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Super rich continue to cut back on presents > p17

Cracking down

China curtails smuggling of ivory on black market

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Homeward bound

Many US-based companies find it rough going in China

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COMMERCE

US wants fair trade with China: top official

By FU ZHENDONG
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The United States is now focused on completing negotiations of a high-value Trans Pacific Partnership (TPP) that does not seek to exclude, but rather help China, a senior US diplomat said on Wednesday.

"It is not specially about China one way or the other," said Wendy Sherman, US undersecretary of state for political affairs. "It is about a group of countries coming together to create an important market that will benefit China as well, even if it is not a member of TPP at this moment."

Sherman, also head of the US team on the P5+1 nuclear negotiation with Iran, told reporters in Beijing when asked about the policy intentions of President Barack Obama when he said that the US, instead of China, should "write the rules" for trade in Asia in his State of the Union address last week.

"What we want to make sure of is whatever country will play by international norms in a fair playing field. We are happy to compete with anybody," said Sherman, who was in Beijing on her first stop of an Asia trip that will later lead her to Seoul and Tokyo.

On Tuesday, US Trade Representative Michael Froman declared that talks on the TPP pact involving 12 Pacific Rim nations are set to conclude within a "small number of months".

Last week, Chinese Foreign Ministry spokeswoman Hua Chunying said China and the US should work out economic and trade issues that come up amid cooperation in a "candid and practical" way and jointly contribute to "further improvement of global trade rules".

"We no doubt welcome a prosperous China, which is good for the US. And a strong American dollar and economy is good for China," Sherman said.

"In 2008, when we had economic crisis, there was this mythology among many investors that Chinese and US economies were decoupled. We all learned that was not the case at all," she added.

Analysts said otherwise regarding concerns that China may face a new round of economic and trade barriers once TPP is fully established.

Li Hiding, a professor of US studies at China Foreign Affairs University, said more clashes in the economic realm are expected to erupt as both countries seek to set new rules to lead global recovery and regional integration.

"The US has to embrace a 'new reality' of bilateral relations with China, which feature securities and cooperation simultaneously," Li said.

"It should also be noted that the two largest powers will manage differences in a 'case by case' approach to maintain overall stability and high-light cooperative efforts, such as in tackling climate change," he added.

Dan Steinbock, research director of International Business at US-based India China and America Institute, said China's new reforms have shifted economic and trade "flash points" between the two countries.

"The role of bilateral trade deficits has been overshadowed by the rapid rise of China's foreign direct investment in the US. And as efforts to accelerate innovation-led competitiveness in the mainland, Intellectual Property Rights are increasingly a part of Chinese policies as well," he said.



Your honor meets your honors

Tao Kaiyuan (center), vice-president of Supreme People's Court of China, poses with Associate Justice of the Supreme Court of the United States Ruth Ginsburg (left) and retired Associate Justice Sandra Day O'Connor in the US Supreme Court in Washington on Wednesday. Tao, who led a six-member delegation to the US this week, also gave talks on rule of law in China in the Asia Society Texas Center in Houston and the Brookings Institution in Washington. PROVIDED TO CHINA DAILY



Wendy Sherman, US undersecretary of state for political affairs

E-COMMERCE

US law firms review Alibaba's fakes issue

By JACK FREIFELDER
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Two New York-based law firms are investigating investor claims about the business practices of Alibaba Group Holding Ltd in light of a critical Chinese government report about counterfeit goods being sold on a company platform.

The Rosen Law Firm, which concentrates its practice in securities class action suits, said in a statement Thursday that it was "investigating potential securities claims" against Alibaba, China's largest e-commerce company. Rosen said it is preparing a lawsuit against Alibaba to recover shareholder losses stemming from misinformation.

Pomerantz LLP, which focuses on corporate, securities and antitrust class litigation, also said it also was looking into claims

against Alibaba on behalf of investors.

