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Stability is Key to WTO Success

HONG KONG – With the spotlight on a China about to enter the World Trade Organization (WTO), many U.S. investors are eyeing fresh opportunities in the Internet sector.

“This represents a major opening of the Chinese economy and it's going to be the right time for investors and businesses to be involved in China's economic growth,” said Stephen Anderson, the commercial attaché in charge of IT at the U.S. Embassy in Beijing.

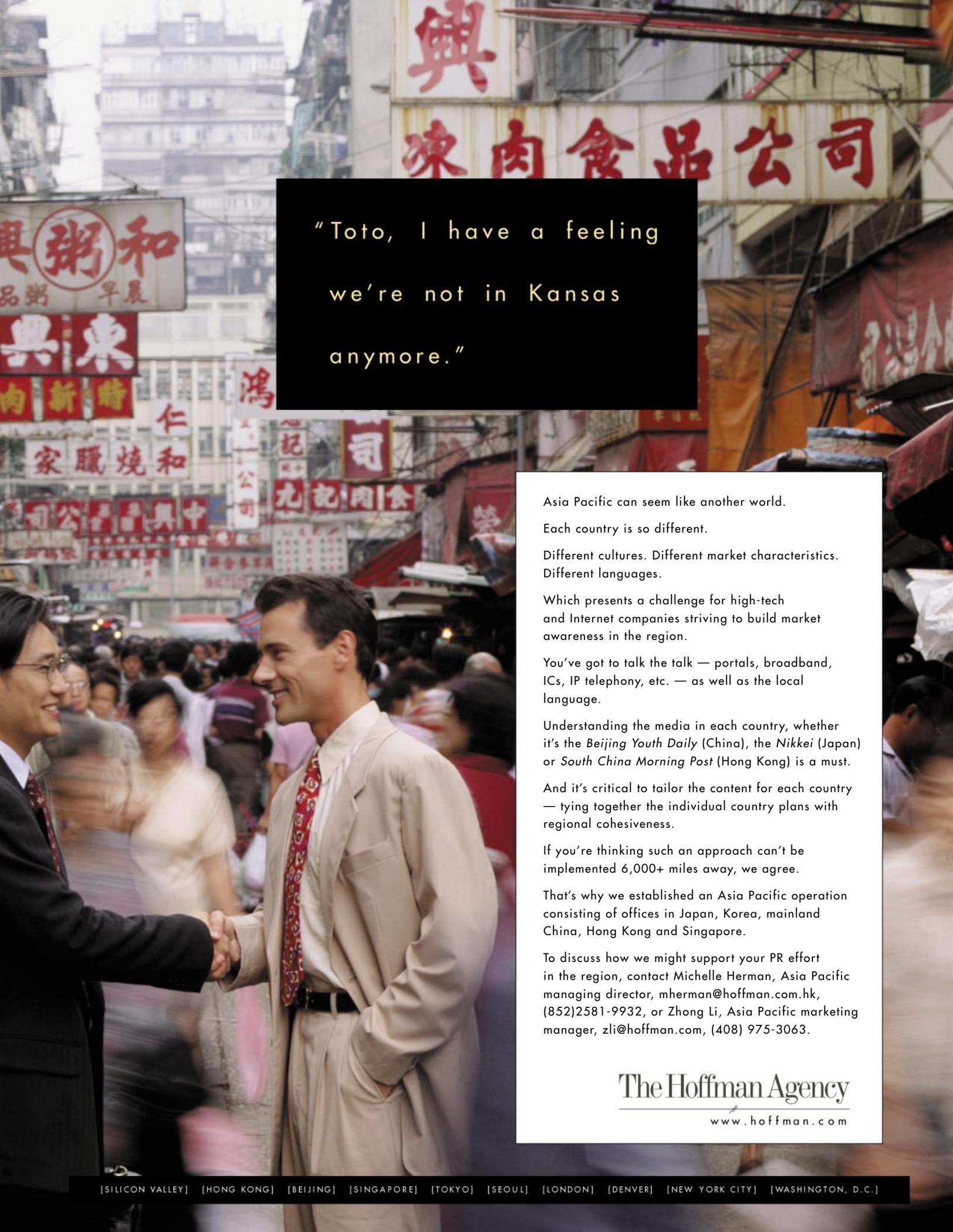
According to China's Computer and Microelectronics Industry Development Research Center, about 11 million Chinese surf the Web, and about \$6.6 million in retail trade was conducted online last year. With the WTO accession, these figures should only increase.

