

Hong Kong & Mainland China News – Mar-2013

Joint ventures in China

by The journal of The Hong Kong Institute of Chartered Secretaries

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Although China is a very lucrative and attractive market, business success in China is difficult. James Chapman, Partner, Foley & Lardner LLP, argues that foreign companies can save themselves millions of dollars and reap great rewards by learning from those that have previously succeeded and failed in China. He sets out some key best practices that will put companies on the road to success.

China, like any foreign market, is difficult to succeed in alone. The business practices, language, culture, legal environment and other obstacles, make success in China elusive. In addition, Chinese law requires a foreign company to have minority ownership of enterprises operating in certain industries such as banks and insurance companies. For these reasons, joint ventures in China are common.

Joint ventures in China have achieved a reputation for being difficult to manage. Reasons include differing expectations, overestimation of the Chinese partner's market position, conflicting management styles, lack of integrity, corruption, and greed. Parties will come together, usually after lengthy negotiations, and celebrate the formation of the joint venture and only a short while later, after millions of dollars of losses, wonder what went wrong. There are a number of reasons why few joint ventures in China succeed while most fail. Most of these involve understanding the intangible aspects of doing business in China.

Some aspects should be highlighted when considering Joint Ventures in China:

- Carefully select your joint venture partner
- Always allow your Chinese partner to maintain face
- Develop relationships with the personnel working in the joint venture
- Don't try to cut corners – many foreign investors enter into joint ventures without sufficient due diligence
- Succeeding in China requires an understanding of the intangible aspects of doing business in China, including the cultural assumptions, and communication and working styles of Chinese business partners
- An on-the-ground presence in China is essential – this helps to develop the necessary relationships and is instrumental in identifying problems early and being in a position to solve them
- Maintain a strong legal foundation for your business, including a strong anti-bribery policy and legal compliance programme

The Global Financial Crises

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Since the global financial crisis, companies have become much more focused on the need for effective risk management and this increased attention has resulted in more sophisticated metrics for the assessment and mitigation of risk. These metrics work reasonably well where companies are considering the most common risk scenarios, such as compliance risk or cyber security, but they are less suited to a consideration of the strategic risks businesses face as a result of macro-level and long-term global trends.

The reason for this is fairly obvious. In today's complex and fast-changing global environment it is difficult to predict which trends may become a real threat and global risks are largely beyond any individual company's control or influence. This does not mean, of course, that they can be safely ignored. In some sectors, notably the energy sector, the need to address the big picture – issues such as geopolitical instability, climate change, terrorism, etc – has been recognised for some time. But more recently there has been a growing perception that many global trends pose considerable long-term uncertainty that will ultimately require a response from every business.

More direct investments mooted: CE

by news.gov.hk, Hong Kong
Wednesday, March 13, 2013

The Government is urged to be more proactive in economic development, Chief Executive CY Leung said, adding it will make direct investment in key industries if necessary, as it has done before.

Mr Leung was speaking after the Economic Development Commission's first meeting, at a press briefing he hosted with Financial Secretary John Tsang and Secretary for Commerce & Economic Development Gregory So.

He said the Government attaches great importance to economic development, and deep-seated concerns over issues such as poverty, housing, an ageing society, and young people's upward mobility can be addressed through strong and sustained economic development.

The commission is not only a discussion forum or platform, he stressed. Its recommendations can be incorporated into the next Policy Address and Budget, if the Government accepts them.

Mr Leung hopes the commission can put forward detailed suggestions on ways to develop industries, and advise the Government on its role.

Import, export volumes up

by news.gov.hk, Hong Kong
Thursday, March 14, 2013

Hong Kong's goods re-exports' volume rose 17.4% in January compared with the same period last year, while that of domestic exports rose 16.9%, the Census & Statistics Department said today.

Taken together, the total exports' volume rose 17.4%, and imports' volume rose 24%.

The price of Hong Kong's goods re-exports rose 0.3% in January year-on-year, while that of domestic exports increased 4.4%. Taken together, the price of total exports rose 0.4%. Imports' prices rose 1%.

Comparing the three-month period ending January 2013 with the same period last year, the volume of Hong Kong's goods re-exports increased 13.9%, while that of domestic exports was up 4.4%. Taken together, the volume of total goods exports increased 13.8%. Concurrently, the volume of imports rose 13.6%.

