than in the U.S.

There is also more Chinese Millionaires and Billionaires than of any other race in the world. However it is difficult to substantiate this because Chinese basically do not report their income (they like to boast on how much they spent on something however), as well several wealthy Chinese do not only live in China.

FACTS

China as a collective society is quickly learning from facts, trial and error thru communistic tinted glasses

Some interesting facts;

- Half billion have been lifted from poverty since '76.
- China has overtaken Japan as 2nd largest economy in the world.
- From '97-'03 China went from officially being an economy run by SOE's to one run by private enterprises
- China's domestic consumer market is still 20% less than that of the US in purchasing power, as most of the society is still very poor. The actual consumers market is about the size of that of Italy's. (Out of 1.5 Billion)
- 16 out of 20 of the world's most polluted cities are in China.
- Because of the tight control the party Govt has over the country's financial system, it is still very inefficient and inconsistent as well the tax system is highly confusing and chaotic.
- Even as China is highly developed in technology, it relies too much on copying the west and lacks innovation.
- The weak infrastructure is also an impediment in transportation and distribution.
- There is both high resources of minerals and lack thereof. (they are in desperate need for Steel-Iron -ore verses they have an over abundance of Rare Earth minerals).
- The mining industry is controlled by the Govt and has the highest mining accident rate in the world. China knows it needs foreign investment and technology to mine its country but doesn't want to give up its control.
- China is thought of 4 main geographic parts, the North, South, East, West. Hubei province means North, Hunan province means south, Guangxi province means east and Guangdong province means west.

- People in the north are generally taller and lighter skinned, where as in the South they are shorter and darker skinned (same as in Japan)
- The Chinese look down upon darker skinned people, same as Japanese. They are thought of as "the farmers, or poor working class, peasants< etc" So most Chinese women, especially in the north stay out of the sun, and pride themselves on having "pure white" skin. Even freckles are thought of as a blemish.
- In the South people generally eat anything that moves. It is common to see snake being offered in restaurants in Guangzhou while those in the North frown upon eating snake, as it brings "bad Qi" (pronounced CHEE, which is the life force or energy within us that is the basis for Chinese healing arts)
- Shanghai cuisine is loaded with Sugar (that's why it is so darn good). An interesting fact is that while Coca Cola dominates the market in China, Pepsi dominates Shanghai because it tastes sweeter.
- While dining in China it is bad form to use a toothpick after eating without covering your mouth, while it is good form to slurp your food, or burp, because it tells the host you love the food. It is also common to see people chew with their mouth open, talk with food in their mouth, smoke at the table while everybody is still eating, and a host of other eating habits that are frowned upon in the US
- There are 600 million people living in major cities in China. This is expected to be at 1 billion by 2030.
- Out of 661 Chinese cities surveyed, 278 still did not have sewage-treatment plants in '05.
- China ranks #41 out of 48 countries in high risk of doing business, simply because the Party State runs everything, and doesn't necessarily follow the rule of law. Therefore in order to get high return for the high risk, Govt relations are imperative.

An interesting contrast between the US and China is that while the US Govt stifles market growth with its regulation, China's Govt is increasingly adaptable and influenced by its market driven economy thru trial and error.

Although the Govt owns the land and decides policy it is really the regional authority that really holds the power So in fact it is never quite clear who holds the real power and makes the final decision but the market.

DOING BUSINESS IN CHINA

When deciding whether or not to do business in China, make it a business decision and not because the "herd" is doing it. Although this market is still relatively new compared to other markets in the world, the past 20 years are littered with several businesses that have had both amazing success stories as well as dismal failures. As we embark on the next decade of the tremendous market opportunities that await the American businessman/woman in this ever growing and changing market of China, wisdom dictates that we learn from those that have blazed a path before us.

It is very important in assessing this huge market that you do not rely upon your "data" or numbers. China is changing much too fast. China is changing all the rules of the world economy on a daily basis. As John Maynard Keynes said "When the facts change, I change my mind".

It is also wise to remember the words of Deng Xiao Peng "Cross the river by feeling the stones".