Open to change

China's accession to the WTO occurs amid growing political and economic stability in the world's most populous nation. “China, unlike other developing countries, has an extremely stable regime,” said Anderson. “They are very focused in terms of economic development and have moved fairly purposefully to build roads, have power supplied and create economic development zones. There are a lot of reasons for optimism that there will be continued progress in the IT industry, which will see 30 to 40 percent growth.”

Analysts say that while incredible opportunities will present themselves over the next few months and years, investors still need to exercise caution when picking their targets. Under the WTO agreement, sweeping changes to market access will occur. China has pledged to allow foreign firms to own 30 percent stakes in Chinese Internet content provider firms in Beijing, Shanghai and Guangzhou, with the limit rising to 50 percent in two years, when geographical restrictions will be lifted. Additionally, tariffs on IT products will be reduced over the next five years.

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"Toto, I have a feeling
we're not in Kansas
anymore."

Asia Pacific can seem like another world.

Each country is so different.

Different cultures. Different market characteristics.
Different languages.

Which presents a challenge for high-tech
and Internet companies striving to build market
awareness in the region.

You've got to talk the talk — portals, broadband,
ICs, IP telephony, etc. — as well as the local
language.

Understanding the media in each country, whether
it's the *Beijing Youth Daily* (China), the *Nikkei* (Japan)
or *South China Morning Post* (Hong Kong) is a must.

And it's critical to tailor the content for each country
— tying together the individual country plans with
regional cohesiveness.

If you're thinking such an approach can't be
implemented 6,000+ miles away, we agree.

That's why we established an Asia Pacific operation
consisting of offices in Japan, Korea, mainland
China, Hong Kong and Singapore.

To discuss how we might support your PR effort
in the region, contact Michelle Herman, Asia Pacific
managing director, mherman@hoffman.com,
(852)2581-9932, or Zhong Li, Asia Pacific marketing
manager, zli@hoffman.com, (408) 975-3063.

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If you were writing a manual on how to irritate China, you couldn't do better than follow the steps of the U.S. administration. China's high emotions over the handling of the spy plane incident have given way to deep misgivings over the United States playing host not only to Tibet's Dalai Lama, but also the Taiwanese president Chen Shui-Ban in the same week. China doesn't want interference in its internal affairs by an external power – and as far as China is concerned, what happens both in Tibet and Taiwan is an internal matter. Human rights activists, however, would beg to disagree.

At the knee-jerk level, hackers in the United States and China have responded to tensions with an ongoing online battle. In May, Chinese hackers defaced nearly 1,000 sites, in a cyber-offensive celebrating Chinese Labor Day on May 1 and Youth Day on May 4, and also in remembrance of the U.S. bombing of the Chinese embassy in Belgrade on May 7, 1999. Targets have included President Bush's official Web site, and take the form of "denial of service" interference. U.S. hackers have responded by posting anti-China messages on Chinese sites and calling on China to return the surveillance plane.

Amidst this flurry of political misunderstanding and disappointment, trade rolls on regardless. China is close to joining the WTO, businesses continue to establish links and satellites and executives still flock to conferences on (and in) mainland China. The telecommunications industry continues its cycle of deregulation, while the country also seeks to impose order on the roller-coaster online community. The National Copyright Administration of China is redoubling its efforts to control use of pirated software products and illegal usage of authentic software.

President Bush's administration has promised to treat China as a competitor rather than a partner. As long as competition doesn't spill over into enmity, the position is tenable. However, business and industry seems to be taking the view that positive engagement with China is the way forward. Despite the glitches, it seems nothing can stop the momentum.



