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The language of power

As China's economic muscle grows, expect to see fewer business documents in English and more in Chinese

In a recent distressed-debt-asset deal between a US company and a Chinese one, an unexpected skirmish nearly derailed the transaction. The point of contention: what language a key one-page letter should be written in. The American side insisted on having an English version of the document prevail if a dispute arose. Likewise, the Chinese company argued for a Chinese one, explaining that its top managers did not understand English.

The argument went in circles with both sides steadily upping the ante. The Chinese side brought in outside counsel to argue their case. The Americans fired right back, warning that, if the Chinese company did not accept the English version, it would just have to live with unsigned paperwork—and the associated risks. Two months and too many legal bills later, the Chinese company finally backed down, recognising the greater authority of the English version of the letter. But the tug of war over language almost killed the deal, recalls William Zheng, the US company's Shanghai-based lawyer at Sheppard Mullin Richter & Hampton, a Los Angeles law firm.

This, however, was not a unique event. Similar scenes are unfolding over many other negotiating tables. As Chinese businesses get richer and stronger, they are no longer so quick to acquiesce to foreign companies' demands. This struggle over language is another indicator of the larger power shift occurring between China and the rest of the world today.

Until a decade ago the majority of crossborder investment and finance deals in China relied on English as the official language of legal documents, even if they were translated into Chinese. This ensured that any disputes would be settled by consulting the English version. The only exception is whenever a document needs to be registered, filed or approved by a Chinese government agency; in such cases, the legally binding language must be Chinese.

Even in the early days of crossborder deal-making, the use of English in legal documents was contentious. Chinese executives often chafed at having to accept only a spoken translation without any official written documentation in their own native language. But since a few years ago they started to resist such arrangements. Chinese companies began demanding that a Chinese version be included in the document, even though English was still the controlling language. As foreign competition for Chinese deals intensified, the push to draft documents enjoying equal rights in both languages only gained momentum.

This may seem a fair compromise. But it is not without hassles. If disputes arise, the equal-rights, dual-language versions can create a nightmare for lawyers. Contextual interpretations and concepts do not always translate smoothly, especially between languages as different as English and Chinese. Nor do the implications of tenses like the subjunctive. Chinese has not had enough time to evolve as a precise modern legal language. It is still developing and does not offer the same intricacies in meaning that Westerners with a common-law background would understand. Of course, before documents are signed negotiators pay careful attention to the nuances of language. But this is not an easy feat when some words such as "earn outs"—a type of deferred-payment plan in mergers-and-acquisition (M&A) deals—are strangers to the Chinese lexicon.

Direct translations?

As a result, Chinese legal documents leave plenty of room for interpretation, and direct translations can miss some levels of meaning. This makes a linguistic battle unavoidable, if a dispute arises. Resolution is all the more difficult when both sides can find supporting evidence only in their respective languages. Misinterpretation can occur even with commonplace words. In one recent example, David Huebner, a Shanghai-based lawyer, noticed the word "convicted" had been mistakenly translated as "accused" in his law firm's own contract with an employment agency. So, according to the English version, his firm could fire a worker who is only accused, but not convicted, of a crime.

With more complex transactions, including those involving financial formulas, translators inevitably play a central role. Alas, there is a dearth of translators who are fluent in both languages and also legal concepts. Though there are more than before, bilingual lawyers are still a rarer commodity. This is why some negotiators push for one-language documents—whether in English or Chinese. Even if it is not the one they want, they feel using only a single language makes for a better overall process.

Obtaining a good translation is a must

One advocate of this approach is Mary Margaret Utterback, a Shanghai-based lawyer. She says her US firm rarely agrees to equal-rights, dual-language documents. In general, the firm pushes for English as the controlling language, but occasionally is forced to accept Chinese. On those occasions, obtaining a good translation becomes a must, she says. Meanwhile, Christopher Stephens, the head of the Asia practice for Orrick, Herrington & Sutcliffe, says he has already documented complex financing and M&A transactions entirely in Chinese. English versions were drafted merely as a reference copy for foreign management. He has also had an offshore arbitration award issued in both English and Chinese for a mainland firm and his client, a foreign company. The foreign company won the award and wanted to enforce it in China. But the two versions of the award were inconsistent, and the Chinese court only recognised the Chinese version.

Foreign companies should be prepared to accept the ascendancy of Chinese-language documents. Many Chinese managers' main motivation when opting to use their own language to document business transactions may only be pride, but the fact is China increasingly holds more chips in crossborder deals. In particular, if the contract will be primarily implemented in China—as was the case with Mr Stephens' arbitration award—it is only natural that Chinese parties will insist on their language to govern the provisions. English still may be the language of global business, but in China today there is no mistaking that business Chinese is also rising fast.

Food insecurity

Government intervention has kept China's grain prices steady so far, but how long can the situation last?

China has had its hands full trying to keep inflation in check this year. Prices for livestock products are soaring, global fuel prices are setting new records and "hot" or speculative money is pouring into the country. Now, add to this head-crunching mix potentially higher grain prices. Though the threat should prove manageable this year through a combination of subsidies to farmers and price controls, the real question is how much longer the Chinese government can continue to manage key food prices, as well as the economy, in such an interventionist way.

China supports more than one-fifth of the world's population on just 7% of the world's arable land. Consequently, it is no small feat that China has so far managed something close to grain self-sufficiency. However, this has been achieved by offering steadily increasing subsidies to peasants to sow grain despite the fact that in many parts of the country, farm size and population density would make fruit and vegetable farming a more lucrative option.

China aims to maintain grain self-sufficiency at a minimum level of 95%

This reflects China's concern about maintaining its grain self-sufficiency at a minimum level of 95%. While input prices are not directly correlated to historical output prices, the steady increase in agricultural output in China has been accompanied by a matching increase in subsidies since 2003. This is because farming incomes are a political issue as well as an economic issue for China's leadership. After all, the communists' own rise owes much to the mobilisation of disgruntled farmers.

As pork prices soared over the past year, pushing inflation close to double digits, the government has adopted a number of policies both to boost pig production and to encourage higher grain production. The motive was not only to reduce feed-price inflation for the pig industry, but also to prevent grain prices from emerging as a separate driver of rapid price increases. The 13% export-tax rebate that was previously granted for wheat, maize and soybeans was cancelled in December 2007, and a tax on grain exports was imposed a month later. This has had the effect of isolating China's farmers from world markets where prices are much higher, preventing domestic prices from rising to world levels.

A further concern has been the rise in international fertiliser prices. Increasing input costs, some argue, could dissuade Chinese farmers from production, putting upwards pressure on domestic agricultural prices. So here too the government has been busy, holding prices for urea fertiliser down at around one-third of the international price and nearly doubling its total subsidies per hectare of grain this year. Export taxes also discourage fertiliser shipments abroad.