To understand the mentality of China's ruling authority is to understand what Deng's re-writing of what communism really means; fusing common sense with Ideology with common sense as the higher priority of the two. DENG: " I don't care if it's a white cat or a black cat. It's a good cat as long as it catches mice"

Change according to the nuances of China, but stick to your business model that works and your core principals.

When investing in the China market you need to remember factors that affect your ability to compete in the consumer market. Such as the fact that even though State owned enterprises have been largely turned over to the private enterprises, the Central banking system continues to give easy credit to Govt run/owned business and local private firms well connected , where as these terms are not easily available to foreign owned firms. As well the consumer saves 45% of their earnings, making it difficult to convince them to spend like in the west. However this fact has also contributed to the growing wealth of their society as they are cash rich. Another reason for their high savings rate is the poor health care system where anybody with money knows they need to pay cash for good care

However together with that fact, China is growing further and further dependent upon the West for goods and services, especially certain raw materials and food. So the running side story is that China is faced with the rising tide of inflation as their own labor market increases and the consumer has to pay higher than ever for basic necessities.

The growing civil unrest with the unfair practices of the "socialist/capitalist" system, which while taking the best of both systems to make for a controlled highly successful economy also takes from the worst of both systems to cause horrible human rights, which being combined with inflation and the growing

awareness of everything nationally and regionally on the internet would lead one to believe China is headed directly towards an inevitable regime change. (There is a belief that the current Ruling party will remain strong as long as the current urbanization and restructuring of their massive infrastructure programs are complete, sometime around 2025)

China has an interesting strategy of both encouraging "free speech" that is controlled by the media, by having their state owned media openly questioning the Govt on anything that the public is notably upset or excited about. So while they are "hedging" their bets by ensuring trust in the media, they are also quick to respond to the public outcry if they are "busted" or the issue has reached its "tipping point". However what they are also accomplishing is the development of a massive source of revenue from their media. The "7 pm news" in Shanghai, Guangdong, Beijing has 90% of the market and has almost 1 billion viewers. It is the most watched television program in the world.

Right now China is becoming more and more accountable to the world as it complies with the rules of its WTO membership. One of the highest concerns of both Foreign companies heavily invested in China and the Govt is the need for investment into Human Capital. Bottom line is that China needs qualified and skilled labor, there is a huge shortage in a country that has the highest population in the world.

Having the perfect strategy is not only near impossible but also not necessary. What matters is execution. This is done with organization together with "Guangxi" (relationships)

There is no reliable data out there. So you have to hit the streets and be willing to change strategies on a dime.

SELLING YOUR PRODUCT IN CHINA

Chinese consumers want our latest technologies, not our products that were hot last year. China is a lot more sophisticated than you think.

If you are selling in China, you have to take it slow, you never know what products or line will sell. You also have to take into account their lifestyles. In example, they buy a lot of fresh produce and eat out a lot. So big refrigerators are not popular.

Market Share not just growth is important. Choosing a name cannot necessarily be a literal translation (Microsoft translates into something that is weak or soft), you have to choose a Chinese name wisely.

If you are selling in China something that is made in China, you have to adapt to the local market and use local cost saving techniques. By selling something either made with lesser quality overseas, or with styles that are outdated from overseas, you might not only fall flat, but will establish a bad rep. So you have to be transparent. Do you honestly think you can fool people that are the best at counterfeiting in the world?

It's important to know the Do's and Don'ts when advertising, such as the significance of numbers. SUCH AS; The number 4 symbolizes death and bad luck or the number 8 symbolizes success. (The Olympics in China started at 8 pm, on 8/8/08) Giving Clocks as gifts also symbolizes death, as the word for clock is very similar to the word for death (however if you make this mistake and give one, they usually will pay you a penny so that it is not a gift but a purchase). When dining out don't turn the fish upside down after one side has been eaten, as this symbolizes your business being turned over (like a fishing boat capsizing). If you are thinking that what sells in the US will also sell anywhere else, it may be the opposite in China.

In example in the US a camera that is easier to use and more efficient outsells others. While as a camera in China outsells because it is more complicated and is harder to figure out.