Mary McEvoy
Editor in Chief, China ePulse

Letter to the Editor

Dear Editor,

My company will be doing business in China soon. I've heard that it's important to give gifts when beginning a business relationship, but I have no idea what would be appropriate. Can you give me some pointers?

— *Confused in Cupertino*

Dear Confused,

In China, giving gifts is seen as a sign you're serious about building relationships. It's a nice idea to give something that represents your hometown or region: for example, a Silicon Valley company might want to give a paperweight or framed photograph depicting the Golden Gate bridge. Gifts should be wrapped, but not with black or white paper—these are mourning colors. Similarly, never give a clock as a gift, because it symbolizes death. Other gifts to avoid because of funerary or mourning connotations include handkerchiefs, umbrellas and white flowers,

especially chrysanthemums. Avoid, too, anything sharp (like knives or scissors), since this symbolizes cutting a relationship.

You may have heard that in China, four is an extremely unlucky number, and not to give anything in quantities of four (such as four wine glasses, for example). This is true in southern China, especially Canton province. But in the North, four is considered a lucky number and is therefore ideal for gift-giving; people often give, say, four boxes of cakes. Lucky numbers are six and eight (especially in a series, such as 66 or 888).

When it's time to give the gift, present it with both hands, and downplay its value: "This is just a small token of appreciation." The gift probably won't be opened in your presence. In China, this is polite because it shows that the thoughtfulness matters more than the gift's material value.

— *China ePulse*

China Spurs Economy with Holidays

By Siu Yuin Pang

If you're doing business in China, you'll want to understand how its national holidays may affect your operations. So first, some background: Starting this past International Labor Day on May 1, in a bid to increase consumer spending and boost the flagging economy, the Chinese government mandated a weeklong vacation for all workers. Traditionally, most Chinese have enjoyed time off only around the Lunar New Year. In the past two years, the central authorities have added two mandated weeklong holidays, one in October for National Day and now in May for Labor Day.

According to statistics released by the Chinese Tourism Administration, over 74 million holiday makers traveled away from home and spent about 29 billion yuan (US\$3.5 billion) during the week of May 1. More than three million people visited Beijing alone, and 1.6 million out-of-towners visited Shanghai.

Enticed by sales, those not traveling spent the week busy shopping. Department stores and shopping malls all over the country experienced brisk sales. The most popular items were home furnishing materials, household electric appliances, clothing, tourist products and food. Total sales in Beijing's major stores spiked more than 40 percent; sales volume at 139 retail stores in Shanghai increased 42.6 percent.

So far so good—but reviews of this new policy have been mixed. Despite the increased spending generated during this holiday period, there is no consensus on whether it has indeed spurred economic growth. Although full year figures for retail sales are expected to show an increase, Song Guoqing, a professor with the China Center for Economic Research, a Beijing University think tank, believes that this so-called “holiday economy” does not help consumption; retail sales data over the last 12 months shows a decline in sales following a holiday period. The Chinese, like most shoppers around the world, tend to cut back after periods of heavy spending.

While businesses that are linked to the tourism and service industries are the primary beneficiaries of this holiday consumption, those in manufacturing and other sectors find the disruption inconvenient. Businesses have to either incur the cost of additional vacation time or pay their workers overtime in order to have them work over the holidays. Many foreign businesses and joint ventures were also frustrated with the fact that this past Labor Day holiday was only announced a few weeks before it took effect.

Too, with so many people on vacation at once, travel facilities can easily be overburdened, creating headaches for some travelers. Although additional airline flights and trains were added to accommodate the increased demand, traffic congestion along with overbooking of accommodations at popular vacation destinations and poor services led to a rise in complaints.

People do enjoy the extra days off work, but many now find the weeklong holidays inflexible and inadequate. A large number of residents in Shanghai chose to stay home this week due to the crowding. People want a flexible paid vacation system where they can decide when to travel and spend time with family. Many foreign joint ventures already offer such benefits — not a bad recruiting tool — and workers are now asking the government to implement a similar program at state-owned firms and government agencies.

In the meantime, foreign businesses can be aware of potential travel difficulties during the two weeklong national holidays, and take advantage of increased buying.

