# Doing Business In China: A Country Commercial Guide for U.S. Companies

# Chapter 1: Doing Business In China



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· China acceded to the WTO four years ago and is currently in the process of completing a seven-year transition. Accession to the WTO symbolizes China's ongoing integration into the world economy. There is no doubt that China's transition from central planning to market-based regulatory principles offers significant improvements in market access for many American exporters. However, from an American supplier's perspective, the transition process is incremental at best and not without bumps in the road.

· Meanwhile, China's macro economy continues to be extremely healthy. According to China's National Bureau of Statistics, China's economy increased by 9.5 percent in 2004. Retail sales rose 14 percent last year and are expected to continue to rise rapidly in 2005 as a result of increased consumer credit. Foreign currency reserves exceeded USD 600 billion by yearend, up 52 percent from yearend 2003. After rising sharply earlier in the year, inflation declined to a 3.9 percent rate at year's end. In 2004, the government fiscal deficit declined. Total trade resulted in a small surplus. Fixed asset investment rose rapidly (25 percent) to reach USD 846 billion (slightly more than 50 percent of GDP). China attracted USD 60.6 billion in foreign direct investment – mostly in manufacturing or real estate – ranking second only to the United States.

· Despite the high level of interest, China remains a developing market, albeit one with vast potential. Spread over a population of 1.3 billion, China's 1.65 trillion USD economy does not represent a large amount of disposable income for each person. By the end of 2004, the Chinese government reported that the annual rural per capita net income was USD 355 and urban per capita disposable income was USD 1,140 at current exchange rates.

· Rapid economic growth has fueled strong growth in imports. According to the National Bureau of Statistics, the total value of imports increased to USD 561.4 billion, up 36 percent. China is now the world's third largest trading nation behind the United States and Germany.

· According to U.S. Customs statistics from January to November 2004, China-U.S. trade reached a historical high of USD 210.7 billion during the first 11 months of 2004. The U.S. imported USD 179.2 billion of goods to the United States, up 29 percent. China is our second largest supplier, after Canada. The U.S. exported 31.5 billion to China during the same period, up 25 percent from the year before. China has become our 5$^{th}$ largest export market. As a result of these trends, the bilateral trade deficit with China increased 29 percent to USD 147.7 billion in the first 11 months of the year.

· In Chapter 4 of this year's CCG, we have provided numerous best prospects for U.S. companies to export to China.

## Market Challenges

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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:

- 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. Implementation of the law is inconsistent. Lack of effective Chinese government protection of intellectual property rights is a particularly worrisome issue for many American companies.

- China has a government that tends to be mercantilist. China has made significant progress toward a market-oriented economy, but parts of its bureaucracy still tend to protect local firms, especially state-owned firms, from imports, while encouraging exports. WTO accession is certainly helping in this area as well – but progress is being made only gradually.

- China retains much of the apparatus of a planned economy. The government owns all of the major banks and other financial intermediaries and directs loans to state owned enterprises. The State and the Communist Party of China directly manage the only legal labor union. In many sectors of the Chinese business community, the understanding of free enterprise and competition is incomplete. Certain industrial sectors are prone to over-investment. Excessive investment leads to over production, bad debt and declining prices in affected industries.

- Foreign businesses tend to under-estimate the challenges of establishing operations in China. Encouraged by a government eager for foreign capital and technology, and entranced by the prospect of 1.3 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 legal 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, the necessary 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.

## Market Opportunities

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· The growth of imports from the United States in many key sectors, such as energy, chemicals, machinery, telecommunications, medical equipment, construction, services and franchising suggests that China will remain an interesting and viable market for some time to come. If China implements its commitments under the WTO in a thorough and systematic manner, the number of sectors with market potential accessible to American companies will continue to expand dramatically.

· China's population is approximately 23 percent of the world's total. China's integration into the global economy is fueling accelerated change in many markets and global economic growth. It is likely that China will continue to grow at a rapid pace for some time.

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· The U.S. Embassy and the U.S. Department of Commerce welcome contact with American companies to initiate or expand exports into the China market. Two of the primary objectives of U.S. policy with regard to China are: (a) ensuring that the Chinese government fully complies with its commitments to the WTO and (b) reducing the bilateral trade imbalance by the effective promotion of American exports.

· A company should visit China in order to gain a better perspective and understanding of its potential market and location. Especially given China's rapidly changing market and large area, a visit to China can provide a company great insight into the country, the business climate, and its people. Chinese companies respect "face-to-face" meetings, which can demonstrate a U.S. company's commitment to working in China. Prospective exporters should note that China has many different regions and that each province has unique economic and social characteristics. One should be careful not to generalize about such a large country.

· Relationships are key to finding a good partner in China. To maximize its contacts, companies should aim at forming a network of relationships with people at various levels across a broad range of organizations.

· Agents are commonly used in China by U.S. companies to initially create these relationships. Localized agents possess the knowledge and contacts to better promote U.S. products and break down institutional, language, and cultural barriers. The U.S. Commercial Service Beijing offers a wide array of services to assist U.S. companies with U.S. exports in finding Chinese partners. U.S. companies are strongly encouraged to carefully choose potential Chinese partners and take the time to understand their distributors, customers, suppliers, and advisors.

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# Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

www.state.gov/r/pa/ei/bgn for all countries throughout the world

http://www.state.gov/r/pa/ei/bgn/18902.htm for China specific

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# Chapter 3: Selling U.S. Products and Services



## Using an Agent or Distributor

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Before China's accession to the WTO, China prohibited foreign companies from distributing imported products or providing repair and maintenance services. Since WTO implementation, China has worked towards liberalizing its distribution system to provide full distribution rights for U.S. firms. However, this is an issue still very much in debate and with much improvement to be made. Current restrictions for most distribution related services are to be phased-out within three years from the date of accession, although the schedule of commitment until that time remains according to the service, (for more information on China's commitments on the WTO, please refer to the U.S. Embassy website link to the Economic Section and Trade and Commerce at: www.usembassy-china.org.cn).

Trading and Distribution are two separate issues and are, accordingly, covered separately by the WTO implementation documents. Trading simply covers the rights to import and export product into and from China. Distribution, on the other hand, covers the sale/resale of products once the products are in China.

1. Trading Companies

One of the legal changes as a result of WTO was the release in July of 2001 of the Expanding Import and Export Management Rights of Foreign Invested Enterprises (FIEs) rule. Prior to WTO accession, FIEs always had the rights to import materials needed for production and export the products they produced. The rule was designed to allow manufacturing FIEs to become export trading companies, purchasing and exporting any products free from quotas, license control and government monopoly. This is the first step towards implementing China's commitment to liberalize trading rights. FIEs in foreign trade zones are now allowed to establish offices outside the zones, which will enable FIEs to establish distribution networks across the country before the phase-in of the distribution rights. China's WTO implementing documents state that 3 years after China's WTO accession, all Chinese companies that have RMB 1 million in capitalization and are registered, can obtain an import/export license.

The law was to cover the establishment of FIE service suppliers (distribution companies) on December 11, 2002, but then only through joint ventures in which a FIE has a minority stake. However, this did not happen. The Chinese government maintains that as FIEs can set up wholesaling and retailing companies that they meet their requirements. It is unclear at this time whether FIEs will be able to distribute products they do not manufacture in China or whether the foreign invested would need to establish a minority foreign-owned distributor.

2. Distribution

As we continue to wait for distribution rights to become more liberalized as per the WTO implementation documents, business remains in a similar state as last year. Distribution covers 1) commission agent services, 2) wholesale services, and 3) retailing. Regarding FIEs, the WTO implementation documents state that FIES can distribute products they produce/manufacture as well as related subordinate services. Given that there was no action as of the due date of December 11, 2002, industry must wait for China's next step.

Given the complexities of the markets in China it is advised that foreign companies use a domestic Chinese agent for both importing into China and marketing within China.

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.

3. 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 entities that have an import/export license. 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. Commercial Service (USCS) assists 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 30 calendar days after each post receives USD 450 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 our Gold Key Service (GKS), which is designed to set-up appointments with prospective agents and distributors, and key government officials responsible for an industry (USD 600 per location). IPS clients can upgrade their existing IPS to meet one-on-one with those identified companies (i.e, GKS) for USD 150 if done within 6 months upon completion of the IPS. Regional IPSs and GKSs are available from the USCS 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, USCS continues to offer BuyUSA.com as a user-supported "B2B" web site. Companies seeking foreign partners may list their firm's information, and foreign buyers are enlisted worldwide.

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1. Establishing a Presence in China (Representative Office, Wholly Foreign Owed Enterprise, or Joint Venture)

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 USD 250,000 to USD 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.

On May 19, 2004, the Chinese State Council published its decision to cancel and adjust the administrative approval on organizations. Starting July 1, 2004, foreign trading companies, manufacturers, forwarding companies, contractors, consulting firms, advertising firms, investment companies, leasing companies and other economic and trade organizations can register their representative offices directly with AICs without prior approval from the Foreign Economic Relation and Trade Commission.

2. 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, often pronounced "woofy"), 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 establishment of a WFOE in China has gained in popularity among U.S. firms as a result of an easing of restrictions, directly attributed to China's accession to the WTO.

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). The protection of intellectual property, no matter the form of cooperation, is one of the most pressing matters for U.S. firms doing business in China. 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.

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Many foreign companies are beginning to establish multiple retail outlets under a variety of creative arrangements, including some that 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 areas within the territory. Within three years of WTO accession, restrictions on equity share, number of outlets and geographical area are to be eliminated. Most recently, the Ministry of Commerce published the Measures for Regulation of the Commercial Franchises, takes effect on February 1, 2005. The measures stipulate more requirements for foreign companies to be registered as a Franchiser.

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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 who abused this legitimate format of doing business and operated scams to cheat 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 business licenses, restrictions are severe and requirements many, resulting in difficult a business environment. Currently, the Ministry of Commerce is waiting for the National's People Congress to approve the new direct selling law, which releases restrictions.

## Joint Ventures/Licensing

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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.

To set up joint ventures or other investments in China, State Development and Reform Commission and the Ministry of Commerce has produced a "Catalogue for the Guidance of Foreign Investment Industries" (http://www.fdi.gov.cn/ltlaw/lawinfodisp.jsp?id=ABC00000000000010453&appId=1). For legal requirements and regulations on the operation of joint ventures in China, the State Council published "The Provisions on Guiding the Orientation of Foreign Investment in April 2002" (http://www.fdi.gov.cn/ltlaw/lawinfodisp.jsp?id=ABC00000000000004008).

Licensing contracts must be approved by and registered with the Ministry of Commerce (formally, the Ministry of Foreign Trade and Economic Cooperation (MOFTEC)). A tax of 10-20 percent (depending on the technology involved and the existing applicable bilateral tax treaty) is withheld on royalty payments.

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In 1999, the Chinese State Development Planning Commission (SDPC, which was restructured into the current National Development and Reform Commission (NDRC) in early 2003) issued new regulations controlling government procurement. 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 been inconsistent with open and competitive bidding and, for the most part, non-transparent. It is still unclear at this point how or whether 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 frequently been 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 a possibility. However, restrictions on this type of business exist both in the United States and in China. U.S. manufacturers should contact the Department of Commerce's Bureau of Industry and Security and the U.S. State Department Office of Defense Trade Controls for guidance before selling goods or technology to the Chinese military.

## Distribution and Sales Channels

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Before China's accession to the WTO, China prohibited foreign companies from distributing imported products or providing repair and maintenance services. Since WTO implementation, China has worked towards liberalizing its distribution system to provide full distribution rights for U.S. firms. Beginning December 11, 2004, China has released restrictions on the percentage of stakes and the locality of foreign companies setting up distribution and retailing channels in China. The only legacy of previous regulations is that the foreign companies need to apply for an approval from the Foreign Economic Relation and Trade Commission before they can register with AICs.

There are different sales channels for foreign companies in China. Companies usually engage trading companies with import/export rights to take care of customs formalities, sole distributors (who are also trading companies) to take care of stock and inventory and to build sales channels and local agents to retail products to consumers.

1. Trading Companies

As part of China's commitment to WTO, the restrictions on import and export rights have been gradually released. China's WTO implementation documents state that 3 years after China's WTO accession, all Chinese companies that have RMB 1 million in capitalization and are registered, can obtain an import/export license. Some foreign companies can start to set up their own trading companies in Free Trade Zones to take care of the logistics of their products in China. The companies can stock products in warehouses and go through customs clearance upon delivery to distributors or customers.

2. Distribution

Distribution covers 1) commission agent services, 2) wholesale services, and 3) retail services. The WTO implementation documents state that FIEs can distribute products they produce and manufacture as well as related subordinate services. Many foreign companies set up their distribution networks through their sole distributors or regional distributors. The foreign companies provide technical and sometimes financial support while the distributors establish outlets, second tier distributions and branches to reach the local end users.

3. Local agents

They are in essence trading companies. They are the next layer down the distribution chain, buying imported products from those entities that have an import/export license or from those higher in the distribution link.

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1. Relationships

Personal relationships (“guanxi” in Chinese) 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.

2. Localization

Though Chinese customers welcome U.S. made products in general and especially in high-tech related areas, they still prefer to have localized customer support from a manufacturer, such as catalogues, user manuals in Chinese, on-site training, service centers in China, and local representatives.

3. Logistics

To have an edge in the Chinese market, U.S. exporters should keep in mind that timely delivery and adequate inventory are very crucial to success.

4. Foreign Currency

In general, 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 September 1997, China issued a new rule allowing some Chinese enterprises that meet a certain criteria to establish a foreign currency account in a designated bank, thus retaining a limited amount of foreign currency earnings. In November 2001, the State Administration of Foreign Exchange adjusted the administration policy of Chinese enterprises’ foreign currency accounts and further lowered the criteria for establishing such foreign currency accounts.

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.

The banking sector is one area that has benefited from WTO accession. The Ministry of Finance has moved very quickly to implement its WTO commitments. Client restriction on foreign banks’ foreign currency services was one of the areas immediately removed upon China’s WTO accession, which meant foreign banks could offer foreign currency services to corporate and individual clients. On March 19, 2002, Citibank announced that it had become the first bank to receive a license to provide foreign currency services to local domestic customers.

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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. In 2004, internet users reached 90 million, 17.9% of them having online shopping experience according to a survey by the China Internet Network Information Center. 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. E-commerce in China has great potential, but first must overcome three major impediments: 1) China is still a cash-based society and use of credit cards is not widely adopted; 2) channels of distribution in China are not well developed for the delivery of items purchased over the Internet; and 3) Internet security.

There are several Chinese Internet companies that have been very successful in a cash-on-delivery e-commerce model in the major cities. Starting in May 2005, the Law on Electronic Signatures will take effect and will enhance the safety of online transactions.

## Trade Promotion and Advertising Return to top

1. 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.

China's retail boom and increasing competition among retailers is making China's advertising industry grow even faster than the economy as a whole. According to China's National Advertising Association (under the State Administration for Industry and Commerce, or SAIC), over-all advertising spending reached USD 10.92 billion in 2002, a 13.6 percent growth over 2001's volume. China has about 89,552 advertising businesses, including more than 385 foreign joint ventures. Foreign service suppliers are permitted to establish advertising enterprises in China only in the form of joint ventures with foreign investment no more than 49 percent. Within two years after China's accession to the WTO, foreign majority ownership will be permitted and within four years after China's accession, wholly foreign-owned subsidiaries will be permitted. All of the major international advertising firms are present in China.

Television advertising takes up the largest single portion of the Chinese advertising market. China's regular television viewing population is 84 percent of China's 1.3 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. Newspapers and periodicals represent a large advertising industry. The advertising turnover for 2003 is about UD$3.1 billion.

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.

SAIC is the primary regulatory organization 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 print or television content.

2. 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 shows. A list of trade shows that are screened by the U.S. Department of Commerce appears in Chapter 13 of this report. In addition, our website is updated with exhibitions in each industry that are sponsored at the U.S. Pavilion.

3. Electronic Commerce and the Internet

As growth in Internet usage rises in China, so to does interest in e-commerce activities. 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 AICs 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.

## Pricing Return to top

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. FIEs can provide such services for 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.

**Several factors may affect your export pricing strategy to China:**

1. Tariffs

China Customs assesses and collects tariffs. Import tariff rates are divided into six categories: general rates, most-favored-nation rates, agreement rates, preferential rates, tariff rate quota rates and provisional rates. As a member of the WTO, imports from the United States are assessed at the most-favored-nation rate. The five Special Economic Zones, open cities, and foreign trade zones within cities offer preferential duty reductions or exemptions. Companies doing business in these areas should consult the relevant regulations.

China may apply tariff rates significantly lower than the published MFN rate in the case of goods that the government has identified as necessary to the development of a key industry. For example, China's Customs Administration has occasionally announced preferential tariff rates for items that benefit key economic sectors, in particular the automobile industry, steel, and chemical products. In the past, foreign firms have sometimes benefited from policies aimed at attracting foreign investment into key sectors, such as high technology. For example, foreign-invested firms that produced certain types of high technology goods, or who were export-oriented, did not pay duty on imported manufacturing equipment.

A comprehensive guide to Chinese customs regulations is The Customs Clearance Handbook (2004), compiled by the General Administration of Customs (China Customs). This guide contains the tariff schedule and national customs rules and regulations. Starting January 1, 2005, there are substantial tariff cuts on several categories of products, including automobiles, food, winery, and cosmetics. Exporters should check with the customs to take advantage of this tariff cut.

Until July 2004, China Customs exclusively used eight-digit codes in its harmonized tariff system, as opposed to the more detailed ten-digit codes. Without detailed codes, Customs officers have wide discretion to classify in what general category to place each import. The Ministry of Commerce announced the use of ten-digit codes for certain items including rare earth, chemicals, internal combustion engines, pumps and automobiles. The adjusted codes took effect on July 1, 2004.

2. Customs Valuation

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. Just prior to its WTO accession, China released new valuation regulations. Under the regulations, China Customs has been tasked with assessing a fair valuation to all imports. To tackle this task, all Customs officers now have access to a valuation database that lists appropriate valuations for various imports, based on international market prices, foreign market prices and domestic prices. Customs officers check the price reported by the importer against this database. Normally, Customs officers will accept the importer's price. However, if the reported value is too far out of line with the database, the Customs officer will estimate the value of the goods based on methods listed in Article 7 of the PRC Measures for the Determination of Customs Values for Imported and Exported Goods.

3. Taxes

On top of normal tariff duties, both foreign and domestic enterprises are required to pay value-added taxes (VAT) and business taxes. VAT is assessed on sales and importation of goods and provision of processing, repairs and replacement services. Business taxes are assessed on providers of services, the transfer of intangible assets and/or the sales of immovable properties within China. VAT is assessed after the tariff, and incorporates the value of the tariff. China is bound by WTO rules to offer identical tax treatment for domestic and imported products. VAT is collected regularly on imports at the border, although importers note that their domestic competitors often fail to pay taxes.

China offers a variety of tax incentives and concessions. The general VAT rate is 17 percent, but necessities, such as agricultural products, fuel and utility items, are taxed at 13 percent. Enterprises regarded as small businesses (those engaged principally in production of taxable goods or services with annual taxable sales of less than RMB 1 million or those engaged in wholesaling or retailing of goods with annual sales of less than RMB 1.8 million) are subject to VAT at the rate of 4 percent or 6 percent, depending on the nature of the business. Unlike other VAT payers, small businesses are not entitled to claim input tax credits for VAT paid on their purchases. Certain limited categories of goods are exempt from VAT. Likewise, many foreign-invested processing enterprises are exempt from taxes if they export their products.

VAT rebates up to 17 percent (a full rebate) are available for processed exports. Exporters complain that it takes months to obtain the rebates and amounts are often miscalculated. Also, rebates are limited by the local budgets, and coastal provincial authorities often run out of funds for rebates well before the end of the year. The applicable rebate method varies and is a function of the establishment date of the enterprise.

In March 2004, the United States initiated a case against China's at the WTO for China's practice of allowing firms producing integrated circuits (IC) in China and for ICs designed in China but manufactured abroad to obtain a partial refund of the 17 percent VAT. The United States filed the case because it was believed these policies unfairly supported domestic Chinese industry by discriminating against foreign products. The dispute was resolved through negotiations in July 2004 when China agreed to discontinue its system of offering VAT refunds that favored domestically produced and domestically designed semiconductors.

For companies operating in China, they are required to pay an income tax, which is calculated differently according to their ownership. China intends to eventually phase out its two-tier income 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. However, in some cases Chinese authorities have promised to grandfather existing foreign investments with current tax incentive deals for at least a certain period of time.

## Sales Service/Customer Support Return to top

Foreign companies are normally not permitted to directly provide after-sales service and customer support for their products sold in China. FIEs can provide such services for 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. Foreign companies often complain that such arrangements give them inadequate control over the quality of customer service and result in the loss of customer confidence.

Since China has started to relax its control in the services sector in 2004, many foreign companies have started to register their solely invested service companies in China to provide after-sales customer service, with the right to import spare parts for service purposes.

## Protecting Your Intellectual Property Return to top

As China liberalizes its trade regime and continues to further open its markets under its WTO commitments, new products and industries are increasingly present. While this has many positive effects for the Chinese economy, one ancillary effect of the growing trade and investment has been the simultaneous growth in counterfeiting and pirating. The rule of law, including the application and enforcement of IPR, is key to promoting healthy economic growth and attracting further investment in China.

In spite of progress towards improving its intellectual property legal and regulatory regime, China continues to be a challenging environment for IPR protection and enforcement. Criminal penalties are seldom applied, while administrative sanctions are typically non-transparent and so weak as to lack deterrent effect. Trademark and copyright violations are blatant and widespread. Significant regional differences exist as well, with some areas showing higher levels of protection of IPR, while others apparently afford local counterfeiters and pirates a degree of safe harbor. While Chinese officials are increasing enforcement efforts, violations continue to outpace enforcement. Lack of coordination among various government agencies also continues to hamper many enforcement efforts.

1. China's IPR Commitments

As part of its Protocol on Accession to the WTO, China has committed to full compliance with the WTO Agreement on Trade-Related Aspects of Intellectual Property (TRIPS), as well as other TRIPS-related commitments. During the lead-up to WTO accession as well as during the year following, China adopted revised patent, trademark and copyright laws, as well as implementing regulations, in addition to numerous other ministerial or local rules and regulations, including rules on semiconductor layout design and software protection. The Supreme People's Court has also issued many judicial interpretations, while the Supreme People's Procuratorate, the Ministry of Public Security and lower courts have issued interpretations to improve criminal enforcement. In 2002-2003, China passed implementing regulations including measures on pharmaceutical data exclusivity (TRIPS 39.3) and a new Chinese Trademark Office ministerial regulation on well-known marks. Nonetheless, the Chinese Government has yet to enact effective enforcement measures to address willful trademark counterfeiting or copyright piracy, as required by TRIPS.

Apart from China's WTO commitments, China has signed a number of international and bilateral agreements regarding IPR. China is a member of the World Intellectual Property Organization (WIPO), the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the Madrid Protocol, the Universal Copyright Convention, and the Geneva Phonogram Convention and Patent Cooperation Treaty. During 2002, the WIPO Copyright Treaty and WIPO Performance and Phonograms Treaty (the "Internet Treaties") came into effect worldwide. While China's revised Copyright Law anticipates some of the amendments that would be required if China were to accede to these treaties, the Chinese Government is still debating when to accede to the Internet Treaties. The U.S. Government has urged China to sign these treaties, which contain protection measures specifically needed to keep pace with distribution of copyright over global networks.

In 1992, China signed an IPR Memorandum of Understanding (MOU) with the United States, pursuant to which China improved its laws governing IPR protection 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. The two countries also have cooperative programs on technology and criminal justice, and continue to discuss IPR issues in bilateral as well as multilateral forums.

2. IPR Climate

Large-scale violations of intellectual property rights in China, including counterfeiting and smuggling, often overwhelm under funded or understaffed Chinese enforcement efforts. Industry associations representing computer software, entertainment, and consumer goods industries report high levels of piracy and counterfeiting of all types of products. 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 counterfeit. Chinese companies experience similar, or even greater, problems with piracy and counterfeits in their home markets.

Inadequate enforcement of IPR laws and regulations, through either judicial or administrative means, remains a serious problem. Enforcement of IPR regulations is uneven and is sometimes impeded by local interests. Administrative penalties for IPR violations have little deterrent effect. While recent revisions to administrative rules tripled maximum allowable penalties, they removed mandatory minimums and penalties imposed are often no more than confiscation of the counterfeit products and are seen as a cost of doing business. Chinese law does not currently criminalize the import and export of IPR-infringing goods, and thus lacks sufficient deterrent force to stop this illegal activity.

In recent years, China has had some success in closing down factories that produce illegal optical disks (CDs, VCDs, and CD-ROMs) and computer software products, only to see an increase in such products smuggled across its borders. Limited market access for products such as foreign movies and computer software provides an additional incentive for smugglers and counterfeiters. 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. Nonetheless, large markets continue to openly sell pirated and counterfeit products despite repeated U.S. Government requests to shut down and prosecute vendors selling infringing goods, with many such markets located in prominent areas of major Chinese cities or at border crossings, such as Silk Alley in Beijing or at the border with Hong Kong.

3. IPR Enforcement Strategies

Combating IPR violations in China is a long-term, multi-faceted undertaking that is also linked to general rule of law developments in Chinese society. Different industries have typically pursued different strategies based on a variety of factors: the pervasive nature of the IPR violation, the sophistication of the pirate or counterfeiter, difficulties in delivering the legitimate product through legitimate channels, the nature of the right being infringed and the effect of the violation on public health, safety or business interests, the familiarity of Chinese administrative or judicial organs with the type of violation, and budget and marketing constraints. The United States looks forward to a day when China engages in fair, robust and deterrent IPR enforcement as the first course of action for aggrieved rights holders. However, in certain instances, U.S. companies may also be able to obtain some measure of relief for export-oriented infringement activities by bringing litigation or seeking Customs enforcement outside of China.

