505 Doing Business in China and the Pacific Rim

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Faculty Biographies

Zhi-Ying James Fang

Zhi Ying James Fang is a partner at the Los Angeles and Shanghai offices of Davis Wright Tremaine LLP. Mr. Fang has over 20 years of experience in representing U.S. companies doing business in China, particularly in structuring, documenting, and negotiating strategic alliance, merger and acquisition, joint venture, assets-based financing, and BOT projects for U.S. and international clients; advising U.S. technology clients on developing strategies and programs for intellectual property protection and licensing, distribution, joint R&D projects, troubled business work-out, and representing U.S. clients in judicial, arbitration and administrative proceedings in China. He also represents many Chinese companies doing business in United States.

Prior to joining Davis Wright Tremaine LLP, Mr. Fang worked as a foreign attorney with Brown & Wood in New York, and Preston, Thorgrimson, Ellis & Holman in Seattle (presently Preston Gate Ellis). He was also a law professor in international business law and department director of the East China Institute of Political Science and Law. He practiced law in China, as well.

Mr. Fang is speaks frequently for various conferences, seminars, and training programs in the United States and China. Among them are programs sponsored by the Ministry of Justice of China, the Prince of Wales Business Leaders Forum, and those for various provincial governments in China as well as the University of Washington Law School and the Willamette College of Law.

Mr. Fang received a master of laws (equivalent to an LLM) from the Shanghai Academy of Social Sciences Law Institute; he also received an LLM and PhD in Comparative Law from the University of Washington School of Law.

George A. Pisaruk

George A. Pisaruk is general counsel and assistant secretary of Three-Five Systems, Inc., headquartered in Tempe, Arizona. Three-Five’s worldwide operations also include China, the Philippines, and the United Kingdom. He provides legal counsel to the company’s worldwide operations and its board of directors on a variety of issues, including corporate governance, intellectual property, securities and business transactions, employment, and international matters.

Prior to joining Three-Five, Mr. Pisaruk held various professional positions in the contracts/subcontracts, operations, and purchasing fields for Westinghouse Electric, Molex, and Hewlett-Packard. Mr. Pisaruk has worked in both government contracts and commercial avionics, and has extensive experience in international transactions with entities in Europe, Asia, and the Middle East.

Mr. Pisaruk speaks frequently on international law and business issues at the Arizona State University School of Business and the Thunderbird American Graduate School of International Management. He is a member of the Arizona State Bar.

Mr. Pisaruk received his BS and MBA from Arizona State University, and his JD from the University of Nebraska.

Thomas M. Yih

Thomas M. Yih is senior counsel—international for Storage Technology Corporation in Boulder, Colorado. His responsibilities include providing legal counsel to StorageTek's international divisions on transactional matters, corporate governance, employment, and U.S. export compliance.

Prior to joining StorageTek, Mr. Yih was associate counsel with Maytag Corporation. While at Maytag, he led the International Trade Practices Group, established a pro bono program, and began his pursuit of an MBA at the University of Iowa.

Mr. Yih has had two articles published in the *ACCA Docket*, "Creating an International Distribution Database and Termination System" and "Six Steps to Better Foreign Counsel Relationships."

Mr. Yih received a BA from Wittenberg University and is a graduate of Suffolk University Law School.

THREE-FIVE SYSTEMS, INC.

Three-Five Systems

American
Corporate
Counsel
Association

October 17, 2001

THREE-FIVE SYSTEMS, INC.

Introduction

- TFS manufactures display modules for use in a variety of electronic equipment and cell phone applications
- Markets products and services in North America, Europe, and Asia
- Manufacturing & Production facilities in Tempe, Manila, & Beijing

THREE-FIVE SYSTEMS, INC.®

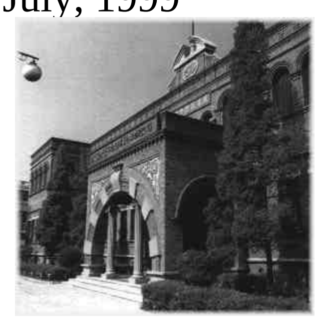
TFS Sales and Customers

- The Company's has relationships with Motorola, Mitsui, Hewlett-Packard
- Our customers are constructing production facilities in China
- Over 40% of 2000 net sales were to customers in Asia

THREE-FIVE SYSTEMS, INC.®

Three-Five Systems (Beijing) Co., LTD

- Commenced manufacturing operations in 1998 (leased building)
- 60,000 square foot manufacturing and design center completed in July, 1999
- 10,000 class clean room
- Over 700 employees
- Over 150 are professionals



THREE-FIVE SYSTEMS, INC.

Three-Five Systems (Beijing) Co., LTD

- All of the professionals have college level or advanced degrees

THREE-FIVE SYSTEMS, INC.

People’s Republic of China

THREE-FIVE SYSTEMS, INC.

Lessons Learned in China

- Relationships are key to succeeding in China
  - Guanxi
  - Face
  - Hierarchy

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Lessons Learned in China

- Intellectual Property
  - China is a member of WIPO (1980)
  - Chinese Patent Law passed by Congress in 1984 (Chinese Patent Office)
  - 20 year protection on patents
  - Infringement (2) options
    - Patent Office
    - Court

THREE-FIVE SYSTEMS, INC.

Lessons Learned in China

- Intellectual Property
  - No trade secret protection in China (UTSA)
- Be careful of the IP you bring into China
- Future….This area will become more "westernized" in the near term

THREE-FIVE SYSTEMS, INC.

Lessons Learned in China

- Choice of business entity should be based upon your specific situation and goals
  - 4 main types of entities for foreign investment
    - Equity Joint Venture (EJV)
    - Contractual Joint Venture (CJV)
    - Technology Joint Venture (TJV)
    - Wholly Foreign Owned
    - Enterprise (WFOE)

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Pros & Cons of Investment Options

EJV	• Easier approval • Built-in guanxi • Can be cheaper	• Less control • IP risk higher • Guanxi can be a limitation
CJV	• Little investment risk	• Very little control
TJV	• Centralized R&D	• Can lose IP if divest later
WFOE	• Greater control over hiring, quality, IP distribution	• More expensive • Restricted to certain sectors

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Lessons Learned in China

- WFOE is subject to a separate law for foreign enterprises
  - *The Law of the People's Republic of China Concerning Enterprises with Wholly Foreign Investment (April 1986)*
- ***Expropriation is not a problem in China***
  - No cases since 1978

THREE-FIVE SYSTEMS, INC.

Lessons Learned in China

- Contracts are ***very*** different in China
  - A contract is just one of several pieces of paper in a relationship
  - Integration and parole evidence rules do not exist
  - The form contract vs. side agreement dichotomy
  - Patience will be rewarded in negotiations
  - Know your BATNA

THREE-FIVE SYSTEMS, INC.

Lessons Learned in China

- Land cannot be privately owned in China
- Foreign enterprises can obtain long-term leasehold rights
- In China mandatory labor contracts are required between the enterprise and the employee(extensive)

THREE-FIVE SYSTEMS, INC.

Lessons Learned in China

- Corruption is a major concern in China
  – Know the FCPA
- Try to locate your enterprise in *Special Economic Zones*
- SEZ's are established by the Central Govt. to promote and attract international businesses (TFS is in a SEZ)

THREE-FIVE SYSTEMS, INC.

Lessons Learned in China

- Dispute resolution is ***very*** different in China
  – Arbitration is the norm
- China has an extensive notary system
  – *"Know where your chop is"*

THREE-FIVE SYSTEMS, INC.

GAAT & WTO

- Responsibilities of a GAAT member
  - MFN Treatment
  - National Treatment
  - Tariff Concessions
- China Original signatory to GAAT (1947)
- China now has observer status (1982)

THREE-FIVE SYSTEMS, INC.

GAAT & WTO

- Uruguay Round petitioned for contracting party status (denied)
- 1990 request deferred based on (among other factors)
  - Tiananmen Square (policy reform)
  - China's economy which may be classified as a non-market economy
  - Only reforms will allow GAAT

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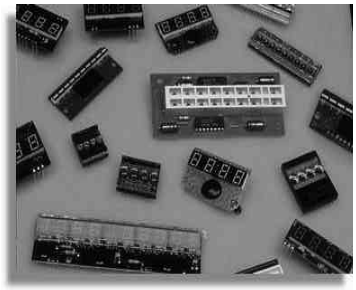
Conclusion

TFS made the right decision in opening operations in China and looks forward to expansion in this area



DOING BUSINESS IN CHINA AFTER ITS ENTRY INTO WTO

By

Zhi-Ying James Fang, Esq.
Davis Wright Tremaine LLP

China, with more than one fifth of the world's population, is due to become the 142nd member of the World Trade Organization next year. China's entry into WTO will no doubt lead to an increasingly unfettered exchange of ideas and commerce between China and the rest of the world, and offer greater investment and business opportunities to foreign companies. For U.S. companies that wish to benefit from such opportunities, the China market is exciting and alluring. It is crucial, however, for such companies to understand the Chinese economic and legal landscape both as it exists now and as it may be affected by China's entry into the WTO, in order to make the correct investment choices that not only suit their strategic needs but also are feasible in an unfamiliar economic, and cultural environment. This article will briefly examine the overall Chinese market and China's unique business and legal environment, before moving on to a discussion of the statutorily permitted forms of business investment and activities for foreign companies in China, particularly in relation to China's entry into the WTO.

1. What Makes China an Attractive Marketplace?

In contrast to the recent slow-down in economic growth in Europe and the U.S., and recession in Japan[1], China's economy seems to have remained strong. Since 1992, China's GDP has been increasing at a rate of double digits until a brief slowdown during the Asian financial crisis in 1997. In 2000, China's economy bounced back, with the growth rate of GDP reaching over 8%, and the economic indicators in early 2001 show an even more dynamic growth for this year. The economic growth of the recent decade has given birth to a middle class in China, particularly in the coastal cities, with notable purchasing power. For example, for the year of 2000, in the city of Shanghai, the annual income per capita reached 3,000 United States Dollars; California Citrus, even with 35 to 40% import duties, has become a popular daily consumption of average Chinese families.[2] China's semiconductor market, estimated to be a U.S. $8 billion per year market already, is growing rapidly and expected to become the third largest semiconductor market in the world in 2001, and the second largest by 2010.[3] China's market potential lies with its vast population and rapidly-growing purchasing power.

Furthermore, China offers one of the world's most competitive labor forces. While the cost of labor remains low, the quality of the labor force is improving

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[1] Caught in the Jaws, *The Economist*, June 21, 2001.
[2] Orange Growers at Both Sides Get Squeezed, *Los Angeles Times*, A-1, August 1, 2001.
[3] Semiconductor Industry Hails U.S. House Approval of China PNTR, http://www.semichips.org/news, May 25, 2000.

dramatically. It was hard to find a qualified, good English speaking staff when China first opened up more than 20 years ago, but nowadays, the supply of people with language capability is abundant. China has many talented young computer engineers, software programmers and chip designers, and after proper training, China could become the most competitive provider of human resources in the world's high-tech industry. China has become a land not only for labor intensive processing, assembly and manufacture, but also for offering a pool of young talent to the R&D centers of many leading foreign high-tech companies for their cutting edge technologies.

Because of the business opportunities brought about by such economic growth and an attractive labor force, China has become one of the most popular areas for foreign investment in the world. In 2000, the total foreign investment that flows into China and Hong Kong has reached U.S. $102.8 billion, increased by 137% from U.S. $43.4 billion in 1995, and 13 times of U.S. $7.5 billion in 1991. With the further opening up of China's market after its entry into the WTO, more foreign investment is expected.

2. The Business Environment with "Chinese" Characteristics.

2.1. <u>What are these Characteristics?</u>

To develop and maintain a successful business in China, it is critical for American companies to understand not only the Chinese culture, but more importantly, its unique economic environment. The following are a few unique aspects of the Chinese business environment that American businesses need to keep in mind in formulating an investment strategy and selecting an entry structure in China.

2.1.1. <u>"Understanding the Industry Policy"</u>. An overarching goal of China's open-door policy is to develop a self-sustained industrial system with the assistance of foreign capital and technology. Under this policy, the Chinese government agencies at the central and the local levels issue guidelines for foreign investment which specify the industries and product lines in which foreign investment is encouraged, permitted, restricted or prohibited. Although many medium to small sized manufacturing projects are welcomed, to ensure that China's industrial policy is well served, China's planning authority has tight control over foreign partner selection and the project approval process in key industrial projects. In certain industries, wholly foreign owned subsidiary is not permitted, and in some industries or areas, foreign participation in a joint venture is limited to the minimum extent necessary for the venture to obtain technology. Under this general guideline, any project that upgrades products, uses advanced technologies, or substitutes imports will be encouraged.

2.1.2. <u>Understanding the "Integration Process"</u>. Despite the country's successful steps toward a market economy, China's bureaucratic apparatuses, whether local or central, continue to play a significant role in controlling and policing foreign investment activities. An important aspect of such control is the approval requirement for foreign investment. Every foreign investment project, whether an equity joint venture, cooperative joint venture or wholly foreign owned subsidiary, must be approved by the Ministry of Foreign Trade and Economic Cooperation ("MOFTEC") and its designated agencies before beginning its operation. More precisely, two approvals are required: One is the approval of the project proposal, which must be granted before actual substantive negotiation begins; the other is the final approval of the result of the negotiation, *i.e.*, the feasibility study, joint venture contract, articles and other ancillary documents such as the technology licensing agreement. The purpose of China's approval process is to integrate a project into the national economy, and is the means through which the Chinese government exercises its control over foreign investment to ensure full compliance with its industrial policies.

To the foreign investor, the approval process can be a source of delay and bureaucratic red tape, a process that potentially may give the Chinese party with the right connections leverage in bargaining for more favorable terms than would otherwise be reached between the parties. But the process can also be one in which the government actually helps the foreign investor survive. Given that China is still dominated by economic plans, it is through government planning that the limited utilities and raw material resources of the country are allocated. In certain situations, even the market share will be determined through such a planning process. During the approval process (which is also a resource allocation and coordination process), the approval authority will work with all the government agencies and utility companies involved to pave the way for the new venture and "integrate" the investment project into China's economy.

2.1.3. Understanding the Limits to Business Scope. Unlike companies in the U.S., which can engage in all types of profit making businesses except perhaps in a few specialized industries, China businesses open to foreign investment enterprises are, to a certain extent, limited. For example, many foreign firms may wish to engage in foreign and domestic trade, but this is one area in which they are excluded. As a result of China's planned economy, import and export authority is traditionally a privilege reserved for state owned companies. Foreign investment enterprises are allowed only to import the raw materials and parts necessary for its manufacture; and export only its own product unless, in very rare circumstances, special approval has been obtained. Even in non-restricted lines of business, foreign investment enterprises should ensure they operate within the scope of business authorized by the approval authority and evidenced in the company's business license. Any participation in activities beyond its scope, directly or indirectly, may cause the company trouble, including fines and even suspension of its business license, because every aspect of its transactions in the areas of foreign exchange control, company registration, customs, etc. is closely watched by various government agencies.

2.2. Easing of Restrictions for Foreign Businesses After the WTO?

As mentioned above, there are varying degrees of barriers to or restrictions on foreign investment in certain areas of the economy. To live up to its promises and commitments made at its WTO negotiations, MOFTEC started its campaign of revisiting the existing laws and regulations, revising and abolishing those inconsistent with WTO rules. As of early this year, more than 1,413 sets of law, regulations, rules and treaties had been reviewed. Among those, 5 laws, 25 sets of administrative regulations and 90 sets of implementing rules have been or are scheduled to be amended; and over 500 sets of regulations and rules have been or are to be abolished. Among those laws and rules amended are the three basic laws and the implementing rules governing foreign investment.

In addition, MOFTEC has since late last year, jointly with other related ministries, promulgated a series of regulations opening up certain previously restricted industries, including movie theaters, healthcare, shipping and rail transportation. Progress has also been made in telecommunications, the most closely watched and controversial industry. On September 20, 2000, China's State Council promulgated the Telecommunications Regulations of the People's Republic of China, which marked the first effort by a national regulatory authority to standardize the administration of China's rapidly changing telecommunications industry, and pave the way toward a national law comparable to WTO principles and rules.

It could take many years before China will have established a fully transparent and fair legal system consistent with the WTO standards. It ought to be noted that China has committed itself to further opening up its market in a "phased" process. For example, pursuant to the November 1999 U.S.-China Market Access Agreement,[4] China agreed to phase out current restrictions on access to distribution services within three years of its accession to the WTO. For the wholesale and commission agency services, foreign companies will be allowed to form a joint venture with no more than 50% equity interest within one year of accession; majority stake and elimination of all geographic restrictions within two years of accession; and WFOE will be permitted within three years of accession.[5]

As the administrative apparatuses remain pervasive in China's daily life, approval and the licensing system will continue to function as a powerful weapon in limiting and restricting the benefit WTO brings to foreign businesses. Despite its compromise made at the negotiation, China may still be able to limit the market entry of foreign firms by setting forth the access threshold, applicants' qualification and many other restricted conditions. This can be evidenced by an unofficial draft circulated for comments in late 2000 concerning licensing of foreign-invested telecommunication operators. The rule suggests certain restrictive conditions and qualifications be imposed on the domestic and foreign applicants in granting the licenses. In some industries where foreign entry is limited to joint venture, the government can exercise its power in selecting the foreign player by "converting its will" into a "free act" of the Chinese company that is under its direct ownership and control. While varying degrees of governmental control or restrictions on foreign investment will probably remain a reality in China for a long time to come, the kind of efforts that China will make to realize its stated goals and fulfill its promises relating to becoming a WTO member and their effect remain to be seen.

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[4] www.uschina.org/public/wto/factsheet/distribution.html.

[5] Patrick Powers, Distribution in China: The End of the Beginning, ***The China Business Review***, July-August 2001, p.11.

3. Statutorily Permitted Business Forms for Foreign Investment in China.

Foreign companies wishing to do business in China have to do so through one of the several statutorily permitted forms or arrangements: representative office, sales through an agent, technology license, joint venture, wholly foreign-owned enterprises, or acquisition. A business needs to carefully consider the characteristics of each such form or arrangement before committing itself to one particular form or arrangement.

3.1 **Representative Office.** A foreign corporation or legal entity can establish a so-called "representative office" in China. A representative office is only permitted to engage in certain "liaison" type activities, i.e., consultation, market research, contacting prospective customers, negotiating on behalf of the headquarters, and contract administration. A representative office cannot market, distribute products, or provide pose-sale maintenance and repair services, unless an agency relationship has been established with a Chinese company with import and export authority, or a state-owned foreign trading company.

3.2 **Sales Through a Chinese Import and Export Agent.** To sell products through a Chinese import agent can be inconvenient and time-consuming. Furthermore, the requirement for buyers to pay in foreign exchange may further handicap foreign firms' distribution capabilities. This disadvantage, however, has been reduced to some extent by certain regulations which permit the establishment of joint ventures or wholly owned foreign trade subsidiaries by foreign firms in bonded areas, such as those located in Shanghai, Waigaoqiao, and Shenzhen Special Economic Zones. The foreign trading subsidiaries can rent or build a warehouse to store the imported supplies. Customs duties are not due until the merchandise crosses the outer boundary of the zoned areas. In addition, accounts can be settled in local rather than foreign currency. The establishment of such a subsidiary or a strategic alliance with a local trading company will benefit and substantially facilitate a foreign firm's sales and post-sale service activities.

China's entry into WTO will ultimately allow foreign companies to establish its own distribution channels, and dispense with the Chinese trading agencies, despite the approval process and capital requirement that might be involved, not to mention the logistics for establishing such distribution channels.

3.3 **Technology License.** This is an arrangement between a foreign firm and a Chinese manufacturer in which the foreign firm provides any combination of patent, copyright, trademark and technical information to the Chinese manufacturer for the latter to manufacture and market the products within the designated market in China, in exchange for fees in the forms of a lump sum payment and/or royalties. Such an arrangement provides market entry, does not require substantial capital commitment or management, and secures a relatively stable source of income to the licensor. However, certain disadvantages do exist. Among other things, this is a highly regulated area where every licensing arrangement requires approval, and territorial restriction is generally not permitted. Moreover, the number one reason that most foreign firms are reluctant to grant technology license to Chinese partners is the well-grounded fear of intellectual property piracy and infringement.

3.4 <u>Joint Ventures.</u> Joint venture is the investment model encouraged by the Chinese government, and has existed since China opened its doors in 1978. A joint venture company takes the form of an equity joint venture in which the parties share their profits, risks and liabilities in proportion to their respective equity holdings, or a cooperative or contractual joint venture in which the contract terms rather than the equity holding constitute the basis for profit distribution. Joint venture companies enjoy limited liability protection and the partners share profits, risks and liabilities. To a large extent the joint venture resembles closely-held corporations in the U.S. in the sense that transfer of any equity interest is subject to the right of first refusal of the other shareholders.

Relatively less capital commitment and local access are the two fundamental appeals of Chinese-foreign joint ventures. However, there are also disadvantages to the joint venture, as foreign investors have come to realize with experience, e.g., difficult negotiations with Chinese partners and the government approving authority before the formation of the venture, as well as the difference in cultural, ideological understanding and management styles after its formation, which sometimes leads to disharmony and conflicts in the corporate management and decision-making process. Furthermore, problems often surface when the joint venture needs additional funding. The statute requires the Chinese party's consent for a capital increase while the cash tightened Chinese party, usually the declining state enterprise, may be unable or unwilling to make additional equity contributions, or have its equity interest diluted. In the worst scenario, this deadlock may halt the development of the venture.

For those reasons, the percentage of wholly foreign owned enterprises in the total amount of investment is on the rise, while the percentage of joint ventures is on the decline. Since 1997, the WFOEs established each year have continuously outnumbered the joint ventures.

3.5 <u>Wholly Foreign Owned Enterprises ("WFOE")</u>. In order to gain full control over the decision making process and daily management, more foreign firms are willing to establish wholly owned subsidiaries in China--WFOEs. A well-prepared articles of association of a WFOE may secure a centralized and streamlined decision-making process. A WFOE, however, requires relatively more capital and management commitment from the foreign firms. Many foreign investors tend to hire local managerial personnel to obtain the type of local access available under a joint venture structure, and to reduce the cost. It could be a challenge in China to identify, select, train and retain such an executive – one with western business sense and loyalty.

Up until last October, one of the disadvantages of the WFOE model is the restrictive prerequisites that to qualify for such a model, the WFOE must either be export-oriented (i.e., at least 50% of its products are for export), or technologically advanced, as certified by MOFTEC. In order not to violate the WTO rule that prohibits the requirement for "export performance", the recent amendments to WFOE law and its implementing rules in the wake of WTO entry abolishes such a restriction. Under the amended WFOE law and rules, WFOE should be permitted as long as its proposed business benefits the “development of the national economy of China”.

This is a prominent and clearly discernible change, which is meaningful to the foreign investors and brought about by the efforts of the Chinese legislature and regulatory bodies last October to amend the three basic laws and implementing rules for joint ventures and WFOEs. Under the other changes, foreign invested enterprises ("FIEs") are no longer required to maintain a "foreign exchange balance" whereby the foreign exchange revenue received by FIEs must be at least equal to its expenditures paid in foreign exchange currency for procuring equipment and raw materials. FIEs now no longer have to give priority to China’s domestic market for purchasing raw materials and supplies, as previously required, and filing business and operation plans with the government authority in charge has also become unnecessary . These changes merely confirm the existing practices, and are a gesture of the Chinese government toward its compliance with WTO obligations.

3.6 Acquisition of An Existing Chinese Entity. A foreign firm can acquire all or part of the equity interest, or the assets of, or merge with an existing Chinese enterprise. Such merger or acquisition, however, remains largely unregulated[6]. The only exception is in the area of acquisition of equity interest of an FIE. This type of transaction has been increasingly seen in China, particularly in recent years, as part of the M&A activities of many multinational parents in the international arena. There are only a few regulatory requirements relating to the subsidiaries in China: approval from the original approving authority, completion of the foreign assignor’s contribution to the registered capital, and unanimous consent from the remaining shareholders and the board. In addition, the acquisition must not cause the aggregate foreign-owned equity interest to decrease to less than 25%.

Where the target is other than an FIE, the foreign related M&A transactions in China are governed by China’s existing company law and the three sets of foreign investment laws concerning joint ventures and WFOEs. Under Chinese law, the permitted acquisition can take the form of an acquisition of the target’s assets or its entire business.

3.6.1 Asset Purchase. Asset purchase refers to a transaction in which the foreign investor acquires the assets of the Chinese target, tangible and intangible, such as land use rights, buildings (or leasehold of buildings), machinery and equipment, inventories, accounts receivables, intellectual property and goodwill (if any) of the target. If all of the assets of the target have been purchased, then the target will, after the closing, either invest in other lines of business with the cash proceeds of the sale or wind up its business, settle with its creditors and debtors and dissolve itself. The foreign purchaser may use the acquired assets as its capital contribution to a newly formed foreign-invested

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[6] Long Zhang (Ministry of Justice), Format and Applicable Law for State-Owned Enterprise Reform and Acquisition with Foreign Funds, ***China’s Foreign Investment Policy***, April 25, 2001, p. 1

enterprise or use the assets purchased for expanding the operation of its own subsidiary in China. The subsidiary of the foreign purchaser may set up a new division equipped with the assets purchased to engage in the same business activities as the target.

One of the advantages offered by asset purchase is liability insulation because it cuts off the entangled relationship of the target with its employees and creditors. The purchaser is not responsible for any obligations and/or liabilities of the target.

3.6.2 Acquisition of Business. Acquisition of a business as an ongoing concern refers to a transaction in which a foreign purchaser acquires the entire equity of another economic organization ("target") for certain considerations, often in the form of foreign exchange cash, and both organizations survive after the closing. The purchase price is payable to target's shareholders, usually a so-called "holding company" or the superior of target (i.e., the government authority in charge). Upon closing, the target maintains its operation but now under the control of the purchaser.

One fundamental difference that distinguishes business acquisition from asset purchase is that in an acquisition of a business, all the obligations and liabilities of the target remain unchanged. The purchaser will ultimately be responsible for these obligations and liabilities to the extent of the investment made (i.e., the purchase price paid). In addition, the acquisition must be structured within the permitted legal framework with its three common business formats for foreign investment. Therefore, business acquisition in this context is accomplished by the purchaser forming a new entity and merging the target business into the new entity. This form of transaction resembles a triangle merger familiar to U.S. companies. In China, it is called "converting an SOE into an FIE".

If the foreign acquirer is to acquire the business of the Chinese seller, it should enter into an investment agreement or equity purchase agreement with seller, whereby the foreign acquirer is to (i) purchase all the equity interest held by the seller in target company and (ii) convert target company from a SOE into a WFOE by registering target company as a new entity wholly owned by the foreign business. It is required to file with the government approving authority a new feasibility study report projecting business of the new entity and a substantially revised or new Articles of Association setting forth the corporate governance, and other documents as required for forming a WFOE. The requirement for new registration actually benefits the foreign acquirer because the new entity will be able to take advantage of a new round of tax holidays instead of merely stepping into the shoes of the target with all the tax holidays probably already used up.

The Chinese government has been encouraging foreign acquisition as a major means to bail out its money-losing state-owned enterprises. Thus, foreign businesses now have more opportunities for acquisitions. It is challenging, however, to identify a profitable target company and to convince the government authority to approve such an acquisition. If the target is losing money or is on the brink of bankruptcy, the acquisition would make sense only when a foreign investor can acquire the entity at a bargain price and fit it into its overall development strategy, after a meaningful due diligence investigation in an unfamiliar cultural and economic environment.

In conclusion, by understanding China's unique policies, its economic system and laws and regulations which are in flux especially in connection with China's entry into the WTO, foreign investors can turn the great potential of the Chinese market to their own advantage by selecting the appropriate form and channels for their investment and business activities, particularly after China's entry into the WTO.

BUILDING NEW STRATEGIES FOR THE CHINA MARKET

WHAT CHINA'S ENTRY INTO WTO MEANS FOR THE WAY FOREIGN COMPANIES ACCESS THE CHINA MARKET

Lucille A. Barale, Partner
Freshfields Bruckhaus Deringer, Hong Kong

China's entry into WTO should induce sweeping changes in how Chinese and foreign businesses operate in China. China's WTO agreements are structured so that full liberalizations will take years, but with new opportunities already emerging, businesses are re-thinking traditional approaches, and evolving new market strategies. As China's government further liberalizes the economy, businesses need to formulate strategies to fit these new initiatives.

At the center of these changes is how import and distribution rights will be granted and used. As trading rights become available to foreign businesses, principles that emerged in the early years of doing business in China and survived numerous policy changes will be tested anew as China implements its commitments for entry into WTO.

One such maxim has been that the most effective way to reach the China market was to establish operations in country. Faced with significant tariff and non-tariff barriers to exporting to China, foreign companies worked to set up inside. But China's rigid structures required a choice between a representative office with a registration certificate limited to indirect business activities, and a production enterprise with a full business license either in the form of a joint venture or a wholly foreign-owned venture (***WFOE***). Some companies stretched representative office functions as far as legally possible, but generally the representative office has been too limited a vehicle to reach the China market effectively. Joint ventures and WFOEs, although not without their limitations, have become a core feature of market entry strategies. Will WTO bring real alternatives to setting up production bases in China?

Through two decades foreign businesses in China adapted, learning that there is not just one China market. And, while joint ventures and WFOEs receive business licenses, open bank accounts and engage in foreign-related transactions without specific government approval, they are limited to the stated scope of the business license and sales of products produced by the venture itself. Imports of materials, parts and components needed for the venture's own production have been permitted, but not of finished products. In time, holding companies were permitted for China's significant foreign investors, although they have not brought any broad changes to the scope of business activities permitted by the group in China. Consequently, foreign companies have pieced together structures of joint ventures, WFOEs, representative offices and a holding company, when possible. Will the liberalization of China's trade regime allow foreign businesses to rationalize the use of those existing ventures and offices and establish new companies in the PRC with direct trading rights?

New opportunities are emerging for foreign companies to obtain rights to import and provide sales, distribution and services to Chinese customers. How will these be used to build new market access strategies for post-WTO China?

THE STARTING POINT FOR SALES INTO CHINA

Although it is over a year since China in individual agreements with the United States, the European Union and other major trading partners committed to liberalize China's trade regime and important sectors of its economy as agreed conditions for China's entry into WTO, the final protocol on integrated terms and conditions for China's accession has yet to be reached. The *Agreement on Market Access Between the People's Republic of China and the United States of America*[1] (***the US-China Market Access Agreement***), which the U.S. released in full, identifies those barriers to sale and distribution of foreign products which China must—and has agreed to--eliminate.

Foreign companies have been severely restricted in their efforts to sell their products directly to customers in China. Even today, most Chinese parties are not permitted to enter into a purchase contract directly with a foreign supplier, but must act through a Chinese trade corporation, which negotiates all commercial arrangements with the foreign party.

As suppliers, foreign businesses have generally not been granted licenses to import products for sale to Chinese domestic customers. The few foreign-invested joint venture trading companies permitted since 1997 in Pudong and Shenzhen have been part of a pilot program, with onerous entry requirements.[2] Given the challenges of a restrictive environment and sizable market, foreign businesses resorted to a mixture of techniques, each with their own set of limitations, including:

- Establishing representative offices in major cities to better reach their Chinese customers. Location of an office in China does not change the cross-border nature of the sale, however. Representative offices are not

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[1] The *Agreement on Market Access Between the People's Republic of China and the United States of America*, signed November 15, 1999 by representatives of the PRC and US governments in Beijing.

[2] See the *Tentative Measures for the Establishment of Pilot Sino-foreign Equity Foreign Trade Companies* issued by the Ministry of Foreign Trade and Economic Cooperation on September 30, 1996. Foreign companies applying to establish a joint venture trading company must have US$5 billion in turnover in the year prior to application.

allowed to do direct business in China and so cannot act as the importer of the goods.

· Appointing a Chinese company as distributor of the foreign products in China. Unfortunately, many foreign companies have had to send their own teams into China to work with the Chinese distribution companies side-by-side to ensure that marketing, sales service and accounting are done in accordance with acceptable standards and practices, resulting in significant additional costs for parallel, "shadow" operations in China.

· Establishing bonded warehouses to support the sale of products in China by reducing the time needed to receive inventory and spare parts. However, setting up bonded warehouses can be frustrating and cumbersome, since the warehouse must be operated by a Chinese company or foreign–invested enterprise, and approvals for the latter have not been easy to achieve in practice.

In addition, foreign companies are generally not allowed to engage in after-sales services, such as repair and maintenance, that are often so crucial to market competitiveness.

GAINING IMPORT RIGHTS FOR THE CHINA MARKET

This is all set to change with China's entry into WTO, however. According to the *US-China Market Access Agreement*, China has agreed that by the end of a three-year phase-in period any entity will be able to import most products into any part of China. Products covered by this commitment include:

Products Available for Import by Any Entity		
Agricultural - selected products	Fish	Pharmaceuticals
Agricultural equipment	Furniture	Scientific equipment
Autos and auto parts	Information technology products	Specialty Crops
Chemicals, except fertilizers	Distilled Spirits, Beer and Wine	Soda ash
Civil aircraft	Meat and meat products	Steel
Construction equipment	Medical equipment	Textiles and apparel products
Cosmetics	Oilseed and oilseed products	Toys
Dairy products	Paper products	Wood

Vice Minister Long Yongtu of the Ministry of Foreign Trade and Economic Cooperation (***MOFTEC***) and head of China's WTO negotiating delegation noted that China will gradually loosen controls on import and export of "all products except for crude oils, grains, tobacco" and certain other items.[3]

The right to import will be a powerful tool for foreign businesses—inside and outside China—in developing new strategies for the China market. Foreign companies would like to be able to use their own subsidiaries to import products and spare parts, control inventory levels, and provide services to Chinese customers. Companies with operating ventures in China would like to import additional products and spare parts to use in combination with domestically produced items, expanding the range of products available for sale to Chinese customers. How far will China's commitment to expand trading rights, including import and exports rights, extend to these situations?

Important questions to be addressed as China implements its commitment to allow "any entity to import most products" by the end of a three-year period start with how import rights are obtained and what activities are included with such rights.

- *What type of enterprise will need to be established for the purpose of importing products*? The implementation of a new system for granting trading rights presents an opportunity to move beyond the legacy of formal state-planning practices that have long hindered efficient business operations. China's regulatory framework traditionally separates production and commercial activities in enterprises. Will a special purpose "commercial enterprise" be needed or can one enterprise combine these activities?