Good harvest

It seems likely that enough is being done with these steps and, if needed, more will continue to be done to constrain agricultural-price inflation for the rest of the year. The government already believes that the summer grain harvest, which accounts for nearly one-quarter of the annual total, will show a good increase.

But as with China's subsidies on oil products, the important question is whether the government can intervene continually in order to prevent Chinese grain prices from reaching international levels. Even though intervention has kept output close to consumption levels and domestic prices have not exhibited the large increases seen on global markets, this regime of state controls will need to be maintained for as long as international prices are at a large variance from the Chinese ones.

There remains the risk that further shifts in input prices, such as those for fertiliser and labour, would reduce farm incomes, requiring potentially higher subsidies or more interventionist controls. In such circumstances, it is even conceivable that greater smuggling of China's agricultural products abroad may result to take advantage of the higher prices on the world market. Price controls reduce China's policy flexibility. Worse, intervention to hold prices down now and ward off inflationary expectations in the short term could require greater price increases further down the line.

Price controls reduce China's policy flexibility

Not so mobile e-mail

The BlackBerry's tortuous launch on the mainland is another sobering lesson in the difficulty of doing business in China

In the realm of business communications, the BlackBerry is king. Many a meeting has been interrupted by the soft hum of an incoming e-mail, followed by a light tapping of the smart gadget's tiny keys. The suit-and-tie sets around the world are so addicted to the wireless device that it has even earned the nickname "CrackBerry." The BlackBerry can be found from Turkey to Trinidad, Iceland to India. Indeed, it has become synonymous with business on the move.

Not so in China. It was not until March, after nine years of agonising effort, its maker, Research in Motion (RIM) began offering the BlackBerry service in the country—and only to corporate consumers. This was the first step in the company's quest to conquer the world's biggest mobile-phone market. But China's main prize still eludes RIM—its vast and increasingly affluent consumer market, home to more than 500m mobile-phone users. RIM says it is taking a slow, calculated approach into the country as it has done in other markets. But many Chinese consumers ask: why can't they still get their hands on the device almost a decade after the BlackBerry was first introduced in North America?

Remarkable story

RIM is a remarkable success story. Founded in 1984 by an ambitious engineering graduate from Canada's University of Waterloo, the company now operates in 130 countries with a subscriber base of over 14m people. In fiscal 2008 net income reached US$1.29bn—up 105% from the year before. The company applied to sell the device in China in 1999, just months after it launched the BlackBerry in North America. Three years later and the same year RIM brought out the BlackBerry in Hong Kong it announced formal plans to enter the mainland market. It has been a rocky road ever since.

RIM's initial problems were regulatory. Though China's mountainous bureaucracy and web of red tape did hold back the BlackBerry, they were not the biggest obstacles. Analysts suggest government anxiety about its ability to monitor e-mail messages played an even bigger role. China is not the only country to raise concerns about RIM's security features. Some governments worry that terrorists could use the devices to communicate, while others object to their country's data being routed through RIM's Network Operation Centres in Canada.

In China, the concerns have been focused on RIM's encryption technology. Data submitted via BlackBerry messages are encrypted before they are transmitted. RIM's clients can add another layer of encryption by purchasing a BlackBerry Enterprise Server, which can be decoded by using an encryption key that only the purchasing company possesses (not even RIM has access to the key). All this makes BlackBerry messages difficult to monitor—a highly annoying feature for any government with a compulsively voyeuristic need to monitor its citizens' digital lives.

With regulatory approval pending, RIM in 2004 signed a letter of intent with China's largest wireless carrier, China Mobile. In May 2006 the partners announced a service deal that was to pave the way for the BlackBerry's roll out to corporate consumers. Analysts predicted that the deal would expand the potential number of BlackBerry customers in the world by as much as 25%. RIM was thrilled. "We've worked for a few years on this, and it's the right time with the right product and the right relationship," Jim Balsillie, RIM's chairman and co-CEO, told Canada's *Globe and Mail* at the time. The company said the devices would be on sale by the fall of 2006.

A year later BlackBerrys were still nowhere to be found in China. In the meantime, RIM's Chinese rivals—and even its local partner—launched competing wireless services. China Unicom, the country's second largest mobile operator, in April 2006 launched a blatant imitation, the RedBerry. The state-owned company's intention to knock the BlackBerry from its pedestal was clear. The RedBerry's software sends e-mails to mobile phones, including those made by RIM's rivals such as Nokia and Motorola. China Mobile, for its part, launched a similar push-mail service called LeadTone, which allows

The BlackBerry's Chinese rivals launched the RedBerry in 2006

RIM says the BlackBerry is the *de facto* standard for such devicess

subscribers to access e-mail on their existing mobile phones at a much lower price than the BlackBerry service was projected to cost. RIM shrugged off the competition, arguing that the BlackBerry is the *de facto* standard for global mobile-communications devices, geared towards a different market than low-cost competitors.

Reluctant to share

Then in June 2007 RIM was at last granted permission to sell the BlackBerry in China. But the BlackBerry's tortuous saga dragged on. A month later RIM said it expected to begin selling the devices by the end of August; 5,000 advance orders had already been received, a company manager said at the time. A key distribution deal was also signed with Alcatel-Lucent, a French telecoms giant. But through this February the BlackBerry was still missing. Again, no reason was given for the delay. Some analysts pointed to problems with China Mobile, saying the state-owned provider was reluctant to share the same amount of subscriber revenue (about US$8 per month) with RIM as Western carriers do.

RIM is mum on how its litany of problems were resolved to secure the March launch. Some analysts suspect RIM may have limited the distribution of advanced encryption technology in favour of a weaker encryption service that could be cracked (the company says it does not comment on its dealings with foreign governments). Or a revenue-sharing agreement perhaps more to China Mobile's liking was reached. Regardless, RIM is no doubt trying to put behind its troubled history in the country and focus on the future. After all, huge opportunity still lies ahead. China's potential BlackBerry buyers are only going to get richer, their demand greater—and RIM has already jumped the difficult first hurdle. Still, as to when exactly the BlackBerry might be available to ordinary Chinese consumers, RIM acknowledges that it will take some time yet. Some observers suspect the company still has touchy issues to work out with China Mobile. For those who can't wait, though, there is always a RedBerry for the taking.