Comparing the three-month period ending January 2013 with the preceding three months on a seasonally adjusted basis, total goods exports' volume increased 8.7%. Within this total, re-exports' volume rose 8.9%, while that of domestic exports fell 3.3%. Imports' volume rose 4.8%.

HK, GD to strengthen smuggling combat

by news.gov.hk, Hong Kong
Friday, March 15, 2013

Hong Kong and Guangdong will establish a new mechanism to facilitate closer co-operation in anti-smuggling operations by strengthening communication and information exchanges, and taking sustainable and effective measures to combat organised parallel trading activities.

The two sides will continue to promote cross-boundary renminbi business development, including expanding cross-boundary renminbi lending to other Guangdong cities such as Nansha and Hengqin. They would also promote cross-boundary renminbi business innovation and developments that allow individuals to participate.

Hong Kong insurance companies will get support to set up Guangdong operations, while Guangdong enterprises will be encouraged to establish captive insurers in Hong Kong, to promote mutual access to the two places insurance markets.

The two sides will also facilitate joint-venture companies' establishment in the securities, advisory, fund and asset-management sectors.

Uptick in China March factory activity

by thestandard.com.hk, Hong Kong

Thursday, March 21, 2013

Manufacturing activity in China improved in March after expanding at its slowest pace in four months in February, HSBC said, lifting hopes for a pick-up in the world's number two economy.

The preliminary purchasing managers' index (PMI) came in at 51.7 for the month, from a final 50.4 in February, which was the lowest reading since October, it said in a statement, AFP reports.

PMI is a widely watched barometer of the health of China's economy, with a reading above 50 indicating expansion while anything below points to contraction.

The uptick in March PMI was bolstered by stronger new orders and production growth, Qu Hongbin, a Hong Kong-based economist with HSBC, said in the statement. "This implies that the Chinese economy is still on track for gradual growth recovery," he said.

Both input and output price indexes decreased this month, the survey showed, indicating inflation was not yet an imminent concern.

"Inflation remains well behaved, leaving room for Beijing to keep policy relatively accommodative in a bid to sustain growth recovery," he said.

China's economy expanded 7.8 percent in 2012, its slowest pace for 13 years, in the face of weakness at home and in key overseas markets.

But growth accelerated in the final three months of last year to 7.9 percent, snapping seven straight quarters of weakening expansion.

However, the latest indicators from the government point to a slowdown in industrial production growth and retail sales last month, suggesting a budding recovery may be fragile.

Tax haven Cayman Islands ex-PM faces theft charges

by thestandard.com.hk, Hong Kong

Thursday, March 21, 2013

An ousted former premier of the tax haven Cayman Islands was charged in a corruption investigation, and his splintered political party pledged to stand behind him as May elections approach.

The Royal Cayman Islands Police Service announced that McKeeva Bush was charged with five counts of theft, four counts of breach of trust and two counts of misconduct in public office. He was released on bail and is due to appear in the British Caribbean territory's Grand Court next month, AP reports.

In December, governing party, opposition and independent lawmakers voted to oust Bush in a parliamentary vote of no-confidence a week after his arrest on suspicion of theft related to misuse of a government credit card and other allegations. He remained a lawmaker representing West Bay as well as leader of the United Democratic Party after most of his colleagues quit the party and formed a minority government.

With parliamentary elections scheduled in less than two months, the United Democratic Party said it was "proud to have Mr. Bush as its party leader." He is the islands' longest serving politician, having first been elected in 1984, and wielded great power within the territory.

"I have done nothing illegal and will defend every one of these charges," Bush said in a statement issued by the party.

The Cayman Islands is the world's sixth largest financial center and a major haven for mutual funds and private equity.

Property market is cooling down: CE

by rthk.hk, Hong Kong

Friday, March 22, 2013

The Chief Executive, C Y Leung, said on Friday that the property market has started to cool down following a series of measures which the government began introducing last October. Speaking at a financial conference, he said the measures were finally working and stressed that the government will intervene in the market in future when necessary.

Some people attending the forum questioned whether the government was doing too much since about half of Hong Kong's population was already living in subsidised housing. Mr Leung said the government was not trying to be populist.

Asked if the government would consider cutting taxes to enhance Hong Kong's competitiveness given its huge fiscal surplus, Mr Leung side-stepped the question. But he said the government would devote the money in four areas: housing, poverty, ageing population and the environment.