- *Will a full foreign-investment approval process be required?* Or, as discussed in the press, will a new type of registration process with the local Administration of Industry and Commerce be instituted?[4] Foreign investment in China is currently subject to a government approval process that is more or less demanding depending on the size of the investment and the type of business involved. At present, all foreign-invested pilot trading companies must be approved in Beijing, and only after MOFTEC has reported to the State Council.[5] If such an approval requirement is levied on new foreign-invested import

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[3] See *MOFTEC: Private Companies Can Participate in Foreign Trade in Three Years*, July 11, 2000, China Online, www.chinaonline.com.

[4] Ibid. See also statements of Vice Minster Long as reported in the *Shangwu Zaobao (Early Business News)* on July 10, 2000.

[5] See Article 5 of the *Tentative Measures for the Establishment of Pilot Sino-foreign Equity Foreign Trade Companies* issued by the Ministry of Foreign Trade and Economic Cooperation on September 30, 1996. Also, rregistered capital of RMB 100 million (approximately US$12,000,000) must be paid within 30 days of the issuance of the business.

companies, it would create a significant bottleneck and constitute a new type of trade barrier. A simple registration process with the local AIC, the same agency which issues all business licenses, would have a much greater chance of dealing efficiently with the volume of applications.

- *Will it be necessary to establish a PRC entity for importing products? Or, will it be possible for a foreign company to establish a branch in the PRC?* It appears from the available text of the US-China Market Access Agreement that China has made no commitment to permit foreign companies to establish branches in China apart from the use of branches in service sectors, such as banking and insurance. Unless further progress is made in the negotiation of the final documents for China's accession to WTO, it appears that any foreign company wanting to import will be required to establish an entity under the laws of the PRC.

- *Will wholly foreign-owned importing enterprises be allowed? Or will it be necessary to joint venture*? At present, the Foreign Investment Guidance Catalogue[6] issued by the State Development Planning Commission classifies trade activities, both foreign and domestic, as a restricted activity in which the Chinese party shall maintain a controlling or leading position. Provisional rules issued by MOFTEC in 1997 require the Chinese party to hold 51% of the equity.[7] Without a specific commitment from China in the protocol of accession or other documents related to its entry into WTO, China is likely to continue to require that new companies for the import and export of goods be formed as joint ventures.

- *What will the permitted scope of importing activities include?* Will it be limited to a specified list of products or will a generally worded scope-of-rights be granted? A requirement that import plans be approved in advance would create another type of trade barrier. Foreign and Chinese companies need flexibility to choose the range of products for import and to change import plans to meet the evolving demands of China's domestic market.

- *How will foreign exchange matters be handled?* The RMB is presently convertible on the current account in accordance with published

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[6] *The Foreign Investment Guidance Catalogue* issued by the State Development Planning Commission and approved by the Stated Council on December 29, 1997, with effect from January 1, 1998.

[7] See Article 3 of the *Tentative Measures for the Establishment of Pilot Sino-foreign Equity Foreign Trade Companies* issued by the Ministry of Foreign Trade and Economic Cooperation on September 30, 1996

> regulations stipulating current account items ("import trade payments," up-front payments for goods, shipping and insurance fees, commission and certain other specified items). PRC foreign exchange regulations allow RMB conversion on the strength of valid import contracts and other supporting documents. After WTO entry, will commercial orders placed by the importing company be sufficient to allow the purchase of goods to take place with necessary conversion of RMB? Or, will import only be permitted when onward domestic purchase contracts are in place? PRC regulations leave much room for discretion on the part of officials implementing conversion and payment.

After the conclusion of the China WTO Working Party Session on December 8, 2000, Vice Minister Long Yongtu issued a formal statement indicating, among other things, that although earlier agreement had been reached with the Working Party members on the "relevant text of the Draft Protocol" on trading rights, China has agreed to further "clarify and specify" in the Draft Working Party Report the arrangement regarding gradual liberalization of trading rights in the phase-in period.[8] Clearly, a number of important issues must be addressed in the final protocol and accession package if foreign companies and FIEs are to gain meaningful access to trading rights.

DISTRIBUTING TO THE DOMESTIC MARKET

Distribution rights will form the second major prong of an updated strategy for the China market. Foreign companies, through invested ventures in China, are to be granted rights to engage in a full range of distribution services, including wholesaling, retailing and franchising.[9] Chinese negotiators have agreed to these changes according to a plan that provides for liberalization of these sectors in stages, gradually increasing foreign participation, and removing any limitations on location and size of the ventures. China's commitments can be summarized by the following chart:

Distribution, Wholesale and Retail Services			
Permitted Activity	From the date of China's Entry into WTO		
	Year 1	Year 2	Year 3
Wholesale	Foreign suppliers may establish JVs.	All geographic or quantitative	WFOEs now permitted.

[8] See Statement by H.E. Vice Minister Long Yongtu, Head of the Chinese Delegation on the conclusion of the Fourteenth Session of the Working Party on China, Geneva, December 8, 2000 as reported in WTO News on the WTO website, www.wto.org.

[9] See the *Summary of the US-China Agreement on Market Access and the Sector Fact Sheets* issued by the White House in February 2000.

		restrictions removed.	
Commission Agent Services	Foreign suppliers may establish JVs.	All geographic or quantitative restrictions removed.	WFOEs now permitted.
Retailing Services	Upon entry, JVs allowed in Wuhan and Zhengzhou. By end of first year, 2 JVs permitted in the 5 SEZs and Tianjin, Guangzhou, Dalian and Qingdao. 4 JVs permitted in Beijing and Shanghai.	Majority foreign-owned ventures allowed. All geographic or quantitative restrictions removed.	No more restrictions on location or number. WFOEs now permitted.
Franchising			Permitted, no restrictions.

China's commitment to allow distribution services also includes the right to engage in a range of related subordinate activities, such as inventory management, assembly, delivery services, refrigeration and storage, promotion and marketing, and after-sales repair and maintenance.

But as with trading rights, questions quickly emerge as to how these rights will be granted and what scope of activities will be permitted. China's rules for foreign participation in the wholesale and retail sector are a case in point. Although most foreign-invested ventures are prohibited from distributing imported products, China has issued regulations to open the wholesale and retail sector to foreign participation,[10] representing a major policy shift and expansion of the previous framework for foreign investment in the commercial sector. However, the regulations set a high threshold for entry, various geographic restrictions, and the need for central government approvals.

While retailing is open to foreign companies through joint ventures, it is open only to those companies which have an average yearly sales turnover of at least US$2 billion during the three years prior to the date of application, and assets of more than US$200 million in the previous year. Slightly higher requirements apply for wholesaling. In most cases, clearly only large, well-developed multinational companies are meant to qualify.

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[10] See the *Measures for Pilot Projects for Foreign-Invested Commercial Enterprises* issued by the State Economic and Trade Commission and the Ministry of Foreign Trade and Economic Cooperation, effective on June 25, 1999.

Separately, the Chinese party to a wholesale or retail venture must satisfy a different set of conditions which are not as demanding thereby creating an easier standard for Chinese participants. WTO membership requires rules such as these be revised so that foreign companies will be accorded treatment no less favorable than Chinese companies. More importantly, as it appears that very few wholesale or retail ventures have been approved pursuant to these regulations to date, new provisions are needed to allow for a more transparent approval process which can be executed by local governments rather than in Beijing by MOFTEC.

Getting products to markets across China using a company's own distribution centers and networks is a critical part of a forward strategy for accessing the China market. An effective distribution system must be well coordinated with the company's supply of products and parts, either by import into China or from production ventures in China. Although the present framework for distribution is cumbersome, it provides an outline which foreign investors may draw from in identifying critical issues that need to be resolved before a distribution system may be put in place. Foreign businesses need to consider whether to attempt to gain an early start in the process, even though this will require working with a Chinese partner, or to wait until it is possible to distribute through a WFOE.

ADDING RELATED SERVICES

A third major aspect of a strategy for penetrating the China market is programmatic development of practical complements to product sales, such as testing, packaging, and (express) delivery services. These may be outsourced to service providers with foreign participation and eventually even to wholly foreign owned service providers.

Services Related to Distribution			
Service	**Joint Venture**	**Majority Share**	**WFOEs**
Rental and leasing services	Upon accession	Within 1 year	Within 3 years
Advertising services	Upon accession	Within 2 years	Within 4 years
Testing and analysis; freight inspection services	Upon accession	Within 2 years	Within 4 years
Packaging services	Upon accession	Within 1 year	Within 3 years
Courier services	Upon accession	Within 1 year	Within 4 years

Maintenance and repairs services[11]	Upon accession	Within 1 year	Within 3 years
Storage and warehousing services	Upon accession	Within 1 year	Within 3 years
Freight by rail	Upon accession	Within 3 years	Within 6 years
Freight by road	Upon accession	Within 1 year	Within 3 years
Freight forwarding agency services	Upon accession	Within 1 year	Within 4 years

A key addition here will be increased use of leasing as a financing mechanism for the company's product sales. Over forty joint venture leasing companies have been approved by MOFTEC, many to lease products produced within the relevant corporate group. However, more companies remain stuck on the waiting list as People's Bank of China has issued new rules in this area and MOFTEC is preparing to issue additional regulations for this area.[12]

China's commitments to remove restrictions on services related to sales and distribution leave unknown at what pace foreign-invested ventures will be approved in these areas. In the meantime, foreign business need to be mapping a plan for adding those services which are important for increasing their sales in China, either with a joint venture partner or at a later time as a WFOE.

SHAPING A COHERENT STRATEGY

The updated strategy for the China market will utilize new importing and distribution rights in conjunction with additional related services in an integrated plan for bringing products and services to Chinese customers. Foreign investors will find going forward that they will not be relying on a variety of joint ventures, representative offices and third-party suppliers to establish a network for sales, marketing and distribution. Rather, they will be able to establish dedicated import and distribution companies to be used in conjunction with production ventures and other members of the group. The snag here is that the old-fashioned equity joint venture is still likely to be the main mode open to foreign companies that want to act in these businesses.

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[11] This is in addition to repair and maintenance services that will be included in the scope of distribution services to be permitted for manufacturers.

[12] There are also approximately 15 foreign-invested joint venture leasing companies approved by the People's Bank of China with a broader scope of leasing and financing activities.

Foreign businesses that had hoped to see greater use of wholly foreign-owned enterprises and even foreign company branches as a result of China's commitments to liberalize foreign involvement in trade-related sectors will no doubt be disappointed. The pace at which a foreign company will able to implement its sales and distribution system will be dependent not only on MOFTEC or its local commission that controls the approval process for the establishment for such ventures, but also on reaching agreement with a local partner. In many cases, the foreign company will not be able to hold a majority interest in the company. This puts a premium on finding local partners with similar business goals who will cooperate in moving the business in the same direction envisioned by the foreign partner. No small task.

Yes, for distribution and distribution related services, WFOEs will be a possibility in the years to come, but in what number WFOEs are actually approved for these purposes remains to be seen. In the meantime, foreign businesses will need to consider how to structure a distribution or related services business with a Chinese partner, how to provide for a phase-out of participation by the Chinese partner, and how to motivate the Chinese partner in the interim.

The full set of terms and conditions on which China will enter WTO is still under discussion. As China and its trading partners move to finalize the package of documents that will form the foundation of China's accession into WTO, they may yet provide more detail to China's commitments and a clearer framework for foreign companies wishing to participate in import and distribution in China.

The following information is available at USATrade.gov
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Chapter #: 1

Chapter: EXECUTIVE SUMMARY

U.S. business' romance with China lay dormant for thirty years after WWII, but the love affair was rekindled in the late 1970's when China adopted a policy of "reform and opening up." Since the initiation of that policy, China's economy has grown at an average annual rate of nearly 9% , and the number of foreign firms doing business in or with China has grown exponentially. According to Chinese statistics, U.S. firms have invested over $25 billion in China - 90% of it within the last ten years.

Despite this interest and investment, China remains a medium-sized market, albeit one with vast potential. Last year, China's Gross Domestic Product (GDP) was $1.08 trillion. This is about the size of the economy of Italy. Spread over a population of 1.2 billion, this does not represent a large amount of disposable income for the people of China. Since 1990, U.S. exports to China have grown almost 12% annually. Nevertheless, China consumes less than 2% of total U.S. exports, and U.S. investments in China represent only a tiny portion of the total U.S. holdings overseas. In spite of this, China holds huge potential for certain American exporters. In 2000, exports from China to the rest of the world were up 28%. Imports in the same time period, however, were up 36%. This shows that in key sectors, such as energy, telecommunications, medical equipment, construction, services, franchising, and many others, China is an interesting and viable market. With China's accession to the WTO, the number of sectors with market potential will expand dramatically.

American companies continue to have mixed experiences in China. Some have been extremely profitable, while others have struggled. To be a success in China, American companies must thoroughly investigate the market, pre-qualify potential business partners, take steps to assure that they will be paid, and craft contracts which minimize misunderstandings between the parties. The problems of doing business in China can be grouped in four large categories: 1. China often lacks predictability in its business environment. Predictability can be provided by a transparent and consistent body of laws and regulations. China lacks both. Its current legal and regulatory system can be opaque, inconsistent, and often arbitrary. 2. China has a government that tends to be mercantilist and protectionist. China has made significant progress toward a market oriented economy, but parts of its bureaucracy still tend to protect local firms and state-owned firms from imports, while encouraging exports. 3. China has the remnants of a planned economy. In many sectors of the Chinese business community, the understanding of free enterprise and competition is incomplete. The Chinese economy is often prone to over-investment and over-production, for reasons not related to supply and demand. 4. Foreign businesses have been over-enthusiastic about China. Encouraged by a government eager for foreign capital and technology, and entranced by the prospect of 1.2 billion consumers, thousands of foreign firms have charged into the Chinese market. These companies often do not fully investigate the market situation, don't perform the necessary risk assessment, and fail to get counsel. Without the necessary preparation, these companies often stumble into bad business deals, resulting in trade complaints and lost investments.

It is important to understand that while reform is absolutely essential for China to fully participate in the world trading community, in many areas, these changes have not yet taken place. Companies must deal with the current environment in a realistic manner. Risk must be clearly evaluated. If a company determines that the risk is too great, it should seek other markets. Remember, there is nothing noble about losing money in China...it is just the same as losing money anywhere else.

China's accession to the WTO brings new opportunities. Some have described it as, "the beginning of time," for trade relations. Problems will not disappear over night, but after WTO accession, the tools become available to address protectionism in China's market. As disposable income grows (up 6.4% last year) China's market potential will expand as well. This will be a gradual process, but the combination of WTO and an expanding economy bode well for U.S. business in the years ahead.

Chapter #: 2

Chapter: ECONOMIC TRENDS AND OUTLOOK

A. Major Trends and Outlook

China's economy officially maintained steady growth in the first half of 2001 while inflation remained negligible. The government expected GDP to grow 7-8% in real terms, compared with the previous year. China's gross domestic product in 2000 officially achieved real growth of 8%, about a percentage point above the government's declared target of 7%. (Official figures put out by the Chinese government are often distorted to meet politically determined targets. They are generally acknowledged, however, to reflect major trends in the economy). Most Chinese analysts attributed around two percentage points of the growth rate to the fiscal stimulus program which the government has pursued since 1998.

Many analysts credit China for achieving a "soft landing" for its economy - bringing about stable growth with low inflation after earlier bouts of inflationary excess. Stringent monetary policies actually caused consumer price levels to decline in 1998 and 1999, and prices for many commodities - notably agricultural products and some consumer durables - continued to fall in 2000. But some economists worry that China may not be able to create the high levels of investment and profitability needed to resolve the structural problems that beset the nation's state-owned sector, which has far too many workers and which includes huge state-owned banks that amassed a mountain of bad debt. Together with the chronic difficulty in finding employment for hundreds of millions of rural Chinese seeking a better life in the cities, these problems pose a serious long-term challenge.

China continued to hold the exchange rate for the domestic currency (renminbi - RMB) during 2000 and through the first half of 2001. The gap between relatively lower Chinese interest rates and generally higher overseas rates, narrowed somewhat as the U.S. Federal Reserve reduced rates to maintain economic growth, leading to similar declines in China's foreign currency deposit rates. The decision in February 2001 to open the market for foreign currency-denominated "B" shares to domestic investors helped to relieve the pressure on Chinese banks, which were having increasing difficulties in servicing their burgeoning foreign currency deposits. China received international acclaim for maintaining the value of its currency during and following the Asian financial crisis in late 1997. (Stringent foreign exchange controls, however, helped prevent the kind of capital flight that plagued Mexico, Thailand and other countries in earlier periods.) Although some believe China will widen the narrow band in which its currency trades, China continues to enjoy large trade and investment surpluses and has accumulated official foreign currency reserves in excess of $175 billion, more than ample to defend the exchange rate.

The government has stepped up its efforts to downsize many state-owned enterprises (SOEs), but investment in the state-owned sector accounted for most new investment in 1998 and 1999. The SOEs have close linkages to the banking system; most have built up huge balances of delinquent "policy loans" with the state-owned banks. Tighter control of the banking system has also led to a build-up of inter-company "triangular" debt, estimated at around RMB 1.3 trillion in 1999. SOE inventories remain high, although the increase in inventories for the economy as a whole slowed from 15% per year in 1998 to less than 6% in 1999. This slowdown occurred as SOEs finally wrote off their stockpiles of unmarketable or low-quality goods. SOE sales and profits were up sharply in the first five months of 2000. Losses at loss-making SOEs remained unchanged from the previous year (about RMB 36 billion).

The central government acknowledges that unemployment and income inequality are growing problems. The average per capita disposable income of urban residents in 2000 was $759 while rural per capita income was $272. (Rural incomes were overstated because the value of farm produce consumed at home was included; actual cash held by farmers was much lower - about $200.) The World Bank estimates that as many as 200 million Chinese live below the poverty line.

China's chronic and growing labor surplus is not reflected in the official unemployment rate of 3.3%. The official data do not account for approximately 23 million people laid off "temporarily" in the state sector or 80-120 million surplus rural workers who make up a "floating population" that migrates between agriculture and construction jobs and that are at other times unemployed. A more accurate estimate of urban unemployment, cited by private researchers, would be 10-15%.

B. Principal Growth Sectors

China's industrial sector - defined as manufacturing, mining and construction - drove gross domestic product growth in 2000. Industry accounted for half of GDP and increased 9.6% in real terms for the year. China's SOEs - spurred by the government's fiscal stimulus program - had their best performance since 1994 with production increasing 10.1% year-on-year in 2000. In particular, output of heavy industry rose 13%. The communications, computer, and electronics components sectors continued to show relatively fast growth, although basic industry continued to make up the bulk of total GDP.

Retail sales of consumer goods reached RMB 3.4 trillion in 2000, up 9.7% over 1999 in nominal terms and about 11.4% with adjustments for price changes. Maintaining this trend toward stronger consumption, retail demand increased by 10% in nominal terms during the first five months of 2001. As of May 2001, however, ex-factory prices for most manufactured goods, with the exception of processed food products, were lower than for the same month a year earlier. In particular, average prices for consumer durables were 4.1% lower than in May 2000. (Chinese typically spend more money on eating out than their level of income would suggest because many of their needs, like housing, have been provided by the government free of charge. This is changing as individuals bear more and more of the cost of their education, health, housing and other social needs. The prices of these types of services continued to rise by double digits.)

C. Government Role in the Economy

Since the beginning of reform in 1980, the role of the government in the economy has been strong. Although government revenue has been falling as a share of GDP, off-budget revenues and expenditures are equal to official allocations in many sectors. As the ultimate owner of SOEs, the government - or more precisely, the Chinese Communist Party - continues to control roughly two thirds of GDP and urban employment. The long-term plan is to sell the government share in most corporations to the public, except for industries deemed essential to national security. But the definition of national security is currently quite broad, including telecommunications, mass media, and other areas not included in other countries.

The government eliminated controls on the price of transportation services and some grains at the beginning of 1996. Controls on cotton were eliminated in 1999. Fuel prices have generally been in accord with international prices, and have risen significantly as international market prices for petroleum skyrocketed in 1999-2000. The government sets all interest rates and fees at financial institutions. Further elimination of price controls, especially coal prices, could benefit lower-income interior areas.

D. Infrastructure Investment

Infrastructure investment is a key element of China's economic growth potential, with major infusions scheduled for the road, railway, port, telecommunications, oil and gas, and coal sectors. The economy currently has a surplus electrical generating capacity, but requires substantial improvements to the distribution grid, particularly in rural areas. Total fixed asset investment grew 9.3% in 2000. Infrastructure investment, which grew about 6%, accounted for 40% of the total. State planners have set a target for total increase in fixed asset investment of 10% for 2001.

Although the government is no longer pursuing a tight credit policy to quell inflation, its efforts to improve the asset quality of the state-owned banking system effectively limit the kinds of projects which receive official approval and which the banks will finance. Private firms, in particular, still have serious difficulties in raising capital. State-sponsored infrastructure projects are seen as "safe" investments for domestic financial organs. Financing for key projects comes from an increasing variety of sources, including special construction funds, surcharges on power and other utilities, provincial and local government budgets, as well as domestic loans from the China Development Bank and other banks.

Chinese officials have said they would prefer roughly 15-20% of infrastructure investment to come from foreign sources, but shifting foreign investment away from export-oriented industries presents some difficulties. Infrastructure investments have long payback periods, with no ready source of foreign exchange. Policies designed to attract foreign investment, notably those inspired by the central government's "Great Western Development Strategy," have tended to emphasize land-use and tax incentives without addressing more fundamental problems in the investment environment. China's weak legal structure, failure to enforce contracts and court decisions, restricted access to foreign exchange, the cumbersome approval process, etc. work against foreign participation in infrastructure projects, particularly in the road, rail and power sectors. The impediments to foreign involvement in infrastructure projects are gradually disappearing. For example, changes in rules governing current account transactions have gone a long way toward solving the problem of guaranteeing foreign exchange convertibility.

Chapter #: 3

Chapter: POLITICAL ENVIRONMENT

Although there has been considerable reform of China's economic model - from a centrally-planned economy to a market-oriented one - the same is far less true of the PRC's political system. The Chinese Communist Party (CCP) still dominates the entire political apparatus, and its leaders make all major policy decisions. Party members hold most senior government positions at all levels of administration. Ultimate authority rests with the 21 members of the CCP Politburo and, in particular, its seven-member Standing Committee. Ministries and lower-level counterparts implement policy on a day-to-day basis, and China's parliament, the National People's Congress (NPC), reviews and approves legislation and nominees for government offices. Many provincial governments - especially those in fast-growing coastal regions - actively adapt central government policy decisions to suit local needs. Senior leaders generally agree on the need for further economic reform, but stability is still a paramount concern, and there remain differences within the leadership over the content, pace, and goals of both economic and political reform.

The September 1997 15th Communist Party Congress enhanced the power of Party General Secretary Jiang Zemin and endorsed policies to restructure, close, or privatize the bulk of China's state-owned enterprises. These policies were affirmed in March 1998 during the first annual session of the Ninth NPC, which also passed a sweeping reform of China's government apparatus. The number of ministries and commissions was reduced from 40 to 29, and by the end of the year the number of central government civil servants had been cut approximately in half. Moves for similar reductions in lower levels of government have been less effective. The March 1998 session of the NPC also approved Zhu Rongji's appointment as Premier and former Premier Li Peng's as Chairman of the NPC's Standing Committee. At its March 1999 session, the NPC approved revisions to bring the Constitution in line with principles approved at the 15th CCP Congress, including the legitimization of private enterprise and the importance of rule of law. While the 2000 NPC brought no significant initiatives, in 2001, the NPC reviewed the outline of the government's 10th five-year plan for China's economic and social development. This called for - among other things - the strengthening of the NPC's supervisory authority over the government, and the reform of the government's recruitment system.

China faces a growing disconnect between the demands of its reforming economy and society and a political system that is largely ill-suited to meet their needs. The yawning disparities between urban and rural incomes, a large "floating population" of itinerant workers, and official corruption are chief potential threats to stability. So far, none has prompted the kind of mass protest movement that erupted in Beijing in the spring of 1989. The central authorities prefer to minimize tensions through the implementation of pragmatic policies, and they recognize that moves to reduce personal and economic freedoms would harm China's long-term interests. Nonetheless, the national leadership would respond forcefully if confronted with what it regarded as another serious threat to its monopoly on political power. An unexpected, day-long sit-in by approximately 10,000 members of the Falun Gong spiritual movement outside the Zhongnanhai leadership compound in downtown Beijing in April 1999, offered a dramatic example of the sorts of challenges likely to confront the CCP as China continues to open and become more pluralistic. Frequent incidents of rural and labor unrest and a leadership transition in 2002 will likely contribute to a stronger emphasis on stability for the foreseeable future.

Political relations with the U.S. temporarily deteriorated following the accidental bombing of the Chinese Embassy in Belgrade, Yugoslavia, in May 1999 and again following the collision of a U.S. EP-3 reconnaissance aircraft and a Chinese fighter in international airspace in April 2001. Bilateral relations have gradually recovered from both incidents, though differences between the U.S. and Chinese governments on some political issues continue occasionally to color the relationship.

Chapter #: 4

Chapter: MARKETING US PRODUCTS AND SERVICES

A. Distribution and Sales Channels

Trading Companies: Generally, foreign companies are not permitted to directly engage in trading in China, with the exception of the direct marketing of a portion of the products manufactured in China, or the establishment of wholly owned foreign trading companies in some free trade zones with limited access to markets outside these zones. Distribution rights may change after WTO accession. Accordingly, U.S. exporters need to use a domestic Chinese agent for both importing into China and marketing within China. At the time of this writing, only those trading companies authorized by the central government to handle exports and imports are permitted to sign import and export contracts. Since the beginning in 1998, some private and collectively-owned enterprises in the manufacturing sector have been granted this authorization. Some import/export trading firms extend their scope of business to represent foreign manufacturers as their distributors, in arrangements similar to a "manufacturers representative." However, likely in calendar year 2002, WTO accession will bring further changes.

With careful selection, training and constant contact, a U.S. exporter can obtain good market representation from a Chinese trading company, many of which are authorized to deal in a wide range of products. Some of the larger companies have offices in the U.S. and other countries around the world, as well as a network of offices and affiliates in China. However, given transportation and communication difficulties as well as regional peculiarities, most of these trading companies cannot provide diversified coverage throughout China. China's WTO accession promises a three-year phase in of improved trading rights that should improve such conditions for foreign firms.

Local agents: In addition to trading companies, China is witnessing an explosion in local sales agents who handle internal distribution and marketing. Most of these firms do not have import/export authorization. They are the next layer down the distribution chain, buying imported products from those that do. They may be representative offices of Hong Kong or other foreign trading companies, or domestic Chinese firms with regional or partial national networks.

Given China's size and diversity, as well as the lack of agents with wide-reaching capabilities, it makes sense to engage several agents to cover different areas, and to be cautious when giving exclusive territories. China can be divided roughly into at least five major regions: the South (Guangzhou), the East (Shanghai), the Central/North (Beijing-Tianjin), West China and the Northeast.

The U.S. & Foreign Commercial Service's service assist new-to-market firms. The International Partner Search (IPS) will locate, screen, and assess potential qualified overseas sales representatives, agents, distributors, joint venture partners, licensees, franchisees or strategic partners for your products or services. The IPS program locates up to six potential agents or distributors, screened from a large pool of candidate firms. Normal turnaround time is around 15 days after each post receives $600 for each product line and the company's product literature. A report is developed from on-the-spot research by U.S. Embassy staff and provides the contacts needed to launch marketing efforts in China. As a next step, a visit to China can be supported by Gold Key Service for appointments with prospective agents and distributors and key government officials responsible for an industry. IPS clients are eligible for a 25% discount on the Gold Key Service. Regional IPSs and Gold Key services are available from the USFCS offices in Beijing, Shanghai, Guangzhou, Shenyang, and Chengdu, but nation-wide searches are not available.

For those firms unable to travel and seeking potential partners, the Commercial Service in conjunction with IBM now offers BuyUSA.com as a user supported "B2B" web site. Companies seeking foreign partners may list their firm's information for as little as $300 per year and foreign buyers are enlisted worldwide. In China, plans for a Chinese language interface will draw on USASources.com, an existing service in Taiwan and future contributor of content to BuyUSA.com.

Establishing a Representative Office: Representative offices are the easiest type of offices for foreign firms to set up in China, but these offices are limited by Chinese law to performing "liaison" activities. As such, they cannot sign sales contracts or directly bill customers or supply parts and after-sales services for a fee, although most representative offices perform these activities in the name of their parent companies. Despite limitations on its scope of business activities, this form of business has proved very successful for many U.S. companies as it allows the business to remain foreign-controlled.

China's Company Law, which has been in effect since July 1, 1994, permits the opening of branches by foreign companies but, as a policy matter, China still restricts this entry approach to selected banks, insurance companies, accounting and law firms. While representative offices are given a registration certificate, branch offices obtain an actual operating or business license and can engage in profit-making activities.

Establishing a representative office gives a company increased control over a dedicated sales force and permits greater utilization of its specialized technical expertise. The cost of supporting a modest representative office ranges from $250,000 to $500,000 per year, depending on its size and how it is staffed. The largest expenses are rent for office space and housing, expatriate salaries and benefits.

Establishing a Chinese Subsidiary: A locally incorporated equity or cooperative joint venture with one or more Chinese partners, or a wholly foreign-owned enterprise (WFOE), may be the final step in developing markets for a company's products. In-country production avoids import restrictions - including relatively high tariffs - and provides U.S. firms with greater control over both intellectual property and marketing.

The role of the Chinese partner in the success or failure of a joint venture cannot be over-emphasized. A good Chinese partner will have the connections to help smooth over red tape and obstructive bureaucrats; a bad partner, on the other hand, can make even the most promising venture fail. Common investor complaints concern conflicts of interest (e.g., the partner setting up competing businesses), bureaucracy and violations of confidentiality. American companies should bear in mind that joint ventures are time-consuming and resource-demanding, and will involve constant and prudent monitoring of critical areas such as finance, personnel and basic operations in order for them to be a success.

Some companies prefer to establish a wholly foreign-owned enterprise (WFOE, often pronounced "woofy") rather than a joint venture, with a view to retaining greater management control, due to concerns over intellectual property rights (IPR) protection, desire for simplicity, or for other reasons of corporate policy. The law on WFOEs requires that they either provide advanced technology or be primarily export-oriented, and restricts or prohibits them in a number of service and public utility sectors. However, an increasing number of U.S. companies find WFOEs, which now account for roughly 20% of all foreign-invested enterprises (FIEs), to be a viable entry vehicle to the China market, taking much less time and money to set up than a joint venture (see Chapter IV).

Licensing: Technology transfer is another initial market entry approach used by many companies. It offers short-term profits but runs the risk of creating long-term competitors. Due to this concern, as well as intellectual property considerations and the lower technical level prevailing in the China market, some firms attempt to license older technology, promising higher-level access at some future date or in the context of a future joint venture arrangement.

Licensing contracts must be approved by and registered with the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). A tax of 10-20% (depending on the technology involved and the existing applicable bilateral tax treaty) is withheld on royalty payments (see section F of this chapter).

Franchising: China has no laws as yet which specifically address franchising, but many foreign companies are beginning to establish multiple retail outlets under a variety of creative arrangements, including some which for all practical purposes function like franchises. Virtually all of the foreign companies who operate multiple-outlet retail venues in China either manage the retail operations themselves with Chinese partners (typically establishing a different partner in each major city) or sell to a master franchisee which then leases out and oversees several franchise territories within the territory. Within three years of WTO accession, restrictions on equity share, number of outlets and geographical area are to be eliminated.

Direct selling: Major U.S. direct selling companies entered the China market in the early- to mid-1990's, when China's legal and regulatory framework for this industry was not very clear. Direct selling was quickly modeled after by domestic Chinese companies, some of whom abused this legitimate format of doing business and operated scams to rip off consumers and evade taxes. In early 1998, the Chinese government started implementing a series of strict controls over this industry, culminating in the re-licensing of all direct selling companies. Although a few major U.S direct selling companies were re-issued the business license, restrictions are severe and requirements many, resulting in difficult business environment. The U.S direct selling industry is working pro-actively with various Chinese government departments and agencies, as part of an overall effort toward China's WTO accession, to construct a fairer business climate in this industry. The implementation of WTO commitments promises to change this method of marketing in a rapidly changing business environment.

E-commerce: The Chinese government has adopted an open attitude towards the advent of electronic commerce in China. Interest among both Chinese and international businesses focuses on investing and on establishing vertical integration and sales channels on-line. Investment is risky, however, due to the lack of clearly defined regulatory powers over the industry, an effective Chinese certificate authentication system, secure and reliable on-line settlement system, and an efficient physical delivery system. Many U.S. IT sector companies have been actively engaged in jointly developing these systems in China, and WTO accession will increase the speed of these developments.

B. Selling Factors/Techniques

Relationships: Personal relationships in business are critical. The Chinese feel more comfortable dealing with "old friends," and it is important for exporters, importers, and investors to establish and maintain close relationships with their Chinese counterparts and relevant government agencies. It is equally important that American exporters encourage strong personal relationships between their Chinese agents or distributors and the buyers and end-users. A web of strong personal relationships will help ensure smoother development of business in China.

Foreign Currency: Chinese companies are not permitted to retain foreign exchange. In business deals with Chinese companies, U.S. companies have been asked to keep a portion of the Chinese companies hard currency earnings in foreign bank accounts to avoid reporting and turning it over to the foreign exchange control authorities. As part of an effort to clamp down on corruption and tighten foreign exchange control, the Chinese government is coming down hard on such practices.

In contrast, FIEs are permitted to retain foreign exchange contributed to or earned by the enterprise. On December 1, 1996, China made its currency convertible on the current trade account. However, foreign exchange balancing requirements remain in effect in other Chinese laws and regulations and in joint-venture contractual arrangements.

Chinese companies are, however, able to purchase the foreign currency necessary for authorized imports and foreign-currency obligations such as licensing fees, royalties, and loans by authorized entities.

C. Advertising and Trade Promotion

Advertising: Advertising is an effective way to create product awareness among potential consumers in China. Channels for mass advertising include publications, radio, television, billboard displays, internet, and sports sponsorship. A list of major Chinese publications can be found in the appendix.

China's retail boom and increasing competition among retailers is making China's advertising industry grow even faster than the economy as whole. According to China's National Advertising Association (under the State Administration for Industry and Commerce, or SAIC), over-all advertising spending reached $ 8.7 billion in 2000, a 17% growth over 1999's volume. China has about 70,747 advertising businesses, including more than 380 foreign joint ventures. Foreign advertising firms are limited to taking an equity stake of up to 51% in joint venture enterprises. All of the major international advertising firms are present in China.