In the money

The Economist Intelligence Unit forecasts impressive growth for China's financial-services sector in the next few years

The period to 2012 is likely to be one of considerable change and expansion for the Chinese financial-services industry. Currently, the market for financial and professional services remains underdeveloped. Penetration rates for many financial-services products are low by international standards, although they are growing rapidly. For example, in mid-2007 there were an estimated 43m credit-card holders in China—just over 3% of the population. Given that many consumers in more advanced economies have several credit cards each, the potential for growth in China is extremely large. Similarly, life-insurance premiums are presently equivalent to only around 2% of GDP. When matched against China's rapidly expanding wealth (GDP per head is forecast to rise to US$5,750 in 2012, from US$2,450 in 2007), the opportunities for the expansion of premiums are impressive.

Robust economic growth will underpin demand for financial services. In addition, political factors will encourage the development of the sector. Despite an improvement in its fiscal position in recent years, the government is unable to resume the sort of welfare support that it used to provide for pensions, education and health. It is therefore likely to encourage greater reliance on private providers in these fields. Fears about future economic well-being will also encourage the public to save more through pensions, mutual funds and savings accounts, bolstering already high savings ratios.

The government wants the financial sector to provide more pension, education and health products

As liberalisation of the banking sector has progressed, there has been a gradual change in the composition of lending in China, with a big increase in credit to individuals. Although corporate loans still predominate, consumer lending (which includes mortgage, car and education loans) has grown rapidly since it started in 1997. The quality of mortgage lending, which accounts for the majority of consumer loans, appears to be good. However, with property prices in many of China's biggest cities starting to fall, the sector is entering a dangerous period. Fraudulent borrowing for stockmarket speculation rather than housing is a particular concern, especially given the recent steep falls in China's equities markets. Despite these worries, consumer loans will remain a big growth area for Chinese banks, since they should generate higher risk-adjusted returns than corporate loans.

Persistent capital misallocation

According to the latest IMF Financial Stability Report, non-performing loans (NPLs) were equivalent to 6.6% of total loans in September 2007 (although other independent assessments put this ratio higher). This is a manageable level, but it is also an obvious sign of persistent capital misallocation. A major concern is that banks remain heavily dependent on the fortunes of the corporate sector. The inefficient nature of China's banking sector is demonstrated by the fact that although the private sector contributes 52% of GDP (according to estimates from the OECD), it accounts for only 27% of outstanding loans from the banking sector, with the vast majority of funds still being channelled by the government to state-owned enterprises (SOEs).

The government has introduced a number of reforms to improve the efficiency of bank lending. The main step has been to recapitalise the "Big Four" majority state-owned banks in a bid to reduce levels of NPLs. Altogether, a total of about US$350bn in NPLs has been removed from the banks' balance sheets. In addition, the government has promoted internal reforms to cut costs and create incentives for managers to improve lending decisions. The government has also encouraged foreign competition into the sector by allowing foreign banks to take stakes in the Big Four. It hopes that this will help them to raise their internal standards of risk management, while giving them access to the latest management ideas.

Meanwhile, after increasing fivefold between the start of 2006 and the end of October 2007, the Shanghai Composite Index (which tracks renminbi-denominated A-shares and hard-currency B-shares) more than halved in value between end-October 2007 and end-June 2008. Among the causes of the steep decline were rising inflation (which reached a 12-year high of 8.7% year on year in February, but has since slipped to 7.1% in June) and growing unease over the outlook for the Chinese economy, amid fears that interest rates may need to be raised sharply to prevent inflation from rising further.

Regulatory standards will be a central concern for the future development of China's financial markets. The China Securities Regulatory Commission has taken some commendable steps to enforce regulations, but its ability to act as an effective enforcer is limited by political constraints, such as the need to support loss-making SOEs on the exchanges. In addition, the increasing development of complex derivatives markets will increase the risk of financial fraud and market manipulation. In the past, such problems have undermined confidence in China's financial markets.

The development of derivatives markets could lead to more financial fraud

As for the insurance market, it remains relatively small, especially compared with the size of the population. The insurance sector generated around Rmb538bn (US$79bn) in premiums in 2006. The China Insurance Regulatory Commission announced recently that it expected premiums to exceed Rmb1trn in 2010. Market participants should not expect immediate explosive growth, but rather a gradual increase on the back of rising national levels of wealth. Insurance coverage will probably grow in the coming years, as the state rolls back the communist social security system and the market expands to include those companies and their employees who were previously uninsured. Moreover, owing to its huge population, if the mainland Chinese were to become proportionately as well insured as Taiwan's population, they would pay some US$1.65trn annually in premiums. This would make the Chinese insurance market the largest in the world.

Social climbing on horseback

Equestrianism is making inroads in China, mainly as a flashy hobby for status-conscious upper-class Chinese

Rich Chinese are fast developing a taste for all kinds of Western luxuries from Rolls-Royce limousines to Chanel bags and Chateau Petrus wines to foreign-bred horses. Yes, horses. These days marketers on the mainland are using equestrian themes on billboards to sell villas, cars and even mobile phones. Indeed, owning horses has become a status symbol of choice for millionaire businessmen like Zou Jingqing, who spent Rmb20m (US$2.9m) of his fortune made from his interior-decoration firm to open an equestrian club in the east-coast city of Qingdao.

Mr Zou bought horses from New Zealand and Germany to stock his 30,000-sq-metre Deray Horse Club. "It's the realisation of a childhood dream," says the portly businessman, who started to ride a decade ago during trips to Beijing and Shanghai. Speaking from his office which is plastered with photos of trips to stud farms in France, he says he next wants to share his love of equestrianism by building a hotel and entertainment complex around the club. A sign pinned to a wall of the club's indoor arena says: "Deray is the right place for a holiday."

Fashion sport

Not many people would agree, given the club's location in grimy Jimo, an industrial hinterland of Qingdao. Nevertheless, it has good facilities for visitors willing to pay Rmb320 for an hour-long lesson. VIP members can get unlimited riding for Rmb48,000 per year. So far, 20 have signed up for VIP membership. But Mr Zou is confident he will have at least 200 by the end of the year, by which time the hotel and karaoke bar will be open. In the meantime, to find more work for its 30 horses, Deray's promotional literature evokes both the conquering power of the horse-riding Tang dynasty armies and the thrill of participating in a modern-day "fashion sport."

Horse-club promoters are even evoking Tang dynasty cavalries

Sceptics think Mr Zou's dreams are galloping ahead of the reality. "Equestrianism is seen as fashionable now, but it's damn hard to make money from horses," says James Sun, general manager of Golden Horse, a Beijing-based horse-breeding and sales consultancy, which also runs a website listing equestrian events and fan groups (*www.horsemanship.cn*). Only one-third of equestrian clubs in Beijing currently are profitable, he adds.