In 1998, foreign companies in China formed a coalition -- now called the Quality Brands Protection Committee (QBPC) -- to draw attention to the trademark counterfeiting problem and to propose ways of strengthening enforcement. QBPC has gained recognition from Chinese authorities as an organization authorized to protect their products, and has been recognized internationally for its enforcement efforts. QBPC has expanded its membership and offers technical and financial support for trademark enforcement in China. Many international organizations involved in intellectual property matters also have a presence in China, such as the Research and Development Pharmaceutical Association of China (RDPAC), the Business Software Alliance, the Motion Pictures Association, the International Federation for Phonographic Industries (IFPI), and the International Trademark Association, although the scope of such organizations' work may be constrained by Chinese regulations.

Chinese authorities are attempting to address the need for increased education on IPR matters by establishing IPR law centers at Beijing University, Tsinghua University and People's University. Chinese IPR professionals are also studying in foreign countries, frequently with the assistance of international organizations such as WIPO. During the past years, the United States and other foreign governments, as well as private organizations, have also conducted numerous national and local training efforts focused on China's WTO obligations, including civil, criminal and administrative and Customs enforcement. Plans by China to host a WIPO summit on intellectual property in April 2003 were postponed due to the SARS epidemic.

4. IPR Enforcement System

Initial recourse in countering infringements is frequently sought through the intervention of local administrative enforcement agencies. A disadvantage to administrative action is that administrative authorities, unlike courts, lack nationwide jurisdiction and can thus only provide a local remedy. Their decision making process often lacks transparency. Also, these administrative agencies need assistance from law enforcement authorities to conduct raids, requiring yet unattainably high levels of cooperation and coordination in many instances.

The Chinese government agencies most often involved in administrative enforcement actions are the General Administration of the PRC for Quality Supervision, Inspection, and Quarantine (AQSIQ) (formerly the Quality and Technical Supervision Bureau), various divisions of the State Administration of Industry and Commerce (SAIC), the National Copyright Administration of China (NCAC), Ministry of Culture, and the General Administration of Customs (GCAC). Administrative enforcement of patents by the State Intellectual Property Office (SIPO) and Customs is also possible, with design patents being the most frequently enforced by Customs. If the rights holder has registered its IPR with Customs, Customs can confiscate products that infringe registered patents trademarks or copyright, upon either import or export. Many other national and local Chinese government agencies are also involved in IPR policy and enforcement, some of which have overlapping responsibility with other organizations and/or concurrent enforcement authorities. Jurisdiction on key issues is often fragmented, making coordination of enforcement efforts difficult.

China's revised IPR laws now generally require referral for criminal prosecution when criminal IPR violations are uncovered by administrative agencies. Such measures become increasingly important in order to bring down high piracy and counterfeiting rates, and as organized crime has become involved in various forms of IPR piracy and counterfeiting. However, the transfer of administrative cases for criminal prosecution remains very rare as thresholds for criminal prosecution are high, police and prosecutors lack familiarity with IPR criminal matters, and the relationship between criminal and administrative actions, including handling of recidivists and preserving evidence, is still developing. China continues to determine the magnitude of certain IPR violations and penalties by calculating the value of infringing goods using the sale price of the illegitimate product; this standard is flawed because it does not reflect the actual value of the genuine goods in question or the harm caused, does not take into account stockpiles of infringing goods that have not been sold, and ultimately reduces the administrative penalty to a cost of doing business. As a result of this relatively low standard, most cases do not meet the criminal threshold for prosecution. The United States has actively sought to assist China as it develops a more effective civil and criminal IP enforcement system, through bilateral consultations and training initiatives.

China has established special IPR courts, frequently as part of its civil litigation panels, in all provinces, major cities, and at the Supreme People's Court. China lacks specialized criminal IPR prosecutors, such as the U.S. Computer Crimes and Intellectual Property Section of the Department of Justice, nor is there specialized intellectual property investigators. As part of its TRIPS obligations, China also provides for rights of appeal of final decisions by SIPO and the Chinese Trademark Office regarding the validity of a patent or trademark. In general, Chinese judges are charged with fact-finding and have greater discretion in case adjudication than judges in the United States. The Supreme People's Procuratorate, which is similar to our Attorney General, operates independently and as a co-equal branch of government with the courts and executive branch (State Council). Many Chinese judges, prosecutors and police lack adequate legal training and the effectiveness of criminal procedures are thereby undermined. The Supreme People's Court has issued interpretations of Chinese laws addressing many of China's international IPR obligations, including Internet related copyright and domain name disputes. The Supreme People's Court also has issued certain interpretations to implement China's TRIPS obligations to provide preliminary injunctive relief for various IPR matters as well as to implement amendments to its IPR laws. Copyright preliminary injunction interpretations have not, however, been issued. Since the revision of China's Trademark Law and recent issuance of new ministerial rules on well-known marks, the courts, prosecutors and/or police have also not yet issued a decision to clarify how well-known mark cases should be prosecuted by law enforcement agencies.

5. Patents

In 1998, China reorganized its patent office as the State Intellectual Property Office in an effort to improve IPR coordination and enforcement. At that time, there was hope that SIPO would eventually preside over consolidated IPR functions, including the Trademark Office and National Copyright Administration. However, this streamlining has never occurred, despite the 2003 government restructuring initiative that succeeded in reorganizing other Chinese agencies.

Since China's Patent Law was first 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 to exclude others from importing infringing products and expand the scope of patent infringement to include unauthorized sale or importation of products manufactured with the use of patented processes. China does not yet provide a similar scope of protection to certain biotechnology and business method patents as in the United States. American companies may also need to insure that they obtain any necessary consents in exploiting Chinese genetic resources. 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 without a business presence in China must utilize the services of a registered Chinese agent to submit the patent application. Foreign attorneys or the Chinese agent may do initial preparation of the application. In early 2003, in a positive development, China amended its legislation to further harmonize with international practice regarding examination of Patent Cooperation Treaty applications. Also in mid-2003, China issued new rules regarding compulsory licensing of patents according to certain defined circumstances and procedures. There have, however, been few if any reported instances of compulsory licensing of patents to date.

6. Copyrights

In March 1992, China established bilateral copyright relations with the United States 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 for foreign rights holders. In addition to amendments to China's Copyright Law, China's Supreme People's Court has taken steps to address digital and Internet-based copyright issues. China has not acceded to the WIPO Internet Treaties, nor has it formally recognized "temporary copies" over the Internet as implicating Berne Convention reproduction rights. There have been increasing complaints of hacking into U.S. databases or use of stolen passwords from Chinese hosted computers. Internet piracy has become an increasingly widespread phenomenon, particularly as Internet penetration spreads in China. The United States has also asked for increased ministerial coordination, as well as legislative changes, in this area.

Insufficient market access for foreign films, books, and music has led to a large black market for these goods. China does not allow publishing rights for foreign music and book firms, and furthermore may require compulsory licensing of certain books used to implement national education plans. China maintains a ceiling on the number of foreign films allowed to enter the country. In 2003, China authorized a new company, Huaxia, to distribute foreign films, creating a duopoly in place of the China Film Group's earlier monopoly. However, these two companies are still subject to the same ceiling of 20 foreign films per year and do not come close to fulfilling the market's demands, causing consumers to turn to pirated DVDs or VCDs in order to watch films that are not legally available.

7. Trademarks

China's trademark regime generally comports with international standards, with the principal exception being China's historical lack of equal recognition accorded to foreign well-known trademarks. Such recognition may be especially important in light of enhanced enforcement that may be accorded well-known marks under various rules and regulations regarding criminal enforcement of IPR. In 2003, China revised its ministerial regulations for well-known marks. The new regulations require companies alleging infringement to prove that their marks are well-known within China based on sales, marketing, and advertising figures. Foreign marks have now begun to be designated as well-known, and should be accorded the enhanced enforcement available to well-known domestic marks.

In October 1989, China joined the Madrid Protocol for reciprocal trademark registration to member countries. The United States has also recently acceded to the Madrid Protocol. China has a "first-to-register" system, leaving registration of popular foreign marks potentially vulnerable to third parties. Foreigners seeking to distribute their products in China should consider registering their foreign mark and/or logo, any

Chinese language translations, as well as appropriate Internet domains. The Chinese trademark office has on occasion cancelled marks held by Chinese agents of U.S. distributors who without authorization registered such marks in their own name. Registration of company names is handled by the Enterprise Name Registration division of the State Administration for Industry and Commerce.

Under China's trademark law, foreign companies without a presence in China must utilize the services of registered Chinese trademark agents or Chinese law firms to submit the trademark application. Foreign attorneys or the Chinese agent may prepare the application.

8. Trade Secrets

Trade secret protection is widely pursued by Chinese and foreign companies in China, with a relatively large volume of trade secret litigation being handled by Chinese courts. The Law To Counter Unfair Competition (1993) defines unfair competition to include conduct that infringes the "lawful rights" of another "business operator," including acts that violate "commercial secrets" rights. Commercial secrets are defined as information which can bring economic benefits to the authorized users and which is protected by taking appropriate security measures, including 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." A law specifically addressing protection of business secrets was under consideration for several years in China but has not been enacted. China is further obligated to protect trade secrets under the TRIPS Agreement. Various rules by the Ministry of Labor and Social Security and other ministries on a national or local level also provide for enforcement of non-compete provisions with employees based on their access to business secret information. In order for such non-compete provisions to be effective, reasonable compensation must be provided to the employee.

China is required by the TRIPS Agreement to provide protection for certain non-disclosed clinical data used in securing regulatory approvals. The Ministry of Agriculture has adopted implementing rules for this TRIPS obligation. In 2002, China also passed Article 35 of the Implementing Regulations of the Drug Registration Law to provide implementing regulations for data exclusivity. It remains unclear, however, whether China's regulations on data exclusivity provides sufficient protection against reliance on innovator data in applications for marketing approval submitted by generic drug producers. Additionally in 2002, China passed Articles 11 and 12 of the Drug Registration Regulations that included "patent linkage" provisions which, in theory, would require the State Drug and Food Administration to verify that patents are not violated before granting registrations and clinical trial permissions. However, problems of transparency and interagency coordination have prevented the establishment of an effective system of patent linkage.

9. Semiconductor Layout Designs

China adopted regulations for the protection of semiconductor layout designs as part of its WTO accession. Registration is handled by SIPO. Protection of discrete elements remains unclear under these rules.

10. Regulation of Technology Licensing

The Chinese government continues to seek introduction of new technology through foreign investment and technology transfer.  China has also promoted development of research and development facilities.  Contracts transferring intellectual property as part of the foreign equity contribution by foreign invested enterprises are generally regulated by laws concerning foreign investment.  China's 1985 regulations on technology import contracts as well as subsequent regulations on technology export, which included contract licensing, patents, trademarks, know-how, trade secrets, and contracts for technical services have been replaced by a new regime.  Among the principal relaxation in controls on technology licensing contracts is that such contracts are now submitted to the Ministry of Commerce or its provincial commissions for filing, rather than for substantive review.  In addition, the former restriction that most technology contracts are not to extend beyond 10 years has been removed.  The current regime, however, requires that any improvements in technology licensed by foreigners to a Chinese entity belong to the licensee.  China also imposes other controls on exports of technology to address its own commercial and national security concerns.

Although the pace of filing has been increasing, Chinese companies have not aggressively pursued registration of their patents or trademarks in the United States, nor has there been significant intellectual property related litigation involving Chinese-owned U.S. patents or trademarks.

Please also find our U.S. Embassy Beijing IPR toolkit: [http://www.usembassy-china.org.cn/ipr/](http://www.usembassy-china.org.cn/ipr/)

## Due Diligence Return to top

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.  In addition, CS China also assists American companies to evaluate potential business partners.

## Local Professional Services Return to top

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.

1. Accountants

Chinese law requires representative offices and foreign-invested enterprises to engage the services of accountants registered in China to prepare official 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.

2. Attorneys

During the past ten years, over 100 U.S. and international law firms have received approval to register in China as a foreign law firm. Prior to 1992, 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.  During the past year, China has removed restrictions on the number of offices that may be opened by a particular law firm.  Chinese lawyers are allowed to work at foreign law firms, but they may not practice law as licensed Chinese attorneys.  Foreign lawyers are not permitted to qualify to practice law in China and are not allowed to form a joint venture with Chinese lawyers.  The legal services that the representative offices can provide are limited: 1) providing consulting services to its clients with regard to the home legal affairs for which it is licensed and international conventions and practices; 2) providing legal services to its clients or Chinese law firms with regard to legal affairs in the country/region for which it is licensed; 3) entrusting Chinese law firms with regard to China legal affairs on behalf its foreign clients; 4) establishing long-term contractual relationship with Chinese law firms with regard to legal clientage; and 5) providing information with regard to impacts of Chinese legal environment.

3. 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 approximately 65 percent are foreign firms.  Licensed and unlicensed firms compete in the market, and the regulatory environment for this services sector is unclear.

4. Advertising

Approximately 89,000 advertising firms exist in China, of which more than 385 are foreign invested enterprises. Foreign advertising firms are limited to a 49 percent maximum equity stake. Many 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 (USD 12,500).

U.S. Commercial Service offices 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. Local professional services can be found at http://www.buyusa.gov/china/en/bsp.html.

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USFCS's program and services to U.S. exporters
http://www.buyusa.gov/china/en/programs.html

International Company Profile (ICP)
http://www.buyusa.gov/china/en/icp.html

International Partner Search (IPS)
http://www.buyusa.gov/china/en/ips.html

Catalogue for the Guidance of Foreign Investment Industries
http://www.fdi.gov.cn/ltlaw/lawinfodisp.jsp?id=ABC00000000000010453&appId=1

Provisions on Guiding the Orientation of Foreign Investment
http://www.fdi.gov.cn/ltlaw/lawinfodisp.jsp?id=ABC00000000000004008

Chinese B2B websites
http://www.taobao.com/ (Received capital investment from Softbank)
http://www.ebay.com.cn/ (Formally eachnet.com)
http://www.alibaba.com/
http://www.dangdang.com
http://www.joyo.com (Acquired by Amazon)
http://www.8848.com/
http://cn.auctions.yahoo.com/ (A joint venture by Yahoo and Sina)

Chinese Trade Show Events
http://www.buyusa.gov/china/en/chinashows.html

China Central Television Station
www.cctv.com

Local professional services
http://www.buyusa.gov/china/en/bsp.html

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# Chapter 4: Leading Sectors for U.S. Export and Investment



**Commercial Sectors**

## (Agricultural Chemicals (AGC))

## Overview

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| | 2002 | 2003 | 2004 (estimated) |
|---|---|---|---|
| Total Market Size | 11,518 | 11,250 | 10,952 |
| Total Local Production | 9,900 | 10,296 | 11,016 |
| Total Exports | 890 | 1,147 | 2,390 |
| Total Imports | 2,508 | 2,101 | 2,326 |
| Imports from the U.S. | 848 | 720 | 502 |

All figures in the above table represent unofficial estimates. No accurate figures are available.

China's agricultural chemical market has been the subject of great attention, and as one of the biggest agro-chemical consumers and a large agro-chemical importer. Agro-chemical exports to China rank as the top destination among U.S. fertilizer exports until 2003. In 2003, China imported $478 million in fertilizers and $29.63 million in pesticides from the U.S., accounting for 27% and 22% of total imported fertilizers and pesticides respectively. U.S. DAP (Diammonium Phosphate) has a strong position in the China fertilizer market. In 2003, 50.17% of China's DAP imports came from the United States. China's goal is to rely less on fertilizer imports in the future. However, the country lacks potassium resources and its phosphate is difficult to recover. Domestic output of fertilizer still cannot meet the total market demand, forcing China to import high-concentration and compound fertilizers. The import of such fertilizer is controlled by a quota management system, which will be phased out over the next two years.

China's accession to the WTO provides benefits to U.S. fertilizer exporters. On accession, tariffs dropped 6% from the 11% import duty rate. According to the information publicly released from MOFCOM in Oct. 2004, the total volumes of import quota in 2005 for urea, DAP and NPK were 2.8 million, 6.56 million and 3.29 million tons, respectively. The import volumes within the quota are levied an import duty of 4%, while imports exceeding the quota are levied a duty of 50%. The quotas will be replaced by a tariff-rate quota system with in-quota tonnage limits expanded each year. WTO commitments further stipulate that all quotas must be fully allocated, forbidding the current practice of limiting imports by only allocating a certain portion of the 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. The stage is set for greater market access for U.S. suppliers; however, the appearance of non-tariff barriers and a lack of transparency in the allocation process remain a problem.

In the last several years, the U.S. has held the No.1 position among pesticides exporters to China. China is taking measures to regulate the pesticide market to prevent toxic runoff and alleviate risks of consumer poisoning. The proportion of herbicides and fungicides within pesticides production has increased. The proportion of output of the pesticides featuring high performance, low toxicity and better safety characteristics has also increased. Imports of high efficiency, low toxicity, and low residual pesticides have strong market prospects, mainly as an alternative to highly toxic Chinese pesticides. However, foreign suppliers currently face discriminatory product testing requirements.

## Best Products/Services

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### Fertilizer

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The local producers have yet to meet the growing local market demand, especially for phosphate and potassium fertilizer, which are limited natural resources. China still must rely on importing fertilizers in large quantities.

- Nitrogen fertilizer
- Phosphate fertilizer
- Potash fertilizer

### Pesticides

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High efficiency, low toxicity pesticides have strong market prospects. Although domestic output of pesticides satisfies local demand in most areas, domestic production of high efficiency herbicides, high-efficiency and low-toxicity insecticides and fungicides cannot meet the demand both in terms of quantity and quality. Some raw pesticides and intermediates rely on imports, such as aniline with o-dihydroxybenzene, furphenol and tripoly-nitrogen-chlorine dialdyl. It is imperative for China to stop the application and production of highly-toxic pesticides, especially organo-phosphorous biocides, since the high-toxic pesticides take up about 36% of the country's total consumption.

- Herbicides
- Environmentally safe insecticides
- Biopesticides
- New technologically advanced pesticides

Because the Chinese government now emphasizes environmentally sound technologies, pesticides will have to meet new requirements.

## Opportunities

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### Fertilizer

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6th China International Agrochemical & Corp Protection Exhibition
Date: March 30 – April 1, 2005
Venue: Shanghai Exhibition Center, Shanghai, China
Profile: Chemical Pesticides, Crop Protection Products and Technology, Chemical Fertilizer and Farming Bio-engineering and Bio-engineering Technology
Frequency: Annual
Organizers: CCPIT Sub-council of Chemical Industry
Honor Supporter: - International Fertilizer Industry Association
-British Crop Protection Council
-CropLife China
-Pesticides Manufacturers & Formulators Association of India
Contact: Mr. Wei FU, In-bound Exhibition Department

CCPIT Sub-council of Chemical Industry
Tel: 86-10-6428-3097
Fax: 86-10-6422-5384
Email: fuwei785735@vip.sina.com
Internet: http://www.agrochemshow.com

## Pesticides

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In 1997, China officially abolished pesticide import license regulations, according to Announcement No. 1 issued by the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), the State Planning Commission (SPC), the State Economic and Trade Commission (SETC), and the Customs General Administration. However, the Ministry of Agriculture and SPC set strict regulations on importing newer, higher-tech pesticide products. Pesticide products that have not been used before in China must be registered with the Ministry of Agriculture and tested at designated agricultural research and development centers. Proper certification of each pesticide usually takes 2-3 years. Imports or exports of pesticides without the Certificates of Pesticide Import and Export Registration (CPIER) will be strictly banned, according to the Ministry of Agriculture.
In recent years, the Pesticides Inspection Institute under the Ministry of Agriculture put forward detailed measures for pesticides. It emphasized both quality and safety problems so as to: 1) enforce registration administration and promote pesticides structural adjustment; 2) enforce law-executing supervision and standardize the pesticides market; 3) strengthen supervision and control of pesticide residue and improve the safety of agro-products. These measures implied more strict control on imported pesticides. U.S. exporters should keep a close eye on related new laws, regulations, and measures.

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*Web Sites*

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China Fertilizer Information Net
www.china-fertinfo.com.cn

China Agricultural Means of Production Net
www.ebc.com.cn

China Chemical Information Net
www.chinachemnet.com.cn

China Chemical Industry Information Center
www.cncic.gov.cn

China Chemical News Net
www.chemnews.com.cn

State Environmental Protection Administration
www.zhb.gov.cn/english

China Association of Environmental Protection Industry
www.cepi.com.cn

## (Air Traffic Control Equipment)

## Overview

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| | 2002 | 2003 | 2004 (estimated) |
|---|---|---|---|
| Total Market Size | 76 | 84 | 92 |
| Total Local Production | 10 | 13 | 15 |
| Total Exports | 69 | 75 | 83 |
| Total Imports | 3 | 5 | 6 |
| Imports from the U.S. | 8 | 17 | 18 |

(Source of Data: China Customs)

China is a fast-growing market for air traffic control equipment. Over the past 10 years, CAAC has spent approximately $1 billion on air traffic management (ATM) infrastructure improvements. By 2003, China had installed 31 primary radars, 52 secondary radars, more than 1,000 Very High Frequency (VHF) communications systems, over 160 Omnidirectional Range and Distance Measurement Systems (VOR/DMEs), and more than 140 Instrument Landing Systems (ILS). CAAC Air Traffic Management Bureau's (ATMB) goal over the next 10 years is to improve facilities in the east and mid-west of the country, with plans for a comprehensive data network, new automation-center systems, ground-air voice/data communications, and new enroute radars.

China also plans to introduce ground-to-air communications and automatic dependent surveillance services for international and polar routes in the west. CAAC will reorganize the current airspace structure, reducing the total number of area control centers from 27 to five by 2010. In reorganizing the current structure, CAAC will construct two new regional control centers, in addition to the three remaining in Beijing, Shanghai, and Guangzhou.

## Best Prospects/Services

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ATMB is focusing on the following areas in their efforts to upgrade current ATM facilities in China that should offer exciting opportunities for American companies with experience and expertise in airborne and ground support equipment:

- Establish VHF communication, navigation, and secondary surveillance radar systems. ATMB plans to install about 40 radars from Beijing to Guangzhou, its busiest route, and another 170 units of VHF VOR/DME systems along air routes and at airports.
- Upgrade and automate control centers to establish radar control in Eastern and Central China.
- Improve ground-air communication facilities and Automatic Dependent Surveillance (ADS) of international and polar routes in Western China to increase ATM communication and control capacity in this area.
- Establish a civil aviation ATM comprehensive data communication network and comprehensive information system to meet increased demand from airlines.

## Opportunities Return to top

In the next 10 years, China will see strong growth in its number of flights, airports, and air routes. China will also emphasize flight safety and service quality. This surging demand will greatly boost required investment in China's ATM system.

In recent years China's air traffic volume has increased between 8-10% annually. By 2005 total flights will increase 55% from 2000's 1.5 million. At present landings and take-offs from airports along the Beijing-Guangzhou route account for over 76% of domestic flights. The country will also face increasing air traffic congestion in central and western China. China must invest extensively in its ATM system to handle this increase.

ATMB is currently working on the construction of new area control centers in Beijing, Shanghai, and Guangzhou. The existing ATC system on the Beijing-Guangzhou route has been upgraded, and preparation work has started on the Beijing-Shanghai and Shanghai-Guangzhou routes to implement radar control procedures.

**Major Trade Shows:**

Airport and Air Traffic Control Expo China 2005
Date: September 21 – 24, 2005
Venue: China International Exhibition Center, Beijing
Organizer: China Promotion Ltd.
Tel: 852-2511-7427
Fax: 852-2511-9692
E-mail: cp@cpexhibition.com
Website: www.cpexhibition.com

Air Show China, 2006
Date: October 30 - November 5, 2006
Venue: Zhuhai International Exhibition Center, Zhuhai, China
Organizer: Zhuhai Airshow Co., Ltd.
Contact: Michelle Lee, Eric Cheung
Tel:+86-756-337 5291 336 9235
Fax:+86-756-337 6415
E-mail: zharshow@pub.zhuhai.gd.cn
Post Address: No. 1, 2 Jiuzhou Lane, Xiangzhou District, Zhuhai City 519015, P.R.China
Website: www.airshow.com.cn

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**Key Chinese Government Contacts**

General Administration of Civil Aviation of China (CAAC)
Tel: (86-10) 6403-0868
Fax: (86-10) 6403-0868

CAAC Air Traffic Management Bureau
Tel: (86-10) 6731-8866 x 2252
Fax: (86-10) 6731-8519

China Aviation Supplies I/E Corporation
Tel: (86-10) 6568-7858
Fax: (86-10) 6568-6902

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## (Airport Security Equipment)

## Overview

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China's safety and security market demand is growing rapidly. The market has expanded from its traditional base in the financial, insurance, custom, police, airport and IT sectors to the construction, transportation, and education fields. In 2003, the Chinese safety and security equipment market was US$7 billion. Industry experts estimate that by 2020 China's safety and security market will reach US$30 billion. From September 11, 2001 through 2004, the Chinese government has invested US$130 million to cope with anti-terrorism security issues, many involving air travel.

By 2010 China will have 240 airports, up 132 from its current number. With 108 new airports to be constructed in the next five years, airport security has become a critical safety issue for the Chinese government. Increasing tourism and a rise in air cargo volume will also necessitate an upgrade of security technology at existing major airports to improve safety and efficiency.

## Best Prospects/Services

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Much of the safety and security demand will focus on high-tech equipment, such as digital technology, entrance guard communication systems, network technology for inspection control systems, and warning systems.

- Inspection control systems: This has been a high-growth area in recent years and remains very competitive. Panasonic, Samsung, Sony, JVC, and Sanyo occupy a majority of the market share in China's high-grade inspection control market.

- Entrance guard communication systems: China's domestic enterprises occupy the majority share in the entrance guard systems sector, and foreign enterprises, such as US companies BII and HID, UK company TDSI, and Israeli company DDS, occupy the majority share of communication systems market.