Television advertising takes the largest single portion of the Chinese advertising market. China's regular television viewing population is 84% of China's 1.2 billion people. Major articles sold on television include toiletries, foodstuffs, pharmaceuticals, liquor, and home electronics. Television stations in big markets (Beijing, Guangzhou, Shanghai) require advertisers to book and pay for specific spots two to ten months in advance.

Now that China is in the midst of a consumer revolution, foreign products, complete with advanced marketing, advertising and research techniques, are leading the way. Brand awareness is increasingly important and sophisticated advertising is beginning to play a crucial role in charming the Chinese consumer. Foreign products are expected to continue making inroads despite 1999 regulations calling for more control over customer surveys that help foreign firms enhance their marketing effectiveness.

China's 1995 Advertising Law contains guiding principles that set broad requirements. For example, one of the requirements is that advertising should "safeguard the dignity and interests of the State." Comparison advertising is not allowed, nor is the use of superlatives. Chinese restrictions within the advertising sector include requirements for the verification of safety and hygiene from the relevant ministries that monitor various consumer products. Censorship standards vary considerably throughout China.

MOFTEC and SAIC are the primary regulatory organizations for the advertising sector, but many other organizations, such as the Ministry of Culture and the State Administration of Radio, Film and Television, play an active role in controlling what ends up in print or on television.

Trade Shows and Missions: Hundreds of exhibitions are now held annually in China. Most are sponsored or co-sponsored by government agencies, professional societies, or the China Council for the Promotion of International Trade (CCPIT). Shows are also organized by U.S., Hong Kong, and state trade departments, and other professional show organizers. Show participation costs are sometimes high and may only reach a local audience so companies are advised to scrutinize which shows to participate in. A list of trade shows that are screened by the U.S. Department of Commerce are listed in the appendix.

Electronic Commerce and the Internet: The rapid growth of the internet raises interest in using "e-commerce" in China. Though China remains a developing country, the ambitious use of high technology has made inroads with the growth of governmental and business-to-business forms of e-commerce. Government at all levels seeks to use technology to inform the public about laws, deal with customs and simplify procedures, and businesses are beginning to conduct bidding, process sales and handle contacts on-line. In addition, direct marketing and sales-on-line have begun despite the lack of credit card usage and distribution difficulties. Beijing and Shanghai SAICs have begun a licensing process to create a "reasonable and reliable market." In May 2000, nearly 30 internet companies were awarded licenses to sell online advertising.

D. Product Pricing and Customer Service

Most Chinese consumers are sensitive to price and will usually choose the less expensive product unless they can be swayed by better after-sales service or clearly better product quality. For larger purchases, attractive financing that lowers the effective price is offered by Japanese, European and other foreign governments' companies and may make some U.S. products less competitive.

Foreign companies are normally not permitted to directly provide after-sales service and customer support for their products sold into China. Foreign Invested Companies (FIEs) can provide such services on products that they manufacture in-country. Foreign firms sometimes engage authorized Chinese entities to provide service, often on a contractual basis, or to establish service centers jointly that can provide both spare parts and after-sales service. American companies complain that such arrangements give them inadequate control over the quality of customer service and result in the loss of customer confidence. Some companies opt to provide regular servicing from bases outside of China, such as Hong Kong.

E. Sales to the Government

In 1999, new regulations controlling government procurement were issued by the Chinese State Development Planning Commission (SDPC). While ostensibly making the system more transparent and open, it also centralizes the procedure much more. In the past, government procurement was conducted through state-owned/controlled companies affiliated with a particular ministry. Since these entities will remain the main end-users of the purchases, their participation in the process will probably continue.

China's government procurement practices have often not been consistent with open and competitive bidding and, for the most part, non-transparent. It is unclear at this point how the new regulations will streamline a system that previously was subject to at least one, and usually several, approvals from governments at various levels. While tenders for projects funded by international organizations are usually openly announced, most government procurement is by invitation only. Competition is by direct negotiation rather than by competitive bid but that is supposed to change under the new regulations. Goods and vendors for large projects that are covered in the annual state plan have been frequently designated during the planning process. All information, from solicitation to award, remains secret and is known only to those companies involved or to officials in the planning and industrial ministries.

Direct sales to the Chinese military are also a possibility. While restrictions on this type of business exist both in the United States and in China, U.S. manufacturers have successfully sold a wide variety of products to the Chinese military through the General Logistics Department of the People's Liberation Army (PLA).

F. Intellectual Property Rights (IPR) Protection

The U.S. and China signed an IPR Memorandum Of Understanding (MOU) in 1992, pursuant to which China improved its laws governing IPR protection over the following two years and joined the Berne Copyright and Geneva Phonograms Conventions. The March 1995 extension of the IPR MOU sets out a plan for enforcing IPR and grants market access to certain products. In 1998, in an effort to improve IPR coordination and enforcement, China established a new organization, the State Intellectual Property Office (SIPO). As envisioned, SIPO will eventually have authority over the Patent Office, the Trademark Office, and the National Copyright Administration. At present, however, SIPO only controls the Patent Office, with which it is co-located. The Trademark Office falls under the authority of the State Administration of Industry and Commerce, while the National Copyright Administration is controlled by the State Printing and Publishing Administration.

Chinese leaders have acknowledged that protection of patents, copyrights, and trademarks is needed to promote a "knowledge-based economy" in China. China has committed to full compliance with the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) upon accession to the WTO. It has completed a revised Patent Law and is now reviewing and revising its trademark, and copyright laws to ensure consistency with TRIPS requirements. In spite of steady, significant progress in improving its intellectual property legal and regulatory regime, IPR protection in China remains weak. Criminal penalties are too seldom applied. Trademark and copyright violations are blatant and widespread. While Chinese officials are increasing enforcement efforts, IPR violations, including growing exports of counterfeit products, continue to outpace enforcement.

China is a member of the World Intellectual Property Organization (WIPO), the Paris Convention for the Protection of Industrial Property, the Berne Convention, the Madrid Trademark Convention, the Universal Copyright Convention, and the Geneva Phonogram Convention. The Chinese Government is still debating, however, whether China's Copyright Law will be brought into full compliance with the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. While China has made no commitments in this regard, the U.S. Government believes that China's signing these treaties would further indicate China's intent to provide a high level of IPR protection.

Enforcement: Large-scale violations of intellectual property rights in China, including counterfeiting and smuggling, often overwhelm enforcement efforts. In recent years, China has had considerable success in closing down factories that produced illegal optical disks (CDs, VCDs, and CD-ROMs) computer software products - only to see an increase in such products smuggled across its borders. The authorities have also conducted thousands of raids at both the manufacturing and the retail level, resulting in the confiscation of counterfeit or smuggled products. In 1999, the State Council issued a decree admonishing government agencies to purchase only legal computer software.

At the same time, in 1998, in reaction to continuing IPR violations, foreign companies in China formed a coalition-now called the Quality Brands Protection Committee (QBPC)-to draw the attention of Chinese and U.S. Government authorities to the counterfeiting problem, and to propose ways of strengthening enforcement. These companies estimate their annual losses due to counterfeiting at over $1 billion. Severely limited market access for products such as foreign movies and computer software provides an additional incentive for smugglers and counterfeiters. Foreign companies have devoted considerable on-the-ground resources to combating IPR violations, with mixed results. In early 2000, the QBPC gained recognition from Chinese authorities as an official organization to protect their products. QBPC has expanded its membership and offers technical and financial support for IPR enforcement in China.

Inadequate enforcement of IPR laws and regulations, through either judicial or administrative means, remains a serious problem. Enforcement of existing IPR regulations is uneven and is sometimes impeded by local interests. Industry associations representing computer software, entertainment, and consumer goods industries report high levels of piracy and counterfeiting of all types of products. They also report increasing exports of IPR-infringing goods to other countries. The Business Software Alliance estimates that more than 90 percent of business software used in China is pirated. Consumer goods companies report that, on average, 20 percent of their products in the Chinese market are counterfeits. Chinese companies experience similar, or greater, problems with piracy and counterfeits. The administrative penalties for IPR violations, often no more than confiscation of the counterfeit products, are generally insufficient to deter counterfeiters. China's criminal sanctions against IPR violations are seldom used, in part, because of restrictions on types of admissible evidence and cumbersome procedures.

Combating IPR violations in China is a long-term, multi-faceted undertaking. China has established special IPR courts in all provinces, major cities, and at the Supreme People's Court. Judges in Chinese courts are charged with fact-finding and have greater discretion in the adjudication of cases than those in the United States. However, the lack of legal training of many trial court judges undermines the effectiveness of these courts. The USG and U.S. companies have provided resources for training judges. Chinese authorities are attempting to address the lack of legal training of court officials by establishing IPR law centers at Beijing University, Qinqhua University, and People's University. Chinese IPR professionals are also studying in foreign countries. The United States and the European Union have made IPR -- and commercial dispute resolution -- a key feature of "Rule of Law" discussions with Chinese authorities.

Enforcement options: The Chinese government agencies most often involved in enforcement actions are the Quality and Technical Supervision Bureau (TSB) (soon to be merged into the General Administration of the PRC for Quality Supervision, Inspection, and Quarantine (AQSIQ) and the State Administration of Industry and Commerce (SAIC). U.S. companies have also reported some success in registering trademarks, patents and copyrights with the Customs General Administration, which can then confiscate infringing products. The Trademark Office and the National Copyright

Administration also can take action in cases involving trademark and copyright infringement. In addition, China's court system can be utilized to enforce IP rights. However, the court system is relatively slow compared with the administrative agencies (such as the SAIC and the TSB), which reportedly sometimes conduct raids within hours of receiving a complaint.

Patents: Under China's patent law enacted in 1984, domestic and foreign patent applications have increased steadily. Patent protection was extended in January 1993 to pharmaceutical and chemical products, as well as processes; the period of protection was lengthened to 20 years. The amendments also provide the patent-holder the right of importation and expand the scope of patent infringement to include unauthorized sale or importation of products manufactured with the use of patented processes. Under the provisions of the MOU, China extends transitional administrative protection to some U.S. pharmaceutical and agrochemical products for up to seven-and-a-half years. A revised patent law is now under review.

China acceded to the patent cooperation treaty on January 1, 1994, and will perform international patent searches and preliminary examinations of patent applications. Under the patent law, foreign parties must utilize the services of a registered Chinese agent to submit the patent application. Preparation of the application may be done by foreign attorneys or the Chinese agent.

Copyrights: In March 1992, China established bilateral copyright relations with the U.S. and in October 1992 acceded to both the Berne Convention and the Universal Copyright Convention. China also joined the Geneva Phonogram Convention in April 1993. Following accession to the Berne Convention, China explicitly recognized computer software as a literary work and extended protection to computer programs for 50 years without mandatory registration requirements.

Trademarks. Although problems remain with enforcement, China's trademark regime basically conforms to world standards. In October 1989, China joined the Madrid Pact for protection of trademarks; the latter grants reciprocal trademark registration to member countries. China amended its trademark regime in February 1993 to add special regulations for criminal prosecution for trademark infringement.

Legal framework: China is revising its copyright, trademark and patent laws to meet the requirements of TRIPS and WTO accession. The revised patent law is closest to completion, and the copyright and trademark laws are also likely to be revised.

China has a "first-to-register" system that requires no evidence of prior use or ownership, leaving registration of popular foreign marks open to anyone. The Unfair Competition Law extends IPR protection to trade dress. Under the trademark law, foreign parties must utilize the services of registered Chinese agents to submit the trademark application. Preparation of the application may be done by foreign attorneys or the Chinese agent.

Trade secrets: In September 1993, the Chinese government adopted the Law Against Unfair Competition. This law defines unfair competition to include conduct that infringes the "lawful rights" of another business operator, including acts that violate "commercial secrets" rights. Commercial secrets which can bring economic benefits to the authorized users and which are protected by taking appropriate security measures are defined to include technical and operational information not available to the public. Sanctions under the law include civil remedies such as damages, administrative sanctions such as fines, and criminal penalties for "serious violations." China is further obligated to protect trade secrets under the Paris Convention for the Protection of Industrial Property, to which it is a signatory.

Regulation of Technology Licensing: Technology transfer by foreign companies is governed by 1985 regulations on technology import contracts, which include contract-licensing patents, trademarks, know-how or trade secrets; contracts for technical services; and other technology import contracts. Contracts transferring intellectual property as part of the foreign equity contribution to FIEs are generally regulated by laws concerning foreign investment. Technology licensing contracts must be approved by MOFTEC or its provincial commissions. Some of the issues of particular concern to U.S. companies include:

the licensor cannot require confidentiality beyond the duration of the contract, except where the supplier provides improvements to the technology, and most technology contracts are not to extend beyond 10 years;

the licensor cannot restrict sales channels or impose unreasonable restrictions on the export of products produced with the licensed technology; and

special approval is required for extended confidentiality, export restrictions, and preferential treatment for payment of royalty tax.

G. Professional Services

The system for regulation of foreign commercial activity in China is difficult to navigate and non-transparent. Companies new to market are strongly encouraged to retain professional services to structure commercial transactions. Establishing a wholly foreign owned subsidiary, joint venture, or representative office requires compliance with complex contract approval requirements, business registration requirements, taxation regulations and statutes, and labor regulations. Many foreign banks, accountants, attorneys, and consultants have established offices in China and are familiar with Chinese requirements. Some Chinese professional service providers also have substantial experience serving foreign clients.

Accountants: Chinese law requires representative offices and foreign invested enterprises to engage the services of accountants registered in China to prepare officials submission of annual financial statements and other specified financial documents. Therefore, only Chinese accountants and joint venture accounting firms may provide these services. All the Big Five accounting firms (KPMG Peat Marwick, Pricewaterhouse Coopers, Deloitte Touche Tohmatsu, Ernst & Young, and Arthur Andersen) have established offices in China and provide services ranging from providing advice on taxation matters and preparation of investment feasibility studies, to setting up accounting systems that are in compliance with Chinese law. Among accounting firm clients, multinationals are shifting their focus from market entry strategies to business operation efficiency. During the past six years, their market share has grown from 2% to 30%.

Attorneys: During the past eight years, many U.S. and international law firms have received approval to register in China as a foreign law firm. Prior to l992, most foreign law firms were registered as consulting firms. More than one hundred foreign law firms currently operate in China, of which nearly thirty are based primarily in the United States. Foreign law firms registered in China are restricted to advising clients on legal matters pertaining to the jurisdiction where they are licensed and general international business practices. Although a foreign lawyer may not offer a legal opinion, clients can obtain assistance with structuring transactions, drafting contracts, and resolving disputes. Only attorneys licensed in China may appear in court and provide legal advice on Chinese legal matters. Foreign law firms are allowed to open only one office in China and are not allowed to employ Chinese lawyers in that firm. Foreign lawyers are not permitted to qualify to practice law in China and are not allowed to form a joint venture with Chinese lawyers

Management Consultants: Foreign companies new to the Chinese market typically engage the services of local consultants to develop market entry strategies, conduct due diligence investigations, and identify potential investment partners, sales agents and customers. More than 100,000 companies are active in the Chinese consulting industry, of which 65% are foreign firms that generate 85% of consulting industry revenue. Licensed and unlicensed firms compete in the market, and the regulatory environment for this services sector is unclear. Only four foreign consulting firms have received a consulting firm license - BCG, Arthur Andersen, China Consulting Association, and the Lei-Da Group of Hong Kong.

Advertising: Approximately 64,000 advertising firms exist in China, of which 500 are foreign invested enterprises. Foreign advertising firms are limited to a 51% maximum equity stake. The major international advertising firms have established a presence in China. Companies new to market can gain valuable advice from top-notch advertising firms on how to effectively craft an effective advertising strategy that is responsive to Chinese consumer preferences and cultural differences. Advertising is strictly regulated in China, and penalties for violation of the law through misleading advertisements, unauthorized use of national symbols, or other prohibited forms of advertising are subject to fines of 100,000 RMB ($12,500).

Commercial Service posts in China maintain lists of U.S. law, accounting, and consulting firms with offices in China, as well as lists of Chinese firms that the Commercial Office or its customers have had favorable dealings.

H. Due Diligence

Undertaking a due diligence investigation prior to engaging in a trade or investment transaction can minimize risk of encountering commercial disputes. The primary causes of commercial disputes between Chinese and American companies concern breach of contractual payment obligations, irregularities in accounting practices, financial mismanagement, undisclosed debt, and struggle for control within joint ventures. These problems can be minimized by investigating the financial standing and reputation of local companies before signing contracts with them. Both U.S. and Chinese firms with offices in China conduct due diligence investigations; the former include Dun &

Bradstreet, Kroll Associates, PricewaterhouseCoopers and Pinkerton Consulting Services. The fees charged by these companies may be considered a useful investment to ensure that the local customer or partner is financially sound and reliable. The U.S. Foreign Commercial Service's International Company Profile (ICP) is not offered in China at this time.

Chapter #: 5

Chapter: LEADING SECTORS FOR US EXPORTS AND INVESTMENTS

A. Best Prospects for Non-Agricultural Goods and Services

1. Telecommunications Equipment (TEL)

China's investment in telecommunications infrastructure in 2000 increased by 33% over 1999 to reach $25.8 billion. The overwhelming majority of investment was made by the country's top three telecom operators: China Telecom ($13.1 billion), China Mobile ($7.3 billion), and China Unicom ($5.3 billion).

By the end of 2000, the number of fixed line telephone subscribers increased by 32% to reach 145 million and mobile phone users increased by 96% to reach 85 million. Year-end nationwide teledensity reached 20% while urban telephone penetration reached 39%. By the end of May 2001, the number of fixed line telephone users jumped to 160 million and mobile phone users to 111 million.

China's Ministry of Information Industry (MII) plans to expand the nationwide fiber optic cable network using the latest technologies (ATM, SDH, and DWDM); continue to expand and upgrade the existing GSM mobile network; deploy CDMA network nationwide; explore new services like mobile banking and mobile internet, short messaging; prepare for the deployment of third generation technology of mobile communications; improve management and billing systems; and promote internet usage, especially electronic commerce and electronic business.

China Telecom has not yet announced its investment amount for 2001. However, the company plans to recruit 25 million new telephone subscribers, 15 million internet users, 300,000 ADSL users, 600,000 ISDN users this year. In 2001, China Mobile plans to invest $10 billion. With this investment, the company expects to increase its switching capacity to 35 million, new subscribers to 30 million and GPRS users to 1.5 million. China Unicom plans to invest $9.6 billion in telecom infrastructure in 2001. China Unicom, the only licensed CDMA system operator in China, started deploying CDMA technology nationwide in June 2001 and plans to recruit 16.3 million new subscribers by the end of 2001. China Unicom is already listed on the NYSE and expects to list in domestic stock markets this year.

The Ministry of Information Industry, the most important government regulator in China's telecom industry, requires equipment manufacturers, both domestic and foreign, to obtain a license for their telecommunications equipment before they are marketed in China. MII encourages operators to purchase domestically manufactured products to support national telecommunications manufacturers. MII monitors the operations of all Chinese-foreign joint ventures to ensure that their performance abides by their contractual obligations. Greater flexibility is sometimes shown to foreign companies that have exclusive technology or are willing to invest in priority areas such as inland China.

China's efforts to prepare for accession to the World Trade Organization (WTO) have brought more players into China's telecommunications service market. China Railcom, for instance, is now licensed to provide all telecom services except mobile communications. The establishment of China Railcom out of the telecommunications division of the Ministry of Railways increased the number of basic telecom service providers to seven. The other six are: China Telecom, China Mobile, China Unicom, China Netcom, and Jitong Communications, and China Satellite. Although the Network Center of the State Administration of Radio, Film and Television (SARFT) does not have a telecom license, it is active in the broadband access network market, which was recently opened to domestic companies. The telecommunications division of the National Power Corporation recently received an ISP license and is seeking a basic telecom license. These competing companies will seek the best quality products at the lowest price, possibly leading to increased equipment sales opportunities for foreign firms.

Although China's telecommunications services sector remains closed to direct foreign participation, a major U.S. carrier has been officially allowed to participate in a pilot project to provide value-added services in Shanghai's Pudong area. MII intends to use this project to gain experience in regulating a telecom market that includes foreign participation. China's WTO accession will eventually lead to the opening of both the basic and value-added services markets. According to the WTO agreements China signed with the United States and the European Union, China has made commitments in three areas. 1. Opening immediately upon accession the key telecom services corridor in Beijing, Shanghai and Guangzhou, which carries about 75% of all domestic traffic, to foreign carriers with up to 25% foreign ownership in mobile services and 30% foreign ownership in value-added services. 2. Phasing out all geographic restrictions for valued-added services within two years of accession; mobile services within five years; and domestic wireline services within six years. 3. Allowing 49% foreign ownership in mobile services within three years of accession in 17 major cities and within five years for all of China; 49% in international and domestic fixed line services within six years; and 50% in value-added services within two years.

Best subsector prospects within this sector include the following: cellular networks; optical fiber and broadband transmission technologies; wireless broadband access network products; telecommunications consulting services - especially management, billing, and customer care.

	1999	2000	2001
Total Market Size	13,000	16,000	20,000
Total Local Production	7,500	9,400	12,000
Total Exports	2,500	3,000	3,600
Imports	8,200	9,600	11,600
Total Imports from U.S.	850	1,000	2,500

The above figures are calculated in $ millions and represent unofficial estimates.

2. Oil and Gas (OGS)

China's energy consumption ranks second in the world. Among the primary energy consumption sources, crude oil composed 19.8% in 1998. In the past 10 years, the average annual growth rate of China's national economy has been 9.7%, with crude oil consumption at 5.77%, while that of the domestic crude oil production has been only 1.67%. This imbalance has made China a net oil importing country since 1993. The quantity of oil imported has increased each year. In the 9th Five-year Plan period (1996-2000), the net import of oil reached 28.58 millions tons in 1999, greater than the 13.48 million tons increase in 1996, while that in 2000 was even as high as 60 million tons.

In the next 15 years, China's national economy will see a 7% growth rate, the demand for the crude oil will increase at a rate of 4%, while the growth rate for crude oil production will be only around 2%. As a result, the domestic crude oil production will be lower than demand. Therefore, crude oil import will continue to grow each year. It is estimated that crude oil demand by 2005 will be 245 million tons.

Currently natural gas covers only 2-3 % of China's primary energy consumption, which is much lower than the world average of 24% and the average in Asia of 8.8%. There exists great potential in the domestic natural gas market. The consumption demand for natural gas in the power sector, chemical and fertilizer industries, and city gas grid will grow rapidly. The total demand for natural gas was 26 billion cubic meters in 2000, and by 2005 it will hit 60 to 70 billion cubic meters. The ratio of natural gas in the primary energy consumption will climb to 5% .

The best opportunities for foreign participation are in natural gas infrastructure development and offshore oil exploration and production. Onshore oil projects are far less attractive due to lack of access to satisfactory leverage and geological data and a greater tendency to source equipment, services and technology domestically.

Typically, Chinese state-run project operators purchase some foreign equipment, hire a bit of technical services expertise and then run the operation with local staff. Most Chinese enterprises prefer to pay for something they can put their hands on and own and have trouble seeing the value in foreign technical and consulting services. Prospects are brighter in the offshore sector, where the technical challenges are greater and thus the value of foreign technical services more easily recognized by Chinese operators.

China now is carrying out several huge oil and gas projects for its clean energy development and environment protection. The on going Guang Dong LNG Terminal and Supply Project , West to East Gas Project as well as the Shenhua Coal Liquefaction Project have brought and will continue to bring export opportunities for foreign companies in the upstream and downstream engineering, project supervision, license, equipment, technology, consulting, marketing and supply sectors.

	1999	2000	2001
Total Exports	661	601	630
Total Imports	391	377	800
Total Exports to US	28	50	32
Total Imports from US	99	89	330

The above figures are calculated in $ millions (1,000,000) and represent unofficial estimates for oil and gas equipment, technology and services for oil and gas exploration, production and transmission projects.

3. Medical Equipment (MED)

China is the second largest medical-device market in Asia (after Japan), roughly estimated at more than $4 billion for 2000. The market is now the third largest in the world for high-technology equipment like CT (Computed Topography), Nuclear Medicine, MRI (Magnetic Resonance Imaging) and Ultrasound equipment. Imports account for 40-50% of the market share, with the U.S. controlling around 36% of the total imported product market, followed by Japan and Germany. Although figures are highly varied depending on the market segment, market growth generally is expected to be about 10% over the next three years. In the year 2000, medical equipment products imported to China increased 45.25% over 1999.

There are currently more than 200 foreign medical-device companies operating in China. Domestic production capability continues to grow, although the vast majority of enterprises have yet to comply with Good Manufacturing Practice (GMP) guidelines. Domestic industry strength will continue to be in the low- to medium-technology range, although a small number of local manufacturers are now capable of producing certain high-end products.

China's population of 1.2 billion has a great need for better health products and services. The increased demand in medical devices is due to increasing population, rapid economic development, and government policy aimed at upgrading health standards. Among the 310,996 medical institutions in China, 15% are equipped with medical devices from the 1960s and 1970s. Demand for advanced medical equipment, conventional laboratory instruments, dental services, small Ultrasonic-Bs, and small-type X-rays is expected to continue.

Decision to enter into this highly competitive market should be taken carefully, even though steady economic growth, a large and growing population, and increased wealth with a commensurate increase in access to health care should make this an attractive market in the long term. Most companies in the market today, however, report that it may take years to realize profits on an investment in China.

Companies should be mindful of 4 main issues when preparing to register a medical device in China. 1. Companies have found it difficult to conduct registration from overseas due to communication problems and other requirements. It is recommended that US companies authorize a local representative or distributor or a specialized agent firm to manage the product registration or other approvals. 2. China issues registration certificates and licenses in the name of the device manufacturer, not the agent or distributor. Therefore, companies should arrange for the agent/distributor to hand over the certificates or licenses. 3. The SDA requires that the local registration specialist have adequate technical knowledge about the product being registered, in order to allow effective and efficient communication. The registration specialist may be asked to answer technical questions about products during the course of testing at the designated testing center. 4. Understaffing at SDA and lack of experienced staff at some of the labs reportedly has been a problem. The sudden surge in demand for testing during the transition period from the old to the new regulations has been a major cause of processing difficulties at SDA-designated labs.

The Chinese health care system is currently in a state of change. Over the past several years, the Chinese Government has instituted a series of reform measures mainly in the urban health care systems in a bid to brake the rapid inflation of healthcare costs. Major equipment purchases must now be preceded by a letter of need issued by the Ministry of Health. Price caps/controls and a reimbursement list are also designed to bring down costs. Regulatory system reforms have been undertaken although registering products with the State Drug Administration, which has serious resource constraints, can still be a lengthy process. Overlapping regulation by different government agencies, including the State Administration for Entry-Exit Inspection and Quarantine (SAIQ), State Administration for Quality and Technological Supervision and Inspection (SAQTSI) as well as the Ministry of Health (MOH) remains a problem for foreign medical equipment suppliers. Although SAIQ and SAQTSI were merged in April, 2001, it is unclear whether the overlapping of functions between SDA and former SAIQ will be eliminated.

In 1999, the central government encouraged the provincial public health bureau use of international bidding for eight categories of large/expensive, imported medical. Each provincial public health bureau serves as the administrative authority for hospitals in its area. They are also responsible for obtaining any foreign government loans and ensuring that equipment is distributed fairly. In order to operate medical equipment, hospitals are required to have three permits: equipment allocation, operation, and working staff. Experts say over 50% of imported medical equipment cannot meet clinical requirements due to being second-hand medical devices, which are strictly prohibited for import into China.

All imported medical devices must be registered at the State Drug Administration (SDA), the central government agency in charge of drug and medical device administration. The SDA has introduced a comprehensive system for product certification and inspection to ensure the safety and quality of all categories of medical devices imported to China. This involves not only sample product testing but also factory audits. SDA requires class II and III products to undergo local type tests before registration, and that all class II and III products must provide clinical test reports. In some cases, SDA may require local clinical studies to be conducted in China.

As far as the impact of WTO accession on the medical-device market, China will reduce its tariffs on medical equipment from its current average tariff of 9.9% to 4.7%. Reductions are set to begin on accession with completion by January 1, 2003.

	1999	2000	2001
Total Market Size	4,881	5,181	5,699
Total Local Production	4,363	4,712	5,183
Total Exports	428	463	509
Total Imports	846	931	1,024
Total Imports from U.S.	313	344	378.4

The above estimates are calculated in $ millions from Chinese Customs statistics (only registered imports are included and production figures are estimated from SETC and China Medical Device Association).

4. Pharmaceuticals (DRG)

Until recently, China's pharmaceuticals market has been one of the fastest growing markets in the world. From 1990 to1999, the Western pharmaceuticals market grew almost 20% annually. According to IMS, 1999 retail sales of Western pharmaceuticals totaled $6.2 billion, ranking China ninth worldwide. Imported and joint-venture (JV) products accounted for approximately 25-30%. The reimbursement system and retail price controls may impact import and JV drug market share vis a vis domestic products. Market challenges facing U.S. exporters and joint-venture companies exist in a changing healthcare environment, which now includes great individual contributions for health insurance coverage, the prospect of individual choice for hospital services and healthcare products, and new retail outlets for medicines.

The young subsector market for dietary supplements has taken off in the past several years. Experts estimate that the industry, will grow to $6.1 billion this year and $12.1 billion by 2010. The industry promises to continue this trend as growing numbers of consumers seek products with curative, weight loss and other health enhancing effects. The number of dietary supplement domestic suppliers has increased 30-fold since 1992. Complicated product registration requirements and inexperienced and inefficient distributors are common obstacles to export and sales.

The domestic industry is characterized by non-branded generic production, overproduction and losses. The government is undertaking the consolidation of the over 6,000 pharmaceutical enterprises, of which 71% are state- and collectively-owned.

It is estimated that most hospitals derive over 60% of their revenue from prescription sales and hospitals remain the main outlets for pharmaceuticals, with 70-85% of all medicines sold through hospital pharmacies. This will change with the separation of hospital pharmacies from health care services, and with the growing numbers of retail pharmacy outlets. The trend is already evident. By 1998, the retail value of drugs increased from 5% to 15%, and in some areas reached 20-30%. Retail pharmacy outlets are expected to grow in numbers once the government introduces its system to classify drugs as over the counter (OTC). An OTC classification system was introduced in 1999, the development of which will further increase the volume of drugs sold through the retail outlets. The government is now encouraging development of chain drug stores, but the full effect might not be seen for several years.

Recently implemented central and local government price control and tendering policies aimed at containing the rising costs of healthcare, and in particular, medicines, may unfairly disadvantage high quality products in favor of cheaply produced generics. The lack of adequate intellectual property right protection and enforcement is another key concern as are regulatory obstacles and delays.

The drug distribution system is inefficient, segmented and adds considerably to the retail cost of medicines. The Chinese government has adopted policies and measures to encourage development of chain pharmaceutical stores throughout the country and has allowed foreign involvement in forming joint-venture pharmacies on a experimental basis. It is anticipated that WTO accession will further open the distribution system by allowing private and foreign firms to operate in the distribution system. Furthermore, China will reduce its average tariff on pharmaceuticals by about 60%, from its current average tariff of 9.6% to 4.2%. Reductions will commence upon accession and will be completed by January 1, 2003.

	1999	2000	2001
Total Market Size	22,469	24,718	27,190
Total Local Production	23,920	24,716	27,188
Total Exports	625	687	755
Total Imports	628	691	760
Total Imports from U.S.	52	57	63

The above figures are calculated in $ millions from Chinese Customs statistics (only registered imports therefore are included) and production figures from SETC (which include traditional Chinese medicine production).

5. Audio Visual Equipment (AUV)

China has the world's largest number of cable TV subscribers. By the end of 2000 it had 90 million and by 2010 it expects to have 150 million. Chinese households have 264 million TV sets and the average cable fee per month is $1-2 for a typical 20-40 channel system. The country boasts 5,300 cable operators of which 1,300 are approved by the State Administration of Radio, Film and Television (SARFT). China's cable TV network stretches over 2.4 million kilometers, including 300,000 kilometers of fiber optic lines. China's cable TV network provides internet services to about 100,000 users. This figure is relatively low because providing such services over cable defies current official policy.

The value of China's cable TV equipment market is estimated to be $2 billion in 2001. Growing at a 45% clip, the equipment market is expected to be worth $6 billion by 2005 and the size of the entire cable TV market, including cable TV programming services, will reach $12 billion.

China continues to set up state-owned enterprises in the media sector. According to industry experts, China Central Television, China Radio International, the Central People's Radio Station and China Satellite will eventually merge to create a Radio and TV

Broadcasting Group. This group will be responsible for linking all local cable TV networks into one national network. Experts eventually expect the Group to expand its business to newspapers, films and the internet.

Newly established Beijing Radio, Film and TV Corporation combines the reach of TV stations, radio stations, publishing houses, and audio and video companies. It even includes the publicly listed Gehua Cable Corporation. Shanghai Wenguang Group owns three TV stations, four newspapers, and 16 performing companies. This type of restructuring is expected to happen in all 31 provinces.

Among the focal points of China's cable TV equipment market are digital compression, intra-provincial and nationwide cable TV interconnects, and value-added service offerings, including network management systems, video-on-demand (VOD), music-on-demand (MOD), billing management systems; SDH transmission systems; SDTV transmission systems, distance learning and medicine, e-commerce, video-conferencing, high-speed internet access and cable telephony.

The main cable TV equipment China is using are production, headend & network equipment. The production equipment include: Camera/camcorder, video tape, cable, monitoring system, non-linear editing systems, 3D animation software, VCD production system, audio console, audio gathering recorders, editors, tripods, projectors, caption generators, non-liner video workstations, MPEG compression systems, touch screens, microphone, recording systems, editing consoles, adapters, wireless communication systems, animation workstations, teltext production & playout systems, AV distant transmission, lighting, audio amplifier speakers, amplifier, digital video effect, Monitor, SGI workstations, special AV cards, audio workstations and lighting consoles.

The cable TV headend & network equipment include: modulators, combiners, audio balance converters, end-user boxes, trunk amplifiers, power supply, distribution amplifiers, scramble & descramble systems, optical receivers, fiber splitters, fiber amplifiers, demodulators, consoles, AV splitters, logo generators, channel inserters, line amplifiers, power inserters, splitters, billing software, optical splitters, optical cables, fiber phones, mixers, TV text readers, amplifiers, equalizers, fiber connectors, cables, fiber adapters, filters, AV processors, switcher, source graphic generators, computer management systems, attenuators, broadband amplifiers, channel selectors and optical transmitters.