Not many equestrian clubs in Beijing are profitable

But then, horse riding is an expensive hobby anywhere. The bills start to pile up starting with the search for a good horse. Mr Sun reckons that about 1,000 Beijingers own horses, usually stabled at local equestrian clubs. Most of the horses at these clubs are retired race horses purchased for about Rmb50,000 each from Hong Kong and Macau tracks. Local breeds like the Yili are not tall enough to compete in equestrian events such as jumping or dressage. So for his clients, Mr Sun recently purchased three Akal Tel horses, flown 7,000 km from Turkmenistan. The horses cost Rmb1m each.

History is being repeated as Chinese horse enthusiasts try to put their country on the international equestrian map. In ancient times the Han dynasty launched a war in Central Asia to get the Alka Tel, a slim, fast steed, to improve Chinese cavalries. Today China needs the Alka Tel again, this time to improve the bloodstock of local equestrian teams. The Alka Tel is good value compared with the €1m (US$1.6m) price tags for successful European show-jumping horses—although Chinese buyers are still dipping their toes and reluctant to spend more than €30,000 on an imported horse.

There is no shortage of foreign breeders keen to sell bloodstock to China. Equestrian bodies from Ireland, Germany, Russia and Spain travelled to an equestrian expo in Shanghai in November 2007. France's Union Nationale Interprofessionelle du Cheval and the French Racing & Breeding Commission also have organised tours of French bloodstock farms for mainland visitors. Last year Mr Sun himself took a group of ten Chinese breeders and equestrian-club owners to the annual Performance Sales International auctions in Aachen, Germany.

Betting on horse racing is banned in China

China's ban on gambling at the racing track means this staple of every good bloodstock industry never took off in the country. If the situation were to change, "this would ease the current shortage of horses and improve equestrian know-how in China," says Yiu Kak, vice-president of the Beijing Turf and Equestrian Association. Racing would catch on quickly in Beijing, which has three tracks, says Mr Sun. One city where horses will soon be allowed to race is Wuhan. Its Jockey Club is one of several exploratory racing organisations that have been set up in anticipation of the ban being relaxed. According to Mr Yiu, five years of persistent lobbying by its Hong Kong investors got the Wuhan club the green light for trial races in September. The government, however, still has not granted permission to bet on horses, though it has hinted that this may be allowed in 2009.

To raise the popularity of the sport among Chinese, equestrian advocates also realise that they need to promote it with more events and media coverage. In 2008 the Beijing Turf and Equestrian Association will oversee 20 events, including dressage, jumping and no-gambling racing. But "we need more promotion," says Mr Yiu, who already subsidises his Clearwood Stud, a 75-acres breeding centre and club with 80 horses, with earnings from a car dealership. "If nobody helps, this sport might die out."

Small prize

He would like to see more local government involvement. Others are not sure if bureaucrats, rather than equestrian experts, should lead the effort. More corporate sponsorship may be useful. But the sport's small support base discourages advertisers—stewards regularly outnumber spectators at events in Beijing. World equestrian champions own their own horses and tour the world to compete for prize money often worth €500,000 per event. In contrast, the winning team in China's 2007 national championships shared a prize pot of Rmb20,000, sponsored by a hodgepodge of local corporations, including a dressmaker in Nanjing.

"The Chinese, not being nomads, are not used to horses," Mr Yiu says. Still, he and other equestrian boosters are optimistic. The Beijing Turf and Equestrian Association counts 75 clubs (13 of which have racing events) among its membership. And three polo clubs opened in Beijing in the past three years. "That's something, considering a successful polo player needs half a dozen ponies to compete," notes Mr Yiu.

This is after all China, a country of outsized possibilities and fast multiplying tycoons who are impatient to outdo their Western peers. Mr Sun remembers being awed by the third largest stud farm in France with 200 horses. But he predicts, "there will be farms of 1,000 horses here someday." Why does he think so? Because in China, "bosses always have to be big."

Hot Scotch

Whisky sales in China are soaring, but distillers worry that Chinese drinkers are indifferent to its taste

Traditionally, liquor-makers have seen consumers switch from unflavoured white spirits (such as vodka and *baijiu*, a Chinese grain liquor) to flavoured spirits (such as whisky) as the market develops. But in China, older drinkers have tended to switch from *baijiu* to beer, while it has been younger consumers who have developed a taste for whisky. And among them, nothing is more popular than Scotch whisky, which is the No. 1 imported spirit in China, according to Martin Riley, Chivas Brothers' international marketing director.

The Chinese's growing taste for their product appears to have caught the Scotch distillers by surprise. Demand "is really putting a strain on stocks", says Matt Wright, market-development manager for Asia at Inver House Distillers, which is based in Scotland but owned by Thai Beverage. Scotch exports to China have surged over 50-fold since the turn of the century. One distiller reports that it has been turning down orders for younger whiskies so that it will have adequate supplies of older whiskies in the future. Another notes that some distributors in China are paying for empty bottles labelled as 12-year-olds from bars and filling them with younger whiskies. Some estimates put the number of fake bottles of Scotch sold as high as 1 in 4. Counterfeiters know that few consumers can taste the difference.

Low supply

The 12-year-old whiskies now being sold to consumers were put into oak casks when the world's whisky market was in a slump and Scotch exports to China amounted to just 70,000 litres a year. The challenge for distillers now is how to ensure that they have enough whisky in stock as the market continues to develop. Currently, Scotch must be aged in Scotland for a minimum of three years. Alas, it was only in 2007 the industry embarked on its first big expansion in production capacity in decades.

But as foreign players from other industries have found out, China's whisky market is also forcing distillers to play a different game than they have traditionally known. For instance, the bulk of spirits sales in China take place in bars and nightclubs, where group consumption and toasting are important. In such settings, whisky and other spirits are generally consumed as long drinks, with one bottle typically being mixed with 5 litres of ice green tea or soda water, diluting the alcohol content to 4-5%. This means that, even though whisky sales have surged, Chinese drinkers have not necessarily developed a taste for the product. According to Mr Riley, Chinese consumers mostly drink whiskies aged 12 years or more. This is unusual. In other markets, consumers start with younger blends before moving onto older ones and single malts.

At the same time, however, China's upwardly mobile young professionals have no qualms about paying more for premium products. This leads to some unusually stiff pricing. "The Chivas Regal 18-year-old is sold at double the price of the 12-year-old, while the Royal Salute 21-year-old is priced at double the 18-year-old," says Mr Riley. The brand's success is one reason why China has been the leading contributor to the growth of its parent company, Pernod Ricard, since it acquired Chivas Regal and Royal Salute from Seagram in 2001.