- Warning systems: there is major demand for intelligent airport systems. Foreign companies dominate the market for high-grade products, leading the trend towards integrated safety and security systems.

- Detection Equipment: As China's domestic manufacturers lack capacity to produce enough equipment, foreign products in this field are in high demand.

- Fire Protection Equipment: Domestic competition in this sector is strong, though all imported equipment must first obtain safety certification from the China Fire Bureau.

## Opportunities Return to top

In the next five years, China will invest US$150 million in security infrastructure for new and existing airports.

Beijing's new airport is currently under construction, with investment of US$30 million for security equipment alone. Fire protection equipment, X-ray scanners, metal detectors, portable detectors, and other equipment are needed. Most bids for this security equipment will open this year.

## Resources Return to top

3rd Beijing International Public Security Products and Technical Equipment Exhibition
Date: March 22-24, 2005
Venue: China Agriculture Center, Beijing

10th Shenzhen China Public Security Exhibition (CPSE 2005)
Date: November 1-4, 2005
Venue: Shenzhen Exhibition Center
http://www.cpse.com.cn/

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## (Automotive Components)

## Overview
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| | 2002 | 2003 | 2004 (estimated) |
|---|---|---|---|
| Total Market Size | 10,447 | 12,000 | 19.078 |
| Total Local Production | 6,500 | 8,000 | 9,000 |
| Total Exports | 2,800 | 3,220 | 4,500 |
| Total Imports | 4,400 | 5,940 | 6,500 |
| Imports from the U.S. | 258 | 510 | 585 |

(The above figures are calculated in USD millions and represent unofficial estimates.)

- Engines for motor vehicles and motorcycles;
- Key automotive parts and components including brake assemblies, axle assemblies, transmissions, diesel engine fuel pumps, turbo-superchargers for diesel engines, external emission control equipment for diesel motor vehicles, filters (lube-oil, air and fuel filters), combination instruments and special high-strength fastener parts;
- Electronic fuel injection systems, safety air-bag equipment, and other automotive electronic equipment systems;
- Fuel cell technology;
- Automotive accessories

## Best Prospects/Services
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China is making efforts to develop its automotive industry into a pillar industry in the national economy by 2010. According to the Auto Industry Tenth Five-Year Plan (2001-2005), by 2005, annual production volume will reach 5 million vehicles of which 2.5 million will be passenger cars. The value of automotive industry production is projected to be USD 15.7 billion. The percentage of diesel engine vehicles is projected to increase from 29 percent in 2000 to 35 percent by 2005. The main goals for automotive components, parts and accessories are to improve technology and quality and to develop design capability. Most industry experts agree that by 2006 the quality and standards of automobiles and key spare parts should reach or be close to international levels.

China's accession to the WTO has had a great impact on the automotive industry. By 2006, tariffs on imported automobiles will be reduced to 25 percent, and tariffs on imported automotive parts and will fall to 10 percent. The gradual reduction of tariffs on automotive parts and China's agreement to eliminate local content requirements after WTO entry, have placed domestic automotive parts manufacturers in direct competition with their international counterparts.

Most of the domestic automotive parts manufacturers are not strong in developing new products due to the small scale of their operations and a shortage of capital. Compared to international companies, Chinese auto parts firms spend little on research and development. In the next five years, the Chinese Government will continue to encourage foreign investment in automotive component development and manufacturing. There is definitely a growing market for imports. American products are generally highly regarded by Chinese customers.

U.S. Position in the Market

Many U.S. firms have already begun exporting to this fast growing market. U.S. automotive component firms have a good reputation for quality and many U.S. firms are already well known to Chinese end-users. Domestic OEM firms encourage U.S. suppliers to establish plants in China or work more closely with local firms to upgrade product quality. As more parts are sourced locally, the total cost of production decreases, due primarily to the lack of an import tariff.

Import Climate

The reductions in automobile tariffs will make it much more cost effective for U.S. firms to export finished vehicles to China. Reduced tariffs on parts will allow companies to import essential components that cannot currently be found domestically. Additionally, three years after China's accession to the WTO, American companies will have the right to distribute most products, including automobiles and related parts, in any part of China. Currently, foreign companies can only distribute parts to one interior destination in China and they are not allowed to ship or distribute products between cities without employing a Chinese freight company.

The Shanghai area is the center for component manufacturing with around 20% of national production. Shanghai is also home to Shanghai General Motors, Delphi, Visteon and other notable American automotive players and as such provides a good starting point for US automotive component exporters to begin to explore the Chinese market.

**Opportunities** Return to top

**Major Shows/Exhibitions**

**China International Trade Fair for Auto Maintenance Technology and Equipment, Automobile Spare Parts and Accessories**
March, 2005
Tel: (86-10) 8460-0317/ 8460-0321
Fax: (86-10) 8460-0325

**Auto Shanghai 2005**
April 22-28, 2005
Shanghai New International Expo Center
No.2345, Longyang Road, Pudong New Area, Shanghai

**Exhibition of Parts and Components for International-brand Automobiles Manufactured in China**
May 24-26
Shanghai Intex

**Shanghai International Automobile & Parts Exhibition**

June 26-30
Shanghai Everbright Exhibition Center

**The 8th Beijing International Automotive Industry Exhibition (Auto China 2004)**
June 9-16, 2004
Contact: Stanley Chu
Email: auto@adsale.com.hk
Tel: (86-10) 8460-1973
Fax:(86-10) 6467-7385

**Automachanika 2005 Beijing**
Nov.23-25, 2005
China International Exhibition Center (CIEC), Beijing
Contact: James Yu
Messe Frankfurt Shanghai
Room 2703 CITIC Square
1168 Nanjing Road West
Shanghai 200041
P.R.China
Tel (86) 21 5292 9222 ext. 216
Fax (86) 21 5292 8777
http://www.messefrankfurt.com.hk/AutomechanikaChina.asp

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China Association of Automobile Manufacturers (CAAM)
Tel: (86-10) 6859-5239
Fax: (86-10) 6959-5234

China Automotive Technology and Research Center
Tel:  (86-10) 6328-3523
Fax: (86-10) 6346-2256

Auto Intelligence (China Oriental Auto Publishing House)
Tel: 021-6289-4477
Fax: 021-6289-2608
www.oauto.com

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## (Coal Mining)

## Overview

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| | 2002 | 2003 | 2004 (estimated) |
|---|---|---|---|
| Total Market Size | 1513 | 1845 | 3440 |
| Total Local Production | 1398 | 1695 | 3083 |
| Total Exports | 165 | 188.6 | 259 |
| Total Imports | 280 | 339 | 617 |
| Imports from the U.S. | 58 | 53 | 102 |

(In millions of US dollars, customs statistics for heavy underground coal mining equipment.)

Coal is the richest and most dominant energy source in China, making up about 70% of total primary energy consumption in the country. China has a coal-bearing area of over 550,000 square kilometers, with potential coal reserves of around 5.57 trillion tons. China is the world's largest coal producer, accounting for nearly 28% of the world's annual production. In 2004, China's coal production reached 2 billion tons. China is also the world's largest coal consumer, with 2004 consumption reaching 1.9 billion tons. As power shortages continue, experts predict that China's coal production and consumption will surpass 2 billion tons in 2005.

Generally speaking, the Chinese government encourages domestic coal mining companies to purchase domestic equipment and technology. If domestic equipment and technology is unavailable, however, and if foreign alternatives are not overly expensive, companies turn to imports. Currently, domestic manufacturers supply approximately 90% of China's coal mining equipment. With the rapid development of coal mining technology in China, several Chinese companies have been able to manufacture high-tech mining equipment, such as super-power electric haulage shearers, hydraulic support systems, and armored face conveyers. Nevertheless, China's major coal mining equipment is generally 10 to 15 years behind that of other countries with respect to mining efficiency, equipment quality, environmental protection of mines, safety and health.

## Best Prospects/Services

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Most large, state-owned coal mining companies in China are implementing structural reform to obtain better economic results. China plans to build 13 large coal production bases and reorganize 13 large coal enterprises to further explore production potential and to ensure coal supply in the country. The 13 bases will mainly be in the country's major coal-producing areas such as Shanxi, Hebei, Shaanxi, and Inner Mongolia. These large, state-owned coal-mining companies plan to improve productivity, safety, resources and utilization efficiency by using state-of-the-art technology and equipment. This infrastructure improvement provides tremendous opportunities for cooperation with Chinese companies in equipment import, technology transfer, joint-venture cooperation, and other areas.

U.S. companies enjoy the greatest competitive advantage in supplying heavy coal mining machines and systems to increase production capacity, such as shearers, road headers, hydraulic support systems, and armored face conveyors.

Moreover, coalmine safety remains a critical issue at Chinese coalmines. Several severe accidents occurred in 2004, killing thousands of coal workers. A low rate of safety equipment installation in coalmines (less than 35%) is a major reason for the continued problems. According to the State Administration of Coal Mine Safety Supervision, there is $6 billion under-investment in safety equipment installation nationally. The Chinese government hopes to compensate for the under-investment over the next three years. Of this investment, the central government will invest $605 million and coal companies will cover the rest. This investment will create significant opportunities for foreign companies to export coal safety equipment to China. Best prospects include: coal mining safety equipment, security equipment, gas control systems, and fire monitoring and control equipment.

## Opportunities Return to top

Due to the nationwide shortage of electricity, China will continue heavy investment in coal production for many years to come. In 2003, the total fixed-asset investment in coal exploration and processing reached $5.2 billion, a 52.3% increase from 2002 expenditures. Experts predict China will need to invest over $151 billion in coal infrastructure by 2020. The investment will cover the following areas:

- Construction of new coal mines and coal bases
- Improvement of coal mine safety
- Clean coal processing technology
- Coal conversion technology (including coal liquefaction and coal gasification)
- Coal bed methane development and utilization

In order to improve coalmine management and increase coal production, the Chinese government has created new policies to encourage foreign investment in the coal-mining sector. This shift in policy has included granting rights for the mineral geological exploitation of domestic coalmines to foreign companies.

In short, U.S. coal mining equipment manufacturers and coal mine investors will enjoy long-term opportunities in China's coal industry.

## Resources Return to top

Chinese weblinks for coal mining
National Development and Reform Commission
http://www.sdpc.gov.cn/

State Administration of Coal Mine Safety
http://www.chinasafety.gov.cn/

China National Coal Association
http://www.chinacoal.org.cn

U.S. Pavilion at China Coal & Mining Expo 2005
http://www.chinaminingcoal.com

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Chen Ling

## (Construction Equipment)

## Overview

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| | 2002 | 2003 | 2004 (estimated) |
|---|---|---|---|
| Total Market Size | 418 | 2118 | 10,590 |
| Total Local Production | 249 | 937 | 4,335 |
| Total Exports | 82 | 90 | 99 |
| Total Imports | 251 | 1,271 | 6,354 |
| Imports from the U.S. | 25 | 24 | 25 |

(In millions of US dollars, China Customs statistics for construction equipment.)

The best opportunities for U.S. exports of construction equipment include: self-propelled bulldozers, angle dozers, graders, levelers, scrapers, mechanical shovels, excavators shovel loaders, tramping machines, and road rollers. Many American companies (e.g. Caterpillar, John Deere, and Terex) have successfully entered the Chinese market and have become key players in China's construction equipment industry.

## Best Products/Services

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## Opportunities

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- **Beijing International Construction Machinery Exhibition & Seminar ( BICES )**
  September 20 –23, 2005
  Beijing National Agricultural Exhibition Center
  Organizer: China Council for the Promotion of Internaitonal Trade Machinery Sub-Council & China National Construction machinery Corporation
  Tel: 6859-6428
  Fax: 6851-3987

- **The 8th International Exhibition on Road and Water Transport Technology & Equipment ( China Transpo 2006 )**
  September 2006
  Beijing National Agricultural Exhibition Center
  Organizer: The Ministry of Communications
  Transport Technology Exchange Center of China Academy of Transportation Sciences, Ministry of Communications
  Tel: 6491-4811, 6495-3233, 6427-7470
  Fax: 6491-4814, 6425-1287
  www.chinatranspo.com

- **Bauma China 2006**
  November 2006
  Shanghai New Internatinal Expo Center, Pudong
  Organizer: MMG – Messe Munchen Gmbh
  Co-Organizer: CCPIT – MSC – China Council for the Promotion of International Trade – Machinery Sub – CouncilCNCMC – China National Construction Machinery Corporaton
  CCMA – China Construction Machinery Association

www.bauma-china.com

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China National Construction Machinery Corporation
http://www.cncma.org/

China National Construction Machinery Corporation
http://www.const-mach.com/

Association of Equipment Manufacture ( AEM )
http://www.cm-1.com/

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## (Credit Cards)

## Overview

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Since 1985, China has issued 714 million banking cards, of which almost 96% are debit cards. Only 29.13 million of the banking cards are credit cards, and 4 million of these carry the China UnionPay logo. There are over 110 banking card issuers in China, which include the ‘big four’ banks—Industrial and Commercial Bank of China, the Bank of China, China Construction Bank, and the Agricultural Bank of China—as well as fast-growing second tier banks and city commercial banks.

As of June 2004, China had approximately 476,000 POS machines and 64,000 ATMs. About 300,000 merchants in China accept banking cards.

China's state-owned commercial banks recently began to issue a dual-currency card, allowing cardholders to purchase goods within China in RMB and overseas in US dollars.

According to a 2003 research study by Visa, average per transaction purchase with a card was US$253. Consumers used their credit cards mainly to purchase houses, vehicles, and home appliances, as well as to pay utility bills.

*Market Threats to the Chinese Banking Card Industry*

Several obstacles to the Chinese banking card industry still exist.

One major issue is the lack of a national credit bureau to provide credit information for banks to evaluate individual loan applicants. In 2002 the Shanghai Information Office and the People’s Bank of China Shanghai branch established the first personal credit data organization involving 15 commercial banks. The Chinese Government, aiming to promote a nationwide credit system, has also set up a credit system research group. At present, large cities, such as Beijing, Guangzhou, Shenzhen, Chongqing, and Chengdu, are calling for a reliable credit data system. The PBOC is currently evaluating the feasibility of establishing a nationwide credit bureau.

Other obstacles include lack of merchant acceptance and a spotty infrastructure for card processing. At present, only 2% of merchants in China are equipped to handle card transactions, although in some major cities like Shanghai the percentage is over 30%. China UnionPay was established to set up a national processing network connecting merchants and banks. China UnionPay has set up bankcard network service centers in 18 cities in addition to a national bankcard information switch center.

## Best Products/Services

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There will be many opportunities for U.S companies to export their products and services to the Chinese market in the credit card area, such as:

1. Credit card-related hardware, including POS and ATMs etc.;
2. Credit card-related software for banks and merchants;
3. Credit and risk management training programs.

*Foreign banks in China*

Conditions in China have developed enough to attract investment from the world's biggest credit card issuers in the last year. Currently, Citigroup, American Express, and HSBC Holdings have signed credit card partnerships with Chinese banks.

In the last two years, the Citibank division of Citigroup spent $67 million for a 5% stake in its partner bank, Shanghai Pudong Development Bank, and it holds options to increase its ownership to 24.9%. To this point, Citibank has introduced two Visa cards. American Express partnered with the Industrial and Commercial Bank of China, while HSBC has card-issuing arrangements and equity positions with both the Bank of Communications and the Bank of Shanghai.

Other credit card issuers are proceeding more cautiously. For instance, MBNA has thus far only set up a representative office in Shanghai to study the market.

For the moment, foreign banks can participate only from the sidelines, consulting their Chinese banking partners in running credit card operations. Foreign banks will not be able to offer loans or banking services directly to Chinese citizens until 2007 according to China's WTO accession agreement.

**Opportunities** Return to top

Currently, potential credit card consumers number between 30 to 60 million, according to Visa International's forecast. By 2010, China's middle class will number more than 200 million and 50 to 75 million credit cards would be issued

The Chinese government is currently drafting its first laws for the credit system. Officials are working with relevant industries to advance the development of the credit card system in China.

The Beijing 2008 Olympics Games also bring great opportunities for the growth of the credit card industry. According to the Beijing municipal government's credit card development plan, by 2008, 90% of business establishments in Beijing will accept credit cards, and card expenditures will account for 25 percent of total consumption.

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China International Exhibition on Financial Banking Technology & Equipment 2005
http://www.ciftee.com.cn/

http://www.pbc.gov.cn/
People's Bank of China

http://www.cbrc.gov.cn
China Banking Regulatory Commission

http://www.chinaunionpay.com/
China Union Pay

http://www.visa.com.cn
VISA International Service Association

http://www.bank-of-china.com
Bank of China Limited

http://www.icbc.com.cn
Industrial and Commercial Bank of China

http://www.ccb.cn
China Construction Bank Limited

http://www.abchina.com/
Agricultural Bank of China

http://www.bankcomm.com
Bank of Communications

http://www.cmbchina.com/
China Merchants Bank

http://www.cebbank.com/
China Everbright Bank

http://www.ecitic.com/citicib/
CITIC Industrial Bank

http://www.cmbc.com.cn/
China Minsheng Banking Co., Ltd.

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## (Education and Training)

## Overview

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As China more closely integrates with the global economy, Chinese enterprises need to stay competitive by recruiting graduates with internationally recognized standards of education, and by maintaining professional training for their employees. 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 sell teaching materials and equipment, convey the latest methodologies and case studies, lend or exchange faculty, and provide educational consulting services.

## Best Products/Services

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According to some market surveys, Chinese consumers revealed that they would spend 10 percent of their savings on education, meaning that the education market from a consumer perspective is worth at least 80 billion U.S. dollars. In cities with populations of 10 million or more, at least five percent of families could and would pay for education costing more than 14,500 U.S. dollars. The Chinese government also plans to increase spending on education dramatically, from its current budget allocation of 2.5 percent of gross domestic product to 4 percent, to meet China's education needs for the new century. More and more middle-class Chinese are borrowing to send their only child abroad to receive an international degree that would give them an advantage in China's increasingly competitive marketplace. Chinese professionals are also attending vocational classes and using e-learning to upgrade their skills to increase their earning power.

In 2003, China's 1,552 colleges and universities enrolled 3.8 million students for bachelor degrees, and over 220,200 students for master degrees and 48,700 for doctoral degrees. The National university entrance rate reached 19% in 2004. The country's 558 adult higher learning institutions, for those who did not enter college, enrolled in more than 1.59 million students to teach skills in the agricultural, industrial, educational, medical, health, financial, and public security sectors. 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.

American universities are very active in promoting American education in China. As of April 2004, there are over 137 Ministry of Education approved joint programs with foreign institutions. The United States is the destination of choice for Chinese who want to enroll in an MBA program. However, high costs, long absences from home and visa concerns make this choice somewhat difficult. Many of the programs are U.S. MBA programs. 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.

Many experts believe that e-learning is ideal for China because it solves much of China's education needs. With its limited education resources, China can use long distance learning to educate its 200 million elementary and high school students. To that end, in October 2000 China's Ministry of Education launched the "All Schools Connected" project, which will equip all of China's 550,871 K-12 schools with e-learning systems by 2010. The Ministry also encouraged 67 top universities to offer e-learning degrees to produce more talent for the country's burgeoning economy. The nation's very best high schools can also create Internet schools to train teachers and tutor students in far-flung regions. Private companies also heeded the e-learning call, many now offer vocational training and certification exam preparation online.

The export opportunities for U.S. firms on China's e-learning market are K-12 content provider, Ministry staff training and foreign certification training.

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- Corporate training
- Business Training
- MBA
- EMBA
- Olympic English Training
- E-learning Content provider

Education Events Approved by China's Ministry of Education:

**China Education Expo**
Sponsored by China Education Association for International Exchange (CCIEE)
Website: http://www.chinaeducationexpo.com
Address: 4th Floor, Xinlong Office Building, No.33-A Erlong Road, Beijing, China 100032
Tel: (8610)6606-6076; 6603-3016
Fax: (8610)6606-6870
Email: zhourong@cciee.com.cn    zhaopeng@cciee.com.cn

**10th China International Education Exhibition (CIEET) Tour 2005**
Sponsored by Chinese Service Center for Scholarly Exchange (CSCSE)
Website: http://www.cscse.edu.cn/
Address: No. 15 Xueyuan Road, Haidian District, Beijing, China 100083
Tel: (8610) 8230-1019 8230-1006
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## (Franchising)

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| | 2003 | 2004 (estimated) |
|---|---|---|
| # of Franchisers | 1,900 | 2,000 |
| # of Outlets | 70,000 | 75,000 |
| Revenue Top 100 | USD 3 billion | USD 4 billion |

Franchising is a very promising sector within China. Since its inception in 1987, with the opening of Kentucky Fried Chicken's first outlet in Beijing, franchising has been met with growing enthusiasm. China's macro-environmental conditions are quite favorable for international franchising. Statistics from the Ministry of Commerce indicate that the number of franchisers totaled 1,900 in 2003 and that more than 50 industries have applied for franchise operations in China in 2004.

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The Chinese franchising market is dominated by traditional franchise operations like food and beverage (F&B) and retail outlets. Nearly 40% of all franchisers in China are engaged in such industries. U.S. franchisers have established a particularly strong foothold in the (F&B) market; As of the end of 2004, KFC has established about 1,200 outlets in China. McDonald's has established over 700 outlets nationally.

## Opportunities

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While it is still too early to say whether the F&B related franchise market has become saturated in China, franchising opportunities abound in non-F&B industries. The best prospects in franchising include: Car rental and services, education, training, cleaning, and executive search. China has recently established new franchise regulations, which better regulate and protect the industry. Thus, the market is even more attractive for U.S. exporters looking to enter the market.

**Major Shows/Exhibitions**

CCFA Franchise Expo www.ccfa.org.cn/english/index.jsp
International Franchising Expo www.english.franchisechina.com/HOME.HTM

## Resources

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**China Chain Store and Franchise Association**
Tel: (86-10) 6839-2260
Fax: (86-10) 6839-2210
Website: **http://www.ccfa.org.cn**

**Ministry of Foreign Trade & Economic Cooperation**
Foreign Investment Administration
Tel: (86-10) 6519-7327/7301
Fax: (86-10) 6519-7322
Website: **http://www.moftec.gov.cn**

**China Council for the Promotion of International Trade (CCPIT)**
Sub-Council of Light Industry
Tel: (86-10) 6839-6468
Fax: (86-10) 6839-6422
Email: **ccpitsli@public3.bta.net.cn**
Website: **http://www.ccpit.org**

## (Integrated Circuits and Semiconductors)

## Overview

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Integrated Circuit Products

| | 2002 | 2003 | 2004 (estimated) |
|---|---|---|---|
| Total Market Size | 37 | N/A | N/A |
| Total Local Production | 7 | 13 | 22 |

Source: China Semiconductor Industry Association in billions of pieces

Semiconductor related product HS code 8541 – This includes semiconductor devices, light-emt diodes etc, pts

| | 2002 | 2003 | 2004 (estimated) |
|---|---|---|---|
| Total Exports | 1,664 | 2,142 | 2,960 |
| Total Imports | 5,350 | 6,721 | 8,848 |
| Imports from the U.S. | 640 | 365 | 263 |

Source: World Trade Atlas in USD million

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In recent decades, the semiconductor industry has become one of China's key industries. China's plan to make integrated circuit (IC) production one of its core industries by 2010 significantly encourages an already rapidly growing market. This market encompasses the key elements of the semiconductor industry value chain: wafer fabrication, testing and packaging, and IC design. China's semiconductor production has experienced an annual growth rate of 25 percent since 2000, which is more than three times the GDP growth rate during the same time period.

With growing expectations surrounding China's semiconductor business in the next five to ten years, there are many opportunities for overseas companies. Most investment will be directed towards setting up new fabs, which will lead to the purchase of semiconductor equipment in large quantities. China still lacks the technology to produce equipment for large wafer size production and advanced processing, and still relies heavily on imports to build foundries and testing and assembly companies.

Along with China's tremendous market potential for IC chips comes the requirement that chip design be localized to match local applications. With China's accession to the WTO in 2001, IPR issues have come under greater scrutiny.  We have seen a trend in U.S. chip designers transferring their low-end technology to qualified and trustworthy partners in China.

## Opportunities

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Major semiconductor projects under construction or planned in China.

| Company | Total investment | Wafer size | Location |
|---|---|---|---|

| | (Million USD) | | |
|---|---|---|---|
| Hejian Technology | 1500 | 12” | Suzhou |
| Hynix | 2000 | 12” | Wuxi |
| Sim-BCD | 660 | 8” | Shanghai |
| TSMC | 1120 | 8” | Shanghai |
| Prima | 100 | 8” | Changzhou |
| Belling | 340 | 8” | Shanghai |
| Kexi | 300 | 8” | Shenyang |
| Nanke | 186 | 8” | Guangzhou |

Source: China Semiconductor Industry Association (CSIA), Nov. 2004

**Major trade shows in the semiconductor industry in 2005:**

| Exhibition | Date | Website |
|---|---|---|
| SEMICON China | March 15-17, 2005 | www.semi.org |
| NEPCON China | April 12-15, 2005 | www.nepconchina.com |
| Integrated Systems China | April 27-29, 2005 | www.is-china.com |
| Cebit Asia | May 11-14, 2005 | www.cebit-asia.com |
| Printed Circuit & Electronic Assembly Semiconductors | | |
| Photonics China | May 30 - June 1, 2005 | www.photonicschina.net |

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**Major government and industry associations:**

Ministry of Information Industry (MII)
27 Wan Shou Lu, Beijing 100846 China
Tel: (86 10) 6820-8212
http://www.mii.gov.cn/

China Semiconductor Industry Association (CSIA)
27 Wanshou Road, Beijing 100846 China
Tel: (86 10) 6820-7449
http://www.csia.net.cn/

United States Information Technology Office (USITO)
50 Liangmaqiao Road, C 511B Lufthansa Center Offices, Beijing 100016 China
Tel: (86 10) 6465-1540
http://www.usito.org/

Semiconductor Equipment and Materials International (SEMI)
88 Century Boulevard, Room 2406A Jinmao Tower, Shanghai 200120 China
Tel: (86 21) 5049-5688
http://www.semi.org/

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Fax: (886 2) 2757-7162
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**(Machine Tools)**

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| | 2002 | 2003 | 2004 (estimated) |
|---|---|---|---|
| Total Market Size | 5,700 | 6,130 | 6,560 |
| Total Local Production | 2,900 | 3,100 | 3,200 |
| Total Exports | 506 | 675 | 845 |
| Total Imports | 2,800 | 3,130 | 3,360 |
| Imports from the U.S. | 298.5 | 326.5 | 520 |

Source: World Trade Atlas, KPMG in USD millions

US machinery exports have experienced healthy growth over the past four years rising nearly three billion dollars in value since 2000 to reach more than US$ 7.2 billion in 2004. One of the main drivers for increased demand for US machinery products is the expansion of China's manufacturing capacity and increased competition among Chinese manufacturers. The automotive industry accounts for over half of China's machine tool industry and has been driving growth on this sector for the past four years.