Another area to consider is the significance of Chinese characters that translate over from your name, logo, phrases. It could mean something bad. Or the colors, or uniforms could mean something. You have to do careful, methodical patient research. Also when registering, make sure you cover all of the variable ways to write your name, phrase, etc in Chinese letters

You must be careful as well anytime you make a deal with a local authority, or a local sports or celebrity figure in sponsoring, or a local company in partnership that there are no conflicts between what the local person says is ok verses what is ok in another regional authority or what is accepted nationally. Do your due diligence before signing your name on anything.

When making a deal with a local distributor to market your merchandise in retail or wholesale regionally, remember most are either inexperienced or incompetent

and will promise what they can't deliver. Your own people must inspect everything.

One example is you could have great shelf position one week in a supermarket, but the next you are nowhere easy to find, because a competitor paid higher to take your space.

Because of decades of state owned marketing where there was no need for "branding". Now the reverse is true, they are going hog wild in trying to out brand each other. While Foreign companies still out perform local brands and are far more sophisticated, Chinese brands are patiently learning, observing and taking their advantage of knowing the local market better so that they eventually can outperform the Foreign brand. One example is Lenovo going overseas to purchase IBM's PC division and eventually phasing out the name IBM altogether in China.

While US companies are purchasing Chinese companies to get a Mfg edge, Chinese companies are purchasing US companies to get a branding edge. As in HAIER moving their Mfg to the US and other countries to avoid the "Made in China" stigma.

Remember local brands have the State behind them. At the same time the central Govt is on a campaign to sell to the world the new modern China. As in the Olympics, nothing that showed the declining years of China was shown. So a foreign company that seeks to glorify the "New Modern China" will have a great advantage.

Advertising in China now has gotten so expensive it is out of hand. When you advertise on China national TV (CCTV) you have the largest audience in the world. So now it only makes sense to concentrate on regional markets. You can also be "Gazumped". Where in you have a contract for advertizing on a prime time slot, but end up at 2 am. That is because someone else paid more for the same spot after you "made your deal".

When selling your product in China, you must remember that the public has a strong loyalty to luxury branding, while being extremely fickle when it comes to branding of everything else that doesn't bring status. Everything else is determined by price and value. When you see thousands in a shopping center or mall in China, most are not buying, they are gathering information, and will study until they are ready to buy. However with that said all things being equal, when everything is the same price, the buyer buys either what has been built by relationship or "Guanxi" between the seller and the buyer, or what was simply marketed or "pushed" better to them.

Although Branding is always about image and marketing techniques, what is key in China is your ability to find channels of representation to all levels of the consumer market. Which reflect Guanxi as well as the correctly placed influencers in a given market. But even more important is the Guanxi with local officials so all licenses and permits are taken care of.

In order to effectively market your products in China it is imperative that you develop a competent sales force that not only knows the local market well, but other markets outside China, so they know the big picture.

When conducting research on consumers and the overall changing market in China, you are aiming at a moving target, so you need to aim where they are going. So this means adapt to a constantly changing market that is becoming more and more educated.

One great way to help you "aim" for where your customer (market) is going is to decide who your customers are firstly, then start to plant seeds of relationship building with them (Guanxi), make them feel like a VIP, then once they grow, change and adapt, so do you along with them.

When marketing your product in China. Treat it as a market about the size of Europe. China is not one Market. It is broken up to some say 8 Markets divided between the East, West, South and North. So just like in Europe, you have to target each market according to their culture.

Because of the seemingly infinite number of nuances within the several markets across China, it is imperative that you conduct intensive research into all aspects of your target market, gender, class, culture, timing, Local Govt authorities, Average age, etc. You can hire consultants who specialize in this, but make sure they are either private firms or NGO's as many are controlled by Govt propaganda. Either way you must take a hands on approach. As well use local Chinese to conduct interviews in research, as they will pick up the subtle cultural nuances that expats won't.

Primary and systematic research is the best method to conduct compared to "standard intell", which is really secondary or basically local information from "experts". You have to be hands on when getting the pulse on consumers. Don't take anyone's word for anything, find out for yourself what is really going on in a particular market or region you are doing business in, or selling to consumers in. For instance one idiosyncrasy is that most consumers spend 4 times as long as US consumers studying labels in supermarkets. However what holds true in one province may not hold true in another, as there are several sub cultures in China, as well as varied "classes", age groups, or some regions are heavily influenced by local authorities while others may have a more "western" influence, usually brought about by a heightened awareness from the ever growing internet culture.