China is a big growth market for Pernod Ricard

Yet the overall sales of Scotch whiskies sometimes show baffling patterns. In the first nine months of 2007, for example, the UK's Scotch exports to China actually fell 24% year on year, to 3.6m litres from 4.7m litres. One factor behind the apparent slowdown is Singapore's recent emergence as a regional distribution hub. (Whiskies that Singapore re-exports to China do not show up as UK exports.) Last year Diageo, the world's largest spirits-maker, set up a logistics centre there, helping to propel the island-state to become the fourth biggest import market for Scotch in the world. Another factor for falling exports to China is that "consumers are worried about counterfeit goods", according to Inver House's Mr Wright. "Everything is about Scotch's perception as a luxury imported good. Consumers don't necessarily like the taste of it."

Scotch distillers thus cannot take their favoured standing with Chinese drinkers for granted. Pernod Ricard's Chivas Regal currently rules half of the whisky market in China, while Diageo's Johnnie Walker is playing catch-up with about a one-third market share. Undoubtedly, Chivas led the development of the market, Mr Riley says. In fact, Diageo pulled out of China in the 1990s, and it was only in 2007 that the company carved out a separate Asia-Pacific unit from its international division.

But both companies also face challenges from Thai Beverage, India's United Spirits (USL) and China's own Wuliangye Yibin. In November 2007 China's biggest *baijiu*-maker formed a whisky-making joint venture with Burn Stewart, a Scotch distiller. USL, for its part, had acquired Whyte & MacKay six months earlier. Between them, the three Asian companies control about one-tenth of malt-distillery capacity in Scotland and share the common strategy of blending whisky made in Thailand, India and China with Scotch. As these Asian distillers push their products in China, the difference among all types of whiskies on offer will become even more blurry for Chinese consumers. That could further dilute Scotch-makers' effort to instil in them an appreciation for the subtler tastes of whisky.

In fast-changing China, it is not easy selling a product that takes more than a decade to mature

In China, all whisky sellers are certain to continue to struggle with the complexities of supplying in a fast-changing market a product which takes a very long time to make. But Scotch distillers can at least take comfort in imagining that by the time the 12-year-olds which are being put in casks today have matured, China's market would have evolved into a more familiar one. Indeed, today's legion of club-hopping yuppie Chinese drinkers may well have morphed into a deeper-pocketed middle class with an enduring appreciation for the taste of fine whisky.

What's new in your industry

Automotive

Xuzhou Construction Machinery to venture into heavy-truck industry. Xuzhou Construction Machinery Ltd (XMCL) announced on July 10th that it would purchase a 60% stake in Nanjing Chunlan Auto Manufacturing, a medium- and heavy-truck manufacturer, from Jiangsu Chunlan Motorcycle. Chunlan Auto Manufacturing currently produces heavy trucks in five categories: lorries, storage trucks, box-types, self-unloading trucks and semi-trailer towers.

Consumer goods & retailing

Haier plans to cease production of energy-intensive air-conditioning units. Haier, a consumer-electronics and white-goods manufacturer, announced in early July that it would stop production of all high-energy air-conditioning (AC) units. A company spokesperson told state media that any AC unit with an energy-efficiency rating of over III would be phased out of production over an unspecified period. (China's AC energy efficiency is rated on a scale of I to V, with I representing the highest efficiency.) Meanwhile, the China Energy Conservation Association released reports that China's energy consumption has doubled to 160bn kwh in 2007, up from 80bn kwh in 2002.

Energy & power

Renewable-energy industry to benefit from higher surcharge. The National Development and Reform Commission (NDRC) in mid-July laid out plans to increase the surcharge on power generation and transmission facilities from Rmb0.001 (US$0.00015) to Rmb0.002 per kwh. The surcharges will be used to generate funds for the development of renewable-energy projects. The NDRC expects the state grid to sell over 3.5trn kwh of energy in 2008.

Datang power continues capacity expansion despite losses. China Datang Corp (CDC) announced on July 15th that the company incurred losses of Rmb1.48bn (US$218m) during the first five months of 2008. The company's thermal-power business accounted for Rmb2.3bn in losses, which were only slightly offset by CDC's other ventures. Despite such heavy losses, Datang announced that it would increase capacity by 13.4m kw this year, which represents a 20% year-on-year increase from 2007.

Financial services

China Merchants Bank gains approval for New York City branch. China Merchants Bank received a licence on July 8th to operate a branch in New York City, becoming the first mainland Chinese bank to receive such a licence in over 17 years. The branch office will offer lending and financial-trading services after its formal opening, expected later this year.

Healthcare & pharmaceuticals

Founder Group plans pharmaceutical-production facility in Chongqing. The Founder Group announced on July 11th that it will invest upwards of Rmb2.5bn (US$368m) to build a pharmaceuticals-production base in Chongqing. The new facility will house two of Founder's subsidiary pharmaceuticals enterprises: Southwest Synthetic Pharmaceutical and Chongqing Daxin Pharmaceutical. The project will be executed in two phases, the first to be completed by 2010. Once phase two is completed by 2013, Founder expects the Chongqing base to generate annual sales of Rmb5bn.

Metals & mining

Sinosteel wins takeover bid for Midwest of Australia. Sinosteel Corp, an iron-ore trader, announced on July 10th that it has successfully won a controlling share in Midwest Corp, an Australia-based iron-ore miner. Sinosteel appointed three members to Midwest's board of directors, with effect from July 11th. The successful bid marks the first hostile takeover of a foreign firm by a Chinese company.

Petroleum & petrochemicals

PetroChina leaves coal-bed-methane joint venture, takes ownership of methane blocks. PetroChina, a state-owned petrochemicals enterprise, announced on July 14th that it would sell its 50% stake in China United Coalbed Methane, most likely to the other 50% stakeholder, China National Coal Group. PetroChina will take away the rights to 20,000 sq km of coal beds with proven reserves of 5bn cu metres. Financial details were not released.

CNOOC releases outlook for Bohai Bay oil and natural gas. China National Offshore Oil Corp (CNOOC) announced in mid-July plans for oil and natural-gas exploitation in the Bohai Bay. According to test wells dug in its Kenli 10-1-1 wildcat well in the bay, CNOOC expects total production capacity for the region to reach 30m cu metres of oil equivalent per year by the end of 2010. The company also expects to discover another 150m-200m cu metres of oil equivalent per year in the bay.

Three biodiesel projects gain NDRC approval. The National Development and Reform Commission (NDRC) in early July gave the go-ahead for the development of three new biodiesel projects across the mainland: PetroChina Nanchang Refining & Chemical Plant for a 60,000-tonne-per-year venture in Sichuan; Sinopec Guizhou Oil Products Company for a 50,000-tonne-per-year project in Guizhou; and China National Offshore Oil Corp for a 60,000-tonne-per-year project in Hainan. The NDRC hopes that the approved projects will reduce the country's dependence on foreign imports, which accounted for over 30% of the 70m tonnes of biodiesel consumption in 2007.