Although Chinese authorities do not allow direct foreign investment in television broadcast units, foreign companies can build cable systems and sell cable equipment. U.S. companies have sold equipment to construct SARFT's cable TV network. The network reaches more than 20 provinces in China. U.S. companies have advantages over third country competitors in almost every kind of cable TV product, especially digital technology products, but prices for some U.S. products are considered higher than those of European and Japanese products, according to Chinese distributors.

	1999	2000	2001
Total Market Size	1,209	1,600	1,960
Total Local Production	121	145	185
Total Exports	.97	1.09	1.26
Imports	1,088	1,209	1,775
Total Imports from U.S.	605	726	985

The above figures are calculated in US $ millions (1,000,000's) and represent unofficial estimates.

6. Pollution-Control Equipment (POL)

China has set plans to reduce its total pollutant discharge by 10% by 2005 as compared with 2000. Spending on environmental protection during the 10th Five-year Plan period (2001-2005) is projected to reach 1.2% of GDP, approximately $84 billion. By 2005, the Chinese government will try to ease the pollution situation, slow down the aggravation tendency of the ecological environment, improve environmental quality in key cities and regions, as well as amplify environmental protection policies, laws, and regulations.

The overall market is growing rapidly, but only a portion of it is truly accessible to foreign firms due to financing and hard currency constraints, low-cost local competition, closed bidding practices, and other market barriers. Products enjoying the best sales prospects include low-cost flue gas desulfurization systems, air and water monitoring instruments, drinking water purification systems, vehicle emissions control and testing devices, industrial wastewater treatment equipment, and resource recovery technologies. Large firms or consortiums that can provide turnkey solutions often have an edge.

Most large U.S. environmental firms have concentrated on World Bank and Asian Development Bank projects. The future may be brighter as affluent coastal cities begin to dramatically increase environmental spending, multinational investors uncork new sources of demand, and municipalities experiment with new project financing models. China's accession to WTO will help U.S. environmental exporters by lowering tariffs and discouraging import substitution policies, but change is expected to be neither instantaneous nor dramatic in this sector.

U.S. firms can use the following U.S. government sources:

1) Export Import Bank of the United States (ExImBANK)
The ExIm Bank facilitates the export of U.S. goods and services by providing loans, guarantees, and insurance for export sales. The major features of the program include: 1) short-term environmental export insurance policy to provide enhanced short-term support for small business exporters, and 2) enhanced medium and long term support for environmental projects, products, and services. The Eximbank now accepts guarantees from three Chinese financial institutions: the Bank of China, the People's Construction Bank of China, and the Industrial and Commercial Bank of China.

Eximbank Representative in China:
Mr. Douglas Lee, Trade Finance Officer
Export-Import Bank Representative
31st Floor, North Tower, Beijing Kerry Center, Beijing, 100020
Tel: (86-10) 8529-6655 x 809
Fax: (86-10) 8529-6558
Email: douglas.lee@mail.doc.gov

2) U.S. Trade and Development Agency:
The U.S. Trade and Development Agency (TDA), an independent U.S. government agency, provides grant funding for studies to determine the technical, economic, and financial feasibility of major infrastructure and industrial projects in developing and middle income countries. TDA funds feasibility studies, conducted by U.S. companies, to get the U.S. private sector in on the ground floor of projects that have the potential for generating significant exports of U.S. goods and services. By providing assistance in project planning, TDA promotes economic development while helping the U.S. private sector get involved in projects that offer significant U.S. export opportunities.

We recommend that you familiarize yourself with TDA's mission and funding criteria, and discuss your project with a TDA representative prior to preparing a written proposal. The TDA Website (**http://www.tda.gov**) has a significant amount of information that will assist interested companies. Additional resource information on TDA's past activities and current events can be obtained by contacting TDA's Information Resource Center at (703) 812-2213.

China's WTO environmental services commitments cover sewage services, solid waste disposal services, cleaning services for exhaust gases, noise abatement services, nature and landscape protection services, and other environmental protection services. However, environmental monitoring and pollution source inspection is excluded. Under the bilateral WTO agreement, foreign service suppliers may provide environmental consultation services through cross-border delivery, without having to establish a representative office in China. All other foreign service suppliers may operate in China through a joint venture.

As income levels rise in a huge country with acute environmental needs, China's environmental market may grow to become one of the world's largest. However, American companies may find that competitors from other developed countries have already gained firm beachheads because these firms are now winning contracts with the help of subsidized loans, grants, and other tied aid from their governments.

	1999	**2000**	**2001**
Total Market Size	4,700	5,500	6,600
Total Local Production	2,090	2,420	2,640
Total Exports	65	70	80
Imports	2,675	3,150	4,040
Total Imports from U.S.	450	510	600

The above figures are calculated in US$ millions (1,000,000's) and represent unofficial estimates.

7. Insurance Industry (INS)

The insurance industry has shown rapid growth within the past few years, particularly the life insurance market, as average annual incomes have grown. In addition, the increasing number of private businesses, coupled with the decline of job opportunities in the state sector as a result of China's state reforms, has sparked people's interest in buying all types of insurance ranging from property to life.

According to insurance specialists, in the next five years China's insurance industry should maintain a growth rate of 13%. By the end of 2000, premium income topped $19 billion, up 14.5% over 1999. Life insurance premiums accounted for $12 billion while non-life insurance premium grew to $7.2 billion, up 14.8% over 1999. Total assets for the industry stood at $40.8 billion by the end of 2000. The "insurance depth" (insurance premium/GDP) is 1.8% with an "insurance density" (average per capita premium income) of just $15.4 per person. Industry analysts estimate that by 2004, total insurance premiums should top $31.4 billion, achieving an "insurance depth" of 2% and "insurance density" of $24 per person. Other experts forecast the market will grow to about $120 billion in the next ten years.

As of the end of 1999, total assets of foreign-funded companies amounted to $ 0.53 billion, accounting for 1.7% of the total assets of China's insurance industry. The insurance premiums of foreign insurers in China in 1999 reached $ 0.22 billion, representing just 1.3% of the country's total. In Shanghai, which is one of only two cities "open" to foreign insurers, the market share of foreign-funded companies reached 13%.

By the end of 2000, there were 13 domestic Chinese insurers (four state-owned corporations and nine joint-stock companies). Insurance in China is still dominated by domestic companies. Of the thirteen domestic companies, the top five, People's Insurance Company of China, China Re, China Life, China Pacific and Ping An are national companies with the freedom to operate nationwide. Other local companies such as Hua An and Guotai have more restrictive business licenses, limiting them to particular regions.

To date there are 17 foreign insurers with operating licenses (twelve in operation and five pending approval): three from the United States (AIG, Chubb Group and John Hancock in operation) two from Britain (Royal & Sun Alliance and Prudential UK in operation), two from Canada (Manulife in operation and Sun Life Assurance pending approval) plus one each from Japan (Tokio Fire and Marine in operation), Switzerland (Winterthur in operation), Germany (Allianz Dazhong in operation), Holland (Aetna in operation, now part of ING) France (Axa-UAP in operation) and Australia (Colonial Mutual in operation).

In 2000, the China Insurance Regulatory Commission (CIRC) granted (pending approval) two additional life insurance licenses to ING from Holland and Assicurazioni Generali from Italy in 2000. In April 2001, CIRC granted (pending approval) non-life insurance operating licenses to Samsung Fire and Marine from South Korea and Mitsui Fire and Marine from Japan. Altogether, over 110 overseas insurers from 17 countries and regions have set up 202 representative offices in 14 cities. These representative offices are not permitted to sell insurance products.

Growth of the insurance sector is poised to continue with the market opening commitments in the US-China Bilateral WTO Accession Agreement and the EU-China Bilateral WTO Accession Agreement. Market access barriers such as restrictive licensing have been addressed in these agreements. China has agreed to grant licenses on a prudential basis, without numerical restrictions or discretionary "economic needs" tests. Companies can obtain a license if they have more than 30 years of experience in a WTO member country; a representative office established in China for two consecutive years; and global assets of more than $5 billion.

Additional WTO commitments include: All geographic restrictions will be phased out within three years of accession; internal branching is permitted consistent with the phase-out of geographic restrictions; master policy insurance and large-scale commercial risk insurance can be provided nationwide upon accession; health, pension and group products can be sold two and three years from accession, respectively; and brokerage services will be permitted; reinsurance will be open completely after five years, with the existing 20% cession requirement being eliminated in phases. This writing, however, takes place before Working Party discussions are completed.

	1999	**2000**	**2001**
Total Assets	30,700	40,800	53,000
Total Insurance Premium	16,780	19,200	21,700
Foreign Insurers Premium	220	-	-
Insurance Depth	1.67%	1.8%	1.91%
Insurance Density	13.4	15.4	17.4

The above figures in the first three rows are calculated in $ millions (1,000,000's) and in the last two rows are calculated in single $ (1's), and represent official and unofficial estimates.

8. Airport and Ground Support Equipment (APG)

Between 1949 and 1978 China invested several billion RMB in building and expanding airports, thus laying a sound foundation for the development of civil aviation. Since 1979 there has been severals spats of new activity as new airports were built and old ones enlarged or renovated in response to new demands created through the reform and opening policies - including the development of a hub and spoke network and the consolidation of airlines. At the end of 1995 China had 115 civil airports, 81 of which were large enough to handle Boeing 737s.

During the 9th Five-Year Plan period (1995-2000), China invested RMB68 billion ($8.2 billion) in civil aviation capital construction and RMB 14.3 billion ($1.7 billion) in technical renovation and utilized RMB 514 million ($62 million) of foreign investment for airport construction. 48 airports, including 25 trunk line airports, and 23 regional and tourism airports have been built or renovated. By the end of 2000, China had 143 civil airports, including 23 4E airports, 35 4D airports and 40 4C airports.

During the 9th Five-Year Plan Period, China started the construction of the three major air traffic control centers in Beijing, Shanghai and Guangzhou. China will continue the construction of four aircraft and aircraft-engine maintenance bases in Beijing, Guangzhou, Shanghai and Chengdu in the 10th Five-Year Plan period.

During the 10th Five-Year Plan Period (2001-2005), in addition to adding 300 airplanes, China will accelerate airport construction, update the technical grade of the major airports, enhance air passenger/cargo handling capacity, add advanced air traffic radar and telecommunication and navigation facilities, build and improve flight systems, establish national, centralized and unified air traffic control system, strengthen the construction of aircraft maintenance bases and develop regional aviation. Priority will be given to airports constructed in the western region. By the end of 2005, China will have 173 civil airports including 3 large national hub airports, 6 medium-sized hub airports and 164 trunk line and regional airports.

Airport development and construction covers a wide range of products and services, including initial design and engineering services, construction equipment, specialized runway and air traffic control equipment, cargo inventory management facilities, telecommunications, x-ray equipment, emergency vehicles and even retail concessions and airport management services. Specialized training for air traffic controllers could also be grouped under this broad and growing sector of the aviation market. U.S. companies are seen by the Chinese as the world leaders in many of these categories.

With a country as geographically large as China, hard currency tourism revenues growing rapidly, air cargo volume taking off, and the local population becoming increasingly affluent, the government has placed a high priority on improving the entire air travel system. Much of the construction on the new airports has been done with local products rather than more expensive imports. One month after the opening of the Dalian airport (which used a tiny fraction of imports), the roof leaked during a mild rain. Unfortunately, this scenario is played out in many other cities. To the extent that U.S. firms are able to convince airport authorities of their superior quality, and resulting lower long-term costs, they will be better able to compete against the cheaper but better connected local suppliers. Local, cheaper products don't always win. One-upmanship can be used to U.S. firms' advantage, as some airport authorities are using imported equipment to emphasize their own high status in the aviation community.

The data provided below summarize the import trend of airport equipment and services, based on imports in several HTS categories. These categories only represent imports of radar, remote radio control apparatus, navigational aids, elevators and escalators, communication systems, signaling & safety equipment for airfields, special purpose vehicles, and measuring or cheking instruments, appliances and machines so must, therefore, be viewed as incomplete, though representative of general trends.

Industry analysts and business people agree that the Chinese authorities have available funding and the interest in purchasing nearly $500 million of air traffic control equipment during the next five years, although nearly $150 million will likely go to a single company for the area control centers.

	1999	2000	2001
Total Market Size	1,026	1,577	1,576
Total Local Production	328	626	626
Total Exports	162	184	176
Total Imports	860	1,135	1,126
Total Imports from U.S.	155	250	313

The above figures are calculated in US$ millions (1,000,000's) and represent unofficial estimates. Trade numbers are based on Chinese customs figures for the HTS codes: 842810, 8526, 86080090, 8705, and 90318090.

Local production figures are calculated on the basis of combined information from the Chinese government, "CAAC Journal" and "Economic Daily".

9. Computers & Peripherals (CPT)

China' personal computer market increased 45.1% in 2000 with 7.17 million units sold. Driven by the fast development of the Internet, increasing number of families have purchased computers. As of December 2000, China has 22,500 million Internet users and 8.92 million PCs connected to the Internet. Of Internet users, there is a 155% increase compared with the same time in 1999.

Domestic brand computers take over half of the computer and peripheral market share, while foreign brands keep about a quarter of these markets. Legend Group is the leader in China's computer market with 37.88% of market share. In 2000, Legend's PC sales grew by 96% to 2.1 million, surpassing strong American brands such as, IBM and Compaq. In addition, servers and peripherals compose a fast growing industry that now account for a $20 billion market.

Major domestic PC firms are Great Wall Computers and TCL Computer Co. TCL Computer Co. has launched computer models based on the Pentium 4 processor for RMB9.988 ($1,206), breaking the consumer's psychological line of RMB10,000 ($1.207). TCL's move has sparked firms such as Legend and Founder PC to promote their own Pentium 4 based computers at reduced prices.

The following breakdown shows foreign brands maintaining a sizable minority presence:

Market	Company	Share (%)
Computer	Legend	37.88
	Founder	8.27
	IBM	7.45
Laptop	Legend	23.16
	Toshiba	10.89
	IBM	7.34
Display	Philips	20.32
	Samsung	16.08
	Acer	8.98

Modem	Star	26.13
	Legend	16.92
	Quanxiang	9.25
BubbleJet printer	Canon	29.88
	Epson	29.19
	HP	22.66
Laser printer	HP	43.52
Scanner	Unisplendor	38.72
	Acer	12.72
	Canon	11.92

Source: Popular Computer Weekly

10. Building/ Decorations Materials (BLD)

Among the hottest market sectors in China is the home building/decorations materials industry. Liberalization of ownership restrictions by the government coupled with rapid growth in housing construction makes investing in this market increasingly attractive.

Of the two, the home decorations market is experiencing the most rapid growth. Expected to continue development at a rate of 25-30% annually over the next five years, the total annual volume of decoration and refurbishing work will also likely soar from RMB 200 billion to 600 billion ($24.2 billion to $72.6 billion) between 2001 through 2005. According to the last three years of empirical analysis, building and decoration exports to China grew from $29.3 million in 1998 to $39.4 million in 2000. During this period, growth in this sector rose at a rate of 34.48%.

Augmenting this sustained growth are 10 sub-sector categories, namely: acrylic and vinyl based paints; granite, crude/rough; coniferous wood veneer sheets; doors, windows, frames, and thresholds; aluminum doors, windows, and frames; plasters; sinks, wash basins, and stainless steel products; sanitary fixtures, porcelain/china; and other miscellaneous structural materials. Trade in these materials grew from nearly $22 million in 1998 to $33 million in 2000, resulting in a 52.53% growth rate over three years.

Though the U.S. excels in this market, overall exports to China in this market continue to decline. The global export market to China in building/decoration materials fell over 16% in 1999, and failed to regain lost ground by the end of 2000. Yet, U.S. exports to China grew in 1999 and 2000, by nearly 15% and 17% respectively.

China's "green" housing program is also potentially good news for U.S. exporters. Though the government has made efforts to stimulate domestic production of building materials through tariffs, economists realize the country lacks technology and environmentally friendly building materials. Recently, China's Ministry of Construction (MOC) published the Technology Guideline for Green Residential Housing. The guideline states that in the construction of green residential housing, materials should be reusable, recyclable, renewable, non-toxic, non-harmful, and pollution free. If "green" housing compliance follows the government's expectations, this niche will be greatly enlarged and capable companies will stand to benefit substantially.

The Chinese government recently reported the annual growth rate for housing as between 20% and 30%. MOC estimates that 3.0 billion square meters of urban housing will be completed in the next 5 years. While site construction expands, the government is working to develop programs that increase interior completion in new housing. Recently, the Beijing Construction Commission issued a new regulation, requiring new residential housing projects to be submitted with completed decoration and refurbishment beginning in June 2001. Though this puts Beijing developers in a position to exercise monopolistic power, "empty shell" housing should end within one to three years, generating a huge market for supplemental construction and decoration materials.

China's likely accession to the WTO in 2001/2002 will further spur growth. Aside from improved corporate confidence towards trade and investment in China, tangible benefits will gradually emerge. Chief among them will be reductions in tariffs. By 2004, tariffs over acrylic/vinyl based paints and varnishes will be cut by a fourth; doors, windows, and frames will drop by over a third; and aluminum structures by almost two-thirds. Other materials benefiting from WTO sponsored reform will be glazed ceramic tiles, sanitary cement, fiberglass, and cement equipment.

	1999	**2000**	**2001**
Total Market Size	16,040	16,299	17,076
Total Local Production	16,305	16,712	17,686
Total Exports	840	1,046	1,299
Total Imports	576	633	699
Total Imports from U.S.	34	39	45

The above figures are calculated in US$ millions (1,000,000's) and represent estimates based on China Customs.

11. Computer Software (CSF)

Major growth in software markets is imminent, although illegal copying of software keeps the piracy rate over 90%. Government commitments to buy legal copies and bundled software created significant new demand. For now, the most sought after retail products are games and entertainment software, but Windows 2000 did allow Microsoft to announce an 83% increase in China revenues for 2000. Stiff competition from Linux is emerging, but here too are opportunities for foreign vendors.

The highest dollar value software are operating systems and database management software. Japan remains a large competitor in the computer game industry. Also as a few major local computer manufacturers are preload Linux to their new PCs, the market share for Linux is growing rapidly. Most U.S. computer products appear to enter China via gray marketing channels from Hong Kong and do not appear in official Chinese trade statistics.

	1999	2000	2001
Total Market Size	1,123.77	1,225.45	1,840.00
Total Local Production	2,300.00	3,200.00	3,830.00
Total Exports	21.77	25.45	30.00
Total Imports	1,198.00	2,000.00	2,020.00
Total Imports from U.S.	266	120	420

The above figures are calculated in US$ millions (1,000,000's) and represent estimates based on China Customs.

12. Education & Training (EDS)

According to the American Education Research Center, in the 1999-2000 school year, the number of students studying in the United States from Mainland China reached 54,466 - a 13% increase over the previous year. The number has ranked first on the list for two years. It accounts for 64% of the total number of Chinese students studying overseas. According to a Chinese report, students from mainland China brought $354 million in revenues to the American economy in 2000. In 2000, students from Mainland China accounted for 10.58% of all the foreign students in the United States.

The United States is the most expensive country to study in. The average cost is about $25,000 in the United States. In August 2000, the Bank of China opened a loan program for students to study overseas.

As China increasingly integrates into the global economy, Chinese enterprises are facing new challenges, among which is the need for new skills - especially in the area of management, information technology, and English language. An increasingly knowledge-based global economy is placing more emphasis on the activity of knowledge production, transfer, and exchange. Managers will be the administrators of this activity, information technology - the vehicles, and English - the language. Because America's educational system has a solid reputation in China, U.S. colleges, universities and other deliverers of training services are in a strong position to fulfill China's training needs. Short-term training programs or workshops in specialized fields as well as business education are particularly sought after. U.S. educational organizations can also vend teaching materials and equipment, convey the latest methodologies and case studies, lend or exchange faculty, and provide educational consulting services.

China's educational needs are critical, so much so that at an educational conference in 1999, President Jiang Zemin said that China encourages the establishment of non-government run colleges and universities to supplement regular institutions of higher learning. Foreign educational and training organizations are taking him up on his word and establishing anything from short-term pilot courses to international business schools. Funds for education reached 4% of China's GDP in 2000. According to China's Ministry of Education, more will be done within the next few years to develop vocational and adult education programs, serve regional economic and social development, and promote on-the-job and re-employment training programs.

China has 1,535 schools that focus on instructing the 350,000 youngsters and adults who have physical or mental disabilities, but the Ministry of Education estimates that China has 20 million children who need special education. Training a disabled teenager costs an average of $482 per year while training a non-disabled teenager costs $145. China plans to invest more funds for special education and develop regulations to help disabled youths find jobs after they receive training.

Distance education networks, using computers and television, are being deployed to provide basic education in poor, remote regions. It will also be used for post-graduate education, vocational programs, teacher training and specialized instruction for urban and rural laborers.

Thirty-one Chinese universities have been approved to run pilot projects for distance learning. According to officials from China's Ministry of Education, the universities may conduct their own recruiting, design their own curriculums and choose their own teaching methods. Pilot-program presidents are authorized to issue diplomas and undergraduate degrees having equal authenticity to those issued by China's Ministry of Education.

In particular, China needs more Masters of Business Administration (MBA) graduates to meet the demands of the country's modernization drive. Chinese educational institutions started offering MBA programs in 1991, but most of these institutions are still in the throes of developing their programs. This demand-supply margin offers U.S. educational institutions an opportunity to market their MBA programs in China. Presently, the U.S. leads the market in providing joint venture MBA and EMBA programs in China, but competition from European, Canadian and Australian organizations is increasing. In addition, 56 Chinese educational institutions have been granted permission to issue business administration diplomas.

By the end of 2000, it is estimated that 45,000 people were enrolled in Chinese or joint venture MBA or EMBA programs in China. Education experts believe that China currently needs around 300,000 MBA graduates to satisfy its development needs. The MBA sector market value reached approximately $120 million in 2000. In addition, Chinese institutions, including ministries and state-owned enterprises, offer a wide variety of business training that range from one to two years in length.

13. Plastic Materials and Resins (PMR)

In the tenth-five year plan (2001-2005), the annual growth rate of general synthetic resins is projected to be 6.8% and of engineering plastics materials is expected to be 10%. However, the local output of plastics materials and resins can only satisfy 50% of market demand. As a result, China must import large quantities of plastics materials each year.

The local market requires imports of general-purpose thermoplastic resins, including polyethylene (LDPE and HDPE), polypropylene (PP), polystyrene (PS), acrylonitrile butadiene styrene (ABS), and polyvinyl chloride (PVC). This market is subject to fluctuation of up-stream supply and down-stream market demand.

Special engineering plastics and other resins, which possess special physical and chemical properties, are used widely in various industries as special materials. U.S. engineering plastics products have high-technology inputs and are very competitive in the local market. However, U.S. firms now face stiff competition from Japan, Korea and Taiwan. In recent years, imports of general plastics from the U.S. dropped sharply due to price competition and the close relationship between Asian competitors and China.

China needs to import large amounts of synthetic resins to meet local market demand. However, the average general customs tariff for plastic materials is 16%, which inhibits cheap imports.

China's accession to the WTO will provide significant benefits to U.S. plastics and resins exporters. China will reduce average chemical tariffs by more than 50% by January 1, 2005. Specifically, the average rate will be reduced to a final average rate of 6.9%. Quotas will be eliminated on virtually all chemical products upon accession. The remaining quotas on polyethylene terephthalate slices or chips will be eliminated in 2002. China has also agreed that any entity will be permitted to import most products, including plastics and resins, into China after a three-year phase-in period. U.S. companies operating in China will also be able to freely distribute plastics materials in China.

	1999	**2000**	**2001**
Total Market Size	13,650	15,150	16,500
Total Local Production	4,950	6,000	6,000
Total Exports	400	550	600
Total Imports	9,100	9,700	11,100
Total Imports from U.S.	600	680	700

The above figures are calculated in US$ millions (1,000,000's)

14. Agricultural Chemicals (AGC)

China's agriculture-related market has been the subject of great attention. Agrochemical exports to China are very important for U.S. industries, ranking top among U.S. fertilizer exports in recent years. In 2000, China imported $597 million in diammonium phosphate (DAP) from the United States, accounting for 96.6% of the total fertilizer import. The import amount decreased 45% as compared with the figure in 1998. It is likely that China will rely less on fertilizer imports in the future. These raw materials are essential elements of most fertilizers. China lacks potassium resources and its phosphate is difficult to recover. Domestic output of fertilizer still can not meet the total market demand, forcing China to import high-concentration and compound fertilizer, which is controlled by quota management. However, China still restricts imports of nitrogenous fertilizers such as urea to protect local producers.

China is taking measures to regulate the pesticide market to prevent toxic runoff and poisoning of consumers. The proportion of herbicides and fungicides in the varieties of pesticides has increased. The proportion of output of the varieties with high performance, low toxicity and better safety in the output of pesticides has also increased. Therefore, imports of high efficiency, low toxicity, and low residual pesticides have strong market prospects, mainly as a supplement to highly toxic Chinese pesticides. However, foreign suppliers currently face discriminatory product testing requirements.

China's accession to the WTO will provide dramatic benefits to U.S. fertilizer exporters. On accession, tariffs will drop 6% from the current 11% import duty rate. Quotas will be eliminated upon accession for urea and DAP and by 2002 for other fertilizers. The quotas will be replaced by a tariff-rate quota system with in-quota tonnage limits expanded each year. Moreover, all quotas must be fully allocated, forbidding the current practice of limiting imports by only allocating a certain portion of quotas each year. Perhaps most significant, foreign firms will gain the right to import and distribute fertilizers after a five year transition period, gradually dismantling the state-controlled trading monopoly.

	1999	**2000**	**2001**
Total Market Size	10,448	10,673	11,100
Total Local Production	8,630	9,145	9,520
Total Exports	670	830	320
Total Imports	2,488	2,358	1,900
Total Imports from U.S.	1,146	1,205	700

The above figures are calculated in US$ millions (1,000,000's)

B. Best Prospects for Agricultural Goods and Services

1. Grains

Wheat PS&D Code: 0410000
Corn PS&D Code: 0440000
Barley PS&D Code: 0430000

Although the volume of trade is likely to fluctuate depending on domestic production, China's demand for wheat, corn and barley is expected to grow in the next few years. For corn and barley, the underlying demand factors in the next five years will be limited land for local production, increasing population, better incomes as well as changing consumer preferences, which will mean increased demand for feed corn and barley to malt for beer. For wheat, the prospects for increased imports lie in China's inability to cheaply supply certain types of wheat (i.e. high protein and low protein) used to make increasingly popular Western bread, cakes and cookies. Currently market conditions are favorable for increased imports; however, the government is restricting inflows and subsidizing exports to support domestic prices and reduce government stocks. When China enters the WTO market access will increase substantially. See www.fas.usda.gov under "attache reports" to view the latest grain and feed reports on China.

(Wheat, Corn, Rice)

	MY99/00	MY00/01	MY01/02
Total Market Size	235	237	239
Total Local Production	250	209	212
Total Exports	11	7	1
Total Imports	3	3	8
Total Imports from the U.S.	0	1	4

Unit: Metric Tons

2. Grass Seeds

China is in the process of beautifying cities, combating soil erosion and desert expansion, and improving its forage industry. China will likely import large amounts of grass seed as it returns more farmland to grassland and forest. Government officials encourage farmers to plant forage grasses, like alfalfa, as a means to feed livestock while also preventing erosion and desertification. As an example, estimates indicate that Inner Mongolia, alone, will require 20,000 metric tons of grass seed a year; only half of which can be produced domestically. US market share of total grass seed imports slipped from 70 percent in MY 99/00 to 50 percent in MY 00/01. Canada, Denmark and the Netherlands are the United States' major competitors and have gained market share by offering less expensive seed. China has issued new regulations on all planting seeds.

	MY99/00	MY00/01	MY01/02
Total Market Size	N/A	N/A	N/A
Total Local Production	N/A	N/A	N/A
Total Exports	1,357	2,500	3,000
Total Imports	9,187	15,200	19,000
Total Imports from the U.S.	6,461	7,200	9,500

Unit: Metric Tons

3. Oilseeds

Soybeans PS&D Code: 2222000 (beans)
Soybean Meal PS&D Code: 0813100 (meal)
Soybean Oil PS&D Code: 4232000 (oil)

Long-term prospects for soybeans and soybean products remain extremely promising. Over the past two years, China has imported record amounts of soybeans, and has now become the largest single-country market for US soybeans. In MY 1999, China imported some 10.1 MMT of soybeans, 634 TMT of soybean meal, and 557 TMT of soybean oil. Imports of soybeans are currently on schedule to reach record levels, while imports of meal and oil have fallen due to policies that favor imports of beans over processed products. Under WTO, prospects for processed products will improve, as soybean oil imports will gain access to an initial tariff rate quota of 700 TMT. Nonetheless, soybean import demand is expected to remain high due to the rapid expansion of the soybean crushing industry in East and South China, far from traditional production areas. For more information view the Oilseeds Annual, go to www.fas.usda.gov to view report number CH1025.

	MY99/00	MY00/01*	MY01/02*
Total Market Size	22,586	25,840	25,900
Total Local Production	14,290	15,700	15,600
Total Exports	220	200	220
Total Imports	10,106	11,000	10,600
Total Imports from the U.S.	4,979	5,000	4,900

Unit: Metric Tons
*Forecasts

4. Poultry Meat

Both exports and imports of poultry meat increased in 2000. Poultry meat consumption increased in some part due to the development of fast food restaurant chains and supermarkets in China, as well as a growing demand for animal protein. China Customs data show that in 2000 poultry meat imports increased 6% by volume and 17% in value. Poultry meat exports increased 19% by volume and 9% in value. In 2000, the amount of frozen chicken products entering China increased only slightly as compared to 1999 due to the difference in domestic and foreign prices. Also, stricter customs inspection restricted entry through gray channels. In 2000, the Chinese government published several regulations regarding chicken imports aimed at cracking-down on smuggling and bringing order to the market. For more information see **http://www.fas.usda.gov** to view the Poultry and Products, Semi-Annual Report, report number CH1005.

	1998	1999	2000
Total Market Size	11,149	11,810	12,160
Total Local Production	10,700	11,150	11,590
Total Exports	355	345	410
Total Imports	804	1,369	1,426
Total Imports from the U.S.	496	940	950

Unit: Metric Tons

5. Hides & Skins

PS&D Code: 2111000

China is a major market for imported bovine hides and skins which are processed and used to manufacture finished leather goods for export. The finished leather export industry relies on high quality hides for raw materials, making US hides extremely competitive. Demand for US hides will continue to grow as consumers of China's finished leather products demand better quality. Additionally, rising Chinese income levels will create a future market for high quality, finished leather goods. Demand for US hides and skins grew to record dollar levels in 2000. All indications are that 2001 imports of US hides and skins will surpass records set in 2000. The main competitors for US raw hides are Canada and Australia. The main competitors for US wet blues are Italy, Canada, Taiwan and South Korea.

	1999	2000	2001*
Total Market Size	N/A	N/A	N/A
Total Local Production*	363	388	415
Total Exports	63	69	72
China's Direct Imports	635	786	862
Hong Kong re-exports to China**	347	410	450
China's Direct Imports from the U.S.	324	206	225
Hong Kong re-exports to China from the US	115	115	114

Unit: 1,000 Metric Tons
* Data is unavailable and therefore estimated
** Includes available Hong Kong re-export data

6. Snack Foods

During the 1993-1997 period, direct exports of US snack foods to China increased at an annual average rate of 42% reaching a record high of $12 million in 1997. The regional economic crisis and restructuring of the state sector slowed China's economy in 1998, and US direct snack foods exports for the period fell by over 25% to $8.6 million. In 1999, China's direct imports of US snacks started to gain momentum, growing abruptly to $14 million, up 63%. Y2K set yet another record high for US direct exports of snack foods to China at $20.8 million, increasing 48.2% compared with 1999. On the other hand, Hong Kong remains an important conduit for US snack products. With an average double-digit growth rate from 1996-2000, US exports of snack foods to China and Hong Kong combined increased steadily from $36 million in 1996 to over $60 million in 2000. The data below do not include nuts and chocolate which are sometimes included under "snacks." In 2000, China's direct imports of US tree nuts ($9 million) were 2.5 times greater than in 1999. Although reliable statistics are not yet available on China's consumption, production, or trade in snack foods, it is estimated that improved living standards, combined with developing distribution/retail systems, will continue to generate consistent demand for high quality US snack foods, particularly almonds and other products which do not directly compete with Chinese domestic production.

	1998	1999	2000
Total Market Size	N/A	N/A	N/A
Total Local Production	N/A	N/A	N/A
Total Exports	N/A	N/A	N/A
Total Imports	N/A	N/A	N/A
Total Imports from the U.S.	8,600	14,020	20,781

Unit: US$1,000

7. Fresh Fruits

Although China's fruit production is huge, important export opportunities still exist thanks to the country's poor post harvest storage and handling practices and facilities. Imported US varieties that have done well to date include apples, oranges, plums, and table grapes. At present, Washington state apples, Washington state cherries, California table grapes and, most recently, citrus from four states are the only US fruits with full access to China. Although US pears and many types of stone fruit currently do not have access due to phytosanitary restrictions, ongoing negotiations between the USDA and China's quarantine officials may result in access in the near future. A few Chinese importers have licenses to import US fruits (other than apples, cherries, grapes and citrus) for hotels and supermarkets that cater to overseas visitors. A large amount of China's fresh fruit imports enter the country through Guangdong province, which borders Hong Kong, and is then distributed to most of China's major cities. Much of this fruit is not recorded in China's official customs statistics, but appears in Hong Kong transshipment data. For more information go to www.fas.usda.gov to view the Citrus Annual (report number CH9653), the Fresh Deciduous Fruit Annual (report number CH9637), and the Stone Fruit Situation (report number CH9602).

	1998	1999	2000
Total Market Size	N/A	N/A	N/A
Total Local Production	54,529	62,376	62,251
Total Exports	564	520	644
Total Imports	646	531	725
Total Imports from the U.S.	13	50	70

Unit:1,000 Metric Tons

8. Beef & Pork Variety Meats

The recent BSE scare in Europe has hurt consumption of beef in China to a certain extent with the Chinese government banning all beef imports from Europe. While the growth in beef imports continue about half of all beef imports are beef offal. The most popular cuts of imported beef offal are stomach and tendons. Two main markets exist for imported beef muscle-meat cuts: the first, accounting for 60 percent of beef muscle-meat imports, are lower end cuts (short plate and chuck eye roll) used for Chinese hot pot; the second are table cuts such as rib-eye, sirloin and tenderloin. The pork import market, although very large, is exclusively offal. Local pork muscle meat is of quality comparable to that of the US and other countries, and it is considerably cheaper than imports. Recent foot and mouth disease concerns have led Chinese authorities to ban most imports of European pork. There is a good and growing market for pork offal and organ variety meats such as stomach, tongue, and tripe. Much of China's beef and pork imports enter through the so-called gray channel. Recently the government has stepped up considerably its efforts to stop diminish this trade. China's overall meat exports by volume remain flat. Interestingly, however, the mix of products has changed significantly over the last couple of years. The amount of canned beef imports has increased while frozen and chilled exports have dropped. This reflects, in part, recent expansion in the processing capacity and diversification. For more information view the Livestock Semi-Annual Report, go to www.fas.usda.gov to view report number CH1006.