In order to deal with the increased market opportunities and competition resulting from entry into the WTO, China has placed high emphasis on upgrading its conventional industries with more advanced high-tech machinery and equipment. China is also moving rapidly to restructure the state-owned, exclusively invested and private enterprises. These two initiatives, along with the start-up of numerous major national projects, are stimulating rapid growth in the demand for machine tool and tooling products in China. As a result, market opportunities exist for machine tool builders, as China is expected to continue to import advanced equipment and technology valued in the tens of billions of US dollars.

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With respect to specific areas of China total imported machine tools, metal-cutting machine tools increased by 20.6 percent, with a total value of US$ 2.07 billion, and metal forming machine tools increased by 40.26 percent, with a total value of US$ 1 billion. The majority of import sales were for the following machines: grinders, lathes, spindles, tool carriages, ball-screws, tool system manipulators, high-speed protectors, and precision tools. China primarily depends on imported machine tools and integrated products that are high speed, precise, intelligent, environmentally friendly, high quality, and efficient.

The US Consulate in Shanghai has worked closely with the US Association of Manufacturing Technology this year to open AMT's Technology Center in Shanghai. This center allows AMT members to display their US built machine tools for the Chinese market. This center acts as an initial presence for US exporters of machine tools and already has a record of success leveraging American technology with the know how of AMT's professional local staff and the full support of the Commercial Service in China. For more information please contact the Commercial Service in Shanghai or AMT directly.

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China CNC Machine Tool Fair
Shanghai New International Expo Center (Shanghai)
February 14-17, 2006
www.ccmtshow.com/eng

9th China International Machine Tool Show
China International Exhibition Center (Beijing)
April 11-17, 2005
**www.cimtshow.com**

**U.S. Associations**
Association of Manufacturing Technology (AMT)
www.amtonline.org
www.amtchina.org

**Chinese Association**
China Machine Tool & Tool Builders' Association
www.cmtba.org.cn

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## (Marine)

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| | 2002 | 2003 | 2004 (estimated) |
|---|---|---|---|
| Total Market Size | 35.7 | 51.8 | 57.9 |
| Total Local Production* | 37 | 54 | 60 |
| Total Exports** | 1.926 | 3.023 | 3.100 |
| Total Imports** | 0.607 | 0.812 | 1.078 |
| Imports from the U.S.** | 37.834 | 25.820 | 35 |

All in USD billions except for Imports from the U.S. in USD millions
Source of data: * News Service Centers of Ministry of Commerce of People's Republic of China **China Customs (HS code: 89 Ships and boats and floating structures.)

Marine economy is the ensemble of the use and development of the various sea-related industries and economic operations, including shipbuilding industry, port, pleasure boat, sea communications and transportation, offshore oil and gas, sea-related chemical industry, sea fishery, etc.

China's marine economy enjoyed a growth rate of 46.5 percent in 2003. The gross product of the marine economy's added value amounted to 445.6 billion Yuan (54 billion), accounting for 3.8 percent of the national GDP. According to the "National Marine Economy Development Program" issued by the state council, the value of increase of sea-related industries will constitute approximately 4% of GDP by 2005; and the marine industry will gradually become one of the pillar industries of China's economy. According to the statistics of China Customs, China's ship import and export values totaled 3.834 billion in 2003. Among them, the ship export accounted for 3.023billion, an increase of 56.93% from 2002. For the ship import, the figure rose to USD812, an increase of 33.7%. Trade volume reached a new height in 2004. But the main obstacles such as oceanic pollution and the marine industry's structural imbalance remain for the developments of marine industry.

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For the best prospects of exporting from the United States to China' s marine industry, sub-sectors include shipbuilding, pleasure boat, and port and sea transportation.

Shipbuilding

Since 1999, the output of China's shipbuilding industry has been ranked number three in the world. In 2003, the shipbuilding output in China reached 6,000,000 DWT (dead weight tons), which exceeded for the first time 10% of the world total output. By 2015, China will become the No. 1 shipbuilding power in the world. Shanghai, which is China's most competitive shipbuilding base, will become one of the biggest shipbuilding bases in the world. China's shipbuilding and engine making capabilities by 2015 will be 12,000,000 DWT and 4,500,000 hp respectively.

China urgently needs hi-technology, machinery and management for the shipbuilding industry. The best prospects for shipbuilding are raw materials, coating equipment and coatings, CAD(Computer aided design) software and associated technology for ship design and construction, equipment maintenance and related technology, high-tech equipment such as GPS, navigation and on board computer systems, cutting and welding technology and related equipment.

Pleasure boats

With the rapid growth of the economy, China's recreational marine market is poised to expand sharply in the coming years. Based on the confidence that pleasure boats will become a part of life style in the country's expanding wealthy and the middle-class, provincial governments, property developers and boat builders are all investing heavily in the rising industry. Business experts estimated that the market would pick up speed after 2005, and the overall market size would reach 10billion in the next decade, which presents significant opportunities for the exports of U.S. pleasure boats, accessories, marina planning and construction materials.

Port and sea-transportation

China is allocating a massive amount of money to the port and waterway construction to meet the significant growth of the volume of freight. In 2003, China invested 29.44billion Yuan (3.5 billion) into the construction of ports and waterways, which represented an annual rise of 65% from 2002. Port throughport is increasing at exponential rates. Eight Ports in China, namely Shanghai, Ningbo, Guangzhou, Tianjin, Qingdao, Dalian, Qinhuangdao and Shenzheng were ranked as World's 100 Million Tons Ports in 2003. Container ports have been consecutively growing at the rate of 20% for over 10 years. In 2003 the total container throughput in Chinese seaports reached 44.55 million TEU (twenty-foot equivalent unites), a 32% rise compared with 2002.
To facilitate increased global trade, most ports in China are put emphasis on the expanding of the capacity as well as the modernization of the operation. The products and technologies in high demand are Vessel Traffic Management Information System, laser-docking systems, terminal tractors, dredging equipments and security equipment for the ports and vessels to abide to International Ship and Port Security Code (ISPS).

**Opportunities** Return to top

Shipbuilding base

According to the layout of the shipbuilding industry issued by the state council, China will build three major shipbuilding bases in Bohai rim, East China Sea and South China Sea.
China State Shipbuilding Corporation (CSSC), the country's leading shipyard, began construction on the Changxing Shipbuilding Base on the Shanghai coast in 2003, which will be the largest shipyard in the world. The base was built on Changxing Island with a water frontage of 8 km. Its annual shipbuilding capacity will reach eight million tons when it is completed in 2015.

Marina development

Although there are presently only a handful of marinas in China, dozens more are under construction or in planning. Many luxury residences in major cities incorporate waterways and boating facilities in their developments.
The Shanghai municipal government is in the process of announcing plans to develop the city's yachting industry over the next two decades. The success of Shanghai's bid to host the 2010 World Expo will push the boat industry to develop rapidly. Shanghai Government has decided to build marinas and cruising shipping centers along the downtown river to match up with the image of modern Shanghai. Other cities and areas that have marina projects include Zhoushan, Qingdao ,Dalian, Ningbo, Beihai, Dongguan, Shenzhen and Hainan Island.

Deepwater Port

China is building more deep-water berths to handle larger fifth and sixth generation container vessels. The largest project is the construction of Yangshan deep-water port, 20 miles offshore from Shanghai. The first phase, which is under construction, will be completed in 2005, including 5 berths and the capacity will be 2 million TEUs per year. A second phase will add 2 to 4 berths depending on the demand. The original plan is to complete 50 berths by 2020, which will cost over 10billion. The master plan also includes a 32KM causeway bridge and a logistics park and new harbor city on the main land.

## Resources

**Major shows:**
**China International Boat Show 2005**
**(Incorporating: China Fast Ferry & Commercial Craft Show)**
DATE: 8-11 April 2005
VENUE: Shanghai Exhibition Center
Shanghai CMPsinoexpo International Exhibition Co., Ltd.
Tel: +86 21 64371178
Fax: +86 21 64370982
E-mail: helenagao@cmpsinoexpo.com or Angelahe@cmpsinoexpo.com
Web Site: http://www.cmpsinoexpo.com/boat/

**INMEX China - Guangzhou 2005**

DATE: 11-13 May 2005
VENUE: Guangzhou City Exhibition Center, Guangzhou, China
PDA Trade Fairs/ Guangzhou Auch Exhibition Service Co Ltd.
Tel: 86-20-87613260,86-20-87678861
Fax: 86-20-87678009
Email: expoart@vip.163.com
Web Site: http://www.inmexchina.com

*Zheng He Ocean Voyages Exhibition & International Marine Expo.*

DATE: 8-14 July, 2005

VENUE: Shanghai Exhibition Center ( 1000 Yan'an Zhong Road)
Tel: (86-21) 6321-7522 *124 / 6329-9937
Fax: (86-21) 6329-5744
Email: lilianxdgj@yahoo.com.cn
Web Site: http://www.zhengheexpo.com/en

**Marintec China 2005- the all China Maritime Conference & Exhibition (Incorporated: China Port 2005)**

DATE: 6-9 Dec. 2005
VENUE: Shanghai New International Expo. Center, Pudong, Shanghai, China
CMP Asia, Ltd.
Tel: (852) 2585 6124
Fax: (852) 2827 7831
Email: AmyLai@cmpasia.com
Website: www.marintecchina.com

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1. Ministry of Communication (MOC)
   Http://www.moc.gov.cn

2. China Shipbuilding
   http://www.shipbuilding.com.cn/

3. China State Shipbuilding Corporation
   http://www.cssc.net.cn/

4. China Maritime Directory
   http://news.ccs.org.cn/haishi/login.asp

5. China Classification Society
   http://www.ccs.org.cn/

6. China Shipbuilding Industry Corporation
   http://www.csic.com.cn/

7. China Engineering & Technology Ship Information Network
   http://www.ship.cetin.net.cn/shipnet/

9. China Ship Online
   http://www.shipol.com.cn

10. China Port Website
    http://www.chinaports.com

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www.buyusa.gov/china

## (Medical Equipment)

## Best Products/Services

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China's medical device market is one of the largest and fastest growing, ranked 11th in the world. Imports account for approximately 70 % of China's US$6 billion medical device market, and the United States supplies approximately 35 % of those imports, followed by Japan (25%), and Germany with other European countries (28%).

China's market for imported medical devices is growing at about 15 % annually and the sales volume of China's medical equipment market is expected to exceed $7 billion in 2005. China became a member of the World Trade Organization three years ago, but the uncertainty of the regulatory environment (centralized procurement regulations and the pricing issues) will continue to play a negative role on profit expectations for U.S. companies doing business in China. Over the next 10 years, however, China should remain a good market for U.S. manufacturers of medical equipment and products.

Currently, Chinese end-users view U.S. products as superior in quality and most technologically advanced. China's hospitals particularly welcome high-technology content medical equipment and products. At the same time, domestic medical device companies are consolidating, upgrading quality, and beginning to compete in medium-level technology niches.

The vast majority of Chinese, as many as 85%, lack health insurance, and less than 2% can afford standard Western medical care. Ongoing medical reforms are designed to expand the number of the insured, but in the short term private funding is replacing government financing. In the past, all government employees and workers at state-owned enterprises enjoyed virtually free medical care for themselves and their dependents. A new urban medical insurance system was introduced in 2000, with the goal of offering basic health care to urban workers. Approximately 50 million urbanites are now covered under this system. It will take an extended period of time, however, before medical insurance coverage extends to the full population.

Depending on the kind of product being imported to China, two Chinese agencies—the State Food and Drug Administration (SFDA) and the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)—have regulatory roles in the approval processes for medical devices. Importers must register all medical and dental equipment with SFDA prior to sales and distribution in China. The AQSIQ has established technical standards for imports and exports of seven categories of medical equipment through compulsory product certification. Beginning March 1, 2005, the Ministry of Health (MOH) together with the National Development and Reform Commission (NDRC) will be responsible for approval of the deployment of large medical equipment valued at more than $600,000 (CT scanner, MRI, DSA, SPECT, LA). Applications for import should be submitted directly by the hospitals.

China's rapidly changing regulatory environment will likely have a short-term negative impact on the overall market. The regulatory system established by SFDA in 2001 was designed to streamline a confusing regulatory framework. AQSIQ also introduced a new certification system in 2002 for certain medical equipment. It is a step towards resolving national treatment and transparency issues, though expensive, time-consuming, and redundant testing requirements remain. Many companies have complained about these registration requirements and the U.S. government has similarly raised this issue with the Chinese government. It is unclear if or when this regulatory and certification system will improve.

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53rd China Medical Equipment Fair
http://www.cmef.com.cn/

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## (Oil and Gas Exploration and Processing Equipment)

## Overview

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| | 2002 | 2003 | 2004 (estimated) |
|---|---|---|---|
| Total Exports | 2,345 | 3,348 | 4,764 |
| Total Imports | 4,140 | 5,749 | 8,287 |
| Imports from the U.S. | 237 | 334 | 479 |

(Source of Data: China Customs in USD millions)

China's growing demand for energy has created opportunities for large-scale foreign participation in the oil and gas industry. China is the world's second-largest energy consumer, with demand expected to triple between now and 2020. In particular, demand for natural gas will increase from 3% to 10% of China's primary energy consumption. In 2004, China imported over 120 million tons of crude oil.

At present, China still lacks deepwater docks for unloading imported raw oil and the percentage of raw oil transported by pipeline is low. Construction of a network of major trunk pipelines for natural gas is not yet complete, and the storage capacity for oil and gas is insufficient. To correct the problem, within the next 20 years China will finish the construction of 100,000 kilometers of major trunk pipeline for transporting raw oil, oil products, and natural gas as well as several LNG terminals.

To achieve these goals, the Chinese government has called on both domestic and foreign investors to participate in the construction of China's oil and gas infrastructure.

## Best Products/Services

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The best export opportunities for natural gas infrastructure development and offshore oil exploration are:

- Oil and Gas Compressors:

Domestically produced Chinese compressors cannot compete with U.S. products in the following features: high oil and gas flow, high pressure, high temperature, high-end low pressure, and use in hydrogenation cracking or refining systems.

- Offshore oil exploration equipment:

In the coming years, China will need to import over 50% of its offshore oil equipment as domestic technology and processing equipment cannot meet the needs of offshore oil exploration and production. At present, imported equipment came mainly from the United States, Singapore, and Norway.

With the fast development of offshore oil exploration and production, the demand for high-end flow meters will increase. Other measurement and monitoring instruments will be needed, including those for corrosion protection, anti-high voltage, anti-large temperature differential, and oil-spill control. The industry will also require leak testing instruments, city pipeline network SCADA monitoring systems, and data collecting systems.

**Opportunities** Return to top

Foreign companies with high-technology components are in demand and many of the best opportunities for U.S. participation are in natural gas infrastructure development and offshore oil exploration and production. Onshore oil exploration projects are less attractive at this time due to a lack of access to satisfactory geological data and a greater tendency for China to source domestic equipment, services, and technology for these projects.

Large-scale infrastructure projects like the West-to-East gas pipeline are just the beginning. Examples of future projects include:

- Coalbed Methane and Coalmine Methane Projects.

China's strategic oil reserve bases and underground gas storage projects.

**Resources** Return to top

Major Shows:
**The 4th China (Shanghai) International Gas Technology & Equipment Exhibition 2005**
Date: March 10-12, 2005
Venue: Shanghai Mart, 2299 Yan'an Road West, Shanghai, China
Contact: Mr. Chen Mo
Add: Rm.510, Building 18, Lane 128, Songyuan Road, Shanghai,
T: 86-21-54245028
F: 86-21-54245026
Mobile: (86) 13916912855

**CIGTE**
**The 6th China International Gas Technology and Equipment Exhibition**
Date: April 7-9, 2005
Venue: Beijing Agricultural Exhibition Center
Contact: Mr. Wang Hong Guo
Tel: 86 10-65588551 85866179-218
Fax: 86 10-65588379 85866179-211
Mobile (86) 13641187719

**CIPPE 2005**
**The China International Petroleum & Petrochemical Technology and Equipment Exhibition**
Date: April 5-7, 2005
Venue: Beijing Exhibition Center, China
Contact: Ms. Cindy Wang
T: 86 10-8529 6655* 851
F: 86 10-8529 6558
Email: ling.wang@mail.doc.gov
Website: http://www.cippe.net

**Expec 2005**
**China International Industrial Explosion-proof Products Exhibition**
Date: April 5-7, 2005
Venue: Beijing Exhibition Center, China
Contact: Beijing Zhenwei Exhibition Co., Ltd.
Address: 411-3, No.4 Panzhuang Zizhuyuan Nanlu, Haidian District, Beijing, China
Tel: (86-10) 88414751
Fax: (86-10) 88414752
E-mail:zwzlbj@163bj.com

**CIGUE2005**
**The China International Gas Utility Technological Equipment & Instrumentation Exhibition**
Date: Oct. 21-23, 2005
Venue: Shanghai Ever bright Exhibition Center
Contact: Mr. Wang Zong Po
T: 86-316-6078325/699
F: 86-316-6078312
Email:cippe@163.com
Website: http://www.gasspace.com

Key Websites:

Pipeline and Valve:
http://www.cnpv.com/
http://www.chinapipe.net/

Petroleum and Petrochemical Equipment:
http://www.wwce.net/
http://www.chemnet.com.cn/
http://www.jx.cn/
http://www.oillink.com.cn/
http://www.oilinfo.com.cn/
http://www.sinopec.com.cn/
http://www.cnpc.com.cn/
http://www.petrochina.com.cn/
http://www.cnooc.com.cn/
http://www.sinochem.com.cn/

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## (Power Generation)

## Overview

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| | 2002 | 2003 | 2004 (estimated) |
|---|---|---|---|
| Total Market Size* | 8,700 | 10,200 | 12,000 |
| Total Local Production | 10,224 | 11,840 | 14,213 |
| Total Exports** | 3,836 | 4,710 | 6,272 |
| Total Imports** | 2,312 | 3,070 | 4,059 |
| Imports from the U.S.** | 143 | 199 | 270 |

(all in USD millions)
Sources: * from China Electric Equipment and Instrument Net
** from customs statistics for electric power supply machinery

The total power generation capacity of China reached 400 million kW in 2004, making China the second-largest power generator in the world. According to the International Energy Agency, China will invest a total of nearly US$2 trillion in electricity generation, transmission, and distribution over the next 30 years to meet rapidly growing electricity demand. Half of that amount will be invested in power generation, while the other half will go to transmission and distribution. Currently, thermal energy composes the majority share of China's generating capacity, while hydropower provides about 25% and nuclear power only 2.29% of total capacity. With a limited supply of fossil fuels for power generation, the Chinese government encourages alternative forms of power supply, such as hydropower, wind power, and solar power.

## Best Products/Services

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The most competitive products and services for U.S. companies will be in alternative power supplies (including wind, hydro and nuclear), power dispatching systems, telecommunications equipment for the power industry, management software, and ultra high voltage transmission equipment and management systems. Safety equipment also has good market potential for U.S. companies.

## Opportunities

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China plans to build 27 nuclear generators of one million-kW and above potential before 2020, bringing the country's total nuclear capacity to 36 million kw.

There is also strong demand for the following products:

- 900 MW and above thermal power generating equipment, gas turbines
- 500 MW and above hydro power turbines, large-capacity pump storage units, advanced nuclear power station equipment, clean-coal technology power generating equipment
- 750 and above kv transmission lines equipmentabove 1.3MW capacity wind turbines, thermal power plant flue gas desulphurization equipment, power industry automation equipment, and middle and high voltage capacitors.

**Resources** Return to top

U.S. Pavilion at the 5th International Exhibition on Electric Power Equipment and Technology (EP Shanghai 2005)
http://www.adsale.com.hk/aes/en/shows/general/info2.asp?eid=3082&order=95.

China Electric Equipment and Instrument Net
http://www.cpeinet.com.cn/new/index.asp

State Electric Regulatory Commission
http://www.serc.gov.cn/

Guangzhou Institute of Energy Conversion
http://www.giec.ac.cn/

Zhongdian Feihua – Electric Power Industrial Yellow Page
http://www.fibrlink.net/

Shenzhen Energy Efficiency Association
http://www.saveen.com/

Xiamen Energy Efficiency Center
http://www.jnzx.org.cn/

Zhuhai New Energy Research Institute
http://www.china-new-energy.com/

China New Energy Information Net
http://www.newenergy.org.cn/

China Sustainable Energy Program
http://www.efchina.org/

China Solar Energy Information Net
http://www.chinasolar.com.cn/

China Bio-gas Information Net
http://www.china-biogas.cn/index1.asp

Guangzhou Institute of Energy Conversion
http://www.giec.ac.cn/

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**(Software)**

## Overview

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| | 2002 | 2003 | 2004 (estimated) |
|---|---|---|---|
| Total Market Size | 4056 | 4915 | 5598 |
| Total Local Production | 3446 | 4171 | 4832 |
| Total Exports | 237 | 301. | 251. |
| Total Imports | 847 | 1045 | 1017 |
| Imports from the U.S. | 195.4 | 243.1 | 258 |

All are in USD millions, Source of Imp & Exp data from World Trade Atlas
Source of local production: CCID Consulting 2004.10
The above table is calculated based on HS codes 8524.31, 8524.39, 8524.40, 8524.91, 8524.99; software downloaded from the Internet is not included in the above table.

## Best Products/Services

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China's software industry, with the considerable aid of government incentive programs, has entered into period of steady growth after more than 10 years of slow development. In 2004, sales of all types of software and software systems reached US$25.4 billion, an increase of 28%[1]. Software and system integration sales revenue reached US$19.7 billion while exports reached US$251 million. Although China has many software enterprises, Chinese software firms only account for 2.6% of the global software market. Within China, foreign software still dominates the Chinese market and should continue to realize strong sales potential, especially in the high-end software market.

Further investment of IT infrastructure in finance, telecommunication, banking, education, medical, construction, media, communication, and traditional manufacturing entities will provide market opportunities for foreign and domestic software companies. Application software and customized software are the best prospects in this field. High-end products such as database management systems, systems management software, networking security software, and industry application software are the fasted growing prospects for foreign firms selling into the China market.

Competition in China's software market is fierce. Foreign vendors accounted for 65% of China's total software market. The top four foreign software companies are Microsoft, IBM, Oracle, and Sybase, while the top three domestic software companies are China National Software Service Corporation, China Neusoft, and China Ufsoft.

China's accession to the WTO is also driving growth in the IT and software market. Starting from 2003, software import tariffs were eliminated. The Chinese government issued a number of policies ranging from export incentives to value-added tax rebates to financial assistance to companies; it also addressed intellectual property rights protection. One major development was the promulgation of the Chinese Government Procurement Law, which mandates that all Chinese government entities (not including

[1] Sources: China Software Association

State-Owned Enterprises) procure domestically produced products whenever commercially available. With respect to software, these regulations are still under draft; of particular ambiguity is what constitutes “domestic” product.

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China International Exhibition on Financial Banking Technology & Equipment 2005
http://www.ciftee.com.cn/

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## (Telecom)

## Overview
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| | 2002 | 2003 | 2004 (estimated) |
|---|---|---|---|
| Total Market Size | 34,852 | 35,165 | 31,662 |
| Total Local Production | 38,022 | 40,833 | 46,385 |
| Total Exports | 11,570 | 17,371 | 28,395 |
| Total Imports | 8,400 | 11,703 | 13,672 |
| Imports from the U.S. | 1,253 | 1,024 | 1,142 |

All in USD millions
Sources of Data: Chinese Customs, China's Ministry of Information Industry, World Trade Atlas, the U.S. Department of Commerce, the U.S. Treasury, and the U.S. International Trade Commission.

The 2004 figures are processed and estimated by the U.S. Commercial Service Beijing Office and Trade Development Office of U.S. Department of Commerce.

As China's 2nd generation of mobile communications equipment market is dominated by European and North American companies and because of the unique characteristics of mobile communications, most of China's mobile communications equipment demands are filled by imports. The quickly rising Chinese manufacturers, however, led by Huawei Technologies and ZTE are turning to South American, Southeast Asian and African countries for business opportunities and are increasingly raising their market share in China.

In 2005, China's Ministry of Information Industry (MII), the most important government regulator in the telecommunications industry, projects that Chinese telecom carriers will invest $25 billion to recruit 45 million fixed line telephone subscribers and 58 million cellular phone users. MII expects the number of fixed line telephone users to reach 361 million and the penetration rate to reach 27.6% by the end of 2005 and the number of cellular users to reach 392 million and a penetration rate of 30%. With such an investment, Chinese telecom carriers expect to generate revenues of $76.5 billion, 10.4% more than that in 2004.

## Best Products/Services
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*Expansion of Mobile Communications Networks*
China's two mobile operators, China Mobile and China Unicom, will continue to expand their mobile networks in 2005 in a way that not only increases network coverage but also gives flexibility to offer more data services to their customers. They will continue to have great demand for base stations, switches and network optimization solutions.