The investigation will center on whether or not Alibaba and some of its officers have violated portions of the Securities Exchange Act of 1934. At issue could be whether Alibaba should have disclosed in a Securities and Exchange Commission filing that it was being investigated by the Chinese government over counterfeit goods sold through its Taobao Marketplace website.

The probe had started before Alibaba's record-breaking US initial public offering in September. If any material information was not disclosed in the IPO prospectus, there could be lawsuits against Alibaba and its underwriters, according to Recena Aggarwal, a finance professor at Georgetown University.

Shares of Alibaba closed Thursday at \$59.81, down \$5.64, or 8.8 percent on the New York Stock

Exchange, shaving close to \$20 billion in market cap. The company released fourth-quarter earnings estimates Thursday that missed analyst expectations.

Alibaba was criticized in a report by China's State Administration for Industry and Commerce (SAIC) on Wednesday that said the company is not doing enough to prevent fake goods from being sold on its websites. The report accused Alibaba of allowing merchants to operate without required business licenses, which has given counterfeiters an avenue to peddle knock-off goods.

"Alibaba not only faces the biggest credibility crisis since its establishment, it also casts a bad influence for other Internet operators trying to operate legally," the report said.

Alibaba bristled at the accusations, and Taobao earlier this week announced that it will file a complaint against the SAIC's Internet regulation director, Liu Hongliang, claiming that he drew inappropriate and non-objective conclusions after the investigation.

SEE "ALIBABA" PAGE 3

DEFENSE

US, China say no change in military ties

By CHEN WEIHUA
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The US Defense Department and the Chinese Ministry of National Defense said on Thursday that US policy and military-to-military engagement strategy with China has not changed, contrary to a media report that said the Pentagon wouldn't agree to a major new military exchange until the two countries can agree on rules for airborne encounters between their warplanes.

"Our military-to-military ties with China have exchanged positive momentum, and are beginning to demonstrate positive outcomes. Our actions speak for themselves," Pentagon spokesman Jeffrey Pool told China Daily on Thursday.

He noted that Deputy Assistant Secretary of Defense for East Asia David Hevey will host Rear Admiral Li Ji, deputy director of the Chinese Ministry of National Defense Foreign Affairs Office, in the Defense Policy Coordination Talks (DPCT) at the Pentagon on Feb. 5.

Pool's comments were in response to a story in The Wall Street Journal on Wednesday under the headline "US Pauses New China Exchanges". The story did not cite sources for its report or contain comment from the Pentagon. The story said the delay does not affect existing military-to-military exchanges.

In Beijing, Ministry of National Defense spokesman Yang Yujun described the newspaper report as "unbelievable".

The Journal did not immediately respond to a request for comment from China Daily USA.

The newspaper story cited Randy Forbes, a Republican congressman from Virginia, who leads a House subcommittee on sea power, as having said that the Pentagon has pushed the military exchanges without clearly saying what they hope to achieve.

The newspaper quoted Undersecretary of Defense Christine Wormuth as saying in a letter to Forbes that "US policy toward China is based on the premise that it is profoundly in both countries' interest that we develop a cooperative relationship that brings a rising China into that system while constructively managing the differences between our two countries."

Yang, China's National Defense spokesman, told a briefing on Wednesday that the two countries achieved positive results in 2014 in building a new type of military-to-military relationship compatible with the new type of major-country relationship, citing new progress of increasing high-level exchange of visit, joint training and exercises and other exchange programs.

During US President Barack Obama's visit to Beijing last November, the two countries signed memorandums of understanding on establishing confidence-building mechanisms, including air and sea encounters and notification of major military activities. Yang described the two MOUs as a "new highlight in the China-US bilateral military ties".

SEE "MILITARY" PAGE 2



From left: Former US Secretaries of State Henry Kissinger, George Shultz and Madeleine Albright testify before the US Senate Armed Services Committee on Thursday about global challenges and US national security strategy. CHEN WEIHUA / CHINA DAILY

DISASTER

MH370 verdict reached

By PENG YINING
and XU WEI in Beijing

The disappearance of Malaysia Airlines Flight MH370 was officially declared an accident on Thursday under international aviation rules, according to Malaysia's Department of Civil Aviation.

