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**S+C NEWSLETTER** Volume 1, Issue 3, July 29, 2005

## **GREETINGS...**

Warm summer greetings to our Chinese and U.S. friends. We have been busy working with both U.S. and Chinese companies in cross-border business between the U.S. and the Greater China region, including locating strategic partners, setting up business operations and providing market research. We look forward to our next trip to China this fall.

Sincerely,  
Aaron Schechter and Frances Chou

## **HOT TOPICS...**

### **Chinese Currency Revaluation.**

As has been widely reported, on July 21<sup>st</sup>, the Chinese government revalued its currency, the yuan, "unpegged" it from the U.S. Dollar, and linked it to a basket of currencies. The Chinese called it a "managed floating exchange-rate regime", and is a gradual approach and a "middle route" between a fixed rate system and a flexible rate system. The initial impact is expected to be small, as the yuan's initial central rate against the dollar was shifted by just 2.1%, and will make Chinese goods only slightly more expensive abroad. The economic and political effects will depend on how



far and fast the yuan moves from now on. The Chinese have chosen a monetary policy modeled after the monetary policy of Singapore, which the Chinese have studied in detail and has led to stable economic growth in Singapore. The rate falls short of what U.S. manufactures had hoped for. However, many U.S. companies applauded the move as a sign that the Chinese government is on a path that will result in steady growth and minimizes abrupt changes.

The eventual revaluation may also make China less dependent on the U.S. consumer market, and encourage development of its own consumer market and a more balanced economy not so dependent on export.

While many economists believe that the yuan is still significantly undervalued, and that future revaluations and appreciation will lead to rising interest rates in the U.S., other economists believe that this theory is over-rated. Without knowing the makeup of the basket of currencies that the Chinese central bank will use to value the yuan, it is impossible to say now whether the revaluation will have a significant impact on interest rates. Additionally, a strengthening of the yuan could increase Chinese purchases of foreign companies, as well as natural resources, as they become less expensive. It may accelerate purchases like the recent Chinese company bids for Unocal Corp. and Maytag Corp. in the U.S.

### **Recent Safeguard Investigations and Decisions on Textile Imports from China.**

In April 28, 2005, the safeguard investigations were initiated in 14 different categories of textile imports from China, which would likely lead to imposing quotas on such imports effective from July or August. On May 23, 2005, the inter-agency Committee for the Implementation of Textile Agreement ("CITA") announced the imposition of safeguard quotas on 6 categories of textile products from China. Four days later, CITA imposed additional safeguard quotas on 7 other categories. Based on the level of averaged monthly imports between January and April, the quotas for some of the categories will be reached in July, August or September, 2005. US importers have started to ship their merchandise by air for fear of a quick embargo. The Chinese government has voiced its concerns and stated that it did not believe that the imposition of such quotas was justified. China and the US are required to consult on each safeguard within 30 days of the US request and to finalize the negotiations within 90 days. Some hope that the consultations might lead to the resolution of the ongoing tension between China and the US concerning textile imports from China, however, such consultations for previous safeguard actions have never resulted in any negotiated settlement. The effect of such safeguard measures means that some of the US importers would be forced to look elsewhere for the same products, and that it could be difficult to find products of similar quality and price.

## **RECENT AND UPCOMING TALKS...**

In May, we spoke at the "2005 Entrepreneurs Conference" at the UCLA Andersen School of Management.

On July 15, Frances Chou spoke at the California Capital Marketplace's China event.

On July 21, we were instructors at the California Center for International Trade Development (CITD) seminar on importing products from China.

On September 22, Frances Chou will be speaking at the Risk Management Seminar hosted by West Los Angeles Office of the US Department of Commerce. Please contact us for more information.

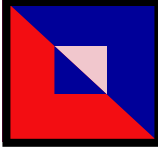
**SAVE THE DATE:** Schechter + Chou is participating in the organization of the China Global Conference to be held on November 9, 2005, hosted by the Asian Pacific-USA Chamber of Commerce. For more information and sponsorship opportunities, please contact us at 310-479-8600 or Stacy Sun at 626-795-9486.