*Online Gaming/Mobile Gaming*
Chinese fixed line telecom operators will work with their business partners, online gaming operators and ISPs/ICPs, to provide online games and mobile games in 2005. This can be a market of billions of U.S. dollars. Online gaming/mobile gaming developers can either work with the telecom operators directly or work with gaming operators and ISPs/ICPs to market their games in China.

*Wireless LAN*
Chinese fixed line telecom operators, China Telecom, China Netcom and China Tie Tong (formally China Railcom), may increase their efforts in building wireless LAN networks to provide their customers with fast and easy wireless access to the internet. The fixed line telecom operators will continue to promote ADSL and other broadband access technologies in China.

*Public Safety System*
With increasing awareness of the importance of government's ability to deal with critical situations, there is a growing demand for emergency response systems in China. Without an organization like the National Emergency Number Association (NENA) in the United States, China has not yet developed a national technical standard for its emergency response system. At present, large and economically well-off cities in China like Beijing, Tianjin, Nanning and Chengdu have started building public safety networks by introducing TETRA-based digital trunking system that integrate with their existing analogue systems. More Chinese cities will follow in 2005. There will be demand for database software, interoperability consoles and data management system and great business opportunities for U.S. firms given the fact that U.S. firms have long-standing experience in emergency response system.

## Why Mobile Handsets are not a Best Prospect for U.S. exporters

Among China's total exports of telecom products for the first eleven months of 2004 (December figures were not released at the time of this report), US$14.53 billion, or 51%, are telephone sets including mobile phone handsets, line phones and walkie-talkie handsets. China's largest single export in the telecom sector is mobile phone handsets.

China is now the largest mobile phone handset maker and exporter in the world. As the Chinese government eased its control over the production of mobile phone handsets in 2004, the production soared. According to the statistics released by MII, China's production of mobile phone handsets reached 230 million sets in 2004, about 50 million more than that in the previous year. Chinese Customs statistics shows that China exported US$12.53 billion worth of mobile phone handsets by the end of November 2004, which is 44% of China's total exports of telecom products in the year.

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**PT/Wireless & Networks Comm China 2005**
October 18 – 22, 2005
China International Exhibition Center, Beijing

China Hi-Tech Trade Show (TBD)

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Key Websites
Ministry of Information Industry (MII)
http://www.mii.gov.cn
Ministry of Commerce
http://www.mofcom.gov.cn
China Telecom
http://www.chinatelecom.com.cn
China Netcom
http://www.chinanetcom.com.cn
China Mobile
http://www.chinamobile.com
China Unicom
http://www.chinaunicom.com.cn/chinaunicom/firstlist_0.html
China Tietong
http://www.crc.net.cn
ChinaSat
http://www.chinasatcom.com

## (Water Treatment)

## Overview

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| | 2002 | 2003 | 2004 (estimated) |
|---|---|---|---|
| Total Market Size | 14,085 | 16,840 | 19,377 |
| Total Local Production | 10,224 | 11,800 | 13,565 |
| Total Exports | 360 | 523 | 585 |
| Total Imports | 4,221 | 5,563 | 6,397 |
| Imports from the U.S. | 422 | 556 | 639 |

All figures in the above table represent unofficial estimates in USD millions. No accurate figures are available.
China's environmental protection industry is growing at approximately 15 percent annually during the past several years.

At present, China is encountering a severe water shortage, due to both a large population and water pollution created by rapid economic development with minimal regard for the environmental impact. In recent years, China has seen a significant improvement in its water and wastewater infrastructure with the annual water supply reaching 549.7 billion cubic meters by the end of 2002. Even so, there is still an annual water shortage of 40 billion cubic meters. It can be predicted that the acceleration of the urbanization process and continuous high-speed economic growth in China will aggravate this water shortage situation. In the wastewater treatment sector, the official municipal wastewater treatment rate was only 39.9% at the end of 2002, which is far from enough given the serious water pollution status in China.

The water and wastewater treatment industry was taken as a commonwealth enterprise in China for many years, and only limited fees were levied for the consumption of resources and provision of services. This system has led to huge amounts of water being squandered and polluted and also to a scarcity of capital in the construction, renovation, operation and maintenance of water and wastewater infrastructures or facilities. Fortunately, the Chinese Government has realized this and is determined to treat water as a valued resource by introducing market mechanisms in the water supply and wastewater treatment sector. In line with this decision, the main Water Resource Law was revised in 2002 and many related regulations and policies were issued. Water tariff and wastewater treatment fees are rising to a rational level and the public water infrastructure has been opened to foreign and non-state owned capital financing. China's water market is extraordinarily active and certainly China's WTO accession has been a significant impact on water market reform.

China's water market reform has undoubtedly created many opportunities for foreign enterprises. Significant amounts of new water infrastructures will be built and the operation and maintenance of all existing and newly built municipal water and wastewater treatment plants have been or will be transferred to authorized enterprises. Many forms of Private Public Partnership (P3) are now accepted by the Chinese Government providing technology and equipment supply, and long-term investment opportunities for foreign enterprises. It is anticipated that the following technology and associated technology transfer needs will provide the most opportunity:

- Biological denitrification and phosphorus removal technologies,
- Membrane separation and manufacturing technologies and equipment,
- Manufacturing technology of anaerobic biological reactor,
- High concentration organic wastewater treatment technology and equipment,
- Series-standard water and wastewater treatment equipment family with high efficiency,
- Water saving technologies and equipment,
- Water treatment agents,
- Monitoring instrument, and

Natural water body rehabilitation technology.

**Best Products/Services** Return to top

**1) Municipal Wastewater Treatment**

- The standardization of water and wastewater treatment equipment
- Biological denitrification and phosphorus removal technology with high efficiency and energy saving technology
- Manufacturing technology of anaerobic biological reactor such as UASB reactor, anaerobic filter, anaerobic attached-film expanded bed, anaerobic fluidized bed reactor
- Immobilized microbe technology
- Membrane manufacture technology
- Low speed and variable speed multi-pole centrifugal blower
- Sludge treatment and disposal equipment
- Packaged thickening, dewater belt press
- Horizontal screw centrifugal dewatering
- Methane electric generator
- Automatic control equipment for water treatment

*2) Industry Wastewater Treatment*

- High concentration organic wastewater treatment technology and equipment
- Membrane separation technologies, such as Reverse osmosis, Ultrafiltration, Microfiltration and Ion exchange
- Wastewater deepen treatment and reuse technology and equipment in each industry sectors such as surface treatment, mining, colliery, paper and pulp, metallurgy, petroleum exploitation, electronic sector, mechanical sector and chemical sector
- High efficiency ozone generator and $ClO_2$ generator
- High efficiency Ultraviolet disinfection device

*3) Water Conservation*

- Water saving technologies and equipments in power and energy sector, textile sector, petroleum and chemistry sector and metallurgy
- Miscellaneous water saving devices or apparatus
- Sea water and brackish water usage and desalting technologies and equipments

- High efficiency air cooling technology and waterless production technology

*4) Natural Water Body*
- Organic pollution and eutrophication natural water body pollution control and rehabilitation technology
- Natural water body substrate sludge disposal technology
- Algae control technology
- Artificial water scenery water quality maintenance

*5) Monitoring Instruments*
- Pollution source on-line monitoring instrument
- Portable monitoring instrument
- Intelligent auto-sampling, data collection and treatment and remote control system with high reliability and precision
- City water monitoring network

*6) Water Treatment Agents*
- Water treatment biological and enzyme agents
- High efficiency flocculation and coagulation agent
- Pollution-less bactericide

*7) Services*
- The integrated engineering project service including financing, design, equipment supply, construction and installation and operation
- Professional water treatment facilities operation and maintenance
  Water market information service

**Opportunities** Return to top

**South-to-North Water Diversion Project**
The construction of South-to-North Water Diversion Project will create a large water supply and wastewater treatment market. In the water destination areas, including Beijing, Tianjin, Hebei, Henan, Shandong and Jiangsu, the construction or expansion of water plants and piping systems will offer the market opportunities worth US$6.09 and 5.92 billion respectively. In addition, water pollution control will be a major part of the Eastern Route project. US$1.93 billion is the planned investment for the construction of municipal wastewater treatment plants. These projects are located in Jiangsu, Shandong, Hebei, Tianjin, Anhui and Henan Provinces.

**Three Gorges Watershed Area**
The Three Gorges Area is located in Yichang, Hubei Province. To maintain the water quality at a good level, wastewater treatment projects will be implemented in Hubei, Sichuan, Guizhou, Yunnan Provinces and Chongqing Municipality. From 2003 to 2005, 77 projects with the total investment of US$0.86 billion will be constructed. From 2006 to 2010, another 146 projects with the total budget of US$0.93 billion will be conducted.

**Beijing 2008 Olympic Games**
Beijing, as the host city of 2008 Olympic Games, also has ambitious plans to develop its wastewater treatment infrastructures from now to 2008. According to the Beijing City

Planning Department, nine wastewater treatment plants, 1000 km long wastewater main pipelines, nine wastewater reclamation and reuse facilities, and four sludge digesting facilities will be completed. The total investment will be US$1.45 billion.

**Resources** Return to top

**Major shows:**

**Water, Wastewater & Water Treatment China 2005**
**Pump, Valve & Pipe China 2005**
Date: March 8-11, 2005
Venue: Chinese Export Commodities Fair Pazhou Complex, Xingang East Road, Guangzhou
Organizer: China Foreign Trade Guangzhou Exhibition Corp.
Contact person: Mr. Liu Xiaomin
Tel: 0086-20-86674121
Fax: 0086-20-86663416
E-mail: project3@fairwindow.com
Web site: http://www.waterchina-gz.com

**China Northeast 6th International Environmental Protection, Water Supply& Drainage, Water Disposal Technique& Equipment, and Pump& Value and Pipeline Exhibition**
Date: March 29- 31, 2005
Venue: Shenyang International Exhibition Center
Organizer: Liaoning CCPIT, Shenyang Association of Environmental Protection Industry
Contact: Ms. Liu Lisha
Tel: 86-24-2384-8948/ 8943 ext. 8037
Fax: 86-24-2392-2432
Address: Jinyuan Building 5/F, 93 Sanhao Street, Heping District, Shenyang Liaoning Province, P.R.China 110004
Email: info@bfexpo.com.cn
Website: http://www.bfexpo.com.cn

**Water & Membrane China (Shanghai) 2005**
Date: March 29-31, 2005
Venue: Shanghai Exhibition Center, Shanghai, China
Contact: Mr. Julius Zhu
Grand Exhibition Services Co., Ltd.
Rm. 318, No. 21 Dongsi Shitiao, Beijing 100007, China
Tel: +86-10-8401-8151 / 6405-9097
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**WSDWTF 2005**
**The 6th China (Shanghai) International Water Supply & Drainage and Water Treatment Technology & Equipment Exhibition**
Date: April 20 –22, 2005

Venue: Shanghai Everbright Convention & Exhibition Center
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**The 9th China International Environmental Protection Exhibition and Conference(CIEPEC 2005)**
Dates: June 7-10, 2005
Venue: China International Exhibition Center, Beijing
Organizer: China Association of Environmental Protection Industry
Contact: Mr. Su Fan, Ms. Chai Yanli, Ms. Yang Yan
Tel: (86-10)6839-3245, 6839-3827
Fax: (86-10)6839-3748
Email: [intl@chinaenvironment.org; ciepec@163.net]
Website: http://www.chinaenvironment.com/ciepec2005
Cost: Standard booth 3m x 3m: $3600
Comment: Biennial show, the most comprehensive and reputable environmental show in China which attracts much attention both at home and abroad. USFCS Beijing staffed a booth at CIEPEC 2003.

**The 2nd Energy Conservation, Water Conservation, Environmental Science and Technology and New Product Fair – China Green Certification Product Fair**
Dates: July 9-11, 2005
Venue: China International Exhibition Center, Beijing
Organizer: China Standardization Administration Commission
Tel: (86-10) 84926811, 84926801, 84921276,
Fax: (86-10) 84932415
Email: t84926811@126.com
Cost: Standard booth 3m x 3m: 8500RMB

- **Useful websites:**

**http://www.zhb.gov.cn/**
State Environmental Protection Administration

**http://www.cepi.com.cn/**
China Assn. of Environmental Protection Industry

**http://www.cenews.com.cn**
China Environmental Daily

**http://www.worldbank.org**
World Bank – China Pollution Intensities

**http://www.environment.ita.doc.gov/**
U.S. Dept. of Commerce - China Environmental Market

**http://www.tda.gov**

U.S. Trade Development Agency

**http://www.adb.org/China/**
Asian Development Bank

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## Agricultural Sectors

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The United States Department of Agriculture operates several offices in the People's Republic of China for the purpose of maintaining, promoting, and enhancing U.S. agricultural, fishery, and forestry exports. China is now the world's fourth largest importer of agricultural goods and its imports are expected to continue growing. China Customs records for 2004 indicate the country imported over $35 billion in agricultural, fishery, and forestry commodities. Presently, U.S. agricultural, fishery, and forestry exports to China are at their all-time greatest levels; China Customs records indicate the value was $8.1 billion in 2004.

Individuals and enterprises interested in exporting U.S. agricultural, fishery, and forestry commodities to China and Chinese importers interested in sourcing American agricultural, fishery, and forestry commodities should begin by contacting the USDA Foreign Agricultural Service offices and the in-China Cooperator organizations included below. In addition to contacting these offices, exporters of U.S. commodities should review the USDA Foreign Agricultural Service (FAS) website (http://www.fas.usda.gov). The website features information general for all exporters; including information on opportunities to showcase agricultural products in China at trade shows and other promotional venues, FAS sponsored promotional efforts, how to determine export readiness, export financing and assistance, and a directory of contacts both in the United States and abroad who registered as either suppliers or buyers of agricultural, fishery, and forestry goods.

USDA offices provide both required and voluntary reports on market opportunities and constraints including information on policy developments, agricultural production, trade, and demand situations, as well as sector reports, e.g. hotels, restaurants, and institutions, or bakery ingredients that are all freely available on a link inside the FAS website: http://www.fas.usda.gov/scriptsw/attacherep/default.asp. The end of this chapter contains a few report highlights from the USDA Global Agricultural Information Network (GAIN reports) viewable on the website.

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Disclaimer: This list is provided for convenient reference and as such does not imply discrimination towards or endorsement of any particular company or individual.

The following is a small, sample compilation of report highlights from publicly available Global Agricultural Information Network (GAIN) reports written and published by FAS offices in China. Exporters of U.S. food, beverage, agricultural, fishery, and forestry commodities can view the full text of these and other reports by accessing the following website (http://www.fas.usda.gov/scriptsw/attacherep/default.asp) and selecting options for the desired commodity, time period, and country.

Agricultural Trade Offices also report on specific city markets in their regions. For more information, contact ATOBeijing for northern provinces, ATOShanghai for eastern and western provinces, and ATOGuangzhou for southern provinces.

Poultry and Poultry Products (GAIN report CH5011)
China's 2005 poultry production is forecast at 9.9 MMT –the same as post's September 2004 forecast. China banned imports of all U.S. poultry products, worth about $300 million annually, in February 2004 when a case of low pathogenic avian influenza (AI) occurred in Delaware. After months of negotiations, the Chinese Government re-opened the market to U.S. poultry products in December 2004; the first containers reportedly cleared Chinese customs in late January. As a result of China's tougher inspection requirements and a crackdown on smuggling in Hong Kong during 2004, more shipments are likely to go direct to Mainland ports rather than through Hong Kong.

Livestock and Livestock Products (GAIN report CH5010)
In November 2004, China and the US signed an import protocol for US bovine semen and embryos. Before actual trade begins, China has requested an inspection by Chinese officials of each embryo and semen collection facility. China's import suspension on other bovine products, including live cattle, beef products and non-protein tallow, remains in place. During 2005, technical meetings between Chinese and US experts are the next step on US beef access. China's cattle imports shot up 232 percent from a year ago to 110,000 head driven by strong demand by the dairy sector. US pork exports last year increased over 100 percent to 40,000 MT, and the forecast is for continued growth in exports.

Food and Agricultural Import Regulations and Standard Country Report Voluntary (GAIN report CH5008)
This report updates information from the 2004 China Food and Agricultural Import Regulations and Standards Country Report CH4028. It is an index of all agricultural product import regulations and standards translated by the Agricultural Affairs Office at the U.S. Embassy in Beijing. All translations are UNOFFICIAL. Updated sections are marked with an asterisk. Updated sections include: food additive regulations, multiple commodity regulations, commodity specific regulations, and import procedures. New regulations and revised materials are marked in red font with an asterisk.

Mainland China Food Retail Sector Annual Report (GAIN report CH4838)
China's food retail sector continues to grow and develop as hypermarket and convenience store chains expand across the country. Foreign-invested hypermarkets are likely to continue growing as restrictions on their activity and ownership are scheduled to be loosened in 2005.

Business Travel in China (GAIN report CH4836)
China, as the world's most populous country, has quickly become an important market for many U.S. businesses. USDA/FAS offices in Beijing, Shanghai and Guangzhou

warmly welcome U.S. business travelers to China. This introduction to travel in China serves to give you the confidence to explore China as a market for U.S. products.

South China's Wine and Beer Market (GAIN report CH4620)
South Chinese incomes have doubled within the last few years, resulting in increased beer and wine expenditure. However, imported products only hold a small share in overall sales. Education and promotion will be necessary to introduce more imported wines since many consumers do not understand variety and quality differences. In addition, sales of foreign standard lager have primarily been successful with joint venture production in China.

Shanghai Business Etiquette (GAIN report CH4835)
As the world's most populous country, China is fast emerging as a strategically important market for many U.S. businesses. Understanding and practicing Chinese etiquette is one of the keys to a successful business experience in China. Generational change and increasing exposure to global media are transforming the veneer of Chinese culture. Beneath the surface, however change is more gradual. ATO/Shanghai has identified a few basic observations and suggestions for visiting American business people.

**Cotton and Cotton Products Voluntary Report (GAIN report CH4067)**
Xinjiang cotton experts forecast imports will be about 1.8 MMT for MY04/05, which is higher than the 1.4 MMT as estimated by many other trade sources. His forecast is based on his analysis of domestic consumption growth and the availability of domestic cotton. Imports for the first three months of MY04/05 (Aug-Oct) reached 195,424 MT, up 130 percent compared to 84,958 MT in the same period in MY03/04.

Soybean Situation Voluntary Report (GAIN report CH4066)
Trade sources forecast soybean imports for MY04/05 will reach 19 MMT, chiefly due to continuing strong demand for soy products, especially SBM, in addition to a relatively low ending stock for MY03/04. Some sources estimates range as high as 20 MMT. Post's import estimate for MY04/05 is 20 MMT or even higher. One source reported that China's total contracts for U.S. soybeans reached 6.6 MMT as of Nov 18 of MY04/05. This was 44 percent higher than the same period in previous year. Arrivals in the coming two months are expected exceed 2 MMT monthly. It is worth noting a bumper harvest of cotton (estimated at 6.3 MMT) will result in higher cottonseed meal and oil in market. It is estimated that cottonseed will grow by above 2 MMT relative to the year before.

ATO Shanghai Market Promotional Activities Report (GAIN report CH4828)
This report provides a complete list of market-development activities, such as trade shows, retail promotions and trade teams, that the ATO Shanghai plans to participate in over the period from December 2004 through December 2005. U.S. exporters and other organizations interested in participating in any of these activities should contact the respective organizer or ATO Shanghai for additional information.

China's Fish Meal Sector Voluntary Report (GAIN report CH4038)
Like many other major fish meal producing countries, China's fish meal production continues to decline -- from about 400,000 MT in 2003 to an estimated 386,000 MT in 2004. The primary cause of the decline is the shrinking marine fish stocks and related catches. Meanwhile, consumption remains high at 1 to 1.3 MMT. Imports fluctuate between 0.8 to 1 MMT. The shrinking catches are pushing international prices up to levels where customers look for substitutes.

Dairy and Dairy Products Annual Report (GAIN report CH4050)
China's raw milk production is forecast to increase 25% during 2005 due to continued strong demand from consumers for dairy products. Despite the strong demand for imported live dairy cows and bovine genetics, China has not lifted its ban on imported US and Canadian bovine products due to the BSE cases in those countries. Though on September 28, 2004, China lifted the ban on imported semen, embryos and protein-free tallow from BSE-affected countries, final import approval is contingent on negotiating and signing bilateral protocols. China's direct imports of US dairy products during CY2004, led by whey products, are forecast to increase 38 percent to approximately $55 million.

Mainland China Exporter Guide (GAIN report CH4824)
In 2003, China Customs reported imports of over $19.6 billion of agricultural and fisheries products (not including forest products). U.S. Customs reports agricultural and fisheries exports of roughly $5.19 billion to China. As incomes continue to rise, imports are also likely to continue. Processed and RTE foods continue to gain ground as

wealthy urban consumers seek new ways to save time. Beef and poultry suffered severe setbacks due to BSE and AI related trade barriers.

**Fresh Deciduous Fruit Annual Report (GAIN report CH4033)**
China, the world's largest producer and consumer of apples, pears, and grapes, accounts for 50% of world apple production, 65% of world pear production, and 40% of world table grape production. Year 2004 apple production should be lower, at 20.2 MMT, following last year's peak in the production cycle, while pear and grape volumes should increase to 10.2 MMT and 5.6 MMT on expanded planting and better yields. CAJ production is also higher, at 560 KMT, on expanded capacity and high world demand. Traded volume in relation to production is relatively small yet growing fast. Fruit imports by dollar value increased over the past year while overall volumes decreased. Exports continue fast growth as prices, although rising, remain low compared to other suppliers, new markets open, and quality improves. CAJ exports continue booming and account for 90% of production use. Recently issued fruit entry requirements could impact trade of all deciduous fruit, especially re-exports from Hong Kong to China.

Citrus Fruit Annual Report (GAIN report CH4062)
China's MY 2004/05 citrus production is forecast between 13-14 MMT. Total acreage remains stable, with orange area growing slightly and tangerine area declining. In the next few years, citrus production will likely stabilize at current levels while quality improves. Government support focuses on technical extension and market information but there is no significant investment. Demand for high quality fruit will outpace production over the short to medium run leading to fresh orange and other citrus import growth.

**Planting Seed Trade Situation (GAIN report CH4034)**
China's planting seed imports rose 17 percent by value to $84.3 million in MY03/04, while exports climbed 7 percent to $49.5 million. China's imports from the U.S. equaled $30 million while exports totaled $9 million. The U.S.'s competitive strength rests with grass seeds for turf, forage, and reclamation use, along with strong support from herb, vegetable, and sunflower seeds. China continues exporting large volumes of rice and vegetable seeds.

**Tree Nuts Annual Report (GAIN report CH4030)**
China's tree nut production decreased in 2003 due to a down year in production cycle, even if the acreage continued to increase. The 2004 production is expected to reach new high with walnut production reaching around 350,000 MT. Demand for tree nuts remains strong, yet high market prices restrict imports and consumption. Efforts are needed to change people's perception of tree nuts as a snack food to a health food.

**Food Processing Ingredients Sector Report (GAIN report CH4606)**
The food processing industry is developing rapidly in China. Strong economic growth combined with higher disposable incomes means increased demand for high quality processed food by Chinese consumers. This report briefly discusses opportunities for US exporters of high-quality processed food products and ingredients.

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# Chapter 5: Trade Regulations and Standards



## Import Tariffs

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China's December 11, 2001 WTO accession represented a major victory in the United States' ongoing effort to open China's market to U.S. goods and services. China's final package of commitments codifies the bilateral concessions China made to the United States in the Market Access Agreement of November 15, 1999. China's accession to the WTO has encouraged China's domestic reform process and further opened its market to U.S. goods and services.

In the past, China has restricted imports through high tariffs and taxes, non-tariff measures, trading rights restrictions, and other barriers. Chinese officials are increasingly aware, however, that such protective measures contribute to endemic economic inefficiencies and encourage smuggling. To address these problems, the Chinese Government agreed to dramatically reduce many barriers as part of its WTO accession. China has made the tariff cuts required under its WTO Accession Agreement and greatly expanded trading rights. In April 2004, China revised the *Foreign Trade Law of the People's Republic of China*. The revised law lifted restrictions on granting trading rights to foreign enterprises. At the same time, China promulgated *Measures on the Administration of Foreign Investment in Commercial Fields*. If fully implemented, the new legislation allows China to meet its accession commitment to phasing out limitations on the granting of distribution rights. China also has reformed its turnover tax system to minimize distinctions between domestic and foreign entities according to the principle of national treatment. In addition, China has substantially reduced the number of goods subject to import quotas and as part of its WTO commitments has committed to phase out or continue to notify to the WTO of all remaining quotas. China has begun to clarify its licensing procedures in accordance with the WTO's transparency requirement.

Import Tariffs

A comprehensive guide to China's customs regulations is *The Customs Clearance Handbook* (2005), compiled by the General Administration of Customs (China Customs). This guide contains the tariff schedule and national customs rules and regulations. This guide can be purchased at bookshops in China, or ordered from following:

China Customs Publishing House,
No. 9A, Dong Tu Cheng Street,
Chaoyang District, Beijing, China 100013
Phone: (86)(10) 8527-1610; Fax/Phone (86)(10) 6519-5616

1. Tariff Rates

China Customs assesses and collects tariffs. Import tariff rates are divided into six categories: general rates, most-favored-nation rates, agreement rates, preferential rates, tariff rate quota rates and provisional rates. As a member of the WTO, imports from the United States are assessed at the most-favored-nation rate. The five Special Economic Zones, open cities, and foreign trade zones within cities offer preferential duty reductions or exemptions. Companies doing business in these areas should consult the relevant regulations.

China may apply tariff rates significantly lower than the published MFN rate in the case of goods that the government has identified as necessary to the development of a key industry. For example, China's Customs Administration has occasionally announced preferential tariff rates for items that benefit key economic sectors, in particular the automobile industry, steel, and chemical products. In the past, foreign firms have sometimes benefited from policies aimed at attracting foreign investment into key sectors, such as high technology. For example, foreign-invested firms that produced certain types of high technology goods, or who were export-oriented, did not pay duty on imported manufacturing equipment.