All 239 passengers and crew members are presumed to have lost their lives, said aviation minister Abdul Rahman, director-general of the department.

Despite search efforts over the past 327 days, the plane has not been found. Thursday's announcement will allow families of the passengers to obtain assistance through compensation.

Shortly after the Malaysian announcement, Premier Li Keqiang said it is a difficult moment for all involved.

He urged Malaysia to locate the bodies and wreckage "by all possible means" and fulfill its commitment to

compensate the families and deliver an investigation report.

"The Chinese government shares the deepest sorrow, and our sympathies go to the next of kin," Li said. "The government, other governments involved in the tragedy and international organizations have done their best over the past year to find the plane and comfort the families," he said.

Li made the statement at a news conference with visiting French Prime Minister Manuel Valls in Beijing, after the two held talks.

The plane disappeared on March 8 last year on a flight from Kuala Lumpur to Beijing. It carried 12 crew members and 227 passengers, including 154 Chinese citizens. Air traffic controllers lost contact with the flight deck about an hour after the plane took off.

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In the news

CHINA Border talk

China and South Korea meet in a prelude to addressing maritime border disputes. > p4

HONG KONG Stock scandals

Transparency is the key for HK-listed mainland companies that are targets for short-sellers. > p7

LIFE Watch yourself

The impending rise of the Swiss franc has not sent Chinese luxury-buyers rushing to buy the country's famed watches. > p14

Wintour on China

The Vogue editor raves about fashion trends and the impact that Chinese models have had on the business. > p14

BUSINESS Slower growth

Almost all the provincial governments in China are lowering their economic growth forecasts for the year. > p17



Bringing back 'Made in USA'

Many US-based manufacturers are finding that having an operation in China is no longer giving them what they used to get: low-cost products. And they are coming home in greater numbers. PAUL WELTZKIN reports from New York.



Miller Manufacturing Co. considered suppliers in China for beekkeeping supplies. Instead, the Minnesota company partnered with Kelley Beekeeping of Clarkson, Kentucky (above). After strong sales, Miller and its parent, Framson Corporation, purchased Kelley last year. PROVIDED TO CHINA DAILY

For 74 years, Miller Manufacturing Co in Egan, Minnesota, has been a successful maker of farm, ranch and pet products distributed in the United States, Canada and overseas. Like other US-based manufacturers, Miller CEO Dan Ferrise had suppliers in China; they made products like the company's "Chow Tower" automatic dog feeder. In 2013, after seeing a sharp increase in shipping and labor costs in China, Ferrise decided to have the dog feeders molded at a plant in Minnesota.

The dog feeder marked Ferrise's slowly turning away from China and back to the US. "We wanted to market beekkeeping supplies and considered Chinese suppliers. Instead we partnered with a company in Kentucky," Ferrise said.

Frustrated with the sales and quality of the products, Miller and its parent (Framson Corporation) purchased Kelly Beekeeping of Clarkson, Kentucky, last year. "We wanted to secure our product source and now we employ 115 in our beekkeeping supplies business," he said.

Ferrise is not alone in returning contract manufacturing to the US from China. After years of vacating the US for lower-cost China, manufacturers are reshoring — bringing production back to the US.

While not a tidal wave, reshoring is at the very least a discernible trend. Management consultant A.T. Kearney said in 2013 there were 210 reshoring cases and estimates about 300 for 2014. In 2010 there were 16.

"Even though there is no torrent of renewed manufacturing activity moving the needle just yet, it's clear that the reshoring movement is growing. At the very least, it should make US companies think twice about where they will manufacture their products in the next few years," Kearney said last year in a report entitled *Solving the Reshoring Dilemma*.