Beef and Pork imports for 2000 (unit: metric tons)

	Total	US Share
fresh, chilled and frozen beef	6,353	3,067
beef offal	31,919	10,362
canned and preserved beef	416	359
fresh, chilled and frozen pork	136,140	23,225
pork offal	101,126	44,214
canned and preserved pork	528	75

Beef and pork exports for 2000 (unit: metric tons)

	Total	US Share
fresh, chilled and frozen beef	17,135	0
canned and preserved beef	16,309	139
fresh, chilled and frozen pork	52,761	0
canned and preserved pork	56,689	242 (no offal exports)

China Production for 2000 (million metric tons)

Beef	5.328
Pork	40.314

9. Dairy Ingredients

China's demand for dairy products has increased greatly over the last two years. Demand has grown the most for fluid milk, including yogurt and flavored dairy drinks. Growth was flat for domestic milk production and is presently insufficient to meet domestic dairy consumption increases. The use of raw milk in the production of fluid milk is limited by a shortage of raw milk supplies available to domestic dairies. It is expected that powdered milk imports will continue to grow for at least the next few years and powdered milk exports decreased slightly in 2000, reflecting increases in domestic consumption. Whey, cheese and butter imports are also up sharply and should continue strong in the coming years. Even with this recent strong growth, China's per capita milk consumption is approximately 6.3 kg per year, among the lowest in the world. For the long term, as incomes rise and consumers continue to develop a taste for dairy products, the outlook and potential for large increases in consumption of dairy products are excellent. With strong growth in demand, over the next several years, dairy cattle herds should continue growing at an annual rate of about 5%, but milk production will grow at a somewhat quicker rate as improved technology and breeding increases per-cow output. For more information go to www.fas.usda.gov to view the Dairy Annual Report, report #CH0037.

Dairy imports for 2000 (unit: metric tons)

	Total	US Share
fluid milk	14,910	13
powder milk	72,769	954
milk not in solid form	647	3
yogurt	2,354	1
butter milk	200	1
whey	122,903	36,080
butter and dairy spreads	3,088	2
cheese	1,968	137

Dairy exports for 2000 (US share is 0) (unit: metric tons)

	Total
fluid milk	29,417
powder milk	10,161
milk not in solid form	7,253
yogurt	26
whey	334
butter and dairy spreads	223
cheese	407

Local Production for 2000 (unit: million metric tons)

	Total
milk	9.191
cow milk	6.294
powdered milk	0.829

Note: Statistics on other dairy products are no longer provided by the China National Statistics Bureau. MOA and the China Dairy Industry do not compile statistics on these products either.

10. Seafood

China customs data indicate that both exports and imports of aqua-products increased tremendously in 2000 to hit 4.054 million MT and $5.68 billion, up 52.6% and 28% respectively over 1999. Of the total trade, exports amounted to 1.534 MMT valued at $3.83 billion, climbing 13.8 and 22%; imports increased 92.5% by volume and 42.3% by value reaching 2.52 MMT and $1.85 billion. In 2000, imports of generally traded products grew to 420 TMT, which is a 95% increase over 1999. The market potential for seafood in China is significant. Data for 2000 indicate that the volume and value of Alaska seafood exports to China, increased by 10 and 19% respectively hitting 35,331 MT and $69.755 million.

Salmon - A record 2,575 MT of salmon (all origins) was exported to China during 1999 with a value of $8.716 million. The total export volume to China for 2000 showed strong growth, hitting 4,975 MT with a value of $17.007 million, an increase of 98 and 86% respectively over 1999. Lower-priced salmon, such as chum and pink salmon, is much appreciated here. Sockeye salmon, due to its high quality, is becoming more popular in five-star, high-end hotels and restaurants. Fresh frozen Norwegian farmed Atlantic salmon is still the market leader and the greatest challenge for Alaska salmon.

Groundfish - Exports to China in 2000 hit 6,367 MT and $14.449 million, up 111% and 62% respectively over the prior year. Much of the pollock and cod imported are for processing and re-export, although a significant quantity remains in China for domestic consumption.

Crab - China's crab imports continued to increase during 2000. Import figures for king and live crab also grew in 2000, with the most significant competition coming from Russia and South Korea. Alaskan crab is well-liked here and is considered a delicacy by trades, hotels and consumers. Potential exists for export growth.

After China accedes to the WTO, tariff rates on seafood imports will be phased down by January 2005 from the current average of 25.3 to10.6%.

	1998	1999	2000
Total Foreign Trade	2,144,000	2,653,200	4,054,000
Exports	1,003,000	1,328,200	1,534,000
Imports	1,141,000	1,305,000	2,520,000
Total Imports from the US	56,576	49,417	93,146

Unit: Metric Tons
Includes fish meal

11. Forest Products

Forest products imports have continued to grow over the past several years, and prospects for continued growth are excellent. Increased import demand is being driven by growing consumption and declining domestic supplies. The government's housing reform campaign has helped to stimulate consumption by increasing the demand for wood products for interior decoration and furniture. Demand is greatest for hardwood products, as Chinese consumers are unfamiliar with softwood. There has also been considerable growth in the construction of wood-frame housing, though the size of this market is limited by building codes that do not recognize western-style wood-frame construction. The decline in domestic supply is largely the result of China's current ban on logging in state forests. The ban was instituted as a result of floods in 1998, which were blamed on the effects of over-logging. The ban has already brought about modest increases in domestic timber prices. The government responded by reducing tariffs on a wide range of wood products in early 1999. Imports of logs and lumber now enter duty-free. US exporters to this market face strong competition from European hardwoods and from tropical hardwoods from Southeast Asia.

Roundwood

	1999	2000*	2001*
Total Market Size	55,429	55,229	52,019
Total Production	48,487	45,495	40,225
Total Exports	16	6	6
Total Imports	2,680	5,190	5,520

Unit: 1,000 metric tons
*Forecast

Temperate Hardwood Lumber

	1999	2000*	2001*
Total Market Size	7,230	7,649	7,663
Total Production	5,521	4,897	4,343
Total Exports	268	115	105
Total Imports	1,978	2,867	3,425

Unit: 1,000 metric tons
*Forecast

Note: Statistics are derived from the FAS 2000 Forest Products Annual Report. Updated statistics will be available in the 2000 Annual. Roundwood and temperate hardwood lumber statistics do not reflect trade in finished furniture, veneer, plywood, etc. Go to www.fas.usda.gov for more information.

Chapter #: 6

Chapter: TRADE REGULATIONS, CUSTOMS AND STANDARDS

The signing of the U.S.-China Bilateral Market Access Agreement on China's Accession to the WTO on November 15, 1999 represents a major victory in the United States' ongoing effort to open China's market to U.S. goods and services. By encouraging structural reform and the rule of law, the Agreement will also support China's own domestic reform process.

China in 2000 completed its bilateral WTO negotiations with all concerned WTO member states except Mexico. The WTO Working Party on China's accession resumed drafting of a Protocol and Working Party Report with a view towards completing the accession process by the end of 2001. WTO membership will build on and strengthen China's implementation of its commitments to the United States in the 15 trade agreements negotiated since 1979.

China restricts imports through a variety of means, including high tariffs and taxes, non-tariff measures, trading rights restrictions, and other barriers. Prohibitively high tariffs, in combination with taxes and other import restrictions, block many imports. Chinese officials are increasingly aware, however, that such protective measures contribute to endemic economic inefficiencies and encourage smuggling. To this end, the Chinese Government has undertaken measures to reduce these barriers. The number of firms with trading rights is continuing to increase; after WTO accession foreign entities will also benefit from this right. China is reforming its tax system to minimize distinctions between domestic and foreign entities according to the WTO principle of national treatment. In addition, China substantially reduced the number of goods subject to import quotas. China is clarifying its licensing procedures in accordance with the WTO's transparency requirement. Finally, in preparation for WTO accession, the Chinese Government cut tariffs on many goods on January 1, 2001.

A. Import Tariffs and Custom Regulations

The most comprehensive guide to Chinese Customs regulations is The Practical Handbook on Import & Export Tax of the Customs of the PRC, compiled by the General Customs Administration. This guide contains the tariff schedule and national customs rules and regulations. It may be obtained for 220 RMB plus shipping and handling from:

Xing Sheng Zhong Hai Fa Xing Zhong Xing Company.
#6 JianNei DaJie
Dong Cheng Qu, Beijing 100730.
Phone: (86-10) 6519-5923 Fax: (86-10) 6519-5616

Tariff Rates: The Customs General Administration (CGA) assesses and collects tariffs. Import tariff rates are divided into two categories: the general tariff and the minimum (most-favored-nation) tariff. Imports from the United States are assessed at the minimum tariff rate, since the U.S. has concluded an agreement with China containing reciprocal preferential tariff clauses. The five Special Economic Zones, open cities, and foreign trade zones may offer preferential duty reduction or exemption. Companies doing business in these areas should consult the relevant regulations.

On top of normal tariff duties, both foreign and domestic enterprises pay either value-added taxes (VAT) or business taxes, depending on the nature of their business and the type of products involved. VAT applies to enterprises engaged in import-export, production, distribution or retailing activities.

China offers a comprehensive program of tax incentives and concessions. The general VAT rate is 17% but necessities, such as agricultural and utility items, are taxed at 13%. Enterprises regarded as small businesses (annual production sales of less than renminbi 1 million or annual wholesale or retail sales of less than renminbi 1.8 million) are subject to VAT at the rate of 6%. Unlike other VAT payers, small businesses are not entitled to claim input tax credits for VAT paid on their purchases. Different standards apply regarding VAT rebates. The applicable rebate method is a function of the establishment date of the enterprise. Certain limited categories of goods are exempt from VAT.

In an attempt to stimulate exports, the State Tax Administration increased VAT rebates several times in 1999, up to 17% (a full rebate) for certain kinds of processed exports. Exporters complain that it takes months to obtain the rebates and amounts are often miscalculated. A recent crackdown on fraudulent VAT rebate application has made rebates completely unavailable in some areas of Guangdong and Fujian provinces.

China's accession to the WTO is likely to accelerate the phase out of its two-tier tax system for domestic and foreign enterprises. Domestic enterprises have long resented rebates and other tax benefits enjoyed by foreign invested firms. The move towards national treatment will mean the gradual elimination of special tax breaks enjoyed by many foreign investors. In addition, increasingly sophisticated collection methods are reducing loopholes for all market participants. For example, the authorities prohibited the granting of preferential treatment on business tax collection to newly established foreign-owned or invested financial enterprises as of May 1, 2001. (Pre-existing firms, however, can continue to receive preferential treatment until such time as the tax benefit was originally slated to terminate.)

Tariff rates significantly lower than the published MFN rate may be applied in the case of goods that the Chinese Government has identified as necessary to the development of a key industry. This has been particularly true of high technology items. These products benefit from a government policy to encourage investment in high technology manufacturing by domestic and foreign firms. Foreign investment firms that produce certain types of high technology goods, or that are export-oriented, do not have to pay duty on imported equipment which is not manufactured in China and which is for the enterprise's own use. China's Customs Administration has also occasionally announced preferential tariff rates for items that benefit other key economic sectors, in particular the automobile industry.

Customs Valuation: According to Chinese Customs regulations, the dutiable value of an imported good is its CIF price, which includes the normal transaction price of the good, plus the cost of packing, freight, insurance, and seller's commission. In August 1998, the Customs Administration launched an ambitious program to standardize enforcement of customs regulations throughout China as part of a larger campaign to combat smuggling. The program has reduced some of the flexibility of local customs officials to "negotiate" duties. However, customs officials still have wide discretion concerning the category in which an import is placed.

B. Trade Barriers

The Bilateral Agreement on China's WTO Accession is only the latest of fifteen trade agreements negotiated between the United States and China since 1979. These agreements cover everything from civil aviation and satellite exports to agriculture and intellectual property rights protection. Each of these agreements has played a role in China's gradual process of trade liberalization, and created new opportunities for U.S. exporters.

The Chinese government has recognized for a number of years that economic reform and market opening are cornerstones of sustainable economic growth. Nonetheless, these reforms have been difficult and often painful for certain constituencies, particularly in the aging industrial sector and heavily protected agricultural sector. Thus, while China today has a vastly more open and competitive economy than 15 years ago, there are still many significant barriers in place.
Some of the current trade barriers that U.S. firms face are:

High tariffs: For example, some motor vehicles face tariffs of over 80%. U.S. industry points out that tariff rates for sectors in which China is trying to build international competitiveness remain especially high. Under the bilateral WTO agreement, once China accedes to the WTO its industrial tariffs will fall from an overall average of about 15% to an average of 9.4 % several years after accession. The motor vehicle tariffs will eventually fall to 25%. Tariffs for U.S. priority agriculture products will quickly fall from an average 31.5% to 14.4%. If China signs the Information Technology Agreement (ITA), which should occur upon China's WTO accession, tariffs on all ITA goods - such as semiconductors and computer hardware - would be eliminated by January 1, 2005. Until accession takes place, however, tariffs will continue to act as an effective import barrier.

Import Quotas: WTO rules bar quotas and other quantitative restrictions. China has been gradually eliminating them and will continue this process after accession over a several year phase-in period. Specifically, the bilateral agreement with the United States requires China to eliminate existing quotas for the top U.S. priority products upon accession and phase out remaining quotas, generally by two years but no later than five years after accession. At present, however, quotas limit over 40 categories of imports, including automobiles, grains, edible oils, and certain textile products. Monopoly importers, such as those that exist for theatrical film imports, are able to establish de facto quotas.

Tariff-Rate Quotas: In 1996, China introduced tariff rate quotas (TRQ) on imports of wheat, corn, rice, soybeans, cotton, barley, and vegetable oils. The regulations governing TRQ administration have not been made public. Out-of-quota rates are currently as high as 121.6%. In bilateral WTO negotiations, the United States sought and won commitments to increase quota levels and transparency in administration.

Once it accedes to the WTO, China will establish and gradually increase large tariff-rate quotas for wheat, corn, rice, cotton, and soybean oil, with low in-quota duties ranging from 1- 10%. A portion of each TRQ will be reserved for importation through entities other than state trading entities. To ensure full use of the TRQs, China agreed to specific rules for administration of the TRQs, including increased transparency and reallocation to importers of any unused quota.

Import Licensing: Since the early 1990s, China has eliminated many import license requirements, a process that is likely to continue as China prepares for WTO accession. However, many products subject to import quotas also require import licenses, including some wool, grains, oilseeds and oilseed products, cotton, iron and steel products, commercial aircraft, passenger vehicles, fertilizer, hauling trucks, and rubber products. MOFTEC administers the licensing system, but has given primary authority for approval and import of some agricultural items to the General Administration of the PRC for Quality Supervision, Inspection, and Quarantine (AQSIQ). Import licenses are not easy to obtain. The applicant must prove that the import is "necessary" and that there is sufficient foreign exchange available to pay for the transaction.

Administrative Controls: Certain designated commodities must go through an automatic registration process and secure a "Certificate of Registration for the Import of Special Commodities" prior to importation. The certificate is valid for six months.

Transparency: It is increasingly easy to find information about economic and trade regulations in the print and electronic media. The 1992 U.S.-China bilateral market access MOU committed China to publishing all relevant laws, rules, regulations, administrative guidance and policies governing foreign trade that are not currently published. In conjunction with this commitment, China designated the MOFTEC Gazette (Wengao) as the official register for publication of all laws and regulations relating to international trade. Most government ministries have taken to publishing digests of their regulations, both in hardcopy and on their websites. The State Council (www.cei.gov.cn) and MOFTEC (www.moftec.gov.cn) websites are good first sources of information on Chinese foreign trade law. Economic newspapers now routinely carry the text of government policies and regulations. In addition, a number of commercial entities now offer databases and translations of many regulations.

However, despite this progress transparency is still a problem. Chinese officials routinely implement policies based on "guidance" or "opinions" not available to foreign firms and they have not always been willing to consult with Chinese and foreign industry representatives before new regulations are implemented. It can be extremely difficult to obtain copies of draft regulations, even when they have a direct effect on foreign investment. Furthermore, many decisions are left to the discretion of the implementing bureaucrats, who can make decisions without resorting to public comment or open procedures.

Legal Framework: Laws and regulations in China tend to be far more general than in most OECD countries. This vagueness allows Chinese courts and officials to apply them flexibly, which results in inconsistencies. Companies have difficulty determining precisely whether or not their activities contravene a particular regulation. Agencies at all levels of government have rulemaking authority, resulting in regulations that are frequently contradictory. Finally, while there seems to be no shortage of rules and regulations, there are few procedures in place to appeal regulatory decisions.

Trading Rights: The Chinese government has moved to dismantle the near monopoly on import-export rights previously enjoyed by a few state-owned firms. Liberalization of the trading system was given major impetus in early 1999 when MOFTEC announced new guidelines allowing a wide variety of Chinese firms to register to conduct foreign trade. The guidelines allow, for the first time, both manufacturing and "non-production" firms to register for trading privileges. These guidelines were further loosened in 2001. Some goods such as grains, cotton, vegetable oils, petroleum and related products are imported principally through state trading enterprises. Firms with trading rights must undergo an annual qualifications test and certification process. Wholly owned foreign enterprises and individuals are still not permitted to directly engage in import activities, except to bring in material and equipment necessary for production.

As part of its bilateral WTO accession agreement, China committed to phase out many restrictions on trading rights. To meet these commitments, MOFTEC is working on guidelines to allow foreign companies, subject to certain restrictions, to engage directly in trade.

Local Agents: The ability of foreign firms to distribute directly their products in China is subject to strict limitations. In general, foreign firms are only allowed to sell products that they manufacture in China and must go through local agents to distribute imported goods. China has agreed to gradually eliminate distribution restrictions as part of its bid to join the WTO.

Import Substitution Policies: China committed to eliminate all import substitution policies and regulations as one of the conditions of the 1992 market access MOU, but periodically continues to issues such regulations. Recent examples-in the fields of generic medicines, telecom equipment, pharmaceutical pricing, power generation, and the automotive industry-have been the result of informal directives that have not been publicly announced.

Anti-Competitive Practices: China continues to struggle with economic inefficiencies and investment disincentives created by local protectionism, predatory pricing, preservation of industry-wide monopolies, and monopolistic practices designed to protect the state-owned sector. In some cases, industrial conglomerates operating as monopolies or near monopolies (such as China Telecom) have been authorized to fix prices, allocate contracts, and in other ways restrict competition among domestic and foreign suppliers. There are several existing competition laws, and China is drafting a new anti-monopoly law. However, existing laws are ineffective due to poor national coordination and inconsistent local and provincial enforcement.

Anti-Dumping Regulations: China is beginning to use safeguard and anti-dumping measures to control surges in imports of certain products. As trade barriers fall, China's beleaguered state-owned enterprises increasingly are interested in using anti-dumping measures to protect domestic markets. Since China first promulgated Anti-dumping and Anti-subsidy Regulations in 1997, China has imposed anti-dumping duties to control surges in imports of eight products. Without exception, the Chinese complainants in these cases have been large state-run firms, employing large numbers of workers, suddenly facing pressure from both domestic reform and imports. Foreign companies involved in the investigations have complained that pricing methodologies used in making the determination were flawed and that the Chinese investigators relied excessively on information provided by the Chinese petitioners. Indeed, China's anti-dumping procedures (for instance, China's methods of calculating prices and injury) appear incompatible with some aspects of the WTO Anti-dumping Agreement. Likewise, China's anti-dumping regime lacks the transparency called for by WTO rules. Trade officials responsible for investigating dumping allegations have, however, been working to increase transparency and address other technical issues.

Services barriers: China's service sector has been one of the most heavily regulated parts of the national economy - and one of the most protected. The service liberalizations included in the bilateral WTO agreement will improve dramatically foreign access to this sector. The Chinese economy itself will benefit from the increased scope of services, professionalism and technologies that foreign investment in services will bring. There will be substantial efficiency gains to the domestic economy as well from increased foreign participation in financial, insurance, telecommunications, distribution and professional services, after sales service and repair businesses.

At present, however, foreign services providers are largely restricted to operations under the terms of selective "experimental" licenses. The strict operational limits on entry, and restrictions on the geographic scope of activities, severely limit the growth and profitability of these operations.

C. Import Documentation

Normally, the Chinese importer (agent, distributor or joint-venture partner) handles documentation requirements. Necessary documents include the bill of landing, invoice, shipping list, sales contract, an import quota certificate for general commodities (where applicable), import license (where applicable), inspection certificate issued by the General Administration of the PRC for Quality Supervision, Inspection, and Quarantine (AQSIQ) or its local bureau (where applicable), insurance policy, and customs declaration form.

D. U.S. Export Controls

The Tiananmen Sanctions of 1990 are still in effect and sharply curtail U.S. exporter opportunities to sell crime control equipment to China's police agencies and defense electronics equipment to the Chinese military.

The United States Government's Enhanced Proliferation Control Initiative (EPCI), requires the U.S. Department of Commerce and exporters to closely scrutinize end-users of U.S. exports of all kinds. This regulation requires a Validated License application if the exporter has "reason to know" that the end-users might be involved in missile, nuclear or chemical weapons proliferation. Periodically both the State Dept. and USDOC identify sensitive end-users and add them to the USDOC Entity List. For such identified firms, U.S. exports and U.S. origin re-exports require an individual validated license for virtually all shipments to these entities. The most recent addition of a Chinese firm to the Entity List occurred on June 14, 2001. The Entity List can be viewed at the USDOC Bureau of Export Administration website at www.bxa.doc.gov.

A law passed by Congress in late 1997 requires that the U.S. Government do post shipment verifications (PSV) on all High Performance Computers (HPC) shipped to one of 50 countries including China. An HPC shipped to China after March 20, 2001 is defined as any computer over 85,000 MTOPS (million theoretical operations per second) of performance. There is a USDOC requirement that a MOFTEC issued end-user certificate (EUC) must be obtained by the exporter before the computer is shipped to China. Ordinarily the computer importer or re-seller in China applies for this document and passes it to the exporter. For information on this regulation see the BXA HPC web page at www.bxa.doc.gov/ HPC.

USDOC Dual-Use Export Applications: A USDOC dual-use export license application that does not present to the USDOC reviewers serious Chinese end-user concerns is usually approved by the USDOC in about one week. In the past year less than ten USDOC export license applications required a Pre-License Check (PLC). In the case of a PLC requirement, the Department of Commerce requests MOFTEC's permission for an FCS officer from the Embassy to visit the site of an end-user to determine the bona fides of the end-user for the actual end-use of the product. This must be done before Commerce will act further on the export license application. The time required to complete the entire process of a PLC may be two to three months. If in the end no pre-license visit is permitted by the Chinese Government, an export license may not be issued.

For more information on U.S. dual-use export controls, exporters should view the BXA website at www.bxa.doc.gov or contact:

BXA Exporter Services Division
Washington, D.C. Tel: 202-482-4811 Fax: 202-482-3322
Newport Beach, CA Tel: 714-660-0144 Fax: 714-660-9347
Santa Clara, CA Tel: 408-748-7450 Fax: 408-748-7470

U.S. Embassy-Beijing, Commercial Section
Mark Bayuk BXA Officer Tel: 8610-8529-6655 Fax: 8610-8529-6558

State Dept. Defense Trade and Munitions License Applications. In mid 1999, satellite and related technology licensing authority was transferred from the Department of Commerce to the Department of State. For information on State Department export licensing procedures see the relevant State Dept website of the Office of Defense Trade

Controls at **http://www.pmdtc.org**. A point of contact for State Department Licensing business advocacy matters at the State Dept is David Nobles, Tel. 202-647-1817. In the U.S. Embassy in Beijing, the point of contact for State Dept. Licensing matters is the Economic Section, Tel: 86-10-6532-3431, Fax 86-10-6532-6422.

E. Chinese Export Controls

Prohibited Exports: China maintains export bans and restrictive licensing procedures on certain items. Products banned from export include musk, copper, platinum, specified chemical compounds, and products whose export is banned under international treaties. Products subject to strict licensing controls include dual-use chemicals, chemical precursors, heavy water, and exports of fish, fresh vegetables and fruits to Hong Kong and Macao. Foreign-invested enterprises are restricted to exporting out of China only the products they manufacture.

The export licensing system is administered by MOFTEC and designated local offices. An export tendering system for a limited but growing number of products has also been introduced. Most licenses are valid for a single use within three months after issuance. For certain items, including 26 categories of agricultural and petroleum products, licenses are granted for six months with multiple use up to 12 times.

Other items that may not leave China include all items that are prohibited from being imported. (See next paragraph) In addition, manuscripts, printed matter, magnetic media, photographs, films or other articles, which involve state secrets; valuable cultural relics; and endangered animals and plants may not be exported.

On June 10, 1998 China promulgated Regulations on the Administration of the export of dual-use(military and civil) Nuclear Facilities and related technologies of the People's Republic of China. The export licenses required under these regulations are issued by MOFTEC.

Prohibited Imports: The following items are prohibited from entering China: counterfeit currencies and counterfeit negotiable securities; printed matter, magnetic media, films, or photographs which are deemed to be detrimental to the political, economic, cultural and moral interests of China; lethal poisons; illicit drugs; disease-carrying animals and plants; foods, medicines, and other articles coming from disease-stricken areas; old/used garments; and RMB. Food items containing certain food colorings and additives deemed harmful to human health by the Ministry of Health are also barred entry.

F. Inspection Standards

Import Commodity Inspection: Chinese law provides that all goods included on a published Inspection List, or subject to inspection pursuant to other laws and regulations, or subject to the terms of the foreign trade contract, must be inspected prior to importation, sale, or use in China. In addition, safety license and other regulations also apply to importation of medicines, foodstuffs, animal and plant products, and mechanical and electronic products.

Chinese buyers or their purchase agents must register for inspection at the port of arrival. The scope of inspection undertaken by local commodity-inspection authorities entails product quality, technical specifications, quantity, weight, packaging, and safety requirements. The standard of inspection is based upon compulsory Chinese national standards, domestic trade standards or, in their absence, the standards stipulated in the purchase or sale contract.

To meet the arrival inspection requirements, it is advisable that Chinese quality certification be obtained from Chinese authorities prior to shipment of goods to China. The quality and safety certification process appears to require extensive investigation and may be time-consuming. If your products are required to have this certification, contact the State General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ) at 15 Fangcaodi Xijie, Chaoyang District, Beijing 100020 China; Tel: (86-10) 6599-4328 or fax: (86-10) 6599-4306. AQSIQ is a new Ministerial level entity whose creation was announced on April 17, 2001. AQSIQ is the result of a merger of the former State Administration for Entry and Exit Quarantine and Inspection (SAIQ) and the China State Bureau of Quality and Technical Supervision (CSBTS). AQSIQ's new structure is expected to be published by AQSIQ sometime in early August 2001. AQSIQ has a website at www.ciq.gov.cn. The website gives a wealth of information on China's import safety certification news, regulations, procedures, policies including reference to WTO accession, and a SAIQ organization chart. This is a valuable source of information and new this year the information is now available in English. As of July 10, 2001 the information on the new AQSIQ merger and organization chart has not yet been added to the website.
The National Institute of Standards (NIST) did a workshop on Chinese standards in Beijing March 10-12, 1999. The summary of the workshop results can be viewed at the following NIST website; **http://ts.nist.gov/ts/htdocs/210/216/chinafile/brochure.htm**.

A point-of-contact in the USDOC on standards is at the National Institute of Standards and Technology's Global Standards Program, (Mary H. Saunders, Director), 100 Bureau Drive, MS 2100, Gaithersburg, Maryland 20899-2100, Tel: 301-975-6094, Fax: 301-975-4715, e-Mail: gsp@nist.govm, website **http://www.ts.nist.gov/gsp**. The point-of-contact at USFCS-Beijing is Mark Bayuk at Tel: 86-10-8529-6655 or Fax: 86-10-8529-6558.

Security Software Certification: Hardware and software used for data security or encryption require special security software certification before they can be sold in China. This is separate from the AQSIQ quality assurance procedures. USFCS has an International Marketing Insight (IMI) on this matter published in June 1999 under the title "Security Software Certification."

The office that does this certification is the:
China National Information Security Testing Evaluation and Certification Center (CNISTEC).
No. 36 Xinjiang Gongmen
Hai Dian District, Beijing 100091
Tel: 86-10-6879-6484 Fax: 86-10-6288-0411

Quarantine Inspection: A 1992 quarantine law provides the legal basis for the quarantine inspection of animals, plants and their products, as well as the containers and packaging materials used for transporting these items. The law also establishes the Chinese Animal and Plant Quarantine Administration (CAPQ), since folded into the General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ), which is a Ministerial Level agency created April 17, 2001, which reports to the State Council. AQSIQ has the responsibility to carry out import and export inspections.

The importer must submit an application in advance and the products must undergo the required inspections upon arrival in China. Contracts must specify the requirements for inspection under China's law, as well as indicate the necessary quarantine certificates to be issued by the appropriate agency in the exporting country. Catalogues of the Class A and B infectious or parasitic diseases of animals and the catalogues of the diseases, pests and weeds dangerous to plants are determined and announced by the AQSIQ. The U.S. Department of Agriculture maintains an office of the Animal and Plant Health Inspection Service (APHIS) in Beijing. The office is able to answer questions about Chinese quarantine laws and is the equivalent of AQSIQ. Contact Dale Maki, Tel: 86-10-6505-4575, Fax: 86-10-6505-4574. The APHIS website is **http://www.aphis.usda.gov**.

G. Labeling and Marking Requirements

Under Chinese law governing safety and product-quality standards, certain imported commodities must be inspected and certified to be in compliance with compulsory national, domestic trade or contractually stipulated standards (see Section I). Once a quality certificate for a product is issued, a safety label can be affixed.

All products sold in China must be marked - in the Chinese language - with the relevant information. The National Health and Quarantine Administration require imported (but not domestic) food items such as candy, wine, nuts, canned food and cheese to be affixed with a laser sticker evidencing the product's safety. Importers are charged five to seven cents per sticker, and the stickers must be affixed under State Administration.

Food Labeling Law: On April 1, 2000, a new national Chinese regulation announced on February 15, 2000, was put into effect for the implementation of food label standards. The law supersedes both the Regulation on Management of Import-Export Food Labeling, announced on May 24, 1994, and the Regulation on Management of Labeling Inspection Attached to Import and Export Food, announced on April 21, 1994. This Chinese law requires that all packaged food products (except bulk) must have Chinese labels clearly stating the type of food, brand name, trademark, manufacturer's name and address, country of origin, ingredients, date of production and sell-by date. This law applies to imported as well as locally packaged products. English-language versions of the new regulations and other rules about food additives, such as Food Laws, Labeling Requirements, Food Additives Regulations, Pesticides and other Contaminants, Organic "Green" Food Standards, and Copyright/Trademark, will be obtained in the Food & Agricultural Import Regulations & Standards Report (FAIRS). This report can be accessed by going to **http://www.fas.usda.gov**, or contact Audrey Talley, USDA/Foreign Agricultural Service, Tel: (202) 720-9408; fax: (202) 690-0677.

H. Special Import Provisions

Firms seeking the following exemptions should consult with Customs authorities for information on the procedures and to obtain copies of appropriate forms.

Representative Offices: Resident offices must submit a written application to Customs if they intend to import any personal effects or vehicles. Approval by Customs waives any relevant import license requirements and allows the office to import the equipment in reasonable amounts for office-use only.

Foreign-Invested Enterprises (FIEs): China permits four types of FIEs - equity joint ventures (EJVs), cooperative (contractual) joint ventures (CJVs), wholly foreign-owned enterprises (WFOEs), and foreign-invested joint stock companies. A complicated set of rules exempts selected FIEs from some Customs duties and VAT. Companies should consult the relevant regulations.

Processing Materials and Parts: Raw materials, components, spare parts, auxiliary materials, and packaging materials imported by FIEs for the production of goods which will be exported are exempt from customs duty and VAT. The materials and components must be processed into products and exported within one year from the date of importation. Bonded warehouses may be established within the FIE and are subject to supervision by Customs.

Warehouses: Goods that are allowed to be stored at a bonded warehouse, for up to one or two years, are limited to: materials and components to be used for domestic processing subject to re-exportation; goods imported under special Customs approval on terms of suspending the payment of import duties and VAT; goods in transit; spare parts for free maintenance of foreign products within the period of warranty.

At the end of the two-year period, the goods must be imported for processing and re-exported, licensed for import, or disposed of by Customs. Customs duties and VAT may be assessed depending upon the degree of processing done in China. Goods imported under normal import contracts are not allowed to be stored in bonded warehouses.

For more information on agricultural trade policy, go to **http://www.fas.usda.gov** to access the latest China Annual Trade Policy Report.

I. Prohibited and Restricted Imports

The following items are prohibited from entering China: arms, ammunition, and explosives of all kinds; counterfeit currencies and counterfeit negotiable securities; printed matter, magnetic media, films, or photographs which are deemed to be detrimental to the political, economic, cultural and moral interests of China; lethal poisons; illicit drugs; disease-carrying animals and plants; foods, medicines, and other articles coming from disease-stricken areas; old/used garments; and RMB. Food items containing certain food colorings and additives deemed harmful to human health by the Ministry of Health are also barred entry.

In addition, rules went into effect in June 1999, which further restrict or prohibit the importation of certain commodities related to the processing trade. Jointly issued by MOFTEC and the State Economic and Trade Commission, the "Catalogue of Commodities Which are Restricted or Prohibited from Importing for Use in the Processing Trade" is designed to shift the direction of china's processing trade toward handling commodities with higher technological content and greater value-added potential.

The catalogue identifies the following "prohibited commodities": used garments; used publications with licentious content; radioactive or harmful industrial waste; junk cars, used automobiles or components; seeds, seedlings, fertilizers, feed, additives, or antibiotics used in the cultivation or breeding of any export commodity. The catalogue lists seven general types of "restricted commodities": raw materials for plastics, polyester sections, raw materials for chemical fibers, cotton, cotton yarn, cotton cloth, and some steel products. U.S. firms should contact the China General Administration of Customs for guidance regarding the import of any of these types of products.