2. Customs Valuation

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. On January 1, 2002, Custom Order 954, the Administrative Regulation on Examination and Determination of the Dutiable Value of Imported and Exported Goods, came into effect. Under the regulations, China Customs has been tasked with assessing a fair valuation to all imports. To tackle this task, all Customs officers now have access to a valuation database that lists appropriate valuations for various imports, based on international market prices, foreign market prices and domestic prices. Customs officers check the price reported by the importer against this database. Normally, Customs officers will accept the importer's price. However, if the reported value is too far out of line with the database, the Customs officer will estimate the value of the goods based on methods listed in Article 7 of the PRC Administrative Regulations.

3. Tariff classification

Until July 2004, China Customs exclusively used eight-digit codes in its harmonized tariff system, as opposed to the more detailed ten-digit codes. Without detailed codes, Customs officers have wide discretion to classify in what general category to place each import. The Ministry of Commerce announced the use of ten-digit codes for certain items including rare earth, chemicals, internal combustion engines, pumps and automobiles. The adjusted codes took effect on July 1, 2004.

4. Taxes

On top of normal tariff duties, both foreign and domestic enterprises are required to pay value-added taxes (VAT) and business taxes. VAT is assessed on sales and importation of goods and provision of processing, repairs and replacement services. Business taxes are assessed on providers of services, the transfer of intangible assets and/or the sales of immovable properties within China. VAT is assessed after the tariff, and incorporates the value of the tariff. China is bound by WTO rules to offer identical tax treatment for domestic and imported products. VAT is collected regularly on imports at the border, although importers note that their domestic competitors often fail to pay taxes.

China offers a variety of tax incentives and concessions. The general VAT rate is 17 percent but necessities, such as agricultural products, fuel and utility items, are taxed at 13 percent. Enterprises regarded as small businesses (those engaged principally in production of taxable goods or services with annual taxable sales of less than RMB 1 million or those engaged in wholesaling or retailing of goods with annual sales of less than RMB 1.8 million) are subject to VAT at the rate of 4 percent or 6 percent, depending on the nature of the business. Unlike other VAT payers, small businesses are not entitled to claim input tax credits for VAT paid on their purchases. Certain limited categories of goods are exempt from VAT. Likewise, many foreign-invested processing enterprises are exempt from certain taxes if they export their products.

VAT rebates up to 17 percent (a full rebate) are available for processed exports. Exporters complain that it takes months to obtain the rebates and amounts are often miscalculated. Also, rebates are limited by the local budgets, and coastal provincial authorities often run out of funds for rebates well before the end of the year. The applicable rebate method varies and is a function of the establishment date of the enterprise.

In March 2004, the United States initiated a case against China at the WTO for China's practice of allowing firms producing integrated circuits (IC) in China and for ICs designed in China but manufactured abroad to obtain a partial refund of the 17 percent VAT. The United States filed the case because it was believed these policies unfairly supported domestic Chinese industry by discriminating against foreign products. The dispute was resolved through negotiations in July 2004 when China agreed to discontinue its system of offering VAT refunds that favored domestically produced and domestically designed semiconductors.

China intends to eventually phase out its two-tier income tax system for domestic and foreign enterprises. Domestic enterprises have long resented income tax holidays, 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. However, in some cases Chinese authorities have promised to grandfather existing foreign investments with current tax incentive deals for at least a certain period of time.

## Trade Barriers

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The Chinese Government has recognized for years that economic reform and market opening are essential components of sustainable and balanced economic growth. In recent years, the Chinese Government undertook a massive effort to revise its laws and regulations in a manner consistent with WTO rules. At the Central Government level, China has already revised or repealed hundreds of laws and regulations in its effort to meet its WTO obligations. However, while China has an increasingly open and competitive economy, substantial barriers have yet to be dismantled. Import barriers, an opaque and inconsistent legal system, and limitations on market access combine to make it difficult for foreign firms to operate in China. Business interests must be realistic about the impact of WTO accession. It has brought and will continue to bring enormous changes – both economically and socially – but WTO entry will not remove all commercial problems and the implementation process will take time.

Some of the current trade barriers that U.S. firms face are:

1. Tariffs

WTO accession has had a dramatic effect on tariffs for many products of interest to the United States. China reduced tariffs for U.S. priority agricultural products from an average of 31 percent to 14.5 percent in January 2004, which rate is also effective in 2005. Tariffs for some passenger cars, over 100 percent prior to accession, are scheduled to be reduced to 25 percent by 2005. The Information Technology Agreement calls on China to eliminate duties on IT goods – such as semiconductors and computer hardware – by January 1, 2005. Still, China plans to maintain high duties on products that compete with those of domestic industries the Chinese Government seeks to protect. For example, the tariff on large motorcycles will only fall from 60 percent to 45 percent. Likewise, most video, digital video, and audio recorders and players will still face duties around 30 percent.

2. Import Quotas

WTO rules bar quotas and other quantitative restrictions. China has been gradually eliminating them and will continue to do so over a multi-year phase-in period. The bilateral agreement with the United States required 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. Effective January 1, 2005, China eliminated import quotas for automobiles and began to regulate automobiles imports by automatic import licensing.

3. Tariff-Rate Quotas (TRQs)

China applies TRQs to imports of wheat, corn, rice, soy oil, cotton, barley, vegetable oils, and fertilizer. With its WTO accession, China for the first time published TRQ levels and the regulations governing TRQ administration. China will gradually increase these already-large TRQ levels. A growing portion of each TRQ will be reserved for importation through firms 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. In China's first years as a WTO member, TRQ allocation, like quota allocation, has been plagued by official delays and a lack of transparency in China's system of TRQ administration. The National Development and Reform Commission (NDRC) refuses to publish, consistently and in a timely manner, the names of or answer inquiries about agricultural quota recipients. The NDRC also reserves a portion of TRQs - over 60 percent for some commodities - for the processing trade, requiring quota recipients to process and re-export the products they import or face stiff penalties. In addition, licensing requirements for TRQ recipients are burdensome and many firms have been given quota allocations far below commercially viable levels.

4. Import Licensing

In December 2004, MOFCOM promulgated new *Administrative Measures on Imports and Licenses for Goods; the 2005 Catalogue for Goods Subject to Import Licensing*; and *the 2005 Catalogue of Issuing the Licenses by Level for Goods subject to Import Licensing*. Products that require import licenses can be found in the 2005 Catalogue for Goods, available through the links below.

http://www.mofcom.gov.cn/article/200501/20050100330090_1.xml
http://www.mofcom.gov.cn/article/200412/20041200317916_1.xml
http://www.mofcom.gov.cn/article/200501/20050100328419_1.xml

Products subject to import quotas or TRQs also require import licenses, including some wool, grains, oilseeds and oilseed products and cotton. China has also added license requirements to some products in an effort to combat smuggling; for example, China requires licenses for meat traders. The Ministry of Commerce (MOFCOM) 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 always easy to obtain, and importers frequently report long delays.

5. Export Licenses

Currently, forty-seven categories of Chinese exports require export licenses. Affected products include some raw materials such as coke, a coal-based product used in steel production, certain dangerous chemicals, and food products. MOFCOM is responsible for the administration of general policies on export licenses with local-level Economic and Trade Commissions playing a supporting role. Many quasi-governmental chambers of commerce, such as the China Chamber of Commerce for Import and Export of Machinery and Electronic Products (CCCME) and the China Chamber of Commerce of Metals, Minerals & Chemicals Importers and Exporters (CCCMC) have been tasked by the Government to coordinate applications for licenses. According to WTO rules, only a nominal fee sufficient to cover the cost of issuing the licenses may be charged.

6. Transparency

China publishes laws and regulations relating to international trade in the China Foreign Trade and Economic Cooperation Gazette, published by MOFCOM and available on MOFCOM's website (www.mofcom.gov.cn). Many government ministries publish the texts of related laws and regulations on their websites. Economic newspapers routinely carry the texts of government circulars, announcements and regulations. In addition, there has been a proliferation of online news and information services such as chinaonline.com, sinolaw.com, and sohu.com that offer up-to-date news about and texts of new laws and regulations. As a WTO member, China has committed to publishing for comment all measures that could affect trade in goods, services, TRIPS or the control of foreign exchange, and to providing a translated copy of new laws, regulations, and other measures to the WTO Secretariat in Geneva no later than 90 days after promulgation.

China’s performance of this commitment has been inconsistent. MOFCOM has established an “Enquiry Center” to provide information on commercial, investment, and trade laws and regulations. However, some foreign companies have noted difficulty obtaining information from the Enquiry Center in English, French or Spanish, the three official WTO Languages. Transparency problems remain. Many new regulations and rules have been promulgated without adequate comment periods. Chinese ministries often implement policies based on internal "guidance" or "opinions" that are not available to foreign firms. Experimental or informal policies and draft regulations are regarded as internal matters and public access is tightly controlled. Drafts are sometimes given to domestic companies but not consistently provided to foreign-invested enterprises for comment. The rule-making process remains opaque. Furthermore, because laws and regulations are often very general, many decisions are left to the discretion of the implementing bureaucrats, who can make decisions without resorting to public comment or open procedures.

MOFCOM Enquiry Center
Mr. Mu Zhonghe
Department of WTO Affairs
Tel: 86-10-6519-7342
Fax: 86-10-6519-7340
Email: muzhonghe@mofcom.gov.cn

7. Legal Framework

Laws and regulations in China tend to be far more general than in most OECD countries, thus usually requiring more specific implementing rules and measures. This vagueness allows Chinese courts and officials to apply them flexibly, which results in inconsistencies. Companies sometimes 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 despite China's commitment to ensure that these measures conform with its WTO obligations. Finally, while there seems to be no shortage of rules and regulations, there are few procedures in place to appeal regulatory decisions.

8. Trading Rights

Historically, China has restricted the types and numbers of entities with the right to trade. Only those firms with trading rights were allowed to import goods into or export goods out of China. As part of its WTO Accession Agreement, China committed to phase out restrictions on trading rights within three years of its accession. In 2004, China issued regulations to implement its WTO obligation to extend full trading rights to minority, majority, and wholly-owned FIEs, as it committed to do three years after WTO accession. In June 2004, MOFCOM promulgated *Measures on the Registration and Filing of Foreign Trade Operators*. According to the Measures, any foreign trade operator engaging in import and export of goods or techniques should apply to MOFCOM or the agencies authorized by MOFCOM for registration, or Customs will not perform the inspection and release procedures. In order to register for trading rights, companies must apply through the relevant local Office of Trade and Economic Cooperation. Applications are available on MOFCOM’s website.

9. Distribution Rights

In general, foreign firms had only been allowed to distribute products that they manufacture in China. Foreign firms were forced to engage local agents to distribute imported goods. As part of its WTO Accession Agreement, China agreed to phase out distribution restrictions for most products within three years of accession. In 2004, China did publish regulations, which extend commercial distribution rights to minority, majority and wholly-owned foreign and domestic companies and individuals, as it committed to do when it joined the WTO. However, it remains to be seen how China will implement this commitment. Moreover, China has not yet promulgated regulations on direct sales distribution, which are overdue according to China's schedule of WTO commitments.

10. Import Substitution Policies

China committed to eliminate all import substitution policies and regulations, but the Central and local governments periodically continue to issue regulations and "guidance" intended to encourage use of domestically produced substitutes. As part of its accession to the WTO, China eliminated local content and performance requirements for foreign investors and said it will not condition import or investment approvals on whether there are competing domestic suppliers or requirements. However, some foreign invested enterprises report that these practices continue informally, especially at the local government level.

11. Standards and Testing

For many products China requires strict conformity assessment licenses, quality and safety licenses, sanitary and phytosanitary testing, and labeling verifications. In an attempt to eliminate some double testing and multiple fees for imports, in 2001 China merged its domestic and quarantine testing agencies into one new organization – the State General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ). AQSIQ has issued regulations establishing a new compulsory product certification system that applies to 132 product categories. Under this system, which was implemented on August 1, 2003, there is one quality certification, called the "China Compulsory Certification," or CCC Mark, issued to both Chinese and imported products. Despite these changes, however, at the local level quarantine and domestic testing agencies and procedures remain separate. Importers complain that it is often difficult to ascertain what inspection and/or certification requirements apply to a particular import, as products requiring the CCC Mark are often defined in terms of sub-categories of the HS code, making it difficult for importers and China Customs to determine which products require this certification. In addition, the United States and other countries have complained that safety and inspection procedures applied to imports are more rigorous and expensive than those applied to domestic products.

12. 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 certain areas, 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. Regional protectionism by provincial or local authorities often blocks efficient distribution of goods and services inside China. Such practices may restrict market access for certain imported products, raise production costs, and restrict market opportunities for foreign-invested enterprises in China. To address competition issues, an antitrust law has been drafted, and MOFCOM indicated that it would promulgate the antitrust law in 2005.

13. Trade Remedy Regime

Since its accession to the WTO in December 2001, China has become one of the most frequent users of antidumping in the world, having launched twenty-three new investigations, fourteen of which have involved U.S. exports. Cases are most often brought by state-owned enterprises finding it difficult to compete as tariff and other barriers are removed, and most frequently target the petro-chemical industry, followed by steel and paper. Foreign companies involved in Chinese investigations complain that the process lacks transparency, the analysis of the health of the domestic industry is flawed, and Chinese investigators rely excessively on data provided by the Chinese petitioners. In addition to antidumping, China also conducted its first-ever safeguard investigation against steel products in 2002, but the resulting measures were widely regarded as having had adverse effects and were revoked at the end of 2003. Continued competitive pressure on China state-owned enterprises suggests, however, that China will continue to be a frequent user of trade remedies for the foreseeable future.

14. 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 sector liberalizations included in China's WTO accession agreement have improved foreign access to this sector, including increased foreign participation in financial, insurance, telecommunications, distribution and professional services, after sales service and repair businesses. However, many of the regulations implementing these commitments have imposed excessively high capital requirements and geographical and other limitations on expansion that seem intended to effectively limit market access. The services market, though currently underdeveloped due to historical attitudes and policies, has significant growth potential in both the short and long terms.

## Import Requirements and Documentation Return to top

Normally, the Chinese importer (agent, distributor, joint-venture partner, or FIE) will gather the documents necessary for importing goods and provide them to Chinese Customs agents. Necessary documents vary by product but can include standard documents such as a bill of lading, invoice, shipping list, customs declaration, insurance policy, and sales contract as well as more specialized documents such as 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), and other safety and/or quality licenses.

## U.S. Export Controls Return to top

In April 2002, the Bureau of Export Administration changed its name to the Bureau of Industry and Security (BIS). The contact numbers remain the same, but the new website address is www.bis.doc.gov.

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 Tiananmen Sanctions prohibit the export of items listed on the U.S. Munitions List and crime controlled items listed in the Export Administration Regulations (EAR). These sanctions explicitly prohibit the exportation of crime control and crime detection instruments and equipment. These restrictions apply regardless of the end user in China. The sale of these items to third parties as a means of circumventing the Tiananmen Sanctions is also prohibited.

The United States Government's Enhanced Proliferation Control Initiative (EPCI), requires the U.S. Department of Commerce (USDOC) and exporters to 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 Department and U.S. Department of Commerce (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. Currently, nineteen Chinese companies appear on the Entity List, which can be viewed at the USDOC Bureau of Industry and Security website at www.bis.doc.gov.

On June 14, 2002, the BIS published the Unverified List. This is a list of companies where BIS was unable to conduct pre-license checks (PLCs) or post shipment verifications (PSVs) for reasons outside the control of the U.S. Government. The list notifies exporters that involvement of a listed person as a party to a proposed transaction constitutes a red flag as described in the guidance set forth in Supplement No. 3 to 15 CFR part 732 of the EAR. Under that guidance, the red flag requires heightened scrutiny by the exporter before proceeding with a transaction in which a listed person is a party. Currently, six Chinese companies are on the Unverified List. The Unverified List can be viewed on the BIS website at www.bis.doc.gov.

On January 3, 2005, the U.S. State Department published in the Federal Register sanctions against eight Chinese entities for violating the Iran Nonproliferation Act of 2000. On January 24 and May 16, 2002, the U.S. State Department published in the Federal Register, sanctions against a total of 11 Chinese entities for violating the Iran Nonproliferation Act of 2000. These sanctions prohibit the sale of any item on the U.S. Munitions List, defense articles, defense services, or design and construction services controlled under the Arms Export Control Act to the listed entities. They also require a denial of new licenses and the suspension of existing licenses for the sale items controlled under the Export Administration Act (EAA) or the EAR to the listed entities. A list of the sanctioned entities can be found in the federal register publications.

On May 23, 2003, the U.S. State Department published in the federal register sanctions against the North China Industries Corporation (NORINCO) for engaging in missile technology proliferation activities that required the imposition of measures under Executive Order 12938, as amended by Executive Order 13094 (Proliferation of Weapons of Mass Destruction). This sanction prohibits the importation into the United

Sates of any goods, technology, or services, produced or provided by this entity, its subunits, and successors, other than information or information materials as defined in the International Emergency Economic Powers Act (IEEPA). The sanction also prohibits the export of defense articles and services from the United States and of United States origin defense articles and services from foreign to this entity, its subunits, and successors. The sanction is in effect for two years.

A law passed by Congress in late 1997 requires that the U.S. government conduct Post Shipment Verification visits (PSVs) on all High Performance Computers (HPC) shipped to one of 50 countries including China. As of March 8, 2002, the definition of a HPC with respect to China is any computer with a MTOPS (million theoretical operations per second) level of 190,000 or greater. There is a USDOC requirement that a MOFCOM 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 BIS web page at www.bis.doc.gov/HPCs .

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 case of a Pre-License Check (PLC) requirement, USDOC requests permission from the Chinese Ministry of Commerce (MOFCOM) for a Commercial Officer from the U.S. 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 USDOC will act further on the export license application. The amount of time needed to complete the entire PLC process is usually two to three months. If the U.S. government is not permitted to conduct a PLC by the Chinese government, an export license may not be issued.

In April 2004, BIS reached an agreement with MOFCOM regarding end-use visits. Such visits, which include PLCs and PSVs, help ensure that U.S. exports of controlled dual-use item are being used by their intended recipients for their intended purposes. The End Use Visit Agreement provides a framework for timely and transparent processing of PLCs/PSVs, which will facilitate licensing determinations.

If an exporter needs information on the regulations relating to the sale of its goods to China, they can request an advisory opinion from BIS. The advisory opinion will supply the exporter with a commodity classification and any restrictions on the export of that item to China. For more information about advisory opinions or U.S. dual-use export controls, exporters should view the BIS website at www.bis.doc.gov or contact:

| | | |
|---|---|---|
| BIS Exporter Services Division | | |
| Washington, D.C. | Tel: 202-482-4811 | Fax: 202-482-3322 |
| Western Regional Office | Tel: 949-660-0144 | Fax: 949-660-9347 |

U.S. Embassy-Beijing, Commercial Section
Jeannette Chu, BIS Officer Tel: (86-10) 8529-6655 x810 Fax: (86-10) 8529-6558

The U.S. State Department's Office of Defense Trade Controls, under the Arms Export Control Act and the International Traffic in Arms Regulations (ITAR), controls the export of items listed on the U.S. Munitions List, including satellites and related technology. 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.

## Temporary Entry

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1. 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.

2. 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 MOFCOM. 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.

3. 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.

4. 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 RMB 200. Samples and advertising materials concerning certain electronic products, however, are subject to customs duty and VAT regardless of value.

5. Representative Offices' Personal Effects and Vehicles

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.

6. 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. In special circumstances, an FIE can apply to extend the date of export to a total time no longer than two years from the date of importation. Bonded warehouses may be established within the FIE and are subject to supervision by Customs.

7. 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; and fuel for aircraft and ships.

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.

## Labeling and Marking Requirements

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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 State Administration for Quality Supervision, Inspection, and Quarantine requires imported and exported (but not domestic) food items such as candy, wine, nuts, canned food and cheese to have labels verified and products tested for quality before a good can be imported or exported. According to the Food Labeling Standards of China, imported foods shall have clear markings that indicate the country of origin in addition to the name and address of the general distributor that is registered in the country.

Import-Export Food Labeling Management Regulation: On April 1, 2000, a new national Chinese Import-Export Food Labeling Management Regulation that was 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.

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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 the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and the State Economic and Trade Commission (MOFTEC and parts of SETC were restructured in 2003 to form MOFCOM), 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, 1999, China's State General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ), the General Administration of Customs, and 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 percent 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.

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

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China's standards development and conformity assessment policies are largely developed by a government agency, the Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ). Under AQSIQ, two quasi-independent agencies, the Standardization Administration of China (SAC) and the Certification and Accreditation Administration (CNCA), play the dominant role in standards development and conformity assessment policies, respectively.

The creation of AQSIQ in 2001 was the result of China's merger of two prior government agencies, its domestic standards and conformity assessment agency and its entry-exit inspection and quarantine agency. Chinese officials explained that this merger was designed to eliminate discriminatory treatment of imports and requirements for multiple testing simply because a product was imported rather than domestically produced.

In general, exporters to China should be aware of three broad regulatory requirements in the standards and testing area. First, AQSIQ maintains approximately 20,000 national standards, of which about 2800 are mandatory. The mandatory standards are known as Guojia Biaozhun or GB standards. These standards, generally related to safety or quality, are mandatory for both domestic and imported products, and compliance is mandatory. Second, for products in 132 product categories (e.g. certain electrical products; information technology products; consumer appliances), China's CNCA requires that a safety and quality certification mark, the China Compulsory Certification (CCC) Mark, be obtained by a manufacturer before selling in or importing to China. Third, numerous government agencies in China mandate industry-specific standards or testing requirements for products under their jurisdiction, in addition to the GB standards and CCC Mark described above.

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Technical regulations (mandatory standards or testing requirements) can be promulgated in China by the Standardization Administration of China (SAC) (under AQSIQ) or any of a number of government agencies.

AQSIQ and its sub-unit SAC have overall management responsibility for standards development in China and supervise the standards development work of numerous Technical Committees, which develop GB standards. These Technical Committees are comprised of members from government agencies, private industry associations, companies (including in some cases, and with varying voting rights, foreign companies), and academics.

Other government agencies can approve and promulgate technical regulations. These agencies include the National Development and Reform Commission, the Ministry of Education, Commission of Science, Technology and Industry for National Defence, Ministry of Public Security, Ministry of Civil Affairs, Ministry of Land and Resources, Ministry of Construction, Ministry of Railways, Ministry of Communications, Ministry of Information Industry, Ministry of Commerce, Ministry of Agriculture, Ministry of Public Health, General Administration of Customs, State Environmental Protection Administration, General Administration of Civil Aviation, State Administration of Radio, Film and Television, State Food and Drug Administration and State Forestry Administration.

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The primary government agency responsible for supervision of China's conformity assessment policies, including its primary safety and quality mark, the CCC Mark, is the Certification and Accreditation Administration (CNCA). CNCA also supervises the work of the China National Accreditation Board for Laboratories (CNAL), which accredits laboratories and inspection bodies.

The main conformity assessment bodies that are recognized by China include the China Quality Certification Center, China Certification Center for Electromagnetic Compatibility, China Certification Center for Security and Protection. Equipment, China Certification Center for Tires, China Certification Commission for Latex Products, Certification Center for Fire Products, Ministry of Public Security, China Certification Center for Automotive Products, China Certification Center for Agricultural Machinery, China Certification Center for Safety Glazing, Center of Boiler & Pressure Vessel Inspection and Research, the National Institute for the Control of Pharmaceutical and Biological Products, the Maritime Administration of the People's Republic of China and Register of Shipping at all levels, China Classification Society, Civil Aviation Administration of China, Register of Fishing Vessels of the People's Republic of China and local Register of Fishing Vessels.

**Product Certification** Return to top

The China Compulsory Certification (CCC) Mark is China's national safety and quality mark. The mark is required for products in 133 categories, ranging from electrical fuses to toaster ovens to automobiles to information technology equipment. About 20 percent of U.S. exports to China are on the product list. If an exporter's product is on the CCC Mark list, it cannot enter China until CCC registration has been obtained, and the mark physically applied to individual products as an imprint or label. Similarly, domestic products cannot be sold in China without obtaining registration and applying the mark on individual products. The CCC Mark system is administered by the Certification and Accreditation Administration of China (CNCA).

Obtaining the CCC Mark involves an application process to authorized Chinese certification bodies. The application process can take three months or more, and can cost $5000 to $15,000 in fees. The process includes sending testing samples to a Chinese laboratory and testing in those labs to ensure the products meet safety and/or electrical standards. A factory inspection of the applicant's factories, to determine whether the product line matches the samples tested in China, is also required. Finally, Chinese testing authorities approve the design and application of the CCC logo on the applicant's products. Some companies, especially those with a presence in China and with a dedicated certification/standards staff, are able to manage the application process in-house. Other exporters can tap the expertise of standards consultants based both in the U.S. and in China who can provide application management services and handle all aspects of the application process.

The U.S. Department of Commerce maintains a comprehensive CCC Mark website to help U.S. exporters determine whether they need the CCC Mark and how to apply. http://www.mac.doc.gov/china/cccguide.htm. The Department of Commerce has also sponsored CCC Mark Seminars in cities across the U.S. Contact the China Desk or visit its website for more information.

Though the CCC Mark is China's most widely required product certification mark, other product certification requirements exist. These include requirements for boilers and pressure vessels, under a product certification regime administered by the Special Equipment Licensing Office of AQSIQ. Another product certification scheme is required for certain measurement equipment, known as Certificate of Pattern Approval, also administered by AQSIQ.

**Accreditation** Return to top

The China National Accreditation Board for Laboratories (CNAL) is China's primary accreditation body, and it accredits laboratories and inspection bodies. Currently, no mutual recognition agreements with U.S. organizations exist.

