

# China Trying to Upgrade Its 'Made in China' Image

**Twelve Chinese companies agree to purchase \$4.3 billion in U.S. software, hardware and services and also offer to help build a research center in California as a way to improve trade relations.**

Those who control the image strings for government and business interests in China, the world's largest single market, are trying hard to bury the country's well-embedded "Made in China" image and embrace a new one: "Created in China."

The huge Far Eastern country, which ran up a staggering \$232.5 billion trade surplus with the United States in 2006, is reinvesting some of that capital back into America through several large purchasing agreements with software companies, as well as by helping to establish new IT research facilities here in the states.

China is also attempting to change its image from a cost-effective, product-producing nation to one that is more inventive and research-oriented.

At a splashy media event May 9 at the Mark Hopkins Hotel in San Francisco, representatives of several corporations and trade associations from both China and the United States gathered to sign long-term purchasing and marketing agreements that will bring some \$4.3 billion into the American economy.

The event was staged on the eve of the second strategic economic dialogue between the two superpowers. Chinese and U.S. trade representatives are to meet May 23-24 in Washington for talks on Beijing's surpluses, currency controls, product piracy and other issues that have been nagging U.S. businesses and the government for years.

The Chinese representatives signed 27 contracts and an investment deal with their American counterparts. Many of the signings were simply a formality; most of the business deals have been in process for various periods of time.

A dozen Chinese companies - including computer maker Lenovo, China Netcom and Semiconductor Manufacturing International - concluded deals with 23 U.S. companies in the software, semiconductor and telecommunications sectors. Microsoft, Oracle, Cisco Systems and Hewlett-Packard were among the U.S. companies involved in the agreements.

## **Microsoft lands biggest software deal**

Microsoft, the world's largest software maker, landed the largest piece of the \$4.3 billion pie when Lenovo committed to purchasing \$1.3 billion this fiscal year in Windows XP, Windows Vista, Microsoft Office and other software to run its desktops and laptops.

Lenovo, which acquired IBM's personal computer line in 2005, is currently ranked fourth behind HP, Dell and Acer in worldwide market share. According to a recent Gartner market report, Lenovo holds 6.3 percent of the market.

"Microsoft ... believes that respect for intellectual property rights is critical to the sustained development of the software industry. Efforts like this to promote the use of genuine software help to support the protection of intellectual property in China," a company spokesperson told eWEEK.

"We further applaud the Chinese government for taking significant steps toward ensuring the use of genuine software in China, and for promoting a healthy intellectual property environment, which we

believe is vital for China to realize its full potential as an innovation leader."

In April 2006, Lenovo and Microsoft sealed a similar deal for \$1.2 billion in an effort to get legitimate copies of Windows back on Chinese PCs.

For years, China has been criticized for not doing enough policing and law enforcement in trying to slow down the rampant black- and gray-market counterfeit software and hardware trade in that country.

### **\$95 million for research facility**

Hong Yuan Machinery, from East China's Jiangxi Province, agreed to invest about \$95 million to establish a research center in San Francisco. Details about the center were not available at press time.

"As China continues its path of economic development, one of the things that their government policy has advocated going forward is to move from 'Made in China' to 'Created in China,'" said Daryl Hatano, vice president of public policy for the Software Industry Association in San Jose, Calif., one of the organizers of the May 9 event.

"And that means many things. At its core, it means they don't want to stay 'low-value' manufacturing. So, 'Created in China' means really moving up the value chain. And I think, over time, it is to develop world class companies that have recognizable brands, and that are operating outside of China, as well as in China," Hatano said.

Over time, China would like to have manufacturing here in the U.S., Hatano added.

"This event underscores China's resolution to explore more U.S. investment and strengthen the understanding and mutual development between the two sides," said Ma Xiuhong, vice minister of China's Ministry of Commerce and head of the delegation, which is composed of 369 Chinese business leaders.

California Lt. Gov. John Garamendi told the gathering: "These agreements are an important step in furthering the deep relationship between this state, this country and China."

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