

Jesa Investment & Management Consulting Ltd.

NEWSLETTER

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What is Jesa?

Jesa is a service company headquartered in Shanghai specializing in facilitating start-up of new industrial productions while providing reliable management and control solutions. We operate 4 main branches in China and a foreign office in Ulaan Baatar (Mongolia). Since 1998, Jesa has built a team of 70 specialized employees in addition to 25 engineers following "in loco" projects. Commercial relationships are exclusive and strictly confidential, ensuring the highest expertise on each single commercial and technical issue. Jesa is a leader in managing manufacturing processes and eliminating any industrial and regulatory problems while helping our clients save financial resources and time.

Jesa is currently expanding its services providing support to those companies seeking to develop distribution network and retail system in China as well as in Mongolia. We also perform HR audit and investment analysis (trouble-shot analysis) to verify performances in support to enterprises already established in China.

New Anti-Monopoly Law in China

As foreign companies have begun to acquire Chinese major state enterprises or private companies concerns about economic security arouse with the subsequent need of more provisions and regulations regarding competition and antitrust law. After 13 drafting years on 30th August 2007 finally the AML (Anti-Monopoly Law) has been promulgated by the Standing Committee of China's National People's Congress. The new law became effective on 1st August 2008. The

AML's promulgation suggests that China's economic system has been transformed into a market economy. China already had a basic national security check system for foreign mergers and acquisitions. Infact according to a regulation issued last year by the MOC (Ministry of Commerce) along with five other Government organs foreign investors need to apply for approval from the MOC if their purchase of domestic companies impact on national economic security, take place in key sectors or cause transfer of the operating rights of famous domestic brands. The new AML is composed of 8 chapters and 57 provisions. Its general structure includes 4 areas of regulation: prohibition of monopoly agreements, prohibition of abuse of dominant position and M&A reporting and control and a special chapter on administrative monopoly. These four substantive sections prohibit certain types of agreements unless they fall within specified exemptions, prohibit certain behaviour classified as abuse of dominant market position providing a framework for determining when dominance exists, establish a broad merger review scheme and prohibit abuse of government administrative powers restraining competition. Particularly the AML poses emphasis on the need for foreign mergers with the acquisition of domestic companies or foreign capital investing in domestic companies operations in other forms to go through national security checks. The law bans monopolistic arrangements such as cartels and other forms of collusion and provides for the investigation and prosecution of monopolistic practices while protecting monopolistic arrangements that promote innovation and technological advancement. Those who violate the provision will be fined up to 500,000 yuan (66,700 US \$) and the association with serious offences will be deprived of registration. These provisions are not always seen as China's signal to limit Foreign Direct Investments (FDI) but as a way

to protect an almost mature market that will enhance the foreign investors' confidence in China's economic development prospect. The anti-trust law will help create a fair play for all enterprises by preventing dominating companies from abusing their superior market position. Additionally better protection of consumers against monopoly practices will help boost domestic consumption to facilitate changes in growth patterns. It is worth to mention that actually the lack of specific regulations and guidelines for practice will make it hard to enforce the law efficiently. Enforcement challenges can be demonstrated through the Microsoft's example. Microsoft's dominance of the PC operating systems, word processing and spreadsheet software has long made it a target of government suspicion in China. But beside the law the US giant seems unlikely to face pressure any time soon. Proofs are difficult to collect and to prove. Anyhow the possible anti-monopoly lawsuit against monopoly can send a signal to all other multinational corporations that conduct monopolistic activities in the Chinese market.

China increases export tax rebates for textile and garment

China export-oriented textile industry is suffering from low profit margins.

Textile and garment exports in the first 2 months of 2008 rose only 9,6 percent from the same period in 2007, compared with previous year-after-year increases of about 20 percent. Drawn by the slowdown in exports, the economic growth for 2008 first quarter reached 10.6 percent compared with 2007 first quarter 11.9 percent.