Reshoring estimates

"Back in 2010, we projected that it (reshoring) wouldn't really get started until 2015. That's because it takes time for a company to consider all of the factors on where to locate a plant. Our estimate is that reshoring will bring around 2.5 million to 5 million jobs to the US over the next five-plus years," said Hal Sirkin, senior partner and managing director of the Boston Consulting Group and a professor at Northwestern University's Kellogg School of Management.

In its third annual survey of senior level US manufacturing executives from companies with at least \$1 billion in yearly revenue, Boston Consulting Group and a professor at Northwestern University's Kellogg School of Management.

Even though reshoring has gained some traction, it doesn't mean that US firms will abandon China and its

manufacturing sector completely.

Harry Moser, founder and president of the Reshoring Initiative, an industry-funded nonprofit based in Kildeer, Illinois, that promotes US manufacturing, said that the US is now more competitive with China in manufacturing.

"The US is competitive with some products but not all products. The US is competitive for products that are sold in the US, but not competitive for products sold in China or Asia. US labor costs are still higher (4 to 5 times) than in China, but US productivity is higher, which makes up a lot of the labor difference," he told China Daily.

Ferrise of Miller Manufacturing said many factors have to be considered when outsourcing to China or any other foreign country.

"For example, what does it cost to qualify a supplier in China, what will you do if there is a delay in shipping or if there is a longshoreman's strike and customs always has the potential to become an adventure," he told China Daily.

Ties remain

But even Ferrise hasn't broken all his ties with China. "We get components from Mexico and China. We will make a blend to reach our primary threshold," he said.

Another factor limiting reshoring is that many suppliers in a manufacturing supply chain also have relocated to China.

"Once US companies decided to move production to China, about two to four years later their suppliers also moved to China. We find that companies are coming back to the US, but many of their suppliers are staying in China. They are being cautious," said Patrick Van den Bossche, a partner at Chicago-based A.T. Kearney and one of the authors of the reshoring report.

"Ten years ago, it was a slam-dunk case on whether it's cheaper and more productive to manufacture in China over the US. That is not the case anymore," said Moser.

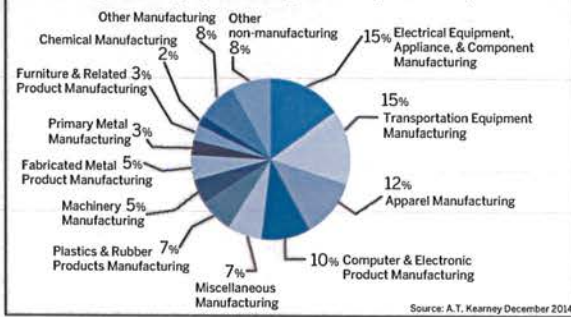
According to Sirkin, if transportation costs are high, US companies are more likely to reshore.

If US labor costs are high, a company is less likely to bring manufacturing back. The ideal situation for reshoring is high transportation costs abroad and low US labor costs, he explained.

The US has regained its manufacturing competitiveness because companies have managed to address most of their major costs. "Manufacturers in the US have done a good job in maintaining costs and increasing productivity. This has helped large contract manufacturers to look at and in many cases choose a US location," said Sirkin.

Shipping products from China is time consuming and costly. Chinese wages are rising and the Chinese currency is appreciating and energy prices such as electricity and natural gas are lower in the US. It's estimated

Reshoring Activity by Industry Sector (percent cases)



Source: A.T. Kearney December 2014

that about 25 percent of what the US imports from China to be sold in the US, would actually be more profitable if it were made here," said Moser.

Nothing illustrates that better than the sharp increase in apparel manufacturing returning to the US last year. According to Kearney, of the top three reshoring industries in 2014 apparel manufacturing was third at 12 percent behind electrical equipment, appliances and transportation equipment manufacturing at 15 percent each.

"Of all the industries, apparel would be one of the last you would expect to return to the US because apparel manufacturing supposedly required lots of cheap labor," Van den Bossche told China Daily.