On November 1, China's State Administration for Entry-Exit Inspection and Quarantine (SAEEIQ), the General Administration of Customs, and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) jointly issued a circular announcing new requirements for wood packaging materials used to ship goods to China from the United States and Japan. The new requirements apply to all shipments departing from the US or Japan beginning January 1, 2000, and target the elimination of pinewood nematodes, softwood pests that can destroy trees. Some 25-30% of US exports to China could be affected. The new requirements also call for a certification from Animal and Plant Quarantine Service (APHIS) that conifer softwood packaging has been heat-treated, or a label that the shipment contains non-conifer wood packaging, or non-wood packaging.

J. Customs Contact Information

Beijing:
General Administration of Customs
Foreign Affairs Division
6 Jianguomenwai DaJie
Tel: 86-10-6519-5243 or 6519-5399
Fax: 86-10-6519-5394
General Administration of Customs Website: http: / / www.customs.gov.cn

Shanghai Customs Website:**http://www.shcus.gov.cn/apec/index.jsp**
Tianjin Customs Website: **http://tjc.online.tj.cn/**
Guangzhou Customs Website: **http://haiguan.gzfeihua.com/customs.htm**

Chapter #: 7

Chapter: INVESTMENT CLIMATE STATEMENT

A. Openness to Foreign Investment

For the past eight years, China has been the second largest recipient of foreign direct investment (FDI) in the world after the United States. According to Chinese statistics, the flow of new FDI into China slightly increased in 2000 after sharply dropping in 1998 and 1999. By the end of 2000, realized FDI in China since 1979 reached a cumulative total of just over $348 billion. The value of realized FDI flowing into China in 2000 was $40.7 billion, an increase of .9% over 1999. The value of new contractual investment, a harbinger of future investments, was $62.6 billion, an increase of 50.8% over the previous year. The United States accounted for over 10% of overall realized FDI in China in 2000, making it the second largest source of FDI behind only Hong Kong.

Government Attitude Toward Foreign Private Investment: China's investment climate has changed dramatically in 2O years of reform and opening. In the early 1980's, China restricted foreign investments to export-oriented operations and required foreign investors to form joint venture partnerships with Chinese firms in order to enter the market. Since the early 1990's, however, China has allowed foreign investors to manufacture and sell a wide variety of goods on the domestic market. In the mid-1990's, China authorized the establishment of wholly foreign-owned enterprises, now the preferred form of foreign direct investment. However, the Chinese government's emphasis on guiding FDI into manufacturing has led to market saturation and over-capacity of that sector, while leaving China's service sector highly underdeveloped.

Types of Foreign Enterprise in China: China revised significantly its laws on Wholly Foreign-Owned Enterprises (WFOEs) and Chinese Foreign Equity Joint Ventures (JVs) in 2000 and 2001. The revisions eliminated requirements for foreign exchange balancing, struck requirements for domestic sales ratios, removed or adjusted advanced technology and export performance requirements, and modified provisions on domestic procurement of raw materials.

Among the three foreign investment vehicles available to foreign investors, WFOEs are currently the most popular. Growth of WFOEs exceeded that of JVs for the first time in 2000. According to MOFTEC statistics, WFOEs accounted for 45% of total investment in 2000. Over 40% more WFOE contracts than joint venture contacts were signed, and the value of contracted investment in WFOEs was 70% more than that in joint ventures in 2000.

Encouraged versus Restricted Investment: In the past, China attempted to guide new foreign investment towards "encouraged" industries. Over the past five years, China has implemented new policies introducing new incentives for investments in high-tech industries and in the central and western parts of the country in order to stimulate development in less developed areas. In December 1997 and again in August 1999, China published revised lists (originally promulgated in July 1995) of sectors in which foreign investment would be encouraged, restricted or prohibited. MOFTEC announced in June 2001 that further revisions of the lists were expected by the end of 2001. Regulations relating to the encouraged sectors were designed to direct FDI to areas in which China could benefit from foreign assistance and/or technology, such as in the construction and operation of infrastructure facilities.

Policies relating to restricted and prohibited sectors were designed to protect domestic industries for political, economic or national security reasons. The list of restricted industries - which currently includes many service industries such as banking, insurance, and distribution - will soon dwindle to a small number, however, as China has committed itself to opening its service sector upon accession to the WTO. The production of arms and the mining and processing of certain minerals remain prohibited sectors.

Acquisition And Takeovers: China's lack of merger laws and policies and the absence of property rights guidelines have posed nearly-insurmountable obstacles for foreign mergers and acquisitions activity in China. While a simple share buy-out could occur under existing regulations, it would be subject not only to the approval of all partners in a given venture but also to the supervising Chinese government agency. The Chinese government has approved only a hand-full of such deals. Several Chinese economists are encouraging that these laws be rewritten to accommodate mergers and acquisitions. (Note: Foreigners can purchase shares in a small minority of Chinese companies listed on Chinese stock exchanges, but foreign portfolio investment is currently restricted to less than majority ownership.)

Investment Incentives: China has developed and expanded a complex system of investment incentives over the last twenty years. The Special Economic Zones of Shenzhen, Shantou, Zhuhai, Xiamen and Hainan, 14 coastal cities, hundreds of development zones and designated inland cities all promote investment with unique packages of investment and tax incentives. Chinese authorities have also established a number of free ports and bonded zones. In recent years, SEZs have sought to enhance their autonomy while officials from inland China have sought to reduce SEZ privileges. To make progress toward a consistent national trade regime as part of its WTO accession, China has indicated that it will not introduce any new SEZ investment incentives and will decrease existing incentives over time.

The vast majority of FDI is directed to China's coastal provinces. Since 1979, about 85% of cumulative FDI has gone to the 11 provinces and provincial-level cities along the eastern coast. The primary destinations in China for FDI have been the Guangdong, Fujian and Hainan provinces, accounting for about 40% of FDI since 1979. These areas were particularly targeted by Taiwan and Hong Kong-based manufacturing attracted by low labor costs. The second tier of eastern provinces for FDI include Shanghai, Jiangsu and Zhejiang, attracting about 25% of total FDI. (Note: The percentage of investment directed to Shanghai has steadily increased in recent years. End Note). The third tier includes Beijing and Tianjin municipalities and Hebei province, accounting for about 12% of total FDI.

In 1999, China announced that it would offer special investment incentives to attract foreign investors to its highly underdeveloped central and western regions. Although the government has yet to formalize concrete measures, it has proposed special tax breaks and rebates as an investment incentive. The government has also proposed giving regional governments the flexibility to specify their own "encouraged industries."

Western China continues to struggle to attract significant amounts of FDI. China has touted a high-visibility "Go West" campaign and included a variety of western development provisions in its 10th five-year plan. Most foreign investors, however, have not made significant moves in the west.

New FDI in China continues to flow overwhelmingly to the manufacturing sector. FDI in manufacturing accounted for $25.8 billion out of a total of $40.7 billion in realized FDI in 2000. By contrast, FDI in the banking and insurance sectors was limited to $79 million, mainly due to Chinese government restrictions. This ratio should dramatically shift when China phases out current barriers to foreign access to service industries as part of its Word Trade Organization (WTO) accession agreement. Foreign investors are also effectively proscribed from mergers and acquisitions (M/A). Although MOFTEC is currently studying revisions of its M/A law, officials decline to speculate about when a new law would be finalized.

There was significant growth in 2000 of foreign indirect investment (FII) as a percentage of foreign investment. In China, FII is essentially limited to foreign investors buying and selling shares of Mainland Chinese companies listed on foreign stock exchanges - primarily in New York and Hong Kong. Mainland companies raised over $22 billion in 2000, and at least another $12 billion is forecast for 2001. Chinese FII for 2001 is expected to be driven by public listings by China Telecom, Netcom, CNOOC, Bank of China, Baosteel, and Sinochem.

Foreign investors sometimes may have to negotiate incentives and benefits directly with the relevant government authorities. Some incentives and benefits may not be conferred automatically. The incentives available include significant reductions in national and local income taxes, land fees, import and export duties, and priority treatment in obtaining basic infrastructure services. Chinese authorities have also established special preferences for projects involving high-tech and export-oriented investments. Priority sectors include transportation, communications, energy, metallurgy, construction materials, machinery, chemicals, pharmaceuticals, medical equipment, environmental protection and electronics.

Under the terms of investment policies announced in 1999, foreign investment firms who produce certain types of high technology goods, or who are export-oriented, no longer pay duty on imported equipment which is not manufactured in China and which is for the enterprise's own use.

China encourages reinvestment of profits. A foreign investor may obtain a refund of 40% of taxes paid on its share of income, if the profit is reinvested in China for at least five years. Where profits are reinvested in high technology or export-oriented enterprises, the foreign investor may receive a full refund. Many foreign companies invested in China have adopted a strategic plan that reinvests profits for growth and expansion.

The tax incentive system is complicated and difficult to implement. Discrepancies between central, provincial and local government tax regulations hamper foreign investment, particularly in remote and impoverished areas. Still, initial efforts at reform are beginning to level the playing field. Collection efforts have been centralized and the responsibility for assessment and filing of returns was shifted to the taxed enterprise in late 1999. A standardized reporting and payment procedure was also implemented nationwide to reduce overpayments and loopholes.

As part of a national campaign to standardize tax treatment and increase collection rates, the State Taxation Administration began work on a planned unification of the tax system in 1998. China's weak trade performance during most of 1999, however, put this process on temporary hold. The Chinese government, in fact, increased VAT rebates for selected exports twice in 1999. This policy, however, led to large amounts of fraud as many enterprises submitted false export invoices to claim the increasingly generous VAT rebates. The authorities cracked down severely on this practice in 2000, which led to the trial, conviction, and execution of a number of individuals notably in south China's Guangdong province.

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National Treatment: China has committed to grant unconditional national treatment as part of its accession to the WTO. Not all of the thousands of government officials understand this concept, however, and implementation is likely to pose periodic problems. China has already initiated training programs to educate government officials on China's WTO obligations.

Basic Laws And Regulations Covering and/or Affecting Direct Investment: The basic laws and regulations governing foreign direct investment in China are complex. A summary of those currently enforced is provided below. The Chinese central government is currently reviewing and revising all laws, rules, regulations, and guidelines for consistency with new WTO commitments. In some instances, it is drafting new legislation to deal with issues previously unaddressed. The Chinese government acknowledges that it may take years to draft, pass, and implement all the new and revised laws, regulations, and implementing guidelines, but is publicly committed to meeting China's WTO obligations.

Laws Affecting WFOEs and JVs:

Investment in Wholly Foreign-Owned Enterprises (WFOE) is now the most popular FDI vehicle in China. The WFOE law was originally promulgated in 1986, and the law and implementing regulations have been amended five times. (Note: As Chinese laws are often drafted very broadly, implementing regulations are also approved in order to provide more detailed guidance. End Note). Most recently, the National People's Congress (NPC) approved revisions of the Law in October 2000 and subsequently approved implementing regulations in April 2001.

The 2001 revisions of the WFOE Law and implementing regulations (State Council Order No. 301) amended or deleted sixteen articles.

Under the revised WFOE law, China may reject an application to establish a WFOE for five reasons. Applications may be denied if approval would endanger China's national security or violate China's laws and regulations. Applications can be also denied under the following circumstances: (1) detriment to China's sovereignty or public interest; (2) nonconformity with the requirements of the development of China's national economy; and (3) possibility of environmental pollution.

The 1979 "Law on Chinese-Foreign Equity Joint Ventures" (JVs) had historically been the key legislation dealing with foreign investment in China. Implementing regulations issued in 1983 - which, like the joint venture law, have subsequently been amended - detailed the form and organization of equity joint ventures, ways of contributing investment, and rules on the organization of the board of directors and management. Provisions also covered acquisition of technology, the right to use land, taxes, foreign exchange control, financial affairs, and hiring and firing of workers.

Joint Ventures, however, are a less favored form of FDI since restrictions on WFOEs have been loosened in recent years. China had traditionally favored investment in JVs, as such investment was perceived as a way to rescue poorly performing domestic industries. The NPC approved revisions of the JV law in March 2001. The revisions remove the requirements that FIEs balance their foreign exchange receipts and expenditures. Many joint-venture contracts, however, still contain a clause requiring such balancing. It is unclear how the PRC will address these contractual obligations that are no longer required by law.

Regulations and periodic updates on China's investment projects and conditions can be found on MOFTEC's website: www.moftec.gov.cn.

Other laws relating to investment include:

Contract Law: China's contract law went into effect on October 1, 1999. Earlier in 1999, China's National People's Congress passed the new law to deal better with its increasing legal case load and to lay a firmer legal foundation for investment in China. The law's drafters hope that it will help prevent widespread contract fraud from consuming the nation's already overburdened court system. According to Chinese statistics, there are currently more than four billion new contracts registered with government industry and commerce bureaus each year; Chinese courts handle more than three million contract disputes annually.

The new Contract Law moves China closer to international legal norms and to greater legal transparency. It encourages stronger contractual compliance by providing legal recourse - although enforcement of judgments will continue to be a problem. However, the law's impact on the overall investment climate will be minimal, at least in the short- to medium-term. Most contracts involving foreign firms are still subject to government approval. Furthermore, domestic firms are not likely to alter their current business practices - including how they meet their contractual obligations - until penalties are enforced.

Securities Law: The Securities Law, effective on July 1, 1999, codifies and strengthens the administrative regulations that govern the underwriting and trading of corporate shares, as well as the activities of China's stock exchanges (currently in Shanghai and Shenzhen). The Securities Law does not distinguish between state-owned enterprises (SOEs) and non-SOEs. In practice, however, few non-SOEs have been allowed to sell "A" shares. "A" shares are local currency shares. As currently written, the law does not apply to the underwriting or trading of foreign currency ("B") shares. "B" shares, denominated in foreign currency, were originally for sale only to foreign legal persons and continue to be subject to separate administrative regulations. In February 2001, the authorities opened the "B" share market to Chinese citizens with legally obtained foreign currency holdings. Despite press reports indicating the "A" and "B" share markets will gradually be integrated within three years, the exact timing of this move - which would be closely linked to changes in China's foreign exchange regime - remains unclear. The Chinese authorities are considering transitional arrangements such as the designation of "qualified foreign institutional investors" which could provide foreign interests some access to the "A" share market without requiring full convertibility of the Chinese currency.

Tendering Law: Concerns over the WTO consistency of the draft tendering law led the National People's Congress, on April 9, 1999, to make a surprise announcement that it had decided to move key sections relating to government procurement into a separate law. The tendering law (which will now govern only state administered capital construction and infrastructure projects) was finalized in 1999. The new government procurement law is not expected to be implemented until 2002. Until that time, provisional regulations issued in mid-1999 remain in force.

Forms Of Foreign Ownership: In most sectors where foreign investment has been allowed, FIEs can exist as holding companies, wholly foreign-owned enterprises, equity joint ventures, contractual (or cooperative) joint ventures or foreign-invested companies limited by shares. Under China's Company Law, foreign firms can now also open branches in China.

Investment Screening Procedures: Potential investment projects usually go through a multi-tiered screening process. The first step is approval of the project proposal. The central government has delegated varying levels of approval authority to local governments. Until a few years ago, only the Special Economic Zones (SEZs) and open cities could approve projects valued at up to $30 million. Such approval authority has now been extended to all provincial capitals and a number of other cities throughout China. Most other cities and regions are limited to approving projects valued below $10 million. Projects exceeding these limits must be approved by MOFTEC and the SDPC. If an investment involves $100 million or more, it must also obtain State Council approval. MOFTEC, however, is authorized to review all projects, regardless of size. Note: Under the European Union-China bilateral WTO agreement signed in May 2000, China has agreed to raise the investment ceiling requiring central government approval from $30 million to $150 million for motor vehicle manufacturers.

The approval process for projects over $30 million has become less of an obstacle than in the past. However, government officials are still required to evaluate each project against official guidelines to determine whether it promotes exports that increase foreign currency income, introduces advanced technology, or provides technical or managerial training. Even if it meets one or more of these requirements, a project may still be rejected if the contract is considered unfair, the technology is available elsewhere in China, or China already has sufficient production capacity. Sometimes the political relationship between China and the home country of the foreign investor influences the approval process.

Research And Development: Poor links among government, university and industry researchers make it very difficult for China to efficiently utilize its many brilliant scientists and engineers. Much of China's top scientific talent is not in universities but in a government bureaucracy (the Chinese Academy of Sciences) modeled after the USSR Academy of Sciences. Young scientific and engineering talent often flows to the information industry and biotechnology sectors. Since the late 1980's, China has directed an increasing proportion of government research funds through peer review mechanisms at the National Natural Science Foundation of China (www.nsfc.gov.cn) and the Ministry of Science and Technology (www.most.gov.cn) in order to achieve better results from research funding. Some Chinese government programs such as "Torch" promote scientific research and its commercial applications yet the investment return on research and development, especially in the state sector, remains low. The central and local Chinese governments have also strongly promoted science parks which, in actuality, often just serve as low-tech assembly centers.

Despite efforts since the early 90's to push technical institutes towards the market, the political and economic structures of the old "planned economy" are still important obstacles. Inadequate intellectual property protections discourage Chinese companies from investing in research. Patent, copyright, and trademark infringement often prevent companies from recapturing their investment in product research and development. Furthermore, technology utilized by SOEs tends to lag far behind that of the growing private sector, in part, because SOEs lack incentives to conduct research and development activities. There is a broad consensus among Chinese scientists and Chinese leaders that more reforms and greater IPR protection are needed (See Section II, paras 23-26.) China continues to reform its science and technology system in order to create incentives for innovation and to link science and technology research work more closely to the needs of the market.

Foreign companies' research and development centers in China have often focused on product localization. More recently, several companies, including Microsoft and Motorola, have established research centers in China. The Chinese government has welcomed the establishment of these centers although some Chinese critics worry that the centers will create an "internal brain drain" of talent away from Chinese companies and research institutions to foreign companies.

B. Conversion and Transfer Policies

In periods when foreign currency was relatively scarce in China, profits that were not generated in foreign exchange could only be repatriated with great difficulty. Since 1994, however, China's foreign reserves have grown rapidly (exceeding $175 billion at the end of the first quarter 2001), and FIEs have generally enjoyed liberal access to foreign exchange. On December 1, 1996, China announced the full convertibility of its currency on the current account (for trade in goods, services and remittance transactions, including profits). To prevent rampant fraud, in 1998, China tightened the scrutiny of underlying documentation. Bureaucratic procedures as authorities implemented the new regulations created difficulties for many foreign and domestic companies requiring hard currency to complete their transactions. Foreign bank branches are allowed to engage in foreign currency business according to the same rules as Chinese banks and to engage in limited local currency business.

All FIEs in China are entitled to open and maintain a foreign exchange account for current account transactions. In order to do so, an FIE must first apply to China's State Administration of Foreign Exchange (SAFE) for permission. After SAFE grants permission for the account, it establishes a limit, based on the FIE's anticipated foreign exchange operational needs, beyond which foreign exchange must be converted to local currency. Foreign representative offices and individuals may also open such accounts. No limits are placed on the amount such accounts can hold, though reports for transactions involving more than $10,000 must be filed by a bank. In general, the restrictions on FIE accounts are less onerous than for wholly Chinese-owned firms. Establishing foreign exchange accounts for capital account transactions involve more complex reporting and qualification requirements.

C. Expropriation and Compensation

Chinese law forbids nationalization of joint ventures, wholly foreign-owned enterprises, and investments from Taiwan, except under "special" circumstances. The Chinese government has not defined "special" circumstances" although officials claim that "special circumstances" include national security considerations and obstacles to large civil engineering projects. Chinese law calls for compensation of expropriated foreign investments but does not define the terms of compensation.

There have been no cases of outright expropriation of foreign investment since China opened to the outside in 1979. However, the State Department believes that there are several cases that may qualify as expropriations under Section 527 of the FY94-95 Foreign Relations Authorization Act, most notably in the telecommunications sector. These apparent forced divestitures from legitimate projects raise questions about the stability of China's investment climate in telecommunications as well as other industrial sectors.

D. Dispute Settlement

Arbitration: Although China is a member of the International Center for the Settlement of Investment Disputes (ICSID) and has ratified the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (a.k.a. the New York Convention), it places strong emphasis on resolving disputes through informal conciliation and consultation. If it is necessary to employ a formal mechanism, the authorities greatly prefer arbitration through Chinese agencies. Most foreign investors consider litigation as a final option and have found it to be time-consuming and unreliable. In addition, many foreign litigants have found the Chinese government unwilling to restrain Chinese joint venture partners from asset-stripping as a case winds its way through arbitration or the courts.

Investment contracts often stipulate arbitration in Stockholm because the forum there is considered neutral. Most Chinese contracts stipulate arbitration by the China International Economic and Trade Arbitration Commission (CIETAC). During the past year, several western participants and panel members in CIETAC proceedings raised concerns about the organization's procedures and effectiveness. In one instance, a respected American member of an arbitration panel threatened to resign from CIETAC over alleged procedural irregularities during consideration a case. Another forum for resolving investment and trade disputes is the Beijing Conciliation Center (BCC), an organization affiliated with the China Council for the Promotion of International Trade (CCPIT). The BCC signed an agreement with the American Arbitration Association (AAA) in 1992 whereby the BCC and AAA would work together in joint conciliation to resolve trade and investment disputes between U.S. and Chinese parties.

Enforcement of arbitral awards is sporadic. Sometimes, even when a foreign company wins in arbitration, the People's Intermediate Court in the locality where the foreign venture is situated may fail to enforce the decision. Even when the courts do attempt to enforce a decision, local officials often ignore court decisions with impunity.

There have also been investment dispute cases in which local authorities have intervened on the part of a Chinese company in a manner considered unfair and capricious by the foreign investor. For example, local courts have occasionally intervened to prevent the sale or transfer of foreign-owned property, pending resolution of a commercial dispute between a foreign company and Chinese company. In general, most cases have been resolved through negotiation between the commercial parties and/or intervention of central authorities.

Legal System: Chinese society is in transition from rule by man to rule of law. Most laws are general; details are specified in implementing regulations. Many foreign businesses report that Communist Party officials and officials in other government departments at times interfere in court decisions. China's top leaders undoubtedly play a big role in deciding sensitive political cases. China's legal system is a mixture of common law and continental legal systems, but it places relatively less emphasis on legal precedents.

The 1979 "Organic Law of the People's Courts of the People's Republic of China" authorized establishment of economic courts at China's National Supreme Court and three levels of provincial courts. The economic courts are given jurisdiction over contract and commercial disputes between Chinese entities; trade, maritime, intellectual property and insurance; other business disputes involving foreign parties; and various economic crimes including theft, bribery, and tax evasion. In 1994, the lowest level of provincial courts started to try economic cases involving foreign parties. Foreign lawyers cannot act as attorneys in Chinese courts, but may observe proceedings informally. Over the past two years, the United States has been working with China on projects relating to commercial and economic law under the umbrella of the U.S.-China Joint Committee on Commerce and Trade.

Bankruptcy and Creditors' Rights: China's bankruptcy law, passed in December 1986, provides for creditors' meetings to discuss and adopt plans for the distribution of bankrupt property. The resolutions of creditors' meetings, which are binding on all creditors, are adopted by a majority of the attending creditors, who must account for more than half of the total amount of unsecured credit.

Even Chinese officials contemplating broad enterprise reforms recognize the inadequacy of China's current bankruptcy laws. However, debate continues over what additional legislation is needed. A major problem for Chinese commercial banks is the formal and informal constraints on liquidating the assets of non-performing state enterprise loans. Notably, local political leaders, through the ubiquitous apparatus of the Communist Party, continue to control or to influence not only the courts but also the state-owned banks themselves and can effectively block efforts to dispose of SOE assets. The failure of the Guangdong International Trust and Investment Company (GITIC) in 1998 highlighted the need to develop specialized rules for financial institutions. For the time being, however, the Office of the National Leading Group for Merger, Bankruptcy and Re-employment and the State Economic and Trade Commission (SETC) have the final say with regard to large industrial SOE bankruptcies.

In October 1995, China put into effect a new "Guarantee (Security) Law" - the first national legislation covering mortgages, liens, rules on guarantors for debt and registration of financial instruments as pledges for debt. The law defines debtor and guarantor rights and provides for mortgaging of property, including land and buildings, as well as other tangible assets such as machinery, aircraft or other types of vehicles. While some areas of the law remain unclear - such as how the transfer of property under foreclosure is effected - the law represents an important step forward. Chinese commercial banks have successfully repossessed vehicles from delinquent borrowers.

E. Performance Requirements/Incentives

China has agreed to implement the Agreement on Trade-Related Investment Measures (TRIMs) upon WTO accession. China has committed to eliminate and cease enforcing trade and foreign exchange balancing requirements and local content and performance requirements. It has also agreed not to enforce contracts imposing these requirements. China has also committed to only enforce laws or provisions relating to the transfer of technology or other know-how if they are in accordance with WTO rules on protection of intellectual property rights (IPR) and trade-related investment measures (TRIMS).

Export Performance Requirements: Export performance requirements are inconsistent with WTO principles, and Chinese law has never formally listed them. China has said it would not enforce export performance requirements in private contracts. However, in the past, the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and the State Development Planning Commission (SDPC) have strongly encouraged contractual clauses stipulating export requirements.

Local Content: Chinese regulations grant foreign-funded enterprises freedom to source inputs both in China and abroad, though priority is given to Chinese products when conditions are equal. Chinese regulations forbid "unreasonable" geographical, price, or quantity restrictions on the marketing of a licensed product. The foreign venture, thus, retains the right to purchase equipment, parts, and raw materials from any source.

Chinese officials, however, still encourage localization of production. Investment contracts often call for foreign investors to commit themselves gradually to increase the %age of local content. In addition, officials carefully examine the sourcing of inputs at various stages in the approval process for FIES. Effective implementation of China's WTO commitments should affect this bias.

Technology Transfer: Most joint ventures involve the transfer of technology through a licensing agreement, the transfer of technology from a third party, or the transfer from the foreign partner as part of its capital contribution. Many regulations governing specific industries currently require such transfers. China has committed to enforce only those laws or other provisions relating to the transfer of technology or other know-how if they are in accordance with WTO provisions on protection of IPR and TRIMS. Despite these commitments, foreign investors may still encounter pressure to transfer technology.

Employment Of Host-Country Nationals: Rules for hiring Chinese nationals depend on the type of establishment. Although wholly foreign-owned companies are not required to nominate Chinese nationals to their upper management, in practice, expatriate personnel normally occupy only a small number of managerial and technical slots. In some ventures, there are no foreign personnel at all.

The amended Chinese-Foreign Equity Joint Venture Law provides that the joint venture partners will determine, by consultation, the Chairman and Vice-Chairman, leaving open the possibility for a foreign or a Chinese representative to hold either of these positions. If the foreign side assumes the chairmanship, the Chinese party must have the vice-chairmanship, and vice-versa.

While FIEs are free to recruit employees directly or through agencies, representative offices of foreign companies must hire all local employees under contract with approved "labor services companies." These foreign companies pay the contracted local employees' salary directly to the "labor services companies" that, in turn, give only a portion of the salary to the contracted employees. The employees remain technically employed by the labor services company.

F. Right to Private Ownership and Establishment

In the past, China restricted private ownership and establishment of business enterprises, particularly in the service sector. In 1999, China amended its constitution to provide a legal basis for private sector development. China has committed to reduce over time many restrictions on the private sector upon accession to the WTO. Nevertheless, some sectors - insurance, for example - will retain many restrictions.

China has agreed to grandfather all existing current market access and activities in all services sectors. This will protect existing American distribution services, financial services, professional and other service providers in China, including those operating under contractual or shareholder agreements or a license, from additional restrictions as China phases in its commitments.

G. Protection Of Property Rights

Land: Chinese law provides that all land is owned by "the public," and individuals cannot own land. However, consistent with the policies of reform and opening to the outside, individuals, including foreigners, can hold long-term leases for land use. They can also own buildings, apartments, and other structures on land, as well as own personal property.

Intellectual Property Rights: Overview

Chinese leaders have acknowledged that protection of patents, copyrights, and trademarks is needed to promote a "knowledge-based economy" in China. China has committed to full compliance with the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) upon accession to the WTO. It has completed a revised Patent Law and is now reviewing and revising its trademark, and copyright laws to ensure consistency with TRIPS requirements. In spite of steady, significant progress in improving its intellectual property legal and regulatory regime, IPR protection in China remains weak. Trademark and copyright violations are blatant and widespread. While Chinese officials are increasing enforcement efforts, IPR violations, including growing exports of counterfeit products, continue to outpace enforcement.

Membership in International IPR Organizations:

China is a member of the World Intellectual Property Organization (WIPO), the Paris Convention for the Protection of Industrial Property, the Berne Convention, the Madrid Trademark Convention, the Universal Copyright Convention, and the Geneva Phonogram Convention. The Chinese Government is still debating, however, whether China's Copyright Law will be brought into full compliance with the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. While China has made no commitments in this regard, the U.S. Government believes that China's signing these treaties would further indicate China's intent to provide a high level of IPR protection.

IPR Enforcement:

Inadequate enforcement of IPR laws and regulations, through either judicial or administrative means, remains a serious problem. Enforcement of existing IPR regulations is uneven and is sometimes impeded by local interests. Industry associations representing computer software, entertainment, and consumer goods industries report high levels of piracy and counterfeiting of all types of products. They also report increasing exports of IPR-infringing goods to other countries. The Business Software Alliance estimates that more than 90% of business software used in China is pirated. Consumer goods companies report that, on average, 20% of their products in the Chinese market are counterfeits. Chinese companies experience similar, or greater, problems with piracy and counterfeits. The administrative penalties for IPR violations, often no more than confiscation of the counterfeit products, are generally insufficient to deter counterfeiters. China's criminal sanctions against IPR violations are seldom used, in part, because of restrictions on types of admissible evidence and cumbersome procedures.

Combating IPR violations in China is a long-term, multifaceted undertaking. China has established special IPR courts in all provinces and major cities. Judges in Chinese courts are charged with fact-finding and have greater discretion in the adjudication of cases than those in the United States. However, the lack of legal training of many trial court judges undermines the effectiveness of these courts. The USG and U.S. companies have provided resources for training judges. Chinese authorities are attempting to address the lack of legal training of court officials by establishing IPR law centers at Beijing University, Qinqhua University, and People's University. Chinese IPR professionals are also studying in foreign countries. The United States and the European Union have made IPR - and commercial dispute resolution - a key feature of "Rule of Law" discussions with Chinese authorities.

H. Transparency of the Regulatory System

China's legal and regulatory system lacks transparency and consistent enforcement despite the promulgation of thousands of regulations, opinions, and notices affecting foreign investment. Although the Chinese government has simplified the legal and regulatory environment for foreign investors in recent years, China's laws and regulations are still often ambiguous. Foreign investors continue to rank the inconsistent and arbitrary enforcement of regulations and the lack of transparency as two major problems in China's investment climate. No prospective foreign investor should venture into the China market without due diligence.

In accordance with China's WTO commitments, the State Council's Legislation Office recently announced that all of China's foreign trade-related and foreign-investment related laws, regulations, rules, and policy measures would be published. It further announced that China would use "proper ways and means" to help other WTO members and other pertinent individuals and enterprises understand those rules and regulations. The Legislation Office acknowledged that, in the past, some departments and localities relied on their own internal documents to conduct business. Some even issued documents under their own "internal control" and resorted to "disguised forms of market blockades" and local protectionism. The State Council has announced that it is committed to stopping such practices in order to avoid international disputes.

I. Capital Markets and Portfolio Investment

The development of China's domestic capital markets has not kept pace with economic needs. Two stock exchanges have been-established in Shanghai (in November 1990) and the city of Shenzhen in southern China's booming Guangdong Province (July 1991). Other regional "securities exchange centers" were recently closed by the newly established China Securities Regulatory Commission (CSRC). After five years of debate, a Securities Law was finally passed in late 1998 and implemented in June 1999. The law includes tougher penalties for insider trading, falsifying prospectuses and financial reports, and other forms of fraud. The CSRC lacks experienced personnel and has turned to the United Kingdom and other countries for more training. China's stock markets are gradually adopting accounting standards closer to those in use in other markets.

Although, in theory, FIE's may apply for permission to raise capital directly on China's stock and bond markets, the approval process is difficult. In the case of shares, the CSRC has indicated that it plans to treat FIEs the same as domestic firms.

The state banking sector dominates China's capital markets and in the past generally channeled funds to state-owned enterprises on the basis of public policy rather than market considerations. Other domestic firms must find different sources of financing, including direct investment, gray-market sales of stock, and borrowing from other firms or non-bank institutions.

China's progress in reducing political interference in the banking system has been mixed. With the creation of three policy banks in 1994 - the Import-Export Bank of China, the China Development Bank (formerly the State Development Bank of China), and the Agricultural Development Bank - China attempted to make a clear division between policy and commercial lending. The government has directed these policy banks to lend to commercially unattractive endeavors such as infrastructure development and government agricultural procurement. The authorities, meanwhile, have encouraged China's commercial banks to improve their loan portfolios by increasing the proportion of their lending to small and medium-sized enterprises, including private firms. Lending to individuals for housing mortgages, purchase of consumer durables, and education expenses has also increased. Nevertheless, China's commercial banks, most of them state-owned, continue to carry a heavy percentage of non-performing assets. - with estimates ranging from 30-50% of the total. Large state-owned firms continue to receive preferential consideration by the commercial banks.

In 1998, the authorities - alarmed by the Asian financial crisis - took steps to reduce financial risk in the banking system. The People's Bank of China (China's central bank) reorganized its regulatory structure along regional lines, and the Communist Party created its Central Financial Work Commission primarily to oversee the selection of managerial personnel in the country's financial institutions. Both measures effectively reduced the influence of local political leaders over credit decisions, a major cause of China's abundance of non-performing loans. In 1999, the government also set up four asset-management companies to take over a portion of the bad loans issued by the main state-owned commercial banks in order to help them meet international capital adequacy standards. Most observers believe it will take many years for China to re-capitalize its banks along international lines.

Foreign firms that need working capital, whether foreign exchange or local currency, may obtain short-term loans from China's state-owned commercial banks. However, priority lending is often given to investments that bring in advanced technology or produce goods for export. Since 1998, Chinese interest rates have generally been lower than overseas, making it more attractive to explore onshore financing. Foreign-invested firms, which can keep foreign currency accounts in commercial banks, borrow funds from abroad and register all foreign loans with the State Administration for Foreign Exchange (SAFE). Along with the People's Bank of China, SAFE regulates the flow of foreign exchange into and out of China.