According to a survey carried out in March 2008 by the China National Textile and Apparel Council

two thirds of the textile companies surveyed reported an average profit margin of 0.62 percent while the result of a survey conducted by the China Cotton Textile Association on the Chinese cotton textile companies in 17 provinces shows the willingness of 49,2 percent of the companies surveyed to quit and restart in other businesses. Squeezed profits are due to the continuous appreciation of the yuan currency, together with more expensive labour and raw materials. Because of high costs some Chinese companies started to lose out to neighbouring countries like India, Pakistan and Vietnam. Particularly some decided to react by raising prices with the risk of losing competition other decided to turn to the domestic market expecting that local demand will balance losses for exports. The latest figures have led industries to suggest that policies may shift to support the export business. In the short run it is possible to support the textile companies through an increase in tax rebate and a slowing down yuan appreciation policy while in the long run it is important for Chinese to shift to the production of higher quality products. The Ministry of Commerce stated that the textile export rebate will be increased to 13 percent from 11 percent and the garment export rebate will be lifted to 15 percent from 11 percent. In the long run the fundamental way out is to transform the business model, optimise the export product mix, build brands, increase added value, diversify varieties and designs and improve packaging and marketing. In particular the new tax rebate policy is important to small garments enterprise which make low value-added and single products face the risk being squeezed out of the export market as they mainly rely on tax rebates.

Post-Olympic Effect

Many in China are asking whether the country's economy would slip into recession after the August Olympic Games, especially after reviewing post Olympic Host countries most of which experienced post-Olympic troubles in the economy. The premises seemed to be not so good as more and more companies especially situated in the Guangdong and Zhejiang have faced losses and spin-offs due to rising prices of raw materials, export tax rebate cut and the appreciation of the Chinese yuan. Many investors suffered substantial losses. The export reduced and as a consequence the country's gross domestic production (GDP) also slowed down as export contributed nearly 35% of China's GDP. The Consumer Price Index (CPI), the main gauge of inflation, rose 7.9% year on year in the first half of 2008. But economic officials and analysts said such a slowdown was widely expected based both on economic policies that had been adopted by China and mounting global economic tensions. It is worth to mention also that the economy went through the severe test of two great natural disasters in the first half of 2008 - the winter blizzard in February and the 8.0 magnitude earthquake in May. The slowdown falls within expectations. To prevent the economy from becoming overheated was one of the two primary targets set by the Chinese government for 2008. The other was to guard against fast pace increasing inflation. China had since last year carried out a series of tight macro-economic control measures in an effort to cool down the economy and fight inflation. According to the Bank of China (BOC) in nine out of 12 Olympics the host annual GDP growth in the eight years following the Games was 0.4 to 2.5 percent lower than during the eight years prior to the event. The common thinking is that the Olympics Games is lending strength to the Chinese economy as China is actually a big market so growth on the domestic market is sustainable and as is an important source for global growth. The dramatic Beijing's investment increase at the pre-Olympic stage, worth tens of billions of dollars, accounted

only for a mere three percent of the country's total investment in fixed assets. Even if Beijing's investment to build sport venues and other infrastructure dropped sharply after the games, it would not have a significant impact on the whole economy since the city is still at an early stage of domestic development and its appetite for infrastructure would still be huge after the Olympics. Besides Beijing China also has plenty of investment prospects as the country's appetite for infrastructure investment and spending on industry upgrading are also likely to avoid any post Olympic slump. The hosting of the Games will probably push forward economic development in China by helping restructure industries and integrate the Chinese economy into the global market. Particularly a growing service industry and a maturing middle class will ensure continued growth. The Games are seen an opportunity to turn national brands in international ones. Many Japanese and South Korean companies began to emerge in the world market following the Tokyo and Seoul Games. Probably and hopefully Beijing Games 2008 will have a similar effect on Lenovo, China Mobile, Bank of China and Air China.

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