China will take your "niche" and turn it on its head and not only copy you, but also potentially produce a better product but at a lower cost. However the likelihood of a "better product" is not that likely.

SETTING UP SHOP IN CHINA

When you are both manufacturing and marketing a product in China, you have to figure out a way to meet the export market's quality demands while balancing with the local market's price point. Once you find this "G-spot", you will conquer your market.

However it may seem impossible, one key is knowing your niche where you can stay ahead of the competition because of your uniqueness in quality, while focusing on staying lean to keep costs low. Not the lowest, but low enough without sacrificing quality.

Maoist thinking dictates that all regions are autonomous. So when you are distributing within the central more rural regions and smaller cities you have a lot of ridiculous red tape to deal with, where as the closer you get to the eastern seaboard the more the regions are changing with the times and less red tape is involved.

The interior regions pose the biggest challenge in local distribution. The closer the goods get to the final destination, the higher the costs get, the more unreliable and higher risk of theft, breakage, loss and all around lack of whereabouts which results in frustration, delays, hidden or surprise costs that usually end up being half of the total logistics costs from A-Z.

China has a big infrastructure problem. Especially as they build their vast interior for manufacturing and attract Foreign Investment. In '09, China had roughly 3.5 million kilometers of road., most of that low grade roads. In '07 China build 53,000 Kilometers of expressways alone. The plan is to have an additional 80,000 Kilometers of road built by '20. They will then surpass the US in the length of its Highway network.

Chongqing has 31 million people. This is a staggering amount, more than the state of California. However they are behind in everything, from infrastructure to methods of doing business. But they are destined to become the biggest interior hub of business for the next decade. This is the city where the Yangtze river flows all the way to Shanghai, and now is used for container ships to transport cargo. As well from 2010 through 2012 China is spending \$1 billion in upgrading it's railroad system.

Another area that is targeted to build a better infrastructure is the eastern coast itself. This is with new ports for Cargo to be loaded from, as the current ones are over congested. As well it will eventually reduce the cost to ship from areas in the eastern seaboard that are far from the main ports, Shanghai, Ningbo, Qingdao, Xiamen, Xingang. Qingdao is now building a new terminal that is to be used to transport Iron Ore only, to be completed by 2030. Another ambitious project is the MEISHAN FREE PORT off the coast of Zhejiang that is basically remaking an entire Island devoted to being a port.

I.P. RIGHTS

One huge issue is Intellectual Property (I.P.) rights in China

Intellectual Property rights (IP) have become an increasingly greater problem as not only the mindset is to learn new technology but the moral compass often is non-existent. As well the ability to counterfeit has become such an art of the Chinese that often it is impossible to detect with the naked eye.

So in order to protect, most foreign companies use a number of methods ranging from : Revealing technology information or engineering secrets in increments so it is too hard to counterfeit before the product is already in the market, or usually this is combined with the arrangement that when and if the supplier does take this information to counterfeit, that there are royalties paid to the foreign designer.

Others include software that has theft triggers imbedded that self destroy once they are violated, or designing so many secret designs that they cannot easily be detected by the counterfeiter (think U.S. Currency). One good solution is to simply register all IP designs with the Chinese Govt which can be a deterrent as China slowly gets more compliant with the WTO.

It Is important to register the patent in the home country first because it can take up to 4 years to complete the registration in China, leaving it vulnerable.

Often the best protection is to simply have a lot of checks and balances and always withhold the design secrets from the Supplier whenever possible. Or you can just release in increments to the Supplier.

It is also important to register all trademarks and copyrights in China before doing business in China. Because when they are copied, and they will be, by the time it becomes a legal issue you can point to the fact yours was registered first. STARBUCKS did this and was able to defeat the counterfeiters simply because they were able to prove in a China court of law that they registered first.

It is also wise to register with Chinese local customs offices as this can later possibly avoid legal action, as China customs can be your Advocate.