In 1996, qualifying foreign bank branches in the Pudong area of Shanghai were allowed to engage in local currency business for the first time although this was mainly limited to providing services to foreign-invested enterprises (FIEs). In 1998, China expanded local currency business to foreign banks based in Shenzhen and widened their client base to include several nearby provinces (Zhejiang and Jiangsu for Shanghai; Guangdong, Guangxi, and Hunan for Shenzhen). Under the terms of China's bilateral agreement with the United States on accession to the World Trade Organization, the Chinese authorities have promised to end all geographic restrictions on business by foreign banks by January 1, 2005.

Restrictions On Debt-Equity Ratios: According to regulations promulgated in March 1987, the Chinese Government restricts the debt-to-equity ratio of foreign-funded firms and sets minimum equity requirements. For investments under $3 million, debt cannot exceed 30% of the total investment. The debt/capital ratio for investments in the $3-10 million, $10-30 million, and over $30 million ranges cannot exceed 50, 60, and 70 %, respectively. Debt for investments over $60 million is limited to two-thirds of the total value of the investment.

J. Political Violence

Corruption, SOE layoffs, and economic disparities between rural and urban areas and between coastal and interior regions have fueled resentment among segments of the Chinese populace. As China continues to restructure SOEs, unemployment and other social pressures have risen. As a result, there have been a growing number of rural demonstrations and urban labor actions. Most of these have been fairly small and resolved peacefully. Some, however, including protests by 20,000 laid-off miners in China's northeast Liaoning province in early 2000, turned violent. Declining rural incomes have contributed to a similar increase in protests by farmers in rural areas, such as the demonstration by several thousand farmers in southern Jiangxi province in mid-2000. Local authorities have generally dealt with these protests in a peaceful manner and have not resorted to violence. As in years past, there were a number of isolated violent actions by disgruntled individuals who - in some cases motivated by personal, not political reasons - damaged public buses, markets, and railroad tracks.

Following NATO's mistaken bombing of China's Belgrade embassy in 1999, violent protests erupted at U.S. diplomatic facilities and a few American fast-food franchises throughout China. Soon after the bombing, government-controlled press discouraged protests or acts of violence against foreign investors. Most foreign investors in China believe that the chances of political violence are low because the government is able and willing to repress any sizeable anti-government protests.

K. Corruption

Corruption remains widespread in China. Although the government launched a high profile anti-corruption campaign, these efforts are hampered by the lack of truly independent investigative bodies. Numerous senior provincial and municipal officials came under scrutiny, but there are widespread reports that more senior officials and their family members used their connections to avoid prosecution. Banking and finance are among the sectors most afflicted by corruption, as are government procurement and construction projects. Premier Zhu Rongji has criticized corruption in the construction industry because of the safety hazards created by shoddy construction.

Offering and receiving bribes are both crimes under Chinese law, but it is unclear if giving a bribe to a foreign official in another country is a crime. Bribes cannot be deducted from taxes. Based on surveys reported in the Western media and views expressed by foreign business people and lawyers in China, it is clear that U.S. firms consider corruption in China a hindrance to FDI.

Three different government bodies and one Communist Party organ are responsible for combating corruption in China: the Supreme People's Procuratorate, the Ministry of Supervision, the Ministry of Public Security, and the Communist Party Committee for Discipline Inspection. The Procuratorate and the Ministry of Public Security are responsible for investigating criminal violations of China's anti-corruption laws, while the Ministry of Supervision and the Party Discipline Inspection Committee enforce Government ethics and Party discipline.

The United States has provided some enforcement-related anti-corruption training to Ministry of Public Security, Ministry of Supervision, and Supreme People's Procuratorate officials. NGOs such as Transparency International are also exploring opportunities for cooperative programs to reduce corruption.

L. Bilateral Investment Agreements

China has entered into bilateral investment agreements with more than 50 countries, including Japan, Germany, the United Kingdom, France, Italy, Thailand, Romania, Sweden, the Belgium-Luxembourg Economic Union, Finland, Norway, Spain, Canada, and Austria. The provisions of these agreements cover such issues as expropriation, arbitration, most-favored-nation treatment, and transfer or repatriation of proceeds.

The United States does not have a bilateral investment treaty with China. Any American investor investing in China should make sure that expropriation and arbitration are covered in the terms of the contract.

M. OPIC and Other Investment Insurance Programs

In the past, OPIC had a very active program in China. The United States has suspended OPIC's program in China since the Tiananmen Incident in June 1989, first by Executive Action, and then by the legislative sanctions that took effect in February, 1990. OPIC continues to honor outstanding political risk insurance contracts. At the end of 1990, 31 U.S. investments with approximately $300 million had OPIC political risk insurance. OPIC programs remain suspended in China due to U.S. foreign policy concerns, the terms of the sanctions legislation enacted, and the need for improved worker rights.

Although OPIC insurance is unavailable, the Multilateral Investment Guarantee Agency (MIGA), an organization affiliated with the World Bank, can provide political risk insurance for investors interested in investing in China. Some commercial insurance companies also offer political risk insurance, as does the People's Insurance Company of China (PICC).

N. Labor

Labor Availability: FIEs can integrate a joint venture partner's work force, hire through a local labor bureau or job fair, advertise in newspapers, or rely on word of mouth. Representative offices, for the most part, must hire their local employees through a labor services agency.

Skilled managers, especially those with marketing skills, are often in short supply although many companies have found an abundance of talented and highly-motivated recent university graduates. Experienced managers command salaries far greater than their counterparts in Chinese enterprises, making localization an expensive proposition for many companies. Finding and keeping engineers and technicians can also be difficult. Shortages of skilled labor are, at times, especially acute in south China due to the relative dearth of southern higher learning institutions. Many Chinese workers move rapidly from job to job within the foreign-invested and growing private sectors.

Compensation:

Workers are paid a salary, hourly wages, or piece-work wages. The provision of subsidized services, such as housing and medical care, is common, and compensation beyond the basic wage constitutes a large portion of a venture's labor expenses. With recent moves by China to reform the housing system and promote home purchases through a mortgage system, employer-provided housing has been decreasing. However, enterprises that merge with existing SOE's may still be required to provide workers dormitory housing. New enterprises, rather than providing housing, pay into a housing fund that may amount to as much as 10% of payroll. Since regulations on non-wage compensation differ by locality, investors should check the regulations in the relevant locality.

Local governments also require enterprise and worker contributions to pension and unemployment insurance funds. Tax rates for pension funds may run as high as twenty% of an enterprise's total wage bill. Employees must also contribute between three and eight% of their salary, depending on the locale. In general, FIEs ventures are free to pay whatever wage rates they choose as long as it is above the locally-designated minimum wage. In practice, income-tax laws often make it desirable to provide greater subsidies and services rather than higher wage rates. Most FIES determine their methods and calculations of salaries and benefits after observing local practice. China's national labor law also requires compensation for overtime work.

Termination Of Employment: The ability to terminate workers varies widely based on location, type, and size of enterprise. Terminating individual workers for cause is legally possible but may require prior notification / consultation with the local labor bureau and labor union. In general, it is easier to fire in south China than in the northeastern China, and in smaller enterprises than in larger ones. FIEs generally do not encounter problems letting workers hired on short-term contract go at the end of the contract period. However, enterprises that take on workers from SOE's usually find it difficult to terminate these workers. Investors should be aware that large-scale layoffs from long-established SOE's have created some tension, and prompted some demonstrations among Chinese workers, though not to a degree that threatens social stability.

Worker Rights: It is illegal under Chinese law to oppose efforts to establish officially-sanctioned unions. The Communist Party controls the country's sole officially recognized workers' organization, the All-China Federation of Trade Unions (ACFTU). Independent trade unions are illegal. China's Joint Venture Law and 1994 Labor Law require joint ventures to allow union recruitment but do not require a joint venture actually to set up the union - as required by management in SOEs. Many FIEs, including joint ventures, do not have unions although several coastal provinces have recently passed stricter regulations requiring that all FIEs have unions. In 2001, the ACFTU made it a goal to increase union representation in the private sector, including FIEs. FIEs without unions often have worker organizations that perform functions similar to Chinese unions, such as organizing social and charitable activities.

China's Labor Law provides for collective labor contracts to specify wage levels, working hours, working conditions, and insurance and welfare. In 1996, the ACFTU launched a drive to conduct collective negotiations in at least 90% of FIEs, a target which the ACFTU claims to have reached. Most collective negotiations, however, appear to be pro-forma in nature. This is because local Communist party committees, rather than the workers themselves, control the selection of the union leaders who conduct collective bargaining.

Although China is a signatory to several ILO conventions, it has not signed key ILO conventions on freedom of association and collective bargaining. In 2001, China ratified the International Covenant on Economic, Social and Cultural Rights, but reserved on the issue of freedom of association.

O. Foreign-Trade Zones/Free Ports

China's principal duty-free import/export zones are located in Dalian, Tianjin, Shanghai, Guangzhou, and Hainan. In addition to these officially-designated zones, many other free trade zones offering similar privileges exist and are incorporated into economic development zones and open cities throughout China. However, restrictions and charges often apply and can affect venture operations and business in the latter zones.

China's Customs Administration claims success in controlling the duty-free importation of production inputs into the zones, but the lack of physical barriers makes it difficult to control the flow of non-duty items out of the zones.

Chapter #: 8

Chapter: TRADE AND PROJECT FINANCING

A. Banking System

China's banking system has undergone significant changes in the last two decades: banks are now functioning more like banks than before. Nevertheless, China's banking industry has remained in the government's hands even though banks have gained more autonomy. Foreign participation in China's banking industry is severely restricted. China's expected accession to WTO will lead to a significant opening of this industry to foreign participation.

Central Bank: At the top of the system is China's central bank, the People's Bank of China (PBOC), which has been charged with managing the money supply and credit, and supervising the banking system. PBOC, together with the State Administration of Foreign Exchange (SAFE), set foreign-exchange policies.

The PBOC supervises the banking sector's payment, clearing and settlement systems, and audits the operations and balance sheets of all financial institutions in China, as well as implements the regulations regarding the operation of the Commercial banks.

According to the 1995 Central Bank law, PBOC has full autonomy in applying the monetary instruments, including setting interest rate for commercial banks and trading in government bonds. The State Council maintains oversight of PBOC policies.

Commercial Banks: In 1995, the government introduced the Commercial Bank Law to commercialize the operations of the four state-owned banks, the Bank of China (BOC), the China Construction Bank (CCB), the Agricultural Bank of China (ABC), and the Industrial and Commercial Bank of China (ICBC).

The Bank of China (BOC) specializes in foreign-exchange transactions and trade finance. It is estimated that BOC holds a 59% share of China's trade-finance business. The China Construction Bank (CCB) provides financing to infrastructure projects and urban housing development. The Agriculture Bank of China (ABC) specializes in providing financing to China's agricultural sector and offers wholesale and retail banking services to farmers, township and village enterprises (TVEs) and other rural institutions. The Industrial & Commerce Bank of China (ICBC), the largest bank in China, is the major supplier of funds to China's urban areas and manufacturing sector.

Policy Banks: Three new "policy" banks-the Agricultural Development Bank of China (ADBC), China Development Bank (CDB), and the Export-Import Bank of China (Chexim) - were established in 1994 to take over the government-directed spending functions of the four state-owned commercial banks. These banks are responsible for financing economic and trade development and state-invested projects.

CDB specializes in infrastructure financing; ADBC provides funds for agricultural development projects in rural areas; and Chexim specializes in trade financing.

Second Tier Commercial Banks: In addition to the big four state-owned commercial banks, there are smaller commercial banks. The largest ones in this group include the Bank of Communication, China Everbright Bank, CITIC Industrial Bank, Shanghai Pudong development bank, Shenzhen Development Bank, Guangdong Development

Bank, Minsheng Bank and Hua Xia Bank. The second tier banks are generally healthier in terms of asset quality and profitability and have much lower non-performing loan ratios than the big four.

Trust and Investment Corporations: In the midst of the reforms of the 1980s, the government established some new investment banks that engaged in various forms of merchant and investment banking activities. Many of the 240 or so international trust and investment corporations (ITICs) established by government agencies and provincial authorities, however, experienced severe liquidity problems after the bankruptcy of the Guangdong International Trust and Investment Corporation (GITIC) in late 1998. The largest surviving ITIC is China International Trust and Investment Corporation (CITIC), which has a banking subsidiary known as CITIC Industrial Bank.

Years of government-directed lending has presented these banks with large amounts of non-performing loans. According to Chinese government, non-performing loans account for 25% to 30% of total lending of China's four big banks. Nonetheless, this ratio comes after RMB1.4 trillion ($157.3 billion) of non-performing assets have been transferred from the banks to the asset management companies (AMC), which were established in 1999 to take over non-performing loans for the Big Four. The AMCs plan to repackage the non-performing loans into viable assets and sell them off to the investors.

PBOC has encouraged banks to diversify their portfolios by increasing their services to the private sector and individuals. In July 2000, a personal credit rating system was launched in Shanghai to be used to assess consumer credit risk and set ratings standards. This is an important move in developing China's consumer credit industry, and increase bank loans to individuals.

Recently, the central government has allowed several small banks to raise capital through bonds or stock issues. Followed the listing of Shenzhen Development bank and Pudong Development Bank, China Minsheng Bank, the only private bank in China, was listed on the Shanghai (A-Share) Stock Exchange in December 2000. More Chinese banks are expected to list in the next three years in order to raise capital.

The reform of the banking system has been accompanied by PBOC's decision to decontrol interest rates. The PBOC announced in August 2000 that it planned to liberalize the interest rates in about three years.

As a first step, the PBOC liberalized the interest rates for foreign currency loans and large deposits (US$3 million and over) in September 2000. Next on the liberalization schedule are the interest rates for certificates of deposits and other money market instruments. There after, the PBOC will liberalize the interest rates for large, fixed term deposits at urban banks. However, the full liberalization of interest rates on other deposit accounts—including checking and saving accounts—is expected to take much longer. On the lending side, market-determined interest rates on loans will first be introduced in the rural areas and then followed by rate liberalization in the cities.

B. Foreign-Exchange Controls

The PBOC and SAFE regulate the flow of foreign exchange in and out of the country, and set exchange rates through a "managed float" system. To better control this flow, almost all Chinese enterprises and agencies are required to turn over their foreign currency earnings to the banks in exchange for renminbi. (Large exporters were allowed to retain up to 15% of their earnings beginning in late 1997.) When foreign exchange is required for import and other authorized transactions, they then apply to designated banks that are members of the interbank foreign-exchange market.

Foreign-invested enterprises (FIEs) are permitted to keep foreign exchange in foreign exchange accounts at commercial banks. The Chinese government has eliminated the foreign-exchange swap centers on which FIEs used to trade among themselves, and all FIEs have been integrated into the formal banking system.

Since 1995 China has required that FIEs submit an annual report on their foreign-currency transactions, known as the Foreign-Exchange Examination Report. This report must be prepared by a certified public accountant registered in China and approved by SAFE and is necessary to qualify for foreign-exchange privileges. The purpose of the report is to ensure that FIEs' foreign-exchange earnings from exports are sufficient to meet their own requirements as well as any obligation to repatriate profits. Once the report is approved, firms receive a stamped Foreign Exchange Registration Certificate that enables them to obtain foreign exchange. China's original goal of achieving a fully convertible currency by the year 2000 has been pushed back because of the Asian financial crisis.

On July 1, 1996, China began to allow all FIEs in China to buy and sell foreign currency and exchange RMB in authorized banks for trade and services, debt payment and profit repatriation. The PBOC has lifted limits on exchanging and remitting currency for non-trade purposes and raised the ceilings for the amount of foreign exchange for private use. In mid-1998, however, SAFE cracked down on many of the loopholes used to get around the controls on capital account transactions. Many FIEs complained that delays occurred when SAFE screened their documentation more closely. SAFE has streamlined its system, but the requirement for proof that all relevant local taxes have been paid is a burden for many offshore service providers.

Foreign banks, their branches and foreign joint-venture banks are authorized to buy or sell foreign exchange from or to foreign-funded ventures. Foreign-funded banks or branches are not allowed to accept local currency deposits or to make RMB loans except if they have been specially licensed in the Pudong district of Shanghai and in Shenzhen, near Guangdong. Elsewhere, foreign banks and their branches are prohibited from accepting RMB deposits (liabilities) but may establish RMB accounts to convert currencies for their joint venture and foreign customers. China has pledged to expand the scope of RMB business gradually and to eliminate all geographical restrictions within five years of entering the World Trade Organization (WTO).

C. General Financing Availability

The sources of financing available for U.S. exporters and investors are:

Export Credits: The U.S. Export-Import Bank, an independent agency of the U.S. government, seeks to increase the competitive position of U.S.-based exporters in overseas markets. By providing export insurance, loan guarantees, direct loans and other types of financing support EX-IM Bank supports the sales of U.S. exports and thereby creates U.S. jobs. EX-IM Bank currently has master credit agreements with both Bank of China and China Development Bank, but can also work with other Chinese banks, including China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China and Bank of Communications. Private sector importers are eligible for support as long as they meet EX-IM Bank credit standards. The terms and conditions of standard financing are governed by the OECD Arrangement on export credits. Direct lending rates are set monthly and are called Commercial Interest Reference Rates (CIRRs).

Chinese entities actively seek low-interest, long-term loans, and European and Japanese export credit agencies have aggressively sought to accommodate this appetite. Soft loans or concessionary financing are designed to support a country's exporters and are usually offered under annual government-to-government protocols not tied to particular projects. U.S. firms, otherwise competitive on price and quality, sometimes lose contracts because they are unable to compete with such loans. Ex-Im Bank will, under certain circumstances, consider matching the specific financing terms of a competing government offer.

For more information concerning EX-IM Bank programs and application procedures contact EX-IM Bank in Washington, DC at (800) 565-EXIM or (202) 565-3545. In China, contact the EX-IM Bank Representative, Mr. Douglas C. Lee, at the Commerce Department's Foreign Commercial Service Beijing office - Tel: (8610) 8529-6655, Fax: (8610) 8529-6558. Fee calculations and applications can be found on-line at the website www.exim.gov.

Direct grants: U.S. Trade & Development Agency funds feasibility studies, orientation visits, specialized training grants, business workshops and technical assistance worldwide. TDA is active in more than 60 countries and has recently opened its programs in China after a 12-year break. In order to be eligible for assistance, projects must have a procurement process open to U.S. firms, represent an opportunity for sales of U.S. goods and services and be a development priority of the country where the project is located. Contact Mr. Geoff Jackson, Regional Director for Asia/Pacific, at TDA's Arlington, VA office. Tel: (703) 875-4357, Fax: (703) 875-4009. Website: www.tda.gov

Multilateral Agencies: The World Bank, based in Washington, D.C., maintains a large loan program in China. The World Bank's purpose is to help borrowers reduce poverty and improve living standards through sustainable growth and investment. China represents the World Bank's second largest commitment worldwide. The Bank's program policies in China continue to shift away from key infrastructure projects in transportation and energy toward environmental and agriculture support. The World Bank publishes bidding opportunities in the United Nations publication "Development Business." This is available by subscription from United Nations, P.O. Box 5850, Grand Central Station New York, New York 10163-5850.

The World Bank conducts procurement by the rules of international competitive bidding through Chinese tendering organizations; nonetheless, successful bidding requires close coordination with the Chinese government entity responsible for developing a project at the consulting stage, when specifications are being established. The World Bank has a local office in China Tel: (8610) 6554-3361 Mr. Yukon Huang, Country Director. Website: www.worldbank.org.

As a member of the World Bank, The International Finance Corporation has become increasingly active in China. It is mandated to assist joint venture and share holding companies with substantial non-state ownership to raise capital in the international markets. The IFC takes equity positions in these companies. The IFC's core business is "project finance," and it currently has over $1.2 billion invested in "project finance" undertakings in China. The projects have anticipated cash flows that can cover repayments to lenders and dividends to shareholders. They do not enjoy a government guarantee. The IFC can be contacted through its Washington, D.C. Headquarters at (202) 473-0631 or Ms. Karin Finkelfton at the Beijing office, Tel: (8610) 6554-4191, Fax: (8610) 6554-4192. Website: www.ifc.org

The Asian Development Bank (ADB): China continues to be one of ADB's largest borrowers. Loans are largely for infrastructure and environmental projects. Once a project is initially approved by the ADB and the Chinese government, it is included in a monthly publication called "ADB Business Opportunities" which is available by subscription from the Publications Unit, Information Office, ADB, P.O. Box 789, Manila, Philippines, Fax: (632) 632-5122 or 632-5841. The Commerce Department has established a Multilateral Development Bank Operations Office (Fax: (202) 273-0927) which publishes information to assist companies in winning such contracts. The ADB Resident Mission in China is located in Beijing. Contact Bruce Murray, Resident Representative, or David Sobel, Country Officer at Tel: (8610) 6642-6601, Fax: (8610) 6642-6606. Website: www.adb.org.

D. Terms of Payment

In China's liberalized economic regime, there are many ways to finance imports. The most commonplace are letter of credits and documentary collections. Under these methods, foreign exchange is allocated by the central government for an approved import.

Letters of credit: Although the Bank of China dominates China's trade-finance business, most Chinese commercial banks have the authority to issue letters of credit for imports. These include China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China and CITIC Industrial Bank. Foreign banks with branch or representative offices in China (see Appendix D) can also issue letters of credit.

There are a few peculiarities about letters of credit issued by Chinese banks. First, from time to time local Chinese courts have issued injunctions that bar Chinese banks from clearing letters of credit whose underlying documentation has been challenged. The central government has issued guidance against this practice, which is gradually disappearing. Second, China is not a member of the International Chamber of Commerce and, therefore, is not subject to the Unified Customs and Practices (UCP) 400 code regarding international trade payments. In Chinese practice, terms and conditions are generally negotiable and set on a transaction-by-transaction basis in the form of a "silent" confirmation. Banks can generally be found to take this small risk.

Documentary Collections: This method of payment is similar to a letter of credit, but less formal and more flexible. Just as with letters of credit, the exporter submits a full set of trade documents for payment collection to the bank designated in the contract. The Chinese bank will send the documents to the home office, which examines them and, in some cases, passes them to the buyer for further examination. Payment is made after the documents have met the approval of all parties. This method of payment provides rather thin coverage against default. It can be considerably less expensive than a letter of credit, but should be used with caution. It is the responsibility of the exporter to determine the specific instructions to be used in the collection letter.

Other methods:

Bank or Enterprise Loans: Many Chinese companies have relationships with local banks or other enterprises that will loan funds for the purchase imports.

Foreign Supplier Loan: The supplier helps to finance, on behalf of the Chinese buyer, the purchase of its equipment.

Proceeds sharing/cooperative joint venture: Some suppliers will enter into a cooperative joint venture to ensure the sale and financing of their equipment.

E. Insurance

Insurance: Congress suspended the China operations of the Overseas Private Investment Corporation (OPIC) in 1989 (see section VII M. above). The U.S. Ex-Im Bank has programs that provide guarantees and export credit insurance covering U.S. content. Some private companies, such as American International Group and Home Life, also offer export credit insurance policies for China. AIG Beijing office Tel: (8610) 6597-8889, Fax: (8610) 6597-8878. Home Life Beijing office Tel: (8610) 6552-0608, Fax: (8610) 6552-1883

F. Project Financing

Chinese officials have for years experimented with limited- recourse project financing schemes. Long awaited Build-Operate-Transfer (BOT) laws have been delayed, however, and the overall private finance climate has cooled during the past few years. The U.S. Ex-Im Bank is seeking to implement a limited-recourse, project-financing program in China. Such a project is one in which anticipated cash flows can cover debt service repayment to lenders and payment of dividends to shareholders, and is without government guarantees. Loans under this program will be available to companies operating investment projects that require imports from the U.S. Project financing is also available from the U.S. Export-Import Bank and various multilateral financial institutions as described in Section C above.

G. For a list of foreign banks in China, see the appendix.

Chapter #: 9

Chapter: BUSINESS TRAVEL

Visa: U.S. citizens traveling to China must obtain a Chinese visa before embarking on the trip. A few different types of visas are issued to visitors, including the tourist visa (Type L) that allows the bearer one- to two entries to stay up to one month each time. Consult the Chinese Embassy or Consulate General on obtaining the right type of visa or apply through a travel agency.

Those who wish to work and stay in China for extended periods of time need to apply for employment visa (Type Z), which allows multiple entries into China and is valid for up to one year. The application process is long and bothersome and requirements many, including a complete physical check-up. Upon expiration, the Type Z visa can be renewed with reasonable amount of effort and paperwork.

Trade Shows & Exhibitions: Participants can come into China on tourist visas and travel in-country. Notebook computers, cameras, portable printers, VCRs can be brought into China as personal belongings.

Business firms seeking to bring in exhibits and items for display should consult with Customs authorities for regulation on the procedures and to obtain copies of appropriate forms.

Temporary Entry: Goods imported in China for display or demonstration at trade shows and exhibitions are exempt from Customs duty, provided they are re-exported within three months. The exhibition organizer must obtain advance approval from the Customs, provide certain shipping documents and a list of items to be exhibited, and coordinate with Customs officials. Customs may sometimes request a guarantee in the form of a deposit or letter.

A local sponsor with authority to engage in foreign trade may sponsor small exhibitions or technical seminars, requiring less than 500 square meters in exhibition space, without first seeking approval from MOFTEC. Customs will handle the tariff exemption formalities based upon a guarantee of re-export that is signed between the sponsor and the foreign party.

Food and beverage exhibition "not-for-sale" sample-entry rules are not clearly defined and appear capriciously applied. U.S. exhibitors should contact the exhibition organizers to determine their liabilities regarding sample entries for such events before registering to participate, to obtain a clearer understanding of exhibition-related expenses.

Some exhibits or samples imported under the temporary not-for-sale regulations may be sold after the trade event is completed, in which case the duties owed on these items are levied by the Customs.

Passenger Baggage: Reasonable quantities of items for personal use by short-term visitors may be imported duty-free. Other items such as cameras, televisions, stereo equipment, computers, and tape recorders must be declared and may be assessed a duty depending upon the item's value.

Advertising Materials and Trade Samples: Samples and advertising materials are exempt from customs duty and Value-Added Tax (VAT) if the item's value does not exceed RMB200. Samples and advertising materials concerning certain electronic products, however, are subject to customs duty and VAT regardless of value.

Representative Offices: Representative offices must submit a written application to Customs if they intend to import any personal effects or vehicles. Approval by Customs waives any relevant import license requirements and allows the office to import the equipment in reasonable amounts for office-use only.

Overseas Assignment to China: Expatriate managers who are assigned to work in China need to apply for employment visas (see above). On their first trip into China on the Z visa, they are entitled to bring duty-free reasonable and personal- and household- use items including the otherwise dutiable items such as VCRs, PCs, and video cameras.

Chapter #: 10

Chapter: ECONOMIC AND TRADE STATISTICS

Country Data

Population

	1998	**1999**	**2000**	**2001**	**2002**
Population (in millions)	1,248	1,259	1,272	1,284	1,297
Population Growth Rate	1.0%	1.0%	1.0%	1.0%	1.0%

Official growth rate for 2000 is assumed for 2001 forward and is used to produce population estimates for those years.

Religion: Officially atheist, but traditionally pragmatic and eclectic; most important religions are Taoism and Buddhism, followed by Islam and Christianity.

Languages: Standard Mandarin Chinese is generally spoken by educated people throughout China, but there are dozens of major local dialects such as Cantonese, Shanghainese, Minbei, Minnan, Xiang, Gan, and Hakka.

Work week: Official work week is 40 hours per week.

Domestic Economy

	1999	2000	2001	2002
GDP (RMB trillions)/2	8.205	8.94	9.655	10.389
GDP Growth (%)/3	7.1	8.0	8.0	7.5
GDP Per Capita ($)	769	856	878	900
Government Spending (% GDP)	16.1	17.8	18.0	19.0
Retail Price Inflation (%)	-3.0	-1.5	0.0	0.5
Unemployment (%)/4	3.1	3.1	4.0	4.0
Total For. Ex. Reserves ($Bn)	155	166	180	190
Avg. Exchange Rate (RMB/$)	8.28	8.27	8.27	8.50
Foreign Debt ($ Bn)	151.8	145.7	140.0	135.0
Debt Service Ratio	11.3	9.5	9.5	9.0

Notes:
1/ 1999 and 2000 -- with the exception of the debt service ratio for 2000 -- are officially reported Chinese government statistics. Figures for 2001 and 2002 are Embassy estimates, as is the entry for the 2000 debt service ratio.
2/ At current prices.
3/ At constant prices.
4/ Official Chinese estimate of urban unemployment. Unofficial estimates range from 8-15%.

Trade Data (US$ Billions)

	1998	1999	2000	2001
Total PRC exports /1	183.7	195.2	249.2	285
Total PRC imports /1	140.4	165.8	225.1	263
U.S. exports to PRC /2	14.3	13.1	16.2	19
U.S. exports to PRC /3	17.0	19.5	22.4	27
U.S. imports from PRC /2	71.2	81.8	100	111
U.S. imports from PRC /3	38.0	41.9	52.1	57
Total US ag. exp. to PRC/4	1.3	.9	1.7	2.0
Total US ag. imp. from PRC/4	.7	.8	.8	.8

1/ China Customs data, U.S. Embassy estimates for 2001.
2/ U.S. Customs data, U.S. Embassy estimates for 2001.
3/ China Customs data, U.S. Embassy estimates for 2001.
4/ U.S. Department of Agriculture, U.S. Embassy estimates for 2001.

Investment Statistics

The Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and the State Statistical Bureau provided the data below. The statistics on contractual FDI are simple data collected by MOFTEC at the point of contract approval. The statistics on realized investment are based on required reporting by FIEs of committed capital. Cumulative values for both contractual and realized FDI are simple totals of data collected each year. As such, they are not adjusted for inflation, do not take into account divestment, nor do they reflect investment stock. More sophisticated data on foreign investment is not currently available in China. However, MOFTEC has been working with the Organization for Economic Cooperation and Development on ways to improve statistical gathering and computation

China's FDI data include investment from Hong Kong and Macao, which are special administrative regions (SARs) of China, as well as from Taiwan. Many Mainland companies invest via Hong Kong and Macao subsidiaries in order to capitalize on investment incentives, such as tax breaks, which are only available to foreign, not domestic, investors. Analysts estimate that mainland Chinese funds flowing through Hong Kong account for 10-30% of Hong Kong's total realized FDI in China. Further skewing Hong Kong and Macao statistics, many Taiwan firms invest in the mainland via these SARs in order to avoid the scrutiny of the Taiwan authorities.

Table 1 -- Contractual and Realized Foreign Direct Investment in China from All Sources (1979-2000) (In $ Millions)

Year	Realized FDI	Contractual FDI
1979-82	1,769	4,958
1983	916	1,917
1984	1,419	2,875
1985	1,956	6,333
1986	2,244	3,330
1987	2,314	3,709
1988	3,194	5,297
1989	3,393	5,600
1990	3,487	6,596
1991	4,366	11,977
1992	11,008	58,124
1993	27,515	111,436
1994	33,767	82,680
1995	37,521	91,282
1996	41,726	73,276
1997	45,257	51,003
1998	45,463	52,102
1999	40,400	41,200
2000	40,772	62, 657
Total	**348, 487**	**676, 352**

Source: Ministry of Foreign Trade and Economic Cooperation
State Statistical Bureau

Table 2 -- U.S. Contractual and Realized Foreign Direct Investment in China (1979-2000)
(In $ Millions)

Year	Realized FDI	Contractual FDI
1979-82	13	281
1983	5	470
1984	256	165
1985	357	1,152
1986	326	541
1987	263	342
1988	236	370
1989	284	641
199O	456	358
1991	323	548
1992	511	3,121
1993	2,063	6,813
1994	2,491	6,010
1995	3,083	7,471
1996	3,443	6,915
1997	3,239	4,937
1998	3,898	6,484
1999	4,200	6,000
2000	4, 384	8, 001
Total	**29, 831**	**60, 620**

Source: Ministry of Foreign Trade and Economic Cooperation
State Statistical Bureau

Table 3 -- China's Realized and Contractual Foreign Direct Investment by Selected Country
(In $ millions)

	REALIZED FDI	CONTRACTUAL FDI
	1999	2000% Change 1999
Hong Kong	16,400	15,500-5.513,30016,96127.5
Japan	3,000	2,916-2.82,6003,68141.6
Republic of Korea	1,300	1,49014.61,5002,38659.1
Singapore	2,600	2,173-16.42,6002,031-21.9
Taiwan	2,600	2,296-11.73,4004,04218.9
United States	4,200	4,3844.46,0008,00133.3
European Union	4,500	4,7655.94,1009,136122.8
Germany	1,400	1,041-25.69002,900222.2
United Kingdom	1,000	1,16416.41,100834-24.2
France	900	853-5.2500 63426.9
Total (All Sources)	40,400	40,7720.941,20062,65752.1

(Percentages may not be exact due to rounding errors.)
Source: Ministry of Foreign Trade and Economic Cooperation
State Statistical Bureau

Note: Many foreign firms, including from the U.S., are registered in the Virgin Islands and the Cayman Islands for tax considerations, and therefore do not appear in these country by country figures.