**Publication of Technical Regulations** Return to top

China indicated in submissions to the World Trade Organization that China's Ministry of Commerce Gazette or the AQSIQ Bulletin will publish all technical regulations, standards, and conformity assessment procedures.

China is obligated by its WTO Technical Barriers to Trade requirements to notify all technical regulations that impact trade and diverge from existing international standards. China's designated notification authority, the Ministry of Commerce, notifies proposed standards, technical regulations and conformity assessment procedures to WTO members, as required by the TBT Agreement. Almost all of these notified TBT measures have emanated from AQSIQ, however, and have not included measures that should be notified from other agencies. In late 2003, in part to address this problem, China reportedly formed a new inter-agency committee, with representatives from approximately 20 ministries and agencies and chaired by AQSIQ, to achieve better coordination on TBT (and SPS) matters.

As required by World Trade Organization Agreement rules, China maintains a National Inquiry Point to answer inquiries related to draft and finalized technical regulations, standards, conformity assessment procedures, and other related issues.

China's WTO TBT National Inquiry Point
7 Madian Dong Lu
Haidan District
Beijing, China 100088
Tel: 86-10-8826-0618
Fax: 86-10-8226-2448
e-mail: tbt@aqsiq.gov.cn
http://www.tbt-sps.gov.cn

## Labeling and Marking

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As noted in Product and Certification Section above, products requiring the CCC Mark, in addition to undergoing an application and testing process, must have the mark physically applied on products before entering China or being sold in China.

All products sold in China must be marked - in the Chinese language - with the relevant information. The State Administration for Quality Supervision, Inspection, and Quarantine requires imported and exported (but not domestic) food items such as candy, wine, nuts, canned food and cheese to have labels verified and products tested for quality before a good can be imported or exported. According to the Food Labeling Standards of China, imported foods shall have clear markings that indicate the country of origin in addition to the name and address of the general distributor that is registered in the country.

## Trade Agreements

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In December 2001, China became a member of the World Trade Organization after more than 14 years of negotiations, making China party to the Technical Barriers to Trade (TBT) Agreement, Sanitary and Phytosanitary (SPS) Agreement, Trade Related Intellectual Property (TRIPs) Agreement, and other multilateral agreements. China did not sign onto the plurilateral Government Procurement Agreement. The text of China's Accession Protocol as well as the Report of the Working Party on the Accession of

China is available in printed form through the World Trade Organization. The Protocol on the Accession of the People's Republic of China with its attachment, and the Report of the Working Party on the Accession of China, signed by China and other WTO members, have become the indivisible parts of Marrakesh Agreement Establishing the world Trade Organization and bind China and other WTO members. Any trade agreement, signed by China and other country, should be in accordance with the rights and obligations provided in the above documents

In addition to the World Trade Negotiations, China has also entered into numerous bilateral trade agreements and is currently negotiating Free Trade Agreements with several countries.

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Ministry of Foreign Affairs
www.fmprc.gov.cn

National Development and Reform Commission
www.sdpc.gov.cn

Ministry of Education
www.moe.edu.cn

Ministry of Science and Technology
www.most.gov.cn

Commission of Science Technology and Industry for National Defense
www.costind.gov.cn

The Ministry of Public Security
www.mps.gov.cn

Ministry of Justice
www.legalinfo.gov.cn

Ministry of Finance
www.mof.gov.cn

The Ministry of Land and Resources
www.mlr.gov.cn

Ministry of Construction
www.cin.gov.cn

Ministry of Communications
www.moc.gov.cn

Ministry of Information Industry
www.mii.gov.cn

Ministry of Agriculture
www.agri.gov.cn

Ministry of Water Resources

www.mwr.gov.cn

Ministry of Culture
www.ccnt.gov.cn

Ministry of Commerce
www.mofcom.gov.cn

Ministry of Health
www.moh.gov.cn

State Administration For Industry & Commerce
www.saic.gov.cn

Customs General Administration
www.customs.gov.cn

State Environmental Protection Administration of China
www.sepa.gov.cn

State Intellectual Property Office
www.cpo.cn.net

General Administration of Quality Supervision, Inspection and Quarantine
www.aqsiq.gov.cn/cms/template/index.html

Standardization Administration of the People's Republic of China
www.sac.gov.cn/home.asp

Certification Accreditation Administration
www.cnca.gov.cn

State Food and Drug Administration
www.sfda.gov.cn

China Special Equipment Inspection and Research Center
www.csei.org.cn/csei

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# Chapter 6: Investment Climate



## Openness to Foreign Investment

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China maintained its position as one of the world's top two destination for foreign direct investment (FDI), adding $64.0 billion for a cumulative total of $563.8 billion through the end of 2004. Partly as a result of holdover investments from the slow FDI growth year of 2003 plagued by Severe Acute Respiratory Syndrome (SARS), FDI increased 19.7% year-on-year. FDI growth rates in previous years were 1.4% in 2003, 12.5% in 2002 and 14.9% in 2001. New U.S. direct investment in China fell slightly short of its previous year's total to just under $4.0 billion, but still accounted for 6.15% of China's annual FDI total last year, lagging behind Hong Kong, the British Virgin Islands, South Korea, and Japan as the fifth largest investor in China. On a cumulative basis, the United States, with $48.0 billion invested through the end of 2004, remains the second-largest foreign investor after Hong Kong. (Note: These statistics, which may be subject to revision, are based on preliminary year-end data released by China's Ministry of Commerce on January 16, 2005.)

Throughout 2004, the Chinese government employed macroeconomic measures in an attempt to cool the economy, which has been growing at over 9% annually. Despite these measures, in addition to administrative measures to limit certain overheated sectors such as real estate and construction, foreign and domestic investment continued to reach new heights. Some observers say that more visible effects of government measures to cool investment might not be seen until later in 2005 given the lag time between investment decision and actual investment infusion. They predict that FDI will continue to be strong in 2005, but expect the growth rate to ease. However, in a sign of continued foreign investor confidence, contracts for intended foreign investment, often an indicator of future trends, reached $135.0 billion by November 2004, up 34.4% from a year earlier. FDI accounts for less than 10% of China's total fixed assets investment, but foreign-invested enterprises account for a disproportionate amount of China's foreign trade, approximately 55%, a fact that increasingly draws the concern of Chinese officials.

China's investment climate has changed dramatically in 25 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 (WFOEs), now the preferred form of FDI. However, the Chinese government's emphasis on guiding FDI into manufacturing has led to market saturation and over-capacity of some industries in that sector, while leaving China's service sector highly underdeveloped.

China became a member of the World Trade Organization (WTO) on December 11, 2001. Although the WTO is primarily concerned with trade, China also took on obligations to eliminate certain trade-related investment restrictions, like requirements for domestic content, foreign exchange balancing, and technology transfer, and to open gradually opportunities for foreign investment in specified sectors that had previously been off limits. New laws, regulations, and administrative measures aimed at implementing these general and sector-specific commitments are being issued at a rapid pace. Even so, issuance of some measures has fallen behind schedule, and application of liberalizing regulations has not been uniform. Prospective U.S. investors will want to examine carefully the particulars of these new measures as they emerge. The relaxation of absolute barriers to entry has not led to a rush of foreign investment in telecommunications service and banking, for example, due to remaining regulatory restrictions, high capital requirements, and foreign firms' judgments about market conditions.

Prior to China's WTO entry, many international firms allied with Hong Kong companies to gain access to the China market. Partly as a result of this, Hong Kong is the largest "foreign" investor in Mainland China. By the end of 2004, the cumulative value of Hong Kong's direct investment in the mainland stood at $241.5 billion, accounting for nearly 43.0% of total FDI into China. In part, Hong Kong's investments in China outpaced investments by other economies because Hong Kong's entrepreneurs were willing to accept the risks of investing in developing China before other investors. With China's WTO entry making the operating environment more transparent and predictable, however, firms increasingly are investing directly in the Mainland. As part of this trend, Shanghai is emerging as a major alternative to Hong Kong as a regional headquarters for foreign investors in China, although China's limitations on currency convertibility continue to present problems for many investors, regardless of investment form, destination within China or origin.

A growing number of firms are opting to channel their China investments through vehicles registered in the freeports of the British Virgin Islands, the Cayman Islands, and Western Samoa. In 2004, new FDI nominally from these three tax haven economies accounted for 15.5% of total new FDI. The ultimate origin of this FDI is unclear, but anecdotal information suggests that it includes investments from corporations headquartered in OECD economies, Taiwan, and even China itself. The rise in investment from these free ports in 2003 correlates closely with the decline in investments from Hong Kong, suggesting that some firms shifted the nominal origin of their investments.  Some Chinese researchers have estimated that as much as one-third of nominally foreign direct investment in China is ultimately Chinese funds returning in the guise of foreigners to take advantage of preferential treatment.

Types of Foreign Enterprises in China: Among the three main investment vehicles available to foreign investors, WFOEs are currently the most popular.  New registration of WFOEs exceeded that of joint ventures (JVs) for the first time in 2000.  WFOEs accounted for 70.3% of projects approved in 2004.  By value, WFOEs represented 74.9% of these deals, a dramatic increase from previous years, as wholly-owned ventures became possible in a greater range of industrial sectors.  JVs with Chinese firms are still required, however, in many industries of interest to U.S. investors such as insurance and telecommunications.

Encouraged versus Restricted Investment:  China attempts to guide new foreign investment towards "encouraged" industries and regions.  Over the past seven years, China has implemented new policies introducing incentives for investments in high-tech industries and in the central and western parts of the country in order to stimulate development in those less developed areas.  A new Catalogue of Foreign Investment took effect January 5, 2005, replacing the April 2002 Catalogue.  The catalogue designates sectors in which foreign investment are encouraged, restricted or prohibited.  Unlisted sectors are permitted.

According to an accompanying regulation to the catalogue, projects in “encouraged” sectors benefit from duty-free import of capital equipment and value-added tax rebates on inputs.  The same regulation states that approval authority for “restricted” investments rests with the relevant central government ministry and may not be delegated to the local level.  For a number of restricted industries, a Chinese controlling or majority stake is required.  Industries in which foreign investment is prohibited include national defense, firearms manufacturing, most media content sectors, and biotechnology seed production.

Among other things, the April 2002 catalogue aimed to implement sectoral openings that China promised in its WTO accession agreement, including in banking, insurance, petroleum extraction, and distribution.  As part of the fulfillment of this promise, on April 2004 the Ministry of Commerce introduced regulations, effective June 2004, that considerably liberalized the distribution services sector.  Most important, from December 2004 the new regulations provide for the removal of the existing mandated Sino-joint venture requirement for foreign investment in China’s retail, wholesale, franchise and commission agency sectors.   The January 2005 catalogue opens minority participation to foreign investors in television programming, distribution and movie production.  It also adds several categories to the encouraged list, while eliminating others.  New investors should consult carefully the latest catalogue. (As of January 21, 2005, only the Chinese version is available at www.ndrc.gov.cn/a/news/200412101b.htm.) While the catalogues lift restrictions, American businesses complain that government officials in practice continue to consider such factors as local content when deciding on government approvals or recommendations for loans from Chinese policy banks.

With the exception of real estate, service sector investment has been minimal, mainly due to Chinese government restrictions.  The ratio of manufacturing to service investment should shift over the coming several years as China phases out current barriers to foreign access to more service industries as part of its World Trade

Organization (WTO) accession agreement. The extent of this shift will depend on the details of new regulations governing the opening of these sectors. In some cases, onerous requirements contained in new regulations have limited foreign interest in investment in newly opened service sectors. For example, education, culture, arts, radio, film, and television broadcasting, which have opened only minimally under WTO, collectively received only $58 million in FDI 2003. Still, FDI in the banking and insurance sector more than doubled in 2003, and is expected to continue rising as increasing numbers of foreign firms have obtained licenses to operate in more places and foreign banks are now permitted to conduct local currency business in many more cities.

Foreign indirect investment (FII) still plays only a modest role in foreign investment in China, despite an extraordinary surge in 2000. In China, almost all FII is focused on foreign investors buying and selling shares of Mainland Chinese companies listed on foreign stock exchanges, primarily in New York (N-shares) and Hong Kong (H-shares). There has been some broadening of investment options since late 2002, however, with qualified foreign investors permitted to purchase limited quantities of renminbi (RMB) shares in the domestic stock market, and even obtain state-owned shares under certain circumstances. According to Chinese official statistics, mainland companies raised $6.5 billion through overseas equity placements in 2003, up from $2.2 billion in 2002. The 2003 total nearly reached 2000's record $6.8 billion, and continued a trend of great volatility in overseas equity placement figures. (2004 statistics were not available at the time this report was prepared.)

Mergers and Acquisitions (M&A): Over the past two years China has issued new regulations governing foreign purchase of stakes in domestic enterprises that have heralded an upsurge in M&A activity. Regulations issued in November 2002 permit foreign purchase of traded and non-traded (designated state) shares of Chinese enterprises. In addition, China issued regulations that took effect in April 2003 that specified procedures for foreign acquisition of and merger with domestic enterprises. These regulations require pre-merger notification and allow for examination of antitrust considerations in some cases. By requiring approval of all owners of the domestic enterprise, the regulation implicitly prohibits hostile takeovers. Because the enterprise resulting from the M&A will be foreign-invested, the procedures require approval according to both the M&A rules and the general approval requirement on FIEs. The Ministry of Commerce so far has not actively blocked M&A activity, and foreign firms are reportedly finding that they increasingly are able to invest in attractive firms and sectors.

China also issued provisional regulations in November 2002, effective January 2003, on using foreign investment to reorganize state-owned enterprises (SOEs). These reorganizations, however, require extensive approvals and full agreement of the domestic enterprise's labor union; these requirements are likely to limit the appeal of such investment. Furthermore, M&A professionals cite numerous difficulties in obtaining accurate business information regarding SOEs during the due diligence investigation stage.

Even before the issuance of these new regulations, the Chinese government began approving a small but growing number of foreign M&A deals involving domestic enterprises. While worldwide cross-border M&A deals in 2003 had declined in value to about 25% of its year 2000 peak, cross-border M&A deals involving sales of firms in China grew nearly 70% over the same period to reach $3.8 billion, based on data from the UN Conference on Trade and Development. Several Chinese economists favor modernizing China's Company Law to accommodate more cross-border mergers and acquisitions. China has also been working for many years on drafting an antimonopoly law, which may eventually replace or subsume the procedures established for domestic and cross-border M&A in the April 2003 regulation. Some expect that the current draft, which is now under review by the State Council, could pass as soon as mid- to late-2005. Mergers and spin-offs involving only foreign-invested firms are governed by the Regulations on the Merger and Division of FIEs, which were amended in November 2001 to improve the conditions for M&A activity among such enterprises.

Investment Incentives: China has developed and expanded a complex system of investment incentives over the last twenty years. The Special Economic Zones (SEZs) 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 pressed the central government to reduce SEZ privileges. To make progress toward a consistent (and required) 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. It also reduced by more than half the number of special economic zones in 2004.

The vast majority of FDI is directed to China's coastal provinces. From 1979 through 2003, 85.3% of cumulative FDI went to the 11 provinces and provincial-level cities along the eastern and southern coast. Nearly two-thirds of cumulative FDI receipts had gone to just five provinces: Guangdong (25.8%), Jiangsu (14.23%), Fujian (8.75%), Shanghai (8.4%). and Shandong (7.1%). All five areas have been particularly targeted by Taiwan and Hong Kong-based manufacturers, attracted by low labor costs for export production. Shandong has also been especially popular with South Korean firms.

In 1999, China announced special investment incentives to attract foreign investors to its underdeveloped central and western regions. A national-level catalogue of "encouraged industries" for the interior provinces was published in July 1999, with a subsequent edition in June 2000. Individual provinces have also issued their own additional incentives.

Western China continues to struggle to attract significant amounts of FDI. China touted a high-visibility "Great Western Development" campaign and included a variety of western development provisions in its 10th five-year plan (2001-05). However, provincial and local governments in the western areas have generally tried to steer prospective investors to invest in failing state-owned enterprises (SOEs) in hopes of saving jobs at these large employers. Prospective foreign investors have found these SOEs to be almost uniformly unattractive business propositions. In the few attempts by foreign investors to buy SOEs, the government rejected the offers balking at what they considered low offers. The government has insisted that bids fall within a range no lower than 10 percent below the government's appraised value of an SOE. Many offers came in at a third of the government appraisals. Furthermore, governments have not been as willing to promote some of the very promising private enterprises to foreign investors. The investment climate and business environment are also significantly less sophisticated and transparent than in the coastal areas, making it difficult for foreign investors to assess accurately prospective investments. Finally, the most attractive export routes and domestic consumer market segments are concentrated in the East.

As a result of these limitations, few foreign investors have made significant moves in China's west, which took in only 4.8% of cumulative FDI received by the end of 2003.

Since 2003, China has been touting yet another development campaign, this time targeting the revitalization of the Northeast, which has traditionally been the country's heavy manufacturing center. As part of the campaign, the government is introducing reforms on ownership transfer that allow non-government investors to manage state-owned enterprises. It is too early to determine whether the campaign will be any more successful than the "Great Western Development" campaign, though it has reportedly resulted in some new investments in China's automotive and food industries. Although starting from a relatively low base of foreign investment, year-on-year FDI growth rates in 2004 in the Northeast reached nearly 80 percent, well over the national average of about 20 percent, according to some academics. The Chinese government began discussions in late 2004 regarding the 11th five-year plan, which will set new policy direction for the economy. The new plan is due for release in mid- 2005.

New FDI in China continues to flow overwhelmingly to the manufacturing sector, which took more than 70% of FDI in 2003. In the initial phase of China's economic opening, manufacturing FDI was concentrated in low technology garments and other soft goods. Starting in the 1990s, however, China also began receiving growing amounts of capital-intensive (chemicals and petroleum processing) and technology-intensive FDI. In the electronics sector, in particular, industrial clusters are starting to crop up in China, adding momentum to the shift by major manufacturers and their suppliers of production from other Asian locations to China. Nokia, for example, established the Xingwang Industrial Park in Beijing in 2001 in an attempt to draw in its suppliers. Other clusters have grown up naturally, such as the laptop manufacturing cluster in and near Shanghai.

Incentive Programs: Foreign investors sometimes have to negotiate incentives and benefits directly with the relevant government authorities as some incentives and benefits may not be conferred automatically. The incentives available include significant reductions in national and local income taxes, land use 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.

China encourages reinvestment of profits. A foreign investor may obtain a refund of 40% of taxes paid on its share of income if those profits are 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 tax rebate. Many foreign companies invested in China have adopted a strategic plan that reinvests profits for growth and expansion.

As part of a national campaign to standardize tax treatment and increase collection rates, the State Administration of Taxation began work in 1998 on a planned unification of tax treatment for foreign and domestic firms. Concerns over the impact of the Asian financial crisis and, later, China's accession to the WTO led officials to delay the process. On several occasions in recent years, senior officials have announced the imminent reunification of tax rates or elimination of preferential tax treatment of foreign firms, but no definite action has occurred yet. Discussions in January 2005 indicate a likely target date in 2007 to unify tax rates somewhere in between the current domestic and foreign rates. Due to the need for National People's Congress approval, which takes a minimum of three months, there would be some advance warning of a unification of the tax rates, and any such unification could grandfather previously issued incentives.

China's tax incentive system is complicated and difficult to implement. Discrepancies between central, provincial and local government tax regulations hamper foreign investment, and these problems are particularly acute in remote and impoverished areas. Still, initial efforts at reform are beginning to take effect. Collection efforts have been centralized and the responsibility for assessment and filing of returns was shifted to the taxed enterprise in late 1999. A computerized standard reporting and payment procedure has been progressively expanded nationwide to reduce overpayments and loopholes. In 2004, the Chinese Government also announced an average three percentage point reduction in value-added tax (VAT) rebates for exports.

National Treatment: China committed to granting 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 is conducting training programs to educate central and local government officials on China's WTO obligations. In addition, WTO national treatment rules aim to eliminate discrimination against imported goods and do not apply fully to investment. In July 2004, after the United States initiated WTO consultations, China agreed to remove VAT rebates for semiconductors produced in China by mid-2005, thereby providing national treatment for imports.

Basic Laws and Regulations Covering or Affecting FDI: The basic laws and regulations governing FDI in China are complex. A summary of some of the most important of those currently in effect is provided below.

The Chinese central government is currently reviewing and revising all laws, rules, regulations, and implementing regulations for consistency with new WTO commitments. The Chinese government acknowledges that it will take more time to promulgate all the new and revised laws, regulations, and implementing regulations, but is officially committed to meeting China's WTO obligations.

Chinese laws are typically drafted broadly, requiring reference to regulations and even more detailed implementing rules for practical application. Under the terms of its WTO accession agreement, China obligated itself to publish in a single official journal all trade related laws, regulations, and other measures in advance for comment prior to implementation, and this obligation should encompass many regulations affecting foreign investment. This transparency requirement has not yet been fully implemented, however.

A potentially significant recent development is the emergence of industry associations distinct from government agencies. In mid-2003, industrial associations fell under the supervision of the State-owned Assets Supervision and Administrative Commission dashing hopes of the development of a completely independent voice for local industry. Currently, the associations act as an intermediary between government agencies, including line ministries, and private businesses. Some foreign observers are concerned that FIEs might be barred from membership in some industry associations and thus are excluded from the self-regulatory and standards setting functions these groups aspire to carry out. Participation of foreign firms depends on the individual charter of each association. However, the State Council is considering draft legislation that would clarify membership rules. Thus far, industrial associations appear to have offered a more cutting-edge channel for raising local business concerns with the government.

Laws Affecting Foreign Enterprise Establishment:

Forms of Foreign Ownership: In most sectors where foreign investment has been allowed, FIEs can exist as WFOEs, equity joint ventures (EJVs), cooperative (or contractual) joint ventures (CJVs), or foreign-invested companies limited by shares (FICLS). The foreigners must own at least 25% of a firm for it to be considered an FIE for purposes of investment incentives and other measures. Regulations issued in late 2002 and in 2003 permit registration of enterprises with foreign ownership of between 10 and 20% as “enterprises with foreign investment below 25%,” while noting that such enterprises do not qualify for incentives aimed at FIEs. Under China's Company Law, foreign firms theoretically can now also open branches in China, but in practice only foreign financial institutions, namely commercial banks and non-life insurance companies, can establish branches. Foreign investors with multiple investments may also be eligible to establish holding (investment) companies.

Investment in WFOEs 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. The WFOE Law was amended most recently in October 2000 and amended implementing regulations were promulgated in April 2001. The 2001 revisions of the WFOE Law and implementing regulations (State Council Order No. 301) amended or deleted sixteen articles. The revisions eliminated requirements for foreign exchange balancing, struck requirements for domestic sales ratios, removed or adjusted technology transfer and export performance requirements, and modified provisions on domestic procurement of raw materials. Several former requirements remain “encouraged,” however.

Under the amended WFOE Law, China may reject an application to establish a WFOE for five reasons: (1) danger to China's national security, (2) violation of China's laws and regulations, (3) detriment to China's sovereignty or public interest; (4) nonconformity with the requirements of the development of China's national economy; and (5) danger of environmental pollution.

The "Law on EJVs" was amended in March 2001, and implementing regulations were amended in July 2001. EJVs had historically been the main organizational form of FIEs in China but have fallen out of favor as dissatisfaction grew with respect to choice of local partners and with board decisions, capital formation, dividend distributions and other matters. EJVs declined further as restrictions on WFOEs loosened. China had traditionally favored investment in JVs, in hopes of rescuing poorly performing domestic SOEs. The March 2001 amendments remove the requirements that FIEs balance their foreign exchange receipts and expenditures. However, many joint-venture contracts still contain a clause requiring such balancing, but under the terms of China’s WTO accession such clauses are not to be enforced.

CJVs: The Law on CJVs was amended in October 2000. Although not requiring strict proportionality with respect to investment terms, return on capital, governance and dividend distribution, and thus more clearly resembling partnerships in the United States sense, CJVs have never been as popular as EJVs, in part because of investors' unfamiliarity with CJVs. The principal exception has involved infrastructure projects in which the foreign investor is allowed an early return on capital in consideration for relinquishing any claim to residual assets upon expiration of the CJV's term.

FICLS: FICLS are organized as shareholding companies in which foreign investors hold at least 25% of equity. They have been difficult to organize because of demanding regulatory preconditions and requirements for Ministry of Commerce (MOFCOM; known prior to March 2003 as the Ministry of Foreign Trade and Economic Cooperation) approval. They should become more popular as more Chinese companies organized as share companies establish market presence, reducing the benefit of forming joint ventures.

Branches: As stated above, branches in practice are permitted only in certain financial industries.

Representative Offices: Foreign firms may also establish representative offices in China, but these are prohibited from engaging in any profit-making activities. Foreign law firms, however, are allowed to operate only through representative offices and are an exception to the prohibition on profit-making activities.

Holding Companies: There has been some relaxation of the restrictions on business scope and operations of holding companies, although minimum capital requirements normally make them suitable only for corporations with several sizeable investments to manage. Foreign firms have commonly complained that China's administrative rules governing holding companies prevent the consolidation of accounts of subsidiaries for tax purposes, limit engagement in import business, and hamper the performance of true central treasury functions. On February 12, 2004 the Ministry of Commerce promulgated an amended version of its administrative regulations governing holding companies. Among the changes in the regulations, a holding company meeting certain criteria may now import and sell the products of its parent company in China, and import raw materials and spare parts necessary for providing maintenance services for products of its invested subsidiaries and multinational corporations. The amended regulations also stipulate that it is no longer necessary for subsidiaries of a holding company to be manufacturing entities. A separate regulation that took effect in April 2003 made it possible for holding companies to manage human resources across their affiliated companies and provide certain market research and other services to their affiliates. Distribution and trading functions of holding companies are scheduled for phase-in over a five-year period under China's WTO commitments. However, some restrictions on financial operations and ability to balance foreign exchange internally will remain for holding companies even after full implementation of the WTO commitments. Profit and loss consolidation within holding companies is still prohibited.

