

*Diaz Reus attorney Joe Zhang speaks at Global Financial Crisis Conference*

Shanghai, China - December 27, 2008

On December 27, 2008, Diaz Reus and China law firm, Tong Yuan, held a conference in Shanghai on the current global financial situation and its effects on China. Spanish Bank BBVA Group's Chief Economist for China, Dr. Liu Li Gang and Diaz Reus Attorney, Joe Zhang both spoke to the attendees. Members of Shanghai's business and government community were in attendance.

Dr. Liu started his speech on the origins of the financial crisis in the U.S. and continued his presentation on world economic trends and impact analysis on Chinese companies. "As the economic crisis spreads, the recovery of the US economy depends critically on whether the U.S. can quickly resolve its bad debt problem so that banks can start lending again," said Dr. Liu. On emerging market risks he mentioned that this economic crisis has had a large and adverse impact on Eastern Europe and Russia, while Asia and Latin America have weathered the financial crisis relatively well largely because of their sound initial conditions coming into the crisis and their large foreign exchange reserves.

Dr. Liu also mentioned that this U.S. economic crisis will not be as severe as the one in 1929 for three reasons. First, in this crisis, the U.S. Federal Government has provided supplemental capital to its banks to avoid a full crash of the bank system. Second, the WTO is in place to prevent local trade protection. Third, the U.S. financial system is sophisticated enough and supported by an efficient legal system that can effectively address the bad debt problem.

On fiscal policy responses, Dr. Liu thinks the U.S. and China have large room to maneuver and have been proactive so far, but European countries have lagged behind. As a result, the U.S. economy will recover faster than the European one, but it will still take about one to two years for the U.S. real estate market to recover.

At last, Dr. Liu shifted his focus to China and discussed the economic environment for Chinese companies and gave suggestions about investment opportunities in Latin America. Dr. Liu pointed out that whenever the GDP of the G3 countries (Germany, Japan and the US) goes down 1%, China's GDP will go down 0.73%. However, Dr. Liu is still positive about China's economy and believes that it is likely to maintain a growth rate of 8% in GDP in 2009. In addition, he pointed out that despite the global financial crisis, it is a good time to invest in Latin America, especially for China because of its current growth pattern and much depreciated currencies and reasonable asset prices.

Attorney Joe Zhang's speech covered the crisis and how businesses should protect themselves. The recent financial tsunami creates some golden opportunities for business owners seeking to make overseas investments. However, at the same time, the current economy's status creates many potential risks in business dealings. As a result, business owners should act with special caution when doing business with a foreign party.

Before committed to the investment, a business owner should fully investigate the market and legal environment of the target country, including the feasibility evaluation of the investment, market structure analysis, entry barriers, as well as laws and regulations on antidumping, antimonopoly and importing and exporting restrictions. In addition, a business owner should also conduct detailed due diligence against the foreign business partner to fully understand the financial status of the foreign party and potential legal risk for doing business with that party. The best way to conduct a comprehensive and effective due diligence investigation is through an

experienced professional investigator who is well connected in the target country. Such investigator can be an individual, a business consulting company or, more often, a law firm.

In addition to the investigation prior to the investment, a business owner should also pay special attention to the contracts with the foreign party. Currently, few small- and medium-sized businesses (SMB) in China are using well-drafted contracts when doing business with foreigners. In many situations the only written evidence documenting the transaction would be the purchase orders or invoices. Even in the limited situations where the parties actually sign a formal contract, most of the time, they are just boilerplate. This kind of careless dealing has caused many troubles in the past, and will cause even more trouble considering the current global economy status. Several suggestions for the SMB owners on essential provisions that must be well-drafted in a written contract: quantity and specification of the products, time and method for delivery, payment, inspection, transportation, remedy for default, and dispute resolution.

Another problem business owners in China have been facing is overseas debt collection. According to the American Institution of Commercial Law, the success rate for the recovery of an overseas debt within one month of the due date is 93.8%, the number drops to 57.8% when it's two months after the due date. After 2 years past the due date, the injured party will only have a 13.5% chance to recover the debt. Therefore, it is very crucial to hire an experienced law firm at an early stage and start the debt collection process as soon as possible. In the case where the opposing party has shown a good faith effort to make timely payment and has demonstrated the ability to make a substantial portion of the delayed payment within a short a period of time, we recommend our clients to negotiate an alternative payment method, e.g. pay by installments or reduce interest, in order to preserve the business relationship. On the other hand, for parties maliciously delaying the payment, we recommend our clients to initiate legal proceedings immediately.