Telecoms & technology

Motorola to focus on PDA mobile business in China. Motorola of the US revealed to the press in early July its strategy for the China market, detailing plans to focus on its personal digital assistant (PDA) mobile-handset business, as well as handsets for China's indigenous TD-SCDMA 3G wireless standard. As part of the announcement, Motorola unveiled three new PDA mobile handsets for China.

Transport & logistics

CSSC plans share issue to fund ocean-engineering projects. China State Shipbuilding Corp (CSSC) announced on July 9th that it will apply for government approval to issue 3.7m corporate bonds in order to fund eight large projects, including an ocean-engineering project and support services for Shanghai Waigaoqiao Shipbuilding. The bond issue would raise up to Rmb7.4bn (US$1.1bn) in funds for CSSC, Rmb2.8bn of which would be earmarked for its ocean-engineering businesses.

Joint ventures, contracts, MoUs and other agreements, Jul 8th to Jul 21st 2008

Agreement (date reported)	Participants (equity stake)	Value	Additional details
Automotive			
JV established (Jul 12th)	**Dongfeng Motor Corp** (51) of China and **Nissan Motor** (49) of Japan	US$224m	The two companies will jointly establish an engine factory in Zhengzhou to produce 3.0-litre engines for supply to Zhengzhou Nissan Automobile, a JV between the two firms
MoU signed (Jul 7th)	By **Chrysler** of the US and **Great Wall Motors** of China	—	The two companies will jointly assess the possibility of long-term co-operation in distribution networks and car-parts manufacturing
Aviation			
Agreement signed (Jul 11th)	By **Great Wall Airlines** of China and **Pratt & Whitney** of the US	—	Great Wall Airlines will contract Pratt & Whitney for a seven-year fleet-management agreement to service its Boeing 747 freighters powered by Pratt & Whitney engines
Construction			
Contract awarded (Jul 11th)	To **Guangdong Overseas Construction Group** of China by **King Khalid University** of Saudi Arabia	US$612m	Guangdong Overseas Construction will build 16 buildings and their annexes at King Khalid University over three years
Financial services			
Agreement signed (Jul 8th)	By **Shin Kong Life Insurance Company** of Taiwan and **Hainan Airlines** of China	—	The two companies will begin operations at their new Beijing-based insurance-services venture, Shin Kong Hainan Airlines, by October
Food, beverages & tobacco			
Agreement signed (Jul 15th)	By **China National Cereals, Oils & Foodstuffs Import & Export Corp (COFCO)** and the Henan provincial government, both of China	—	COFCO signed a strategic agreement to invest Rmb10bn in Henan province over a five-year period to develop food-processing businesses
Materials & manufacturing			
Agreement signed (Jul 11th)	By **Gansu Qilianshan Cement and China National Building Material (CNBM)**, both of China	US$6m	CNBM will acquire a 49% stake in a subsidiary of Qilianshan Cement, a cement producer with daily production capacity of 3,000 tonnes
Agreement signed (Jul 11th)	By **Harbin Electric**, **Weihai Hengda Electric Motor** and **Wendeng Second Electric Motor Factory**, all of China	US$54m	Harbin Electric will wholly acquire Weihai Hengda and Wendeng Second Electric through a wholly-owned subsidiary, Harbin Tech Full Electric
Metals & mining			
LoI signed (Jul 15th)	By **Wincroft** and **Apollo Solar Energy**, both of the US	—	Wincroft intends to acquire 100% of Apollo Solar Energy, which holds exclusive exploration and mining rights to the Dashuigou mine in Sichuan province
Agreement signed (Jul 11th)	By **China Natural Resources** and **Feishang Group Limited Technology**, both of China	US$25m	China National Resources will acquire from Feishang Group 100% of Pineboom Investments, which holds rights to a 17-sq-km coal mine in Guizhou
Agreement signed (Jul 9th)	By **China National Machinery and Equipment Import and Export Corp (CMEC)** of China and the government of Gabon	—	CMEC signed an agreement covering iron-ore reserves at Gabon's Belinga mine, which is expected to yield upwards of 30m tonnes per year over the next 25 years
Agreement signed (Jul 8th)	By **AnSteel** of China and **Vesuvius** of the UK	—	The two companies signed a strategic agreement on the joint development of refractory-materials ventures, including two factories and five production lines, on a 50:50 basis
Petroleum & petrochemicals			
Agreement signed (Jul 9th)	By **Royal Vopal** of the Netherlands and **SDIC Communications** of China	US$1bn	The two companies will invest Rmb7bn to jointly construct a commercial oil-reserve project in the Yangpu Economic Development Zone on Hainan
Agreement signed (Jul 7th)	By **Sinopec** of China and **Kuwait Petroleum Corp** of Kuwait	US$7.3bn	A proposed JV in Nansha, Guangdong province, by the two companies received regulatory approval and will begin construction this year
Property			
Agreement signed (Jul 15th)	By **ProLogis** of the US and **Nittsu Sinotrans Logistics Dalian**, a Sino-Japanese JV	—	ProLogis leased a 19,000-sq-metre space at ProLogis Park Dalian Free Port to Nittsu Sinotrans, a logistics-services JV between Sinotrans Liaoning Company and Nippon Express
Telecoms & technology			
Contract awarded (Jul 15th)	To **Nokia Siemens**, a Finnish-German JV, by **China Mobile** of China	US$870m	Nokia Siemens will assist China Mobile in planning, constructing and maintaining added network capacity for the latter company's GSM mobile network
Agreement signed (Jul 14th)	By **IDO Security** of the US and **Hwan Technology and Trade** of China	—	Hwan Technology, a maker of walk-through metal detectors, has agreed to distribute IDO Security's weapons-metal detection systems on the mainland

Regulatory watch

Agriculture

Central government gives go-ahead for development of transgenic species. On July 9th the State Council approved a new programme that will research and develop transgenic species for agricultural purposes. While no specific incentives were offered, the central government will reward companies developing high-quality, high-yield genetically modified species that help to promote the country's food independence.

NDRC tells firms to expect more price controls on chemical fertilisers. The National Development and Reform Commission (NDRC) announced in mid-July that chemical-fertiliser producers should expect the central government to regulate prices in the sector further. In June the NDRC froze the price of chemical fertilisers to decrease knock-on effects on domestic consumer-price inflation. The Sichuan earthquake decreased national fertiliser-production capacity, slowing output growth to 2.9% month-on-month in May, which was the third-lowest monthly growth rate in two years.