While labor costs have stabilized in the US, they have risen sharply in China. Van den Bossche said the labor cost advantage still resides in China, but the gap continues to shrink as labor costs will continue to increase on the mainland. In the Yangtze River Delta region, he said labor costs averaged 82 cents an hour in 2001. In 2014, those same labor costs averaged \$4.93 an hour.

One dynamic in apparel manufacturing that is tuning out to be an advantage for the US is close proximity to a company's target market and supplier. "Being closer to a market source means an apparel company can operate with less inventory and working capital. It also means they can adjust quickly to fashion trends which tend to shift in a heartbeat," Van den Bossche said.

Inventory management is an even bigger reason than labor costs some manufacturers cite for shifting production back to the US.

Plastimold has eight employees and may have to add up to 10 more to make a mold for a medical product that was made in China.

"We are building a mold for a customer who has been in China. Even though it will cost more to do the mold here, he wants that because of the proximity. It's worth it to him because he can drive over to us and make changes in a day. Plus he doesn't have to speak Chinese," Parisi told China Daily.

He said more of Plastimold's business is coming from companies that used to outsource to China. "When you add in shipping costs and the quality we deliver, the price here isn't that much higher than what you get in China."

Reshoring to the US is being supplemented by Chinese companies moving manufacturing operations to the US for many of the same reasons US companies are returning.

CEO Xin Hu developed Taizhou Fuling Plastics Co Ltd in China, starting with a small factory with 10 employees and now employs more than 1,200. Taizhou Fuling makes plastic cutlery, cups, plates, straws and other tableware items for fast-food restaurants.

Later this year Fuling is scheduled to open a plant in Upper Merionette Township, Pennsylvania, in the Lehigh Valley north of Philadelphia. It is expected to employ 75 workers who will make and ship straws.

Outsourcing factors

Miller's Ferrise said outsourcing production involves many considerations. "I know that the Chinese New Year is coming up (Feb 19). That means the country will shut down for about a month. You need to build up inventory before that and then store it. It can get expensive."

"Increasingly Chinese companies are establishing manufacturing operations in the US," added Moser of the Reshoring Initiative.

"Estimates vary on how many of these new (manufacturing) jobs are the result of reshoring from China or elsewhere, but as US exports grow and the trade deficit between the US and China lessens, this could boost bilateral relations between the two countries. America's large trade deficit with China has fueled calls for the Obama administration and Congress to take action against what critics allege are unfair trade practices, such as China's fixed exchange-rate policy," she said.

Nick Vyas, professor at the University of Southern California's Marshall School of Business in Los Angeles, said in an e-mail to China Daily that because the US and Chinese economies have been interconnected for decades now, there will likely be a push toward collaboration in the growing technological aspect of the future of the manufacturing sector.

"A 'technology race' similar to the cold war arms race between the US and the Soviet Union could develop as the Chinese laborer slowly becomes replaced by robotics. However, I sense a trend towards collaboration and idea sharing. The US and China are major hubs for consumerism and while the US has led innovation over the past century, Chinese social and economic dynamics make it a breeding ground for possible large-scale innovation in the near future. A collaborative effort is in the best interest of the two powerhouses," he said.

robust economy. If China's growth rate were to slow down below the target, then it might be a different story. But I don't see that happening."

Meredith Miller is the senior vice-president of trade, energy, and the economic affairs group at the National Bureau of Asian Research in Washington. She said China's leadership is working to grow the services sector and develop a more consumption-based economy.

"If successful, this effort will shrink the manufacturing sector's overall contribution to the economy. That said, China's manufacturing sector as a value added percentage of GDP (gross domestic product) is still fairly high and has hovered around 31 to 32 percent since 2005 according to the World Bank," she said in an e-mail to China Daily.

Wage increases

Miller said there are several factors behind the rise in wages in China including the government's effort to boost consumption, to improve living standards by increasing the minimum wage and to shift to higher income services jobs.

"I don't expect reshoring to reach a stage where it affects diplomatic relations with China and in the long term may help the relationship.

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