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Solutions for China Entry & Growth*

Welcome to JLJ's e-newsletter - **China Focus**. Here, we hope to share with you the latest regulatory updates and useful information relevant to China's business environment. This e-newsletter is brought to you, our valued network, as part of JLJ's value-added service.

Market Insights

China's Economic Stimulus Package - the One Year Mark



In November 2008, China's central government announced its US\$586 billion stimulus package for development projects to bolster the economy and encourage domestic consumption; however, the deployment of the stimulus package was met with mixed reactions.

Some of the concerns regarding the stimulus package include: funds not being "new", rather just a redistribution of the 11th 5-year plan funds; private sector losing as State Owned Enterprises become even stronger; some projects may be poorly planned or redundant; and possible risks to the financial sector, which is bearing the brunt of responsibility for providing funds.

However, despite these potential issues, the stimulus package is instilling confidence in consumers and contributing to development in a time of economic crisis. Some key points to consider include:

- **Fixed Asset Investment** - in the first three quarters of 2009, investment in a number of areas such as railroads and other infrastructure projects have soared
- **Growing Economy** - while many countries are experiencing zero or negative growth, China's industrial output grew by over 16% in October and retail sales were up by over 16%; many analysts have revised their 2009 China GDP growth expectation to exceed 8%
- **Indirect Opportunities** - although direct benefits may be limited, indirect benefits may exist, especially for foreign companies, in terms of supplying equipment, components, and other key services

While some issues may exist, it is in part due to the stimulus package and its massive investment in infrastructure programs that China

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is one of the first countries emerging from the world economic crisis. Additionally, China is where growth will come for many international companies active in the global market.

For more information on finding suitable Industry partners in China, please email Mark Ray at Mark.Ray@jljgroup.com

Tax Updates

New Circular (Huifa) No. 49 Regulating Foreign Exchange Fund of Domestic Enterprises

The State Foreign Exchange Authority has issued new "Regulations" for exchange in foreign-funded domestic companies which focus on operations management. These new stipulations were created in order to improve internal operations of these companies, to facilitate their use of foreign exchange funds and their conduct of operations, and to improve overall efficiency in the use of these funds.

According to officials at the Foreign Exchange Authority, foreign exchange within these companies is now considered territory of the foreign parent company and its members. At the same time, the regulations also stipulate that internal members of the foreign exchange funds can each release foreign funds for implementation of the foreign currency cash pool management, and to carry out spot exchange settlements and business.



The above may occur after the introduction of foreign capital through foreign exchange operations channels and is in order to avoid the settlement risk capital concerns of the existing policy of foreign exchange. The SAFE official said that to guard against these risks, domestic enterprises shall not be entrusted loan settlement, nor should they use money for pledge yuan loans. In the future, domestic enterprises should derive their capital from their capital account or foreign exchange currency accounts. The foreign exchange accounts' entrusted loans backtrack to their original capital funds set aside, and then apply the relevant provisions of settlement.

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Human Resources

Talent Development and Retention are Top Priorities for 2010



Studies show that the highest priorities in HR for 2010 are talent development, improving staff retention, and organization development. According to a Q4 Hudson report on HR priorities, 22%, 19%, and 16% of respondents at MNCs respectively cited these areas as ones on which they'd like to focus most. These numbers are particularly relevant in light of the comprehensive restructuring occurring in many companies.

The highest proportion of respondents who cited talent development as a key area were from the Media, PR, and Advertising sector, with over 34% mentioning the issue. Large agencies have tended to fill senior positions by external recruitment; now, however, they are increasingly recognizing the value of developing and nurturing in-house talent.

The Bank & Finance sector prioritized improving retention, as the highest proportion of respondents (26%) indicated. As a result of the opening up of the banking sector and the introduction of new products and services, there is a greater shortage of talented candidates in many areas. Now that the economy is recovering, banks are focusing more and more on retaining and developing key staff members.

The IT&T sector sees compensation, benefits and rewards as the top HR priority for 2010, reflected by 17% of its respondents. Because talented candidates in this field have such specialized skills and experience, they require large remuneration packages. As employers seek to ensure their competitiveness, the demand for these professionals is growing rapidly again.

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China FDI

China To Maintain RMB's Current Value

For years, China has more or less pegged the RMB to the US dollar, an action which has caused international consternation, most notably from the US. Leaders such as US president Obama and IMF managing director Dominique Strauss-Kahn have urged Chinese leaders to loosen control over their currency. Those pressuring the Chinese believe that the undervalued currency gives an unfair advantage to Chinese exports, and is not helping the global economy during the current recession. They also worry about long-term effects of the policy on the Chinese economy in sectors such as real estate.

Nonetheless, China seems to be committed to its currency policy, at least for the short term. After Obama's visit to China, no new conclusions were arrived at in terms of this issue. The people's bank of China asserts that change in the value of RMB will occur in a "proactive, controlled and gradual manner and based on international capital flows and movements in major currencies."

The RMB's connection with the US dollar and its control by the government has a large impact on foreign investment. The current environment not only boosts Chinese exports, but provides for appealing investments at favorable exchange rates for foreign enterprises. Production and manufacturing are cheaper, and more funds are available to invest. In the current situation, however, many economists warn against the temptation to invest in ways that will not be viable if the currency rises. Strauss-Kahn urges that after the advantages of an undervalued RMB, "it is time to look more forward to investment and to long-term stability." Although the Chinese remain committed to their policy for now, there is little guarantee that the RMB's internationalization will not come soon. Therefore, it is critical to invest wisely now, keeping in mind the overseas pressure on the RMB to change its value.

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The JLJ Group

The JLJ Group provides solutions to foreign companies entering and growing in China. Our core services include Market Consulting, Corporate Formation, Human Resources, Tax & Accounting as well as Business Process Outsourcing.

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