Farmers and co-ops to gain exemption from VAT. The finance ministry and State Administration of Taxation on July 8th jointly circulated a notice that purchase contracts between farmers and farm co-operatives for farm products or production materials are now exempt from state tax. The exemption to the value-added tax (VAT) applies to all products made by member farmers sold by farm co-operatives, as well as any production materials purchased from co-ops by member farmers. Chemical fertilisers, machinery, pesticides and seeds will all be exempted from the VAT. The exemptions went into effect on July 1st.

Financial services

Banking watchdog to begin trial period for legalisation of small lenders. Beginning in September the China Banking Regulatory Commission (CBRC) will allow small lenders to begin legally offering money-lending services to Chinese citizens on a trial basis. A press release in early July from the CBRC stated that small-lending practices represent a multi-billion dollar annual business. But such practices had previously operated without government licences, meaning this sector of China's economy went untaxed and unregulated. Participants in the trial would be encouraged to lend to farmers and small businesses, but would not be allowed to accept deposits. No details were given on the awarding of licences for the trial programme.

Natural disasters

Central government modifies subsidies plan for earthquake survivors. The State Council released a statement on July 12th noting changes to its temporary subsidies plan for survivors of the May 12th earthquake in Sichuan province. The new plan will extend subsidies of Rmb200 (US$29) per person per month to survivors through November, by which time most activity outside the worst-hit areas should return to normal, according to Wen Jiabao, the Chinese premier. The previous subsidies guaranteed Rmb10 and 500 g of food per person per day and was slated to continue through August. Eligible persons for the new state subsidies include the elderly, orphans, the disabled and those whose residences were destroyed in the quake. Individuals who qualify under multiple categories could receive as much as Rmb600 per month.

Olympic Games

Beijing firms encouraged to cut work hours during Olympics. The Beijing municipal government issued a statement to the city's businesses in mid-June encouraging shortened or staggered work hours for employees during the Olympic Games, which start on August 8th. State-owned firms will be required to shorten their work days, beginning work an hour later and leaving an hour earlier than previously required. Other businesses are also encouraged to stagger their working hours, allowing employees to alter arrival and departure times from work while maintaining similar total hours. The plan will ostensibly serve to lessen air pollution and relieve traffic pressure in the city. Beijing currently allows over 3m registered vehicles to operate within city limits.

Banners to be banned from Olympic venues. The Beijing Organizing Committee announced on July 14th that fans would not be allowed to carry banners into venues during the Olympic Games. Its press release stated that any banner supporting specific teams would violate the Olympic Games' mandate to provide a fair competitive environment. Banners supporting religion or politics were also singled out as potential threats to social order during the games. Commercial banners from companies other than those with Olympic partner status will also be banned from venues between August 8th and August 24th. A number of other items were also outlawed in the same press release, including cameras, radios and musical instruments.

Telecoms & technology

Taiwan president states intention to relax investment restrictions on chipmakers. Ma Ying-jeou, Taiwan's president, announced in early July his intentions to relax restrictions faced by Taiwan chipmakers seeking to invest in mainland China. Taiwan currently allows semiconductor fabricators to produce chips measuring eight inches or smaller and employing processes larger than 0.18 microns. But with the announcement in 2007 by Intel of the US that it would manufacture 12-inch chips at its Chinese factories beginning in 2009 with 65-95 nanometre technology, Taiwan chipmakers have fallen behind the curve. Taiwan's government plans to ease restrictions over the next few months, as long as the steps do not conflict with the Wassenaar Arrangement of 1996, which prohibits enterprises from making technology transfers to China that could potentially enhance the mainland's military capabilities.

Utilities

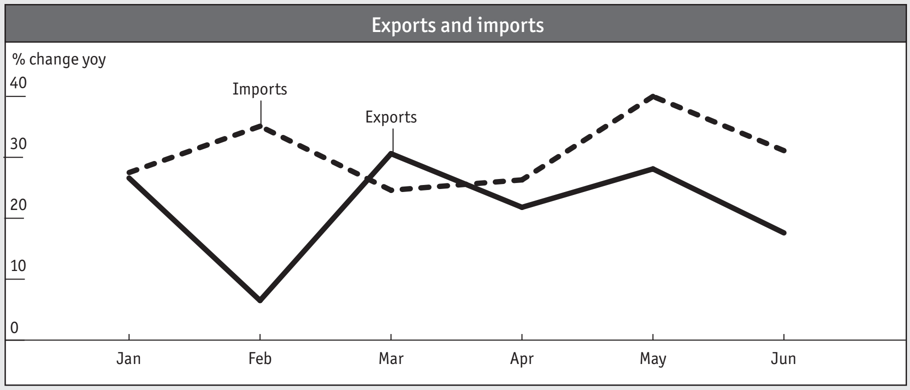
New standards for natural mineral water to be published. The General Administration of Quality Supervision, Inspection and Quarantine (GAQSIQ) has drafted standards to govern production of drinkable natural mineral water, according to a press release issued on July 10th. The proposed standards would restrict levels of bromate in mineral water to 0.01 mg per litre; previously, no restrictions were present. Ozone sterilisation, a process for ensuring potable water, results in trace levels of bromate in mineral water. The chemical has been shown to cause cancer in animal trials. Draft standards are available for public comment on the GAQSIQ website (*www.aqsiq.gov.cn*).

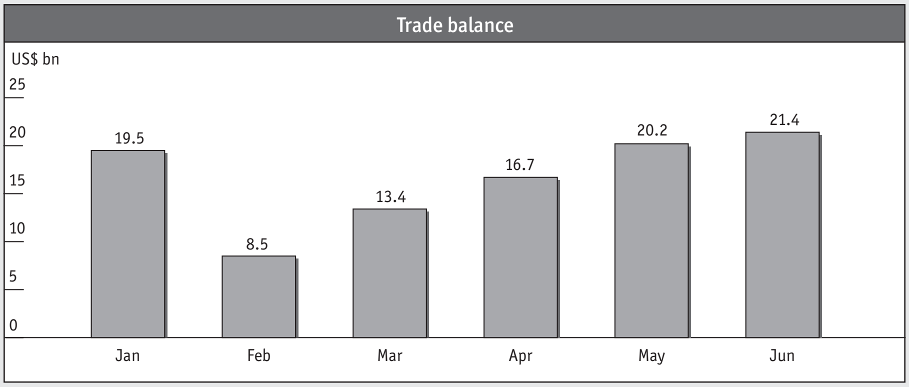
Losing steam?

China's export-revenue growth slowed to 17.6% year on year in June, the weakest performance since February, when snowstorms had hampered trade by disrupting transport networks and Chinese New Year celebrations led to factory closures. Nevertheless, export revenue hit a new monthly record of US$121.5bn. Import growth by value also slowed, to 31%, from 40% in May. The merchandise trade surplus narrowed to US$21.4bn from US$26.9bn a year earlier.