Table 4 -- China's Contractual and Realized Foreign Direct Investment by Sector (In $ Millions)

	Utilized FDI	**Contractual FDI**
	1999	2000% Change 1999 2000% Change
Agriculture, Forestry, Animal Husbandry, and Fisheries	710	675-4.881,4721,4830.78
Mining	557	5834.6932250657.16
Manufacturing	22,603	25,84414.3425,33244,25474.70
Utilities	3,703	2,242-39.451,6351,227-24.97
Construction	917	905-1.221,096831-24.20
***Geological prospecting and water conservancy**	5	56.42 5415-72.43
Transport, Warehouse, Postal and Telecom Services	1,551	1,012-34.771,1141,41727.16
Wholesale and Retail Trade and Food Services	965	858, -11.12, 1,204, 1,435, 19.18
Financial and insurance*	98	76-21.893779113.83
Real Estate	5,588	4,658-16.664,1785,23225.23
Social Services	2,551	2,185-14.323,0174,25541.03
Health Care, Sports and Social Welfare	148	106-28.3167154129.34
Education, Culture, Arts, Radio, Film and TV Industry	61	54-10.31738314.80
Scientific Research and Computer Technical Services	110	57-48.2213425087.17
Others	753	1,45393.011,4891,157-22.24
Total	40,319	40,7140.9841,22362,38051.32

(Percentages may not be exact due to rounding errors.)
Source: Ministry of Foreign Trade and Economic Cooperation
State Statistical Bureau

Figures with "*" do not exist in the 1999 report

Table 5 -- FOREIGN INVESTMENT ROLE IN CHINA'S ECONOMY (in USD millions)

	1999	**2000**	**% Change**	**% of 2000 National Figures**
FIE-Generated Industrial Value Added	59,900	64,253	7.27	13.48
FIE-Generated Exports	88,600	119,441	34.81	47.93
FIE-Generated Imports	85,900	117,273	36.52	52.10
FIE Taxes Paid	138,400	26,711	-80.70	17.50

Source: Ministry of Foreign Trade and Economic Cooperation
State Statistical Bureau

Chapter #: 11

Chapter: US AND COUNTRY CONTACTS

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Contact: Zhang Ruiying, Director General, Foreign Affairs Department

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131 Xuan Wu Men Xi Da Jie District, Beijing 100808, China
Director: Liu Liqing
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Fax: (86-10) 6641-9711
Contact: Huang Guozhong, Director General, Foreign Affairs Department

State Textile Industry Bureau
12 Dongchang'anjie, Beijing 100742, China
Director: Du Yuzhou
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Fax: (86-10) 6513-6020
Contact: Yan Yongshun, Director General, Foreign Affairs Department

State Tobacco Monopoly Bureau
No2 Building, 26 West Xuanwumen Avenue, Xuanwu District, Beijing 100053, China
Director: Ni Yiin
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Fax: (86-10) 6360-5036
Contact: Zhou Ruizeng, Director General, Foreign Affairs Department

H. Associations & Corporations

All-China Federation of Industry and Commerce
93 Beiheyan Dajie, Beijing 100006
Chairman: Jing Shuping
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Fax: (86-10) 6513-1769
Contact: Li Zhongshang, Director of Liaison Department

China Chamber of International Commerce (co-located with CCPIT, see below)
1 Fuxingmenwai Street
Beijing 100860
Tel: (86-10) 6851-3344
Fax: (86-10) 6851-1370

China Council for the Promotion of International Trade(CCPIT)
1 Fuxingmenwai Street, Beijing 100860
President: Yu Xiaosong
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Fax: (86-10) 68011370
Contact: Wang Jinzhen, Director of Liaison Department

China Huaneng Group
40 Xue Yuan Nan Lu, Haidian District Beijing 100088, China
President: Li Xiaopong
Tel: (86-10) 6229-1535

Fax: (86-10) 6225-1704
Contact:Hu Jingfeng (Manager of International Department)

China International Trust and Investment Corporation
Capital Mansion, 6 Xinyuan Nanlu, Chaoyangqu, Beijing 100004 China
President: Wang Jun
Tel: (86-10) 6466-1195
Fax: (86-10) 6466-1186
Contact: Huang Xiang, Division Chief of Public Relations

State Nonferrous Metals Industry Association
Yi 12 Fuxing Lu, Xicheng, Beijing 100814, China
President: Kang Yi
Tel: (86-10) 6397-1797
Fax: (86-10) 6396-4409/3833
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China National Offshore Oil Corp.
P.O. Box 4705, 6 Dongzhimenwai Xiaojie
Beijing 100027
President: Wei Liucheng
Tel: (86-10) 8452-1071
Fax: (86-10) 8452-1080

China National Petroleum Corp.
6 Liupukang, Xicheng District, Beijing 100724, China
President: Ma Fucai
Tel: (86-10) 6209-4798
Fax:(86-10) 6209-4806
Contact: Wu Yaowen, Director of Foreign Affairs Department

China National Tobacco Corporation:
#26 B. Xuwumenwai, Xi Da Jie, Xuanwu District, Beijing, 100053
President: Ni Yi Jin
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Fax: (86-10) 6360-5036
Contact: Yang Yongan, Director of Foreign Affairs Department

China North Industries Corp.
Guang An Men Nan Da Jie Jia 12, Beijing 100053, China
President: Li De
Tel: (86-10) 6354-2738
Fax: (86-10) 6354-0398
Contact:Cui Zheng, Manager of Foreign Affairs

China Petro-chemical Corporation
#6 Hui Xin Dong Jie Jia, Beijing 100029
President: Li Yizong
Tel: (86-10) 6499-9973

Fax:(86-10) 6499-9800
Contact: Li Jiaxun, Head of Foreign Affairs Department

China State Construction Engineering Corporation
15 Sanlihe Rd., Xicheng District, Beijing 100037, China
President: Sun Wenjie
Tel: (86-10) 8808-2958
Fax: (86-10) 8808-2789
Contact: Cai Wen ping, Director of Foreign Affairs Department

China State Shipbuilding Corporation
5 Yuetanbeijie, Xicheng District, Beijing 100861, China
President: Wang Rongshang
Tel: (86-10) 6803-8833-2223
Fax: (86-10)6804-7098
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Fax: (86-10) 6856-1121
Contact: Wang Xiaoren, Director of Foreign Affairs

People's Insurance Company of China
#69 Xuan Wu Men Dong He Yan Jie, Beijing 100052, China
President: TangYunxiang
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Fax: (86-10) 6315-2033
Contact: Zhao, Xiaoguang (Foreign Affairs Office)

I. Chambers of Commerce / Trade Associations

American Association for Manufacturing Technology
Rm. 2507 Silver Tower
2 Dongsanhuan North Road
Chaoyang District
Beijing 100027
Tel: (86-10) 6410-7374, 6410-7385 / 76
Fax: (86-10) 6410-7334

American Chamber of Commerce in Beijing
Tim Stratford, Chairman
Mike Furst, Executive Director
Suite 1903 China Resources Building
8 Jianguomenbei Avenue
Beijing 100005
Tel: (86-10) 8519-1920
Fax: (86-10) 8519-1910

American Soybean Association
Phillip W. Laney, Representative
China World Tower2, Room 902
Beijing 100004
Tel: (86-10) 6505-1830, 6505-1831, 6505-3533
Fax: (86-10) 6505-2201

Construction Industry Manufacturers Association (CIMA)
No. 6 Southern Capital Gymnasium Road
Room 458, Office Tower New Century Hotel
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Pat Powers, Chief Representative
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Fax: (86-10) 6512-5854,

U.S. Grains Council
Todd Meyer, Director
China World Tower 2, Room 901
Beijing 100004
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Fax: (86-10) 6505-0236

U.S. Wheat Associates
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China World Tower2, Room 903
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Fax: (86-10) 6505-5138

United States Information Technology Office (USITO)
Dan Brody, Deputy Director
C511B Lufthansa Center Office 50 Liangmaqiao Road
Chaoyang District, Beijing 100016
Tel: (86-10) 6465-1540/41/42
Fax: (86-10) 6465-1543

J. Market Research Firms

China International Economic Consultants, Inc.
Yao Jirong, President
13/f Capital Mansion
6 Xin Yuan Nan Road

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Consultec
Zhang Shiming, President
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Tel: (86-10) 6505-1565 (director)/6505-2255, ext.1215
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The Gallup Organization
Units 01-07&15,14/F, Ruoy Chai International Building
No.8, Yong An Dong Li, Jian Guo Men Wai, Chaoyang District
Beijing 100022 China
Tel: (86-10) 8528-8880
Fax:(86-10) 8528-8860
Sinofile Information Services Ltd.
David Jacobson, Founder and Managing Director
A85 Tonglinge Street
Xicheng District, Beijing 100031
Tel: (86-10) 6605-9198/97
Fax: (86-10) 6605-9194

BMRB International
Duncan Falzon Associate Director
Suite 919-922 International Enterprise Plaza
35 Jin Rong Street, Xi Cheng District
Beijing 100032
Tel: (86-10)8809 1837 (direct line)
Fax: 8610 8809 1598

AC Nielsen
Frances Luk, Communication Manager
Full Link Plaza #8 Chaoyangmenwai Dajie Room 1201A
Beijing 100020
Tel: (86-10) 6588-0188
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World Bank
Country Director: Yukon Huang
Building A, Fuhua Mansions
#8 Chaoyangmen North Avenue
Dongcheng District, Beijing 100027
Tel: 6554-3361
Fax: 6554-1686

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AGRICULTURE BANK OF CHINA
Cheng Jianguang, Director of Foreign Affairs Office
100 Xi San Huan Bei Lu, Beijing, China 100037
Tel: (86-10) 6842-4524
Fax: (86-10) 6842-4495

BANK OF CHINA (Headquarters)
Xing Ping, Chief of American & Oceanic Division
410 Fuxingmennei Dajie
Beijing, China 100818
Tel: (86-10) 6601-1829; 6601-6688 (SB)
Fax: (86-10)6601-4096

CHINA CONSTRUCTION BANK Headquarters)
Wang Xuebing, President
Wan Binjiang, Director of Foreign Affairs Office
25 Jinrong Dajie
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COMMUNICATIONS BANK OF CHINA (Headquarters)
18 Xianxia Lu, Shanghai 200336
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Fax: (86-21)6219-6035

EVERBRIGHT BANK OF CHINA
Deng Shi min,Vice-President
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Everbright Building
No. 6 Fuxingmenwai Dajie,Beijing
Beijing 100045
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Fax: (86-10) 6856-1301

EXPORT IMPORT BANK OF CHINA
Yang Zilin, President & Chairman
A43 Xi Zhimen Bei Dajie Jinyun Building
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Fax: (80-10) 6227-7637

HUAXIA BANK
111 Xidanbeidajie, Xicheng District, Beijing 100032
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INDUSTRIAL & COMMERCIAL BANK OF CHINA (Headquarters)
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55 Fuxinmennei Dajie, Xicheng District Beijing 100031
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Fax: (86-10) 6610-6044
Contact: Shi Ying

INVESTMENT BANK OF CHINA (now merged with EVERBRIGHT BANK OF CHINA; please see below)

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Shenzhen 518031
Guangdong Province
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Fax: (86-755) 377-6421

MINSHENG BANK OF CHINA
Jing Shuping (Director)
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Fax: (86-21) 6323-2036

SHENZHEN DEVELOPMENT BANK
5047 Shennan Dong Lu
Shenzhen 518001, Guangdong
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Fax: (86-755) 208-1018

CHINA DEVELOPMENT BANK
Chen Yuan, President
Ms. Wang Yuan, Int'l Cooperation Finance Department
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Guangzhou Representative Office
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Beijing Branch
Ms. Sha Sha Chang, Chief Representative
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CHASE MANHATTAN BANK (JP MORGAN CHASE)
Beijing Branch
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Bell Chong, Manager

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FOREIGN AGRICULTURAL SERVICE
Agricultural Affairs Office
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Guangzhou Agricultural Trade Office
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Animal and Plant Health Inspection Service
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POLITICAL SECTION
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VISA SECTION
First Secretary: Chuck Bennett
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Commercial Officer
Tel: (86-28) 558-3992
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Principal Commercial Officer: Ned Quistorff
Tel: (86-20) 8667-4011
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1469 Huaihai Zhong Lu
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Principal Commercial Officer: Erin Sullivan
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Trade Information Center
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U.S. DEPARTMENT OF STATE
Office of China and Mongolia
Bureau of East Asia & Pacific Affairs
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Office of Business Affairs
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AgExport Services Division
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Trade Assistance & Promotion Office

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U.S. Ex-Im Bank
Business Development Office
Washington, D.C.
Tel: 202-565-3900
Fax: 202-565-3723
Website: www.exim.gov
Beijing Contact: Douglas Lee
Email: Douglas.Lee@mail.doc.gov

N. U.S.-Based Multipliers

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Robert Kapp, President
1818 N Street, N.W., Suite 500
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China Daily
15 Huixin Dongjie, Chaoyang District
Beijing 100029, China
Tel: (8610) 6492-4488
Fax: (8610)6491-8377
Website: **http://www.chinadaily.com**

People's Daily
#2 Jintai Xilu, Chaoyang Menwai
Beijing 100733, China
Tel: 6509-2216, 6509-1016
Fax: (8610) 6509-1816
Website: **http://www.peopledaily.com.cn**

Economic Daily
#2 Bai Zhi Fang Dong Jie, Xuanwu District
Beijing 100054, China
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Fax: (8610) 6353-9408

Website: **http://www.economicdaily.com.cn**

Beijing Youth Daily
#66 Dong San Hua Nan Lu
Beijing 100021, China
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Fax: (8610) 6733-3704
Website: **http://www.bjyouth.com.cn**

International Business Daily
Building 14, Block 3, Fang Xingyuan, Fangzhuang
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Tel: (8610)6762-8419
Fax: (8610)6762-6878
Website: **http://www.moftec.gov.cn**

International Trade News
#28 Dong Hou Xiang, An Ding Men Wai
Beijing 100710, China
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Fax: (8610)6424-8932
Website: **http://www.itn.com.cn**

Renmin Youdian (People's Post & Telecommunication)
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22 Jiangguomenwai Dajie
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Website: **http://www.cbw.com/busbj**

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Fax (8621)6351-6517
Website: **http://www.jfdaily.com.cn**

Wen Hui Daily
50 Huqiu Road
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Fax: (8621)6323-9748
Website: **http://www.whb.online.sh.cn**

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Guangzhou, 510085 ,China
Tel: (8620) 8761-0127
Fax: (8620) 8776-5797, 8766-5240
Website:
http://www.gd-hk.deyin.com

Information Times
99 Si You Xin Rd
Guangzhou, 510600 China
Tel: (8620) 8738-1168 ext. 8406, 8407
Fax: (8620) 8738-1557
Website: **http://www.cninfotimes.com**

Guangdong Commercial News
Add: 50 Dong Hua North Rd.
Guangzhou 510080, China

Tel: (8620) 8767-9981
Fax: (8620) 8765-4020

Asian Pacific Economic Times
Add: 369 Tian He North Rd.
Guangzhou 510610, China
Tel: (8620) 3880-0217, 3880-3185
Fax: (8620) 3880-0445
Website:
http://www.china-newspapers.com/asia-p-news

Nanfang Daily
Add: 289 Guangzhou Da Dao Zhong
Guangzhou, 510601, China
Tel: (8620) 8737-3998
Fax: (8620) 8737-5203
Website: www.nanfangdaily.com.cn

Nanfang Weekend
289 Guangzhou Da Dao Zhong,
Guangzhou 510601, China
Tel: (86-20) 8739-6882
Fax: (86-20) 8737-0368
Website: www.nanfangdaily.com.cn

Chapter #: 12

Chapter: MARKET RESEARCH

FY 2001 Industry Sub-Sector Analysis (ISA) Reports

US&FCS China publishes several Industry Sub-Sector Analysis (ISA) reports per year. These in-depth reports are written by commercial specialists, and are designed to provide a great deal of detailed information on a specific area of a given industry. These reports are available at either our offices in China or through the National Trade Data Bank (www.stat-usa.gov.) FY 2001 reports are listed below.

Bank Cards/Automatic Teller Machine Markets
Coal Mining Equipment And Processing Technologies
Air Conditioning & Refrigeration
Wastewater Treatment And Monitoring Technologies
Fund Management
The Wireless Data Market

Training Programs
Railroad Development
Pharmaceutical Manufacturing Equipment
Computers & Peripherals
Food Handling & Packaging
Special Purpose Vehicles
Industrial Process Controls
Interior Decorating Materials
Internet Content & Service Provider Industry
Fine & Specialty Chemicals
Sichuan Feed Industry
Automotive Aftermarket
Paints & Coatings
Banking Industry In Southern China
Seaport Equipment & Technology
Pharmaceutical Market In China
Ship Deck Machinery
Marine Survey And Ocean Sensor Equipment
Packaging Machinery
Residential Building Materials & Services
Electronic Commerce Services
Passenger Vehicles
Waste Management
Building Products

FY 2001 International Market Insight (IMI) Reports
US&FCS China officers produce several topical briefs called IMIs several times a month. There short reports are designed to highlight new developments in Chinese commercial regulations and the China market. These reports are available at either our offices in China or through the National Trade Data Bank (www.stat-usa.gov). Some reports from FY 2001 are listed below.

Shandong Seeks Investment For Biological Straw Pellet Feed Project
Shandong Seeks Investment For High-Grade Clothing-Processing Project
Shandong Seeks Investment For Jet Ink Project For Printer
Shandong Seeks Investment For Wood Furfural Alcohol Project
Shandong Seeks Investment For Development Project Of Sylvite-Sulphate
Shandong Seeks Investment For A High Strength Flyash Brick Factory Project
Tianjin Seeks Foreign Investment For Metro No. 1 Line Construction Project
Tianjin Seeks Foreign Investment For Light Rail Transport Project
Registered Capital For Foreign Invested Enterprises
Yunnan Allows Foreign Investment In Some Monopoly Sectors
Forms Of Foreign Investment In China
North China Airport Construction Projects During The 10th Five Year Plan Period (2001-2005)
Liaoning Air Pollution Control Projects
Business Opportunities For American Jewelry Products
Benxi Blue Sky Plan
Tianjin Seeks Foreign Investment For 5 Container Berths Project

Tianjin Seeks Foreign Investment For Coal Dock Project
Tianjin Seeks Overseas Investment For Expansion Project Of A Container Dock
China To Have 173 Civil Airports By 2005
China Shipbuilders See Consolidation
China 2000 Exports Of Ships, Equip. On Rise
China Fisheries Update
East China Sea To Supply Growing Natural Gas Demand
Shanghai Port Again Under Way
China 2000 Port Traffic Rises
Qingdao: Growing Pains For Rising China Port?
Shanghai Anting Auto Town
Update On The Retail Pharmaceutical Industry In China
Medical Service Fee Regulation
Hospital Procurement In Henan
Coordinating Policy Papers On Healthcare Reform Issued
New Trends In Household Appliances Market In China
Auto Projects Seeking Overseas Capital In Yantai
Jiangsu Seeks Overseas Investment For Copper-Lead Bush-Bearing Line For Luxury Cars
Idc Has Strong Impetus Of Growth In China
Customs Duty Of Petrochemicals Expected To Be Reduced Further
Shanghai Mobile To Increase Indoor Network Coverage
Registration Certificate Upon The Imported & Exported Pesticides Required
Customs Tariff And Quota Upon The Imported Fertilizers To Be Eliminated
Regulatory Measures For The Pricing Of The Imported Fertilizers Improved
Registration Of The Imported Feed And Feed Additives Needed
China Plastics Processing Industry Association Recruit Foreign Companies As Members
Great Demand In China's Petrochemical Equipment Market
Auto Industry Demand For Machine Tool Equipment
China National Industrial Machinery Import And Export Company Invitation For Bids - Hefei-Xi'an Railway Project
Insurance Association Of China Set Up In Beijing
China's Dietary Supplement Market Review
China To Set Up Health Supervision Institutes And Disease Prevention Centers
China Simplifies Approval Procedure For Technical Renovation Projects
Policies Formulated To Encourage The Foreign Investment On Mining Industry
Chinese Shipyards Seek New Markets And Expansion
China Petroleum And Chemical Industry Association
Import Of Seven Chemical Sectors In 2000
Products & Technologies Needed In China Environmental Industries
Foreign Companies Rush To The Seed Industry In China
China Sets Targets For Major Transportation Construction Projects During 2001-2005
Guide To Apply For Import Substitution By Foreign Funded Enterprises (FFEs)
Changes On China's Foreign Trade Laws
Futang Hydropower Station Will Be Constructed In Sichuan
Guangdong Electric Power Projects In 2001
Chongqing Meixin Group Seeks Security Keys And Locks
MPA Program Landing China
Shanghai "Phase III" Waterworks Project
Environmental Protection Projects And Investment In Wuxi

Procedures Involved In Contracting A Chinese-Foreign Joint Equity Venture
Policies On Municipal Solid Waste & Wastewater Treatment
Ethylene Expansion Projects
Beijing Wastewater Treatment In 2000
West-Gas-To-East Project Tendering Process
New Requirement For City Water Supply And Wastewater Treatment
Commercial Service Organizes Second WTO Capacity-Building Seminar In China
The Commercial Service Organizes Successful WTO Capacity-Building Seminar In Xian
Creating An Attractive Business Environment In Chongqing
Creating An Attractive Business Environment In Wuhan
2000 Labor And Social Security Development Report
Procedures For Sino-Foreign Coop Engineering Designing
China's Auto Maintenance Has Great Prospects
Software Market In China
New Auto-Emission Standard
China Fertilizer Market In 2001
PRC Annual Pollution Losses Reached 34 Billion USD
China Adjusts 43 Preferential Tax Policies
Sichuan Luzhou Laojao Company Is Undertaking Product Diversification
Anhui Seeks Foreign Investment For Motorcycle Meter Project
Lmds Has Good Market Prospects In China
Ten Firms Win $1.46 Billion In CDMA Network Contracts
China Opens First Broadband Weather Website
Statistics On Chinese Students In The United States
Anhui Seeks Foreign Investment For Gear-Box Project
Examination And Approval Procedures For Setting Up A Chinese-Foreign Joint Capital Foreign Trade Company
Anhui Seeks Foreign Investment For Farm Vehicle Project
China's Major Investment Fields In Next 10 Years
Guodong Construction Co., Ltd Wants To Buy Equipment For DSB Plant
Guodong Construction Co. Seeking Equipment For DSB Plant
New Regulations On Battery Imports
Beijing Olympic Bid Movement
China Market Demand For Civil Passenger Aircraft Over The Next 20 Years
China To Demand 120,000 To 150,000 Mid And Luxury Class Cars In 2001
Anhui Seeks Foreign Investment For Auto Filter Project
Ganzhou- Longyan Railway
Liaoning Hazardous Waste Management Project
New Limited Liability Partnership Management Measures
Zigong Preferential Policies And Investment Guarantees
Commercial Aviation In China
Beijing's April Events For E-Commerce And Information Technology
China's Aviation- Improving Safety Oversight System
Aviation In China
Shanghai Railway Project Awaiting Financing
Anhui Seeks Overseas Investment For Auto Project
Main Policies For Foreign Investment In Central And Western Regions
Mammoth Guangdong Light Rail Project
Family Car Market In Guangdong

Guangdong Faces Power Shortage Again
China's Five-Year Plan For Electronic Information Industry
Suining Sewage Plant Looks For U.S. Wastewater Management Partner
Yangtze River Shipping Needs Help
Three Major Tourism Projects In Guizhou Province
Tongwei Enterprise Group Seeks Feed Production Equipment
Sichuan New Hope Group Seeks Grain Storage Equipment
China Passed Amendments To Three Foreign-Funded Enterprise Laws
The China Cosmopolitan Show 2001
Procedures For Operating Internet Content Providers
End Of Mission Report For Port-Tech Chinamatch
Distribution And Logistics In China
Guangdong Is Tendering For Power Generation Equipment
Guangzhou Shipbuilding Industry Needs Foreign Brains
China Shipbuilding Industry Corporation: Going Global
Changzhou International Hospital
China West Fair On International New&Hi-Tech Achievements
Logistics In Guangzhou Bonded Area
Construction Machine Market Prospect
Guangdong Electric Power Projects In The Next 5 Years
Liaoning Municipal Solid Waste Projects
Liaoning Plan For Environmental Protection
2001 Western China Trade Fair And International Business Symposium
Domestic And Foreign Famous Brand Product Appreciation Expo
China Erzhong Group Seeks Electric Steel Mill Furnaces
China's Regional Aviation Market To Grow Substantially Over The Next 20 Years
Major Road Construction Projects In Hubei Province
Major Railway Construction Projects In Hubei Province
The 7th Zigong Dinosaur Lantern Festival Investment Meeting
China's Motor Vehicle Demand Expected To Reach 2.37 Million Units In 2001
Forecast Of China's Demand For Motor Vehicles By 2015
Sichuan Jianghua Machine Plant Looks For Cooperation
Shanghai Aims For Shopping Heaven
China Pumps More Funds Into The West And 112 Projects Will Be Constructed In Sichuan
NACE End Trip Report
Power Projects In Guizhou Province
Opportunities For Us Brandname Apparel And Accessories
Chengdu Great World Plaza
Health Care Related Exhibitions For 2001 In China
The 6th Chongqing Trade Fair & Three Gorges Tourism Festival
The 6th China Chongqing Investment And Trade Fair & Three Gorges Tourism Festival
West Gas To East (WGTE) Project
General Overview Of First Annual Sichuan International Investment & Trade Fair
Furniture China 2000-Sept.' 2000
Seminar On Focusing On 2000
Kangding Airport
Jiuzhaigou Airport Project
No.1 Project Of Sichuan Province

Project Of Power In West To Be Transmitted To East Supported By Bank
Tingzhikou Irrigation System Project
Project Of Piping Natural Gas In West To East
IC Production Line Needed By Guoteng
2000 International Manufacturing Technology Delegation
Transferring Oil Pipeline Project From Lanzhou To Chengdu And Chongqing
Trip Report Of Yunnan Advance Team For Governor's U.S. Visit
Yunnan Coffee Processing Plant Seeks Joint Venture Partner
End Trip Report Of IBP To Pack Expo International 2000
11 Airports To Be Constructed In Sichuan Province
Project For Power In West To East Is Started
China's Great Western Development Forum
China Focuses On Petroleum And Chemical Industries
2001 Domestic & Foreign Brand Product Expo.
International Communications Day Chengdu, China
Sichuan Wuliangye Group Expanding Into Biotechnology And It Industries In 2001
Sichuan Yibin Grace Group Seeks Advanced Textile Machinery And Fiber Material
Chongqing Runkang Pharmaceutical Company Seeks American Agents To Import Health Products
Sichuan Yibin Tianyuan Chemical Corporation Seeks Caustic Soda Production Equipment
End Trip Report Of Ibp To The International Builders Show
The 3rd China International Exhibition On Airport 2001
2001 China International :Fieldbus & Industrial Process Control Exhibition & Technical Exchange Conference
Suzhou Creek Contaminated Sediment Project
Woodmac 2001 Trade Show
Impressive Investment Zone In Changzhou
Northeast Commercial Overview
Guangdong Building Products Markets Update
Guangdong Architect Design Update
Yunnan Baiyao Group Seeks Aerosol Can Manufacturing Line
China's Insurance Intermediary Market
Power Generation Base In Ningxia
China's Telecommunications Market: 2000 Overview And 2001 Plans
China Sets Up Local Telecom Regulatory Offices In 15 Provinces
Cable Television Equipment In China
China Removes Restrictions On Foreign Investment In Its Film Industry
China Authorizes 31 Universities To Issue Diplomas For Net-Based Distance Learning Program
China's Amusement Industry Grows Rapidly
Accuracy Not Affected By Consumer Survey Regulations
Insurance Market Survey
Regional Aviation Market In China
Boutiques And Department Stores In The Survival Game
China's Internet And Media--News On The Web
Medical Device Regulation System In China
Trends In The Textile Industry And The 2001 South China Textile Machinery & Equipment Exhibition, Guangzhou, China July 27-30, 2001

2001 South China Guangzhou International Bearing Expo, July 27-30, 2001
China Machinery Industry In Next Five Years
Planned Clean Energy Project In Sichuan
Leshan Hebang Silicon Industries. Inc.
Yuhuai Railroad Is Under Construction
The Overview Of Franchise Investors In China
Zhongguancun Science Park
Jilin Airport Project
Benxi Heavy Duty Truck Project
Insurance Industry In Guangdong
International Exhibition And Trade Center In Guangzhou
China Postal Bureau E-Commerce Initiative
Liaoning Software Partners
Regulation Of Agriculture Investment In Dalian
Internet And Domain Address Regulations In China
Visa Guidance For Northeast China
Seafood Processing Projects In Dalian
Liaoning Wharf Project
Western China To Build And Renovate About One Hundred Airports By 2015
Xinjiang Identifies 30 Key Projects For 2001-2005
Bid For The World Bank Financed Sixth Railway Project
Container Transport Project
Bid For Fourth Technical Cooperation Project
Xinjiang 2 Highway Project
Recent Commercial Activity
China's Auto Market
Electronic Commerce And Website Regulation In China
China Computer Market In The First Half Of 2000
Environmental Project Approval
SAEC's President Sees Big Potential Car Market In China
Northeastern Steel Reinforced PVC Pipe Project
Northeastern H Beam Steel Project

Chapter #: 13

Chapter: TRADE EVENT SCHEDULE

4th China International Exhibition for Water Treatment Technology and Equipment
Fall 2001
Beijing, China
Fax: (86-10) 8207-9384
Email: bjwrc@public.fhnet.cn.net

Computer World Expo '01
Computer World Publication
September 2001
Tel: (86-10) 6825-9420
Fax: (86-10) 6825-9768
Email: ccwexpo@ccw.com.cn
Web Page: **http://www.ccwexpo.com.cn**

Auto Maintenance Show 2001
September 14-18, 2001
Beijing, China
Tel: (86-10) 6493-8403, 6491-5259
Fax: (86-10) 6496-8699

China Pharm 2001
October 2001
China International Exhibition Center
International Exchange Center, SDA
Tel: (86-10) 6830-3457
Fax: (86-10) 6836-3931

China Hi-Tech Fair/Biotech 2001
October 11-16, 2001
Shenzhen, China
Biotechnology
Phone 202-482-4908
Fax 202-482-0115
Email Elizabeth.Ausberry@mail.doc.gov

China National Medical Equipment Fair 2001
October/November 2001
China Nat'l Corp of Medical Equipment Industry
Tel: (86-10) 6444-8666 ext. 817
Fax: (86-10) 6444-8881

EXPO Comm China South 2001
Foreign Trade Center, Guangzhou
November 28 - December 1, 2001
E.J. Krause & Associates, Inc.
Tel: (8610) 8451-1832
Fax: (8610) 8451-1829
Email: ejk@public3.bta.net.cn

Building Shanghai 2001
November 5-8, 2001
Shanghai, China
Architectural/Construction/Engineering SVC
Construction Equipment

Phone 202-482-1882
Fax 202-482-0115/0872
Email Helen.Simpson-Davis@mail.doc.gov

NAHB World Focus on Housing
November 5-8, 2001
Shanghai, China
Architectural/Construction/Engineering SVC
Building Products
Phone 202-482-0133
Fax 202-482-0382
Email patrick_smeller@ita.doc.gov
Phone 202-861-2179
Fax 202-822-0496
Email kvaughan@nahb.com

Marintec China 2001
December 3-6, 2001
Shanghai, China
Port/Shipbuilding Eq.
Phone 202-482-4908
Fax 202-482-0115
Email Elizabeth.Ausberry@mail.doc.gov
Phone 609-452-2800
Fax 609-452-9374
Email HausheerC@aol.com

Supply Chain & Logistics China 2002
April 23-26, 2002
Beijing, China – World Trade Center
Computer Software
Materials Handling Machinery
Transportation Services (other than Aviation)
Phone (86-10) 6532 6924
Fax (86-10) 6532 3297
Phone 202-482-4908
Fax 202-482-0115
Email Elizabeth.Ausberry@mail.doc.gov

Ele/Expo Comm Shanghai 2002
June 1-4, 2002
Shanghai, China
Information Services
Telecommunications Eq.
Telecommunications Services
Phone 202-482-4908
Fax 202-482-0115
Email Elizabeth.Ausberry@mail.doc.gov

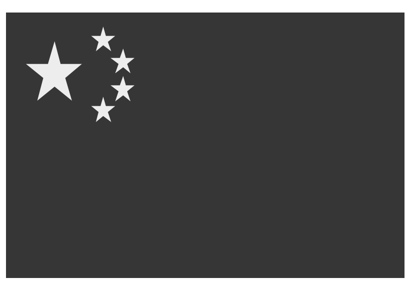
PT Expo Comm China
October 28 - November 1, 2002
Telecommunications Equipment
Phone 202-482-0584
Fax 202-482-0115
Email William.Corfitzen@mail.doc.gov

The above information is available at USATrade.gov
www.usatrade.gov/Website/ccg.nsf/ShowCCG?OpenForm&Country=CHINA

ACCA 2001 ANNUAL MEETING

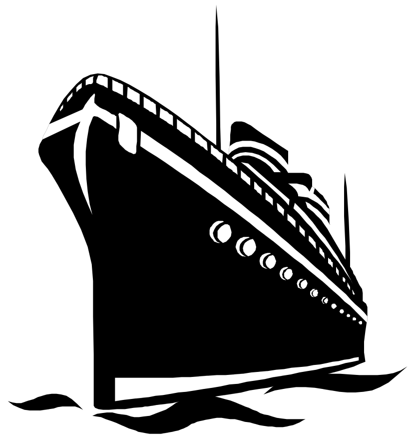
DOING BUSINESS IN CHINA

DISTRIBUTION OF PRODUCTS IN CHINA



Currently: Always exceptions in China! Always inquire!

- Trading Companies
  - US exporters must use domestic Chinese agents, authorized by government, for both importing into China and marketing within China.
  - As part of China's entry into WTO, it has been reported that China has agreed that by the end of a 3 year phase-in period any entity will be able to import most products into any part of China.

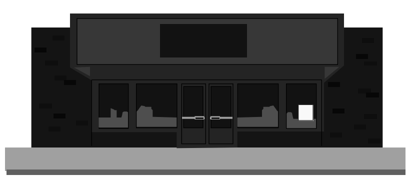


Support Mechanisms

- Establishing Representative Office: provides direct contact with customers, although representative offices are restricted from selling, training, servicing, etc., directly with customers. Representative Offices can establish relationships, conduct marketing initiatives and promote "on-the-ground" initiatives which is vital to successfully competing in China.

Retaining a Chinese Distributor

- Close supervision of distributors usually necessary to ensure suitable marketing, sales, service and accounting practices are being met and maintained. "Western" approach to sales and marketing is often needed to be explained and reinforced throughout the relationship.



- Establishing Bonded Warehouse: Bonded warehouse provides foreign companies with additional support for the sale of products within China by minimizing the turn-around time for new product and replacement parts. Bonded warehouse services must be operated by a Chinese company or foreign-invested enterprise, and can be utilized to offer after-sales services such as repair and maintenance of product.

Future (More Questions than Answers)

- Relaxed trading restrictions for foreign companies appear likely, however many unanswered questions remain.
- What type of entity will need to be established in China for purposes of importing product?
- What type of approvals will need to be obtained?
- Will foreign enterprises be allowed to be wholly owned?
- How much capital will be required?
- What will be the scope of permitted activities?
- How will foreign matters be handled?

Lessons Learned

- Time/Patience: increase the timetables initially provided in business plan.
- Picking the right Chinese partner.
  - Conduct due diligence
  - Meet face-to-face
  - Relationship building a must
  - Encourage on-the-ground management presence
  - Establish exit plan at the onset of your business plan
- Retain Professional Services
  - Local Counsel (knowledge of U.S. laws; trade/antitrust/FCPA restrictions)
  - Accounting firm (knowledge of USGAAP requirements)

Goals

- Focus on long-term goals, but celebrate short-term successes!