When going after counterfeiters in China court, remember to consider how getting a Judgement will affect the local economy. In many instances, the local counterfeiter is most likely a big source of revenue for that region. Good luck in collecting damages.

However if you do the right PR, and praise the local authorities in their assistance, they will most often save face in enforcing your Judgement. Even if you don't collect a penny, you send a message and the "bully" doesn't mess with you again.

Another good weapon in enforcement is to find other companies in your industry that have also been copied and band together. Even more effective, find a Chinese company that has been effected, then you really get the attention of the local authorities.

It is beneficial to have your own R&D in China as it is cheaper as well as the Chinese are particularly talented in research and are generally very fast at this particular skill.

You just have to protect the initial trade secrets from being known.

One thing in your favor is that the Chinese culture is not geared towards innovation, so it is possible to stay "one step ahead" during the R&D process.

It is important to show respect and save face by showing a measure of trust in your regional authorities or businessmen with clout. This will go a long way towards developing Guanxi.

It is also wise to team or partner with a local University as this is where most research labs are in China. So while you are saving money in this process you also have more

Govt support which usually results in tax breaks.

RAISING UP LEADERS

When training Chinese people to be leaders and skilled in management you have to remember their mindset is to only learn new technology, because the Marxist ideology teaches that technology is the key for China's growth. Another reason is that technology doesn't have cultural barriers, where as management techniques are heavily affected by cultural differences.

Most Chinese that want to rise in leadership are only concerned in reaching certain targets, numbers, goals rather than learning what type of thinking or acting works or not. This will pose big problems when you are undertaking the difficult task of training your employees in China to be management material, or simply understanding the reasoning behind why your company operates a certain way, that usually can be opposite of the "Chinese way".

The younger generation however is hungry to learn as they know the rewards that come from that, where as the old school thinking is to just work harder or more hours to generate more rewards.

When setting up your "Foreign Investment" company in China, there are number of options, specifically JV's and WFOE being the most popular. They all have their pros and cons, and some hybrids that may work best for you. Generally the rule to follow is maintain control of the company in China while installing local people that you can trust as leaders to represent the integrity of your business while being able to make decisions autonomously. (so they can save face)

The Family atmosphere is crucial when hiring good talent and keeping them. The ancient Confucius mentality is still imbedded and is making a slow resurgence in their society, which focuses on family importance and ancestor worship. The new generations are facing a past that was basically tragic for their parents and grandparents, so they are hungry for meaning and a belief system. So there is definitely a renaissance of family values. It is also interesting to note that one of the most vibrant and fastest growing movements of Christianity is in China. It flies under the radar as "underground".

When appealing to the values of your employees in China it is important to include as their benefits certain long term living expenses, housing loans, residence permits for outside family to relocate nearby. Basically anything encouraging community with their family is a strong incentive that will attract and retain.

Bringing in expats because they are more qualified in mgmt and leadership is often necessary. However they must have a long term commitment and be able to emerse themselves into the culture, otherwise it will be pointless. Anybody planning on living in China for an extended period of time that is expected to be an effective manager must learn whatever Mandarin they possibly can. If not you will never have the respect that is needed. Expats that are Americans need to

expunge the mentality of expecting everybody to know English. Americans are the only people in the world that know only one language...sad but true.

It is better to send mgmt trainees from China to the home country to learn that culture and learn Leadership , as not only is the Chinese culture not conducive to leadership, but bringing in an outsider-"expert", will often fail because he cannot earn their trust and respect quickly.

When seeking for ways to boost your company morale and promote a loyal and family like culture within your company in China, remember it is always better to reward groups/teams rather than individuals, so nobody loses face. The Chinese mentality is very big on team, and it tends to shy away from personal glory. This is primarily because they don't want to upstage or embarrass a co-worker. The same goes for correcting or punishing someone for wrong doing. It is better to have the team or group take the responsibility so no one loses face. If discipline and correction are necessary, which they often are, always do so in private and do not allow anything to leak out.

I personally believe the current labor shortage in China could be remedied by following these principals. The name of the game now in China is retention.