The sharp slowdown in export growth may place pressure on the government to allow the renminbi to appreciate more slowly in order to protect the competitiveness of Chinese manufacturers. The Economist Intelligence Unit expects that the trade surplus will remain huge during 2008-09. However, import growth should outstrip export growth in proportional terms as export demand slows in response to rising domestic costs, the renminbi's appreciation, weaker world demand and tougher regulatory standards.

Selected indicators





Sources: Chinese customs, CEIC, Goldman Sachs

Money and prices—monthly indicators

	Currency	Units	8/2007	9/2007	10/2007	11/2007	12/2007	1/2008
Money supply								
Stock of domestic credit	Rmb	bn	31,814.90	32,343.60	32,472.10	32,796.40	33,965.90	34,516.20
Stock of money M1	Rmb	bn	14,099.30	14,259.20	14,464.90	14,801.00	15,256.00	15,487.00
Stock of money M2	Rmb	bn	39,025.70	39,638.60	39,764.80	40,330.10	40,710.90	42,216.30
M1 (% pa)			22.77	22.07	22.21	21.67	21.05	20.54
M2 (% pa)			18.90	19.29	19.38	19.36	17.63	19.94
Interest rates								
Lending interest rate (%)			7.02	7.29	7.29	7.29	7.47	7.47
Deposit interest rate (%)			3.60	3.87	3.87	3.87	4.14	4.14
Money market interest rate (%)			3.01	3.65	3.94	4.64	4.77	4.63
Inflation and wages								
Consumer prices (% change pa; av)			6.50	6.20	6.50	6.90	6.67	7.10
Consumer price index (1990=100; av)			107.70	108.00	108.40	109.20	110.30	111.60
Consumer price index (2005=100; av)*			107.70	108.00	108.40	109.20	110.30	111.60
Producer prices (% change pa; av)			2.56	2.71	3.21	4.55	5.43	6.07
Financial indicators								
Stockmarket index**			5,480.11	5,827.66	6,251.53	5,112.13	5,521.49	4,600.12
Change in $ value of stockmarket index (% pa)			230.82	233.45	241.49	145.63	118.52	70.09
Change in $ value of stockmarket index (% period-on-period)			17.07	7.05	7.88	-17.46	9.41	-15.30
IMF credit (net)***	US$	m	0.00	0.00	0.00	0.00	0.00	0.00

*The consumer price index rebased to 2005=100 by the EIU. **Shanghai A-Share share price index, 21/02/92=100.
***IMF purchases and loan disbursements minus repurchases and repayments of loans.

Sources: IMF, China National Bureau of Statistics, China Statistical Information Center, People's Bank of China, China Stock Exchange, Economist Intelligence Unit

Economist Intelligence Unit

Only the paranoid survive

China's domestic market remains a bright spot, but businesses can never be too vigilant about watching for early signs of a downturn in Chinese consumer demand

By Duncan Innes-Ker

So far this year most foreign investors in China have been concerned with two problems facing the business sector: the negative impact of the slowing world economy on Chinese exports, and the extra regulatory burdens—not least those related to making sure the Olympic Games will be pollution-free—being imposed in a range of fields. But despite these troubles, many executives have comforted themselves with the belief that, whatever the problems abroad and whatever extra hoops the Chinese government was making them jump through, the rising potential of the domestic market would ensure the success of their China operations.

This view looked solid in the first quarter of 2008. National sales figures seemed to shrug off the impact of the ice storms that paralysed much of the country over the Chinese New Year holiday in February. Now, though, retailers are beginning to look at domestic demand more nervously as negative evidence mounts in a growing number of industries. For instance, mobile-phone sales in May were up by just 8.4% year on year, compared with 18.4% growth in January-April. Car sales also slowed sharply in April-June, taking the year-on-year growth rate for the first six months to 14%—a dramatic plunge from the 24% increase seen over the whole of 2007.

Puzzling figures

Fortunately, economy-wide statistics so far do not back up these sector-specific examples. The National Bureau of Statistics (NBS) figures for retail sales show a steady acceleration over the first five months of the year (except for the usual volatility around Chinese New Year). Sales in January-May were 21.1% higher than in the same period of 2007, with only the mildest of slowdowns in May. This partly reflects the impact of soaring inflation, but even in real terms growth appears faster than in 2007.

But can the NBS figures be trusted? There are many reasons why one might expect the consumer-goods sector to be struggling at the moment. The devastating earthquake that struck Sichuan province in May clearly had a negative impact on sales, especially of high-end goods, as buyers sought to avoid ostentatious purchases at a time of national mourning. Recent floods in the south of the country also may have cooled consumption in that important market. True, businesses can ride out such one-off events. But it remains unclear whether the recent problems in some industries reflect delayed purchases, or a more fundamental reversal of consumer sentiment.

On this front, too, there is reason for concern. The surging costs of food and fuel are eroding consumers' power to purchase less-essential items. In addition, the Chinese government's tight monetary policy is not helping matters. Restricted access to credit is likely to have an impact in fields where purchases are made with borrowing, such as cars. The policy is already causing strains in China's property sector. Transaction levels have plummeted in several of the more exuberant housing markets, such as Shenzhen and Shanghai. The link between the volume of house sales and those of household appliances and refurbishment goods is well established internationally.

A bigger concern—albeit hypothetical at this time—than all of this is that the deteriorating outlook for China's economic prospects in the next few months could encourage the famously frugal Chinese households to save even more for potential rainy days to come.

In fact, however, the NBS numbers are strong enough to suggest that talk of a collapse in consumer confidence is premature. The official data still provide the best picture of overall sales trends, not least because the retail industry is so fragmented that reports from a few large firms or sectors can be misleading. Moreover, some retailers continue to report extraordinary rates of growth. For example, Gree, a big domestic appliance-maker, expects its first-half profits to be double those in the same period of 2007 on the back of robust sales growth. More encouraging still is the fact that Chinese consumers' underlying income growth remains strong. Urban household incomes were 11.5% higher year on year in the first quarter, while rural dwellers saw 18.5% growth.

The government, for its part, continues to pursue a range of policies designed to promote consumption. These include targeted efforts to boost spending in specific areas, such as a pilot programme to encourage rural sales of household appliances. Less directly, the government's New Socialist Countryside policies aim to strengthen public-welfare systems, thus encouraging people to spend rather than save for their health and education needs. So the long-term outlook for China's domestic sales remains bright, and short-term turbulence should only affect some sectors. Of course, companies should always keep an eye out for signs of impending trouble. But as of yet, there is little evidence that they need to reassess completely their hopes for China's domestic market.

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