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## **LEARN THE ROPES...**

**In this issue, we invited various companies that we work with to provide their views on doing cross border business between the US and China.**

### **What is the most important issue that people should be aware of when doing cross-border business?**

"Despite living in such a diverse country, it is still rather challenging for the US businessmen to know how various cultures function, specifically in the way they conduct business. We have all learned world history at some point in time in our lives, but international business mannerisms are an entire different ballgame. US businesses have started visiting China in large numbers. If a visitor takes the trouble of conforming to the Chinese accepted norms of behavior, the Chinese will be effusive in their treatment of the visitor. It is very important that you are open and make the attempt to follow the cultural business standards." This response is provided by Asia Pacific-USA Chamber of Commerce, a non-profit organization established to promote free trade and economic development between the US and leading Asian Pacific countries through our business and cultural activities. Contact information: Stacy Sun at (626) 795-9486 or [stacysun@apucc.org](mailto:stacysun@apucc.org).

### **From a financial institute's point of view, what is the most important factor that a US company should know in doing business in China?**

"Ironically, the most important factor from a financial institution's point of view (or the 1st PMF Bancorp's point of view) for a U.S. company doing business in China is not financials (although important), it is the understanding of the "relationship" between the U.S. business and Chinese business. Assuming that the financials are OK, understanding this "relationship" or "guanxi" will be a much more important factor in order to have stable business." This response is provided by 1st PMF Bancorp (USA)/Baoli Investments (China). 1st PMF Bancorp provides small and medium size companies with working capital and other banking needs, such as factoring, import/export financing, credit evaluation, account receivable management and collection. Contact information: Stephen Perl at (310) 858-6696 x204 or [steve@pmfbancorp.com](mailto:steve@pmfbancorp.com), or Freda Liang at 86-755-8373-4303 or [freda@pmfbancorp.com](mailto:freda@pmfbancorp.com).

### **What are the factors that a US company should consider in selecting a factory to work with in China?**

"In order to select a factory to work with in China, companies must consider the following critical factors: first, the factory must have a track record of success in exporting to the U.S.; second, the factory must have a quality system that is based on standards of the U.S.; and lastly, it is critical that the factory has excellent communications and attention to detail. It is easier for some companies to select a right partner, rather than doing it themselves. By working with a partner, companies can get more competitive prices, better quality, improved service and assistance in design and logistics without the risks associated with doing it themselves." This response is provided by Hollowaty Group, Inc., the U.S. office of a premier manufacturing group in China. It assists U.S. manufacturers, distributors, and retailers in manufacturing products in China. Contact information: Brian Hollowaty, at (949) 480-2371 or [brianh@hollowatygroup.com](mailto:brianh@hollowatygroup.com).

## **LEGALLY SPEAKING...**

The following is provided by Y.F. Chou, Prof. Corp. If you have any questions, please contact [info@yfchou.com](mailto:info@yfchou.com).

### **In an Attempt to Keep Jobs and Data in the US, Anti-Outsourcing Laws Have Become the New Trend in the US.**

Across the US, state and federal legislators have been trying to limit outsourcing, even though more and more companies look to outsourcing in order to stay competitive and cut costs. Maryland was one of the first states to legislate a preference against state contract work being done overseas back in April of 2004. Tennessee passed a similar law in May of 2004. According to a policy brief by National Foundation for American Policy ("NFAP"), a non-profit, non-partisan organization, in 2004, only 5 such anti-outsourcing bills became law and none were far-reaching. Between January and March, 2005, over 40 states in the US introduced more than 112 bills to restrict outsourcing, which seemed to be the new trend. In May of 2005, New Jersey's Acting Governor Richard Cooley signed into law a strict anti-outsourcing bill, which requires that all work done under state contract be performed within the US. However, a similar bill in California was vetoed by California Governor Arnold Schwarzenegger in 2004.

Most of the bills try to restrict outsourcing in three categories: first, restrictions or prohibitions on state contract work being performed offshore; second, measures to limit the use of offshore call centers; and third, restrictions on sending personal data outside the US. Concerns have been raised with regard to the constitutionality of such laws. In addition, one of the problems in trying to keep the state contract work being performed in the US is the increase of costs. So far, there have not been any laws in the US that serves as an absolute barrier to outsourcing, however, any business interested in outsourcing some of its services should pay close attention to the developments in this area.

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