A few years ago, in most rural Communities , especially in central China, there was a severe shortage of skilled labor. This was due to the fact everyone had migrated to the eastern cities to find work. However, now China is faced with a severe skilled labor shortage in the major eastern cities, and central China has had a surge of laborers returning to their homeland. This is due to the fact many people save all of their earnings for a year, and come Chinese New Year where they have 3 weeks off, they take their last bonus check and go home and live like a King.

However the other more important factor is that the Central Govt is raising the minimum wage in the eastern cities and forcing and incentivizing manufacturing to relocate in regions like Chengdu, Chongqing, Wuhan, and so on. So the future for Mfg in China will be in the central regions where labor is cheaper, land is cheaper, and the Govt is giving it away to Foreign Investment.

Another factor still lingering is the HUKOU policy, which states that if you are born in a certain region, you are not allowed to live in another unless you have special permits. This stupid policy also re enforces the class society, which is never healthy in a growing economy.

Since China is super status conscious, a foreign company must install a "President" that reports directly to HQ so that the locals will not only respect the "face" of the company, but feel respected because they don't deal with "lesser mgmt", or a regional operation.

Your China Company must have Autonomy in China, as things also move very fast once things click. Waiting for decisions overseas will not work. You will be left behind...and often your key management will leave your company behind.

If your China Company is importing into China, autonomy doesn't mean adapting to poor Chinese quality standards, remember to set yourself apart from the masses in this regard.

THE IMPORTANCE OF GOVERNMENT RELATIONS

When establishing relationships with Govt officials, remember sometimes you might be getting nowhere because the person you think is in charge doesn't really have the authority and they won't admit it.

Or you may find that they don't like to make any decisions that will rattle the status quo.

Or there could be a particularly complex web of overlapping authorities in various departments involved.

Or you could discover, and usually too late in the process, that the "authority" just doesn't give a rat's ass about business, period.

Either way, being proactive goes a long way. Do your due diligence in knowing who is really in charge.

Also if that person detects that you are there temporarily, only periodically, or just that once, they will politely write you off. They are only concerned in a foreigner that is in it for the long haul.

When dealing with the State authority, it is important that you establish whether their role is more of the provider or the beneficiary (customer) of your business. Then work from there. It will cut to the chase and save a lot of wasted time. This is the best way to determine which way the money is flowing through them, because it invariably always does.

The Govt not only controls everything in business, in theory, but can literally open a new market, or change the course of a market overnight. In example the Home ownership in Shanghai went from being Illegal in 1986 to 65% legal in 2006. They did what it took the UK did in 100 years in 20. When you understand how to work with the local government, as well as the Central Government, it can be an amazing thing to behold on what can actually get done.

But actually understanding the process can be one of the most frustrating and time consuming processes you have ever experienced.

Because of the rising influence of Chinese NGO's and the internet, which in turn influence the Central Govt, it is also imperative that you have a strong PR campaign and good connections with NGO's. In doing this you also have to take into account what is happening in your specific industry in relation to the above, as well as which rules from the WTO apply or are exempt.

NGO's are by nature free from Govt interference, but in China they are not only connected, but they act as "feelers" for the Central Govt to keep them up to date on what is really happening in a specific regional society. You need to investigate what practices are being allowed in a specific region that are counter-productive to your business. Or if there is a "gray" area as far as to what China is allowed or not allowed to do according to the WTO. Your best bet is to work with a local NGO that is well connected and you can find that with their influence "laws and regulations" can be changed if it is for the "betterment of the society".

If you are a small company with little leverage it is wise to join Associations.

You would do well to choose a partner in China carefully. If at all possible leverage your relationships with certain Trade Associations connected to your Industry or an NGO that is also related.

Utilizing a specialist or consulting firm can also be strategic in not only connecting you with the right groups but also in the whole process of choosing the right partner.

You cannot turn Govt relationships on and off. It must be a slow consistent process. Don't be surprised if you have to provide information over and over again. It's part of the game.....patience.

Also you do well to remember that Govt officials expect to meet equally high level executives of your company.

Also remember what you do in China will be very transparent in the US. If you become high profile with your associations with any Govt authority in China it is wise to utilize a good PR firm in the US to make sure that any problems, or possible improprieties that evolve have the proper "spin" on them.

FINALLY, THINGS TO REMEMBER

People in China suffer from several abuses of land theft. There are countless cases where a local principality decides that certain housing should be torn down and people relocated. In these instances, the people have no rights, and often lose homes that have been with their families for generations. When the Beijing Govt built the Olympic Park with all of its Grand venues and stadiums, people's lives were affected in the millions.

Although China as a culture stresses the importance of education, and has over 2,000 Colleges and Universities with approx 50 million College bound students every year, there is simply not enough jobs to provide for the graduating students. Often the ones that get jobs have family connections. In '09, nearly 50% of graduates couldn't find a job. This is one reason why if you post a position wanted on Monster.com, most of your resumes will come from Chinese students wanting to be sponsored.

The Health care system in China is a huge problem for the Government, as the care is beyond bad for anybody that doesn't have connections or money. In most hospitals they have what is like a ticket system where they open the ticket window and give out a quota of tickets on a first come first serve basis to see who will get treatment that day. However what happens is youth gangs rush to the front and grab all of the tickets they could and then sell them to the public waiting in line. The tragedy is that old people are not able to get to the window in time, and often walk away untreated.

Another crisis on China's hands is their pollution. In '07 it was discovered by the World Bank working alongside China's EPA that between 350-400,000 deaths were attributed to Outdoor pollution, another 300,000 to indoor pollution (mostly from Coal) and 60,000 from water pollution.

One reason is that most cars do not have the catalytic converters that were required in the US back in the '70's. Also all gasoline is leaded, and they don't really use diesel.

There are villages in the rural communities that are called "Cancer Villages" because of the massive amounts of poisoning brought on by water, land and air pollution. Lead poisoning is the leading cause of cancer in most of these villages. In '06 it was estimated that 34% of Children in China had levels of lead in their blood that exceeded the World Health standards.

Much of the acid rain that falls on Seoul and Tokyo comes from sulfur dioxide and nitrogen oxides coming from Power Plants powered by coal in China. Studies have also shown starting in '07 that a portion of the smog in L.A. is caused by air pollution from China. China uses more coal than the US, European Union and Japan combined. 70% of power in China comes from coal.

China only has 7% of the world's arable land and about 20% of the world's population. Although the lower 48 states in the U.S. are about the same land

mass as CHINA, and 20% of its land is used for growing food for a population one fifth the size of China's. However due to the deteriorating condition of China's land, they only have enough land to grow food in China about the size of TEXAS. But China is also losing an average amount of crop land every year that is about the size of Delaware.

This is why China is now aggressively investing and buying farmland in Africa now (as well as the U.S.)

Another problem is that China is the world's leading Furniture Mfg. However they are losing their forests. In '08 the China Govt declared the region called Yichun in northernmost Heilongjiang province as one of China's "resource depleted cities" They simply ran out of wood.

China also needs to import most of its oil. China became the 2nd biggest oil consumer in '07, next to the US. So China is on a worldwide buying spree for oil, as well as other types of metals, steel, scrap metal, iron ore. Now they are also leading the world in the purchasing of Gold.

But the biggest problem could be the lack of drinkable water in China...70% is polluted. They are also running out of water. China never developed water conservation habits in their frenzy to develop their Country. They basically sacrificed their water, and their future, with projects like the Three Gorges Dam in Wuhan. This project destroyed massive amounts of land as they flooded it. Now 20% of citizens that live in cities have shortages of drinking water. China is also battling the encroaching deserts from the north. Several lakes and rivers are drying up. Even the Himalayas are melting and the source for the great Yangtze river is at historic all time lows, resulting in muddy rivers in and around Chongqing.

It has been said that in regards to the worlds pollution, and global warming problem, China is the world's "Canary in a coal mine" China is on the leading edge of humankind's consumption model of existence.

CURRENTLY the China housing market is out of control. They are headed for the same Bubble bursting that the US had in '07.

There has been a wild frenzy of speculators in China that have a lot of money that were buying and building large amounts of real estate projects that were driven by sheer greed, (sound familiar ?)

However the average citizen can't afford this new housing, so as a result, there are office buildings, large housing sectors, even whole towns that are EMPTY.

Just outside the city of Kunming in Southwestern China, there was a new town built called Chenggong in '03. It is a very modern western style city with all of the trappings, however nobody lives there. Another city called Kangbashir in Inner Mongolia that was built around the coal mining Industry, is also barren.

In the US 80% of businesses are in some sort of service sector. China by contrast started as only farming, then manufacturing and industry. However now China businesses are around 50-55% in the service sector.

Once the new generation of College educated and internet savvy people reaches the ages where they are running most of the businesses, China will be very close to mirroring the economy of the US. Where the economy is built around providing a service rather than manufacturing a product. It seems this has always been the earmark of a developed society.

This will in turn breed more accountability with the rest of the world and transform their "polluting the environment" mindset to that of the rest of the world, which is going GREEN. Of course China showed the world how fast they can develop eco friendly, sustainable and high tech buildings with what they did in Beijing in '08.

One sector that is growing very fast and is most likely leading the service industry in China is the Hotel business. In '08 alone, the Chinese market saw 856 new Hotels open and 784 more projects in the works. Of course the build up to the Olympics greatly affected this. But one thing any traveler will notice is the high standards the Chinese have in the Hotel industry. They put the West to shame. They know how to pamper a "Foreigner with money". Another good comparison that illustrates this fact is the difference between the service on Cathay Pacific and Singapore Air verses American Airlines or United...huge difference.

One of the most popular staples of the Chinese service industry is the Karaoke Bar, or "KTV". This is a very popular business tradition, where all entertaining is done in these rooms, where everybody checks their EGO at the door, and you are expected to drink, smoke and sing to your heart's content. This practice is actually more taxing on a foreign visitor than actually working all day in the office. Of course the side goal of this practice is to take an escort home with you. Although this type of activity is basically illegal as it is in the US, it is commonly done. So be on your guard when you are thrust into this environment. But this is one of the primary ways to establish trust and relationship between businessmen in China, so turning down an evening at the Karaoke bar can actually hurt you in business.

One big dark cloud hanging over all of our heads is the eventual revaluation of the Chinese YUAN, or currency called the RMB (Ren Min Bi) translated "the People's money".

Although China revalued a few years back when it was pegged to the Dollar at 8.3 Yuan to \$1.00, and since it has slid down to around 6.4-6.5 to the Dollar presently. The U.S. as well as the rest of the world is pressuring China to revalue further into the "5's" In all actuality the RMB is probably worth 5 or less per the Dollar. But once that happens it will not only cripple the US imports from China, but will also cost the Chinese billions in their ownership of the US Treasuries. It is quite a quandary.

However the prospect of civil protests and uprisings, skilled labor shortage, the State owned banks that have lent trillions and are also facing a large amount of

defaults, inflation, the housing bubble and other pressures upon the Chinese economy serves to further delay the strengthening of the Yuan. Even though the Chinese central Govt signaled in '10 that they WILL revalue the Yuan, they are just waiting until they can "afford" to do so, and will do so when they damn well please, and not because the rest of the world is pushing them to.

The one child policy instituted by Deng Xiao Peng in the '80's has now resulted in a generation of "Little Emperors and Empresses".

These spoiled "only" children are now in their mid twenties and have a very abnormal viewpoint of traditional family. They not only have their parents at the palm of their hands, but the average "Emperor or Empress" also has 4 grandparents all to themselves.

This magnified on a grand scale for the past 25 -30 years will result and has already resulted in a whole generation of the "ME FIRST" mentality which totally contradicts not only the communist ideology but also their roots in Confucius philosophy that promotes family values above all else.

So we will have a generation not only abandoning their family traditions. But they will also be very well educated, adept in the uses of the internet and having a mindset that they can have whatever they want, NOW.

This undoubtedly will change the whole dynamics of the Chinese Culture in the decades to come.

It is also interesting to note that the basic core belief of thousands of years of Chinese culture is that China is at the center of the universe.

In fact the Chinese character for CHINA (Zhong Guo) is a square with a long vertical line through the center of it, symbolizing that China is at the center of the universe.