Regulations and periodic updates on China's investment projects and conditions can be found on MOFCOM's website: www.mofcom.gov.cn and its affiliated website www.fdi.gov.cn.

Other laws relating to investment include the following:

Contract Law: China's Contract Law went into effect on October 1, 1999. The NPC passed the law to unify three earlier laws covering domestic economic contracts, foreign-related economic contracts, and technology contracts, and to address the rising use and complexity of contracts in China. 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. Certain contracts involving foreign firms (including those involved in establishing a FIE, many technology import contracts, and infrastructure project contracts) are still subject to government approval. Certain contracts, such as foreign loan contracts, other technology import contracts, and real estate contracts, must be registered but are not subject to approval requirements.

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 in Shanghai and Shenzhen. The Securities Law does not distinguish between State-owned enterprises (SOEs) and non-SOEs. (At the end of 2003, 940 of the 1287 companies listed on China's exchanges – 73 percent – were SOEs.) In practice, however, few non-SOEs have been allowed to sell "A" shares. "A" shares are local currency 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, the exact timing of this move - which would be closely linked to changes in China's foreign exchange regime - remains unclear.

In December 2002, the People's Bank of China and the China Securities Regulatory Commission (CSRC) implemented new joint regulations for "qualified foreign institutional investors" (QFII) that gave eligible foreign firms conditional access to the country's domestic equity markets, including "A" shares and traded government and corporate bonds. The State Administration of Foreign Exchange (SAFE) also issued supplementary regulations on the use of foreign exchange for investment by QFIIs. Interested foreign investment firms apply first to CSRC for a QFII license. Once a license has been obtained, they apply to SAFE for an investment quota. As of December 2004, 27 foreign firms had been granted QFII status, and 24 of these had received investment quotas totaling $3.425 billion. Many observers, however, expect QFIIs to limit their exposure to the Chinese share market due to perceived overvaluation, shortcomings in corporate governance, and restrictions on the percentage of shares and the types of industries that can be listed in the market.

Foreign-Invested Venture Capital Firms: A new regulation that took effect March 1, 2003, replaced earlier provisional regulations permitting the establishment of foreign-invested venture capital firms, including WFOEs, aimed at funding high-technology and new technology startups in industries open to foreign investment. The new regulation lowers capital requirements, allows these firms to manage funds directly invested from overseas, and offers the option of establishing venture capital firms under an organizational form similar to the limited partnerships used elsewhere. An April 2001 regulation barred securities firms (including foreign-invested firms) from the private equity business. Chinese laws concerning foreign private equity firms set limits on corporate structure, share issuance and transfers, and investment exit options. Investment exit problems, especially the difficulty of listing on China's stock exchanges, coupled with the bureaucratic approvals required to list overseas, have limited interest in establishing China-based venture capital and private equity investment. As a result, most foreign venture capital and private equity investments in China are actually housed in offshore investment entities, which, as with other offshore FDI, can be transferred without Chinese Government approval.

Tendering and Government Procurement Laws: 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 now governs only state administered capital construction and infrastructure projects) was finalized in 1999, and the State Council issued "Provisions for the Administration of Government Purchases." The NPC approved the new government procurement law in June 2002; the law took effect January 1, 2003, replacing the "Provisions."

The new Government Procurement Law (like its interim predecessor) establishes rudimentary criteria for the qualification of domestic and foreign suppliers and various categories of procurement, as well as broad standards for publicity, notification, bid scheduling, sealed bidding and bid evaluation. Initial foreign reactions to the new law have been mixed. The law is aimed at implementing one of China's WTO entry commitments by clarifying that purchases by SOEs do not constitute government procurement, thereby removing the bulk of commercial value from this procurement system. However, the legislation mandates domestic procurement unless the goods or services cannot be procured on reasonable commercial terms within China. In 2004, China began drafting a more specific government software procurement regulation that is intended to promote domestic software development.

Investment Screening Procedures: Potential investment projects usually go through a multi-tiered screening process involving the foreign investment department at MOFCOM or a provincial equivalent. The process frequently also involves the development planning department, the National Development and Reform Commission (NDRC), or a provincial equivalent and the department responsible for the industrial sector of the project.

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. The approval process for projects over $30 million has become less of an obstacle than in the past. Furthermore, the State Council issued regulations on July 29, 2004 that significantly raised the dollar limits of foreign investments requiring central government approval. Projects proposals in "encouraged" and "permitted" sectors valued above $100 million and those in "restricted" sectors valued over $50 million require NDRC approval. Subsequently, NDRC released follow-on rules October 9 that clarified that only projects valued over $500 million in "encouraged" and "permitted" categories, and those valued above $50 million in "restricted" sectors require NDRC review and State Council approval. The NDRC rules also require local authorities to report to NDRC for recordation purposes investment projects they have approved valued above $30 million. Even with clearly delineated investment approval criteria, 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 1990's to push technical institutes towards the market, the political and economic structures of the old "planned economy" are still important obstacles. Lack of familiarity with or confidence in intellectual property protections discourage Chinese companies from investing in research although an increasing and record number of domestic patents were requested in 2003 and 2004. 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 reform and greater IPR protection are needed. 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 or development of new products for the Chinese market. More recently, several companies, including Microsoft, Motorola, and Intel, have established research centers in China aimed at product development for regional or global markets. 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.

## Conversion and Transfer Policies

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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 exchange reserves have grown rapidly (nearly $600 billion by the end of 2004), 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. Under the terms of China's WTO entry, foreign bank branches and foreign-invested banks will become eligible to engage in local currency operations in stages over several years. As of the end of 2004, foreign banks were able to engage in local currency operations in 18 cities. China committed to lift all geographic and client restrictions by the end of 2006.

All FIEs in China are entitled to open and maintain foreign exchange accounts for current account and capital 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. Effective May 2004, all enterprises authorized to conduct current account transactions may retain foreign exchange revenue equivalent to 50 percent of their foreign exchange export earnings (up from 20 percent). Another SAFE regulation that took effect in April 2003 expanded the mechanisms for transferring FDI funds into China. 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.

## Expropriation and Compensation

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Chinese law prohibits nationalization of FIEs, including investments from Hong Kong, Taiwan, and Macau, 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 Department of State believes that there are several cases that may qualify as expropriations under Section 527 of the FY94-95

## Dispute Settlement

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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 mediation. If it is necessary to employ a formal mechanism, most parties prefer arbitration to litigation. The authorities greatly prefer arbitration through institutions in China. Most foreign investors consider arbitration as a last resort and have found it to be time-consuming and unreliable.

Most Chinese parties and form contracts propose arbitration by the China International Economic and Trade Arbitration Commission (CIETAC). During the past few years, some foreign parties have expressed satisfaction with and obtained favorable rulings from CIETAC. Difficulties in other cases have led several Western participants and panel members in CIETAC proceedings to raise concerns about CIETAC'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 of a case. For contracts that involve a purely foreign party (i.e., not an FIE), offshore arbitration may be adopted. If CIETAC arbitration is chosen, a panel with a foreign arbitrator is also possible, although not for FIEs. Provinces and municipalities also have their own arbitration institutions. Some foreign investors have been favorably impressed with the Beijing Commission despite its lack of foreign arbitrators.

Enforcement of arbitral awards is sporadic. Sometimes, even when a foreign company wins in arbitration in China, the local court may delay or 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 assets, pending resolution of a commercial dispute between a foreign company and a 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 and government officials at times interfere in court decisions. China's top leaders undoubtedly play a major role in deciding sensitive political cases. China's legal system is civil law in origin but now includes some common law elements, although it places relatively less emphasis on legal precedent.

The 1979 "Organic Law of the People's Courts of the People's Republic of China" authorized establishment of economic courts at China's Supreme People's 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 four 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 provisional bankruptcy law, passed in December 1986 and applicable only to SOEs, 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. Other laws govern bankruptcy by non-SOEs, but bankruptcy law as a whole is incomplete, inefficient, unprofessional, and subject to gross inequities. Even Chinese officials contemplating broad enterprise reforms recognize the inadequacy of China's current provisional bankruptcy law. A unified enterprise "Bankruptcy Law" is in draft but is still in relatively rough form, in part because the authorities remain reluctant to address the social consequences of bankruptcy.

A major problem for Chinese commercial banks is the formal and informal constraints on liquidating the assets of non-performing SOE 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 November 2002 Sixteenth Congress of the Chinese Communist Party mandated the creation of a new paradigm for the management of state-owned enterprises and other assets designed to clarify the ownership rights and responsibilities of central, provincial, and local authorities over state property located under their respective jurisdictions. The establishment in March 2003 of the State Asset Supervision and Administration Commission (SASAC) to replace the State Economic and Trade Commission as the leading institution with respect to China's state-owned industrial sector, is one manifestation of this new system, the significance of which has yet to be fully clarified.

In October 1995, China put into effect a "Security Law," the first national legislation covering mortgages, liens, pledges, and guaranties. 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, and other types of vehicles. While some areas of the Law remain unclear -- such as how the transfer of property under foreclosure is affected -- the law represents an important step forward. Chinese commercial banks have successfully repossessed vehicles from delinquent borrowers. Although mechanisms have been created for foreign investors to take over non-performing debt from the domestic banking system (generally through the asset management companies established by the major state-owned banks in 1999), numerous bureaucratic hurdles remain in the process of acquiring and liquidating these assets

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China agreed to implement the WTO 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 enforce laws or provisions relating to the transfer of technology or other know-how only if they are in accordance with WTO rules on protection of intellectual property rights (IPR) and TRIMs.

Export Performance Requirements: Export performance requirements are inconsistent with WTO principles. China has said it will not enforce export performance requirements in private contracts. However, in the past, MOFCOM's predecessor, the Ministry of Foreign Trade and Economic Cooperation, and the NDRC have strongly encouraged contractual clauses stipulating export requirements.

Local Content: Chinese regulations grant FIEs 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. FIEs thus retain the right to purchase equipment, parts, and raw materials from any source. Chinese officials, however, still encourage localization of production.

Technology Transfer: FIEs often 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. 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, including a prohibition on technology transfer as a condition to approval. Regulations promulgated in 2001 have generally improved the regulatory environment for foreign technology providers. 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 FIEs 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 EJV Law provides that the joint venture partners will determine, by consultation, the Chairman and Vice-Chairman. If the foreign side assumes the chairmanship, the Chinese party must have the vice-chairmanship, and vice-versa.

FIEs are free to recruit employees directly or through agencies. While FIEs have the right to manage the administrative requirements for employees, such as registration, taxes and records, directly with government offices, most choose to work through approved "labor services companies." Foreign companies may choose from an array of services from paying the full compensation package to the employee to the minimalist service of handling necessary paperwork with the government.

## Right to Private Ownership and Establishment

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China increasingly is moved from its old command economy toward one that runs on market principles. Upon accession to the WTO, China committed to reduce over time many restrictions on the private sector. In 1999 and 2004, China codified some of these principles by amending its constitution to provide a legal basis for the protection of private property. These constitutional amendments are intended to encourage the healthy development of China's domestic private sector. In recent years, domestic private investment has also been allowed to enter many new sectors, but the level of investment is still limited in sectors such as: banking, railways, natural resource monopolies, and airlines. Domestic private enterprises are also restricted from entering these sectors, with very few exceptions made by the Chinese government. Similar restrictions and limits on FIEs are listed in the Catalogue of Foreign Investment. While there are no regulations that prohibit banks from lending to private enterprise, in practice banks have continued to send most their credit to state-owned enterprises. Consequently, many local private enterprises often turn to informal lending networks and face difficulties reaching maximum efficient size and scale because of the credit crunch.

## Protection of Property Rights

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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, legal and natural persons, 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 (IPR): Overview

In spite of significant progress in improving its legal framework for intellectual property, IPR protection in China remains weak. IPR violations are blatant and widespread. Chinese leaders acknowledge that China needs effective protection of patents, trademarks, copyrights, and other intellectual property rights such as trade secrets, plant varieties and domain names to promote a "knowledge-based economy". In addition, China committed to full compliance with the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) upon accession to the WTO. Chinese officials increasingly have brought their IP laws and regulations into compliance with the TRIPS Agreement and international standards. Chinese officials also have increased enforcement efforts, but their actions and legal remedies have not been strong enough to effectively deter intellectual property pirates and counterfeiters. As a result, IPR violations, including growing exports of counterfeit products, continue to outpace enforcement. Furthermore, protection for copyrights over the Internet has been particularly weak.

Since WTO accession, China's IPR offices (patent, trademark and others) have increased their pace of activity. China's Trademark Office is now the most active office in the world. China also receives more design patent applications than any other country in the world. Chinese rights holders increasingly have become more active in protecting their own intellectual property, but also in abusing the rights of others. U.S. companies complain that Chinese companies are unfairly squatting on U.S. designs, trademarks or other rights, as well as proprietary information, and that Chinese companies may also be seeking to abuse standards setting and use other non-tariff barriers to restrict the fair exercise of IP rights held by foreigners. These other emerging issues have compounded the concerns of U.S. businesses, even as they continue to struggle to fight the high rates of infringement in China today.

Membership in International IPR Organizations: In addition to its WTO TRIPS Agreement obligations, China holds membership in the World Intellectual Property Organization (WIPO), Paris Convention for the Protection of Industrial Property, Berne Convention for the Protection of Literary and Artistic Works, Madrid Trademark Convention, Universal Copyright Convention, and Geneva Phonograms Convention, among other conventions. China's amended copyright law does not fully comply with the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty.

IPR Enforcement: Despite the enforcement efforts of Chinese officials, the Chinese government needs to increase its effectiveness and coordination in enforcement in order to successfully reduce persistent high levels of piracy and counterfeiting. Local interests often impede consistent and even enforcement of IPR regulations. Many of China's largest markets continue to openly sell pirated and counterfeit goods, despite repeated requests that China shut down and prosecute vendors of infringing goods. However, local officials have made notable initial progress in certain larger markets on specific brands, particularly in Beijing and Shanghai.

Industry associations representing computer software, entertainment, and consumer goods industries report high levels of piracy and counterfeiting of all types of products.

The Business Software Alliance estimates that more than 90% of business software used in China is pirated. Consumer goods companies report that, on average, as much as 20% of their products in the Chinese marketplace are counterfeits. Chinese companies experience similar, or greater, problems with piracy and counterfeits.

Both local produced and imported pirated products continue to flood the Chinese market. The levels of optical media piracy (CDs, VCDs, and DVDs) in China remain at extremely high levels. Furthermore, China remains a center for entertainment software piracy and the production of pirated cartridge-based video game products. The black market for audiovisual products is due in part to excessive market access restrictions, as China tightly controls the distribution of films, books, and music. End-user piracy of business software within the government continues unabated despite issuance of directives to government ministries to use only legitimate software. In addition, the piracy of journals and books, which has moderated in recent years, may be worsening again. The counterfeiting of goods bearing American trademarks runs rampant.

Despite enforcement efforts against such activities, IP pirates continue to produce, sell, and export counterfeit goods. An increasing number of Internet sites offering pirated products have appeared in China. U.S. Customs and other customs authorities' seizures of Chinese-origin goods violating IPR continue at high levels. In medicines, companies registering legitimate medicines and other patented products in China often find the that confidential data they are required to submit to the relevant government agencies is compromised, leading unscrupulous local generic producers to produce unauthorized imitations, sometimes with poor quality or content standards, resulting in unhealthful products.

While industries report improved cooperation with administrative enforcement agencies in regard to raids, the administrative penalties for IPR violations, often no more than confiscation of the counterfeit final products or nominal fines, are generally insufficient to deter counterfeiters. Although China has recently announced new lower thresholds to prosecute IPR crimes, it is too early at this time to determine what the effect of these reduced thresholds will be, including whether corresponding changes in China's administrative enforcement, police and prosecutors will enable more cases to be tried. China's criminal sanctions against IPR violations are seldom used, in part because of restrictions on types of admissible evidence and unclear mandates for law enforcement authorities with little experience in prosecuting IPR violations.

Combating IPR violations in China is a long-term, multifaceted undertaking. China has established special IPR civil 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, rules on gathering evidence are more restrictive. The lack of specialized legal training of many trial court judges undermines the effectiveness of these courts. Moreover, criminal IPR cases are likely to be heard in the criminal division of the courts, where the lack of expertise in intellectual property matters is even more severe. A December 2004 judicial interpretation on criminal prosecution of IPR violations issued by the Supreme People's Court and Supreme People's Procuratorate did not fully address longstanding criticisms of China's ability to use criminal sanctions to better enforce IPR. Similar institutional challenges exist in other areas as well. China's police, the Ministry of Public Security, handle all IPR crimes through the Economic Crimes Investigation Division, except copyright crimes, which are handled by the Social Order Division. Jurisdiction over Internet-based crimes, however, remains unclear. In addition to issue of professional expertise, the justice agencies have not been fully independent of local influence.

These enforcement challenges are compounded by the incidence of transnational and organized crime involved in producing counterfeit and pirated goods. China issued new regulations on customs enforcement of IPR violations in April 2004 intended to broaden and strengthen enforcement efforts. The Chinese have cooperated with foreign enforcement agencies in specific cases, but much more work is needed against such sophisticated criminals. It is hoped that through cooperation on specific cases Chinese enforcement officials will better develop appropriate procedures for investigating and prosecuting IPR crimes consistent with international standards and agreements, including developing procedures for international cooperation in handling piracy over the Internet.

Chinese authorities have established IPR law centers at Beijing University, Tsinghua University, and People's University, among other institutions. Chinese IPR professionals are also studying in foreign countries. The United States and the European Union have made IPR a key feature of "Rule of Law" discussions with Chinese authorities. Chinese IPR agencies also conduct national training programs, occasionally in conjunction with foreign rights holders and governments. Chinese IPR agencies are also seeking to reorganize to address the rapidly increasing caseload they face, the need to defend their decisions for courts, and other challenges. Foreign governments and U.S. companies have provided resources for training judges, enforcement and IPR officials.

## Transparency of Regulatory System Return to top

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 and professional advice.

In accordance with China's WTO commitments, the State Council's Legislative Affairs Office has stated that all of China's foreign trade-related and foreign-investment related laws, regulations, rules, and policy measures will 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 Legislative Affairs 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.

Chinese Government agencies have also begun to publish some trade-related regulations in draft for public comment, including comments from foreign parties. This process, required by China's WTO accession agreement, is still in its early stages. Comment periods are sometimes extremely brief, and it is not always clear how much impact public comments have on the final regulations. Indeed, many regulations are published in final form, making any comments made by interested parties ineffective in altering their contents. Moreover, China still lacks a single source, along the lines of the U.S. Federal Register, for public releases of draft documents. Some government agencies have released draft regulations in advance only to certain favored enterprises (usually domestic enterprises) or have allowed enterprises only to read but not retain drafts. Also, comments by interested parties do not become part of a public record.

The official website www.fdi.gov.cn contains many investment-related laws and regulations in both the original Chinese and English translation as well as research reports and statistics on FDI in China.

**Efficient Capital Markets and Portfolio Investment** Return to top

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 in Shenzhen in southern China's booming Guangdong Province (July 1991). Other regional "securities exchange centers" have been closed by the China Securities Regulatory Commission (CSRC). The Securities Law took effect 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 FIEs, in theory, 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. While foreign securities firms can invest in domestic markets through the Qualified Foreign Institutional Investor (QFII) program, this offers only limited access. Foreign investors are only allowed to acquire a 33 percent stake in a Chinese securities firm.

The state banking sector dominates China's capital markets and in the past generally channeled funds to SOEs on the basis of Communist Party 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. The authorities have encouraged China's commercial banks, all of which are wholly or partially state-owned, 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. The government has also maintained three "policy banks" to lend to commercially unattractive endeavors such as infrastructure development and government agricultural procurement. Nevertheless, China's commercial banks still carry a heavy percentage of non-performing loans. Authoritative estimates of the total stock of bad debt in China's financial system range from 25 to 75 percent of the country's annual gross domestic product. Large SOEs continue to receive the bulk of commercial bank lending, although local financing of FIEs is slowly becoming more widely available.

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 structure along regional lines similar to that of the U.S. Federal Reserve System, and the Communist Party created its Central Financial Work Commission to oversee the selection of senior managers in the country's financial institutions. Both measures aimed at reducing the influence of local political leaders over credit decisions, a major cause of China's abundance of non-performing loans. In 2003, the authorities took a further step toward stronger regulation of the financial system by merging the Party's Financial Work Commission with the departments of the People's Bank charged with supervising China's financial institutions to create a new China Banking Regulatory Commission (CBRC) independent of the central bank. In its role as China's chief banking regulator, the CBRC has taken the lead in enacting new legislation to bring China's banks into line with international standards.

To prepare for the opening of the banking system to foreign competition in 2006, the Chinese Government embarked on an ambitious reform program in early 2004 that included recapitalizing the Bank of China (BOC) and the China Construction Bank (CCB), two of the four large state-owned banks, with a $45 billion injection from foreign exchange reserves. As part of the reform process, these two banks have also extensively revamped their corporate governance structure and adopted corporate structures in preparation for public listings on domestic and overseas stock markets. Foreign strategic investors are also being sought to introduce new management expertise.

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 those overseas, making it more attractive to explore onshore financing. Foreign-invested firms, like domestic firms, must 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.

To improve the quality of its banks, the Chinese government is encouraging foreign banks to acquire minority stakes and introduce modern management expertise in Chinese banks. Foreign investors have taken stakes in several Chinese banks, and nine more investment deals are reportedly pending.

As of the end of 2004, foreign banks could undertake business in domestic currency in eighteen cities. While foreign banks still face unreasonably high capitalization requirements, under the terms of China's WTO accession protocol, China committed to end all geographic restrictions on business by foreign banks by December 11, 2006.

## Political Violence Return to top

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 and makes the difficult and still incomplete transition to an entirely new social security system, unemployment and other social pressures have risen. As a result, urban worker protests have increased.

Most of these have been fairly small and resolved peacefully. However, some protests have been large and persistent, such as those by thousands of workers in China’s northeastern provinces in March and April 2002. In recent years, there have been isolated violent actions by disgruntled individuals - in some cases motivated by personal rather than political reasons - who damaged public buses, markets, and railroad tracks. More worrisome, though still relatively rare, were incidents of worker violence against owners or managers. Declining rural incomes have contributed to protests by farmers in rural areas. Local authorities have generally dealt with urban and rural protests in a peaceful manner and have not resorted to violence.

In addition, late 2003 and autumn 2004 saw a string of violent but unconnected protests in provincial areas. The target of the protesters' grievances tended to be local officials and/or powerful business interests rather than the Beijing leadership. Such "mass incidents," as the Central Government officially calls them, commonly involved rural residents protesting what they viewed as inadequate compensation for confiscated property. Other riots, however, were sparked by specific events such as traffic accidents.

## Corruption Return to top

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. However, one positive development in mid-2004 was the wide public release of the National Audit Report of the Execution of the 2003 PRC Budget. That report revealed evidence of corrupt practices, embezzlement and fiscal mismanagement within the central government. Six months after the report’s release, the author was heralded by the public as China’s most respected economic person of 2004.
Offering and receiving bribes are both crimes under Chinese law. Based on surveys reported in the Western media and views expressed by foreign business persons 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. In addition, the media is increasingly active in investigating and uncovering corruption scandals.

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.

## Bilateral Investment Agreements
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China has entered into bilateral investment agreements with 108 countries, more than any other developing economy, according to the UN Conference on Trade and Development. Agreements have been signed with Japan, Germany, the United Kingdom, France, Italy, Thailand, Romania, Sweden, the Belgium-Luxembourg Economic Union, Finland, Norway, Spain, Austria, and others. 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 agreement with China, although the two governments did sign an agreement on investment guaranties that entered into force October 30, 1980. Any American investor investing in China should make sure that expropriation and arbitration are covered in the terms of the contract.

China has also signed treaties on avoidance of double taxation with dozens of economies, including the United States.

## OPIC and Other Investment Insurance Programs
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In the past, the Overseas Private Investment Corporation (OPIC) had a very active program in China. The United States suspended OPIC's program in China after the Tiananmen Incident in June 1989, first by Executive Order, 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 worth 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 foreign commercial insurance companies also offer political risk insurance, as does the People's Insurance Company of China (PICC). Foreign political risk insurers have noted a decline in the past couple of years in new business in China. One possible explanation is that the political turmoil elsewhere in the region in the wake of the Asian financial crisis reduced the perception of risk with respect to China.

## Labor
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Labor Availability: FIEs may find and hire employees through their joint venture partner, a local labor bureau or job fair, advertisements or word of mouth. Representative offices must hire their local employees through a labor services agency.

Skilled managers, especially those with marketing skills, are often in short supply. Many companies find talented and highly motivated recent university graduates in abundance. Experienced managers in FIEs command salaries far greater than their counterparts in Chinese enterprises, making localization an increasingly 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. Some companies offering the lowest wages and harsh working conditions have faced shortages of non-skilled workers. Many Chinese workers move rapidly from job to job within the growing foreign-invested and private sectors.

Compensation:

Workers are paid a salary, hourly wages, or piecework wages. Employers commonly provide their employees with subsidized services, such as housing and medical care, and compensation beyond the basic wage can constitute a large portion of a venture's labor expenses. With recent moves by China to reform the housing system and to promote home purchases through a mortgage system, employer-provided housing has been decreasing. However, enterprises that merge with existing SOEs may still be required to provide workers with dormitory housing. New enterprises, rather than providing housing, pay into a housing fund that may amount to as much as 10% of payroll. Regulations on non-wage compensation differ by 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 20% of an enterprise's total wage bill. Employees also make pension contributions of 3-8% of their salary, depending on the locale. In general, FIEs 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 create incentives to provide workers with subsidies and services rather than with higher wages. Most FIES set salaries and benefits after observing local practice. China's national labor law requires compensation for overtime work.

Termination of Employment: The ability to terminate a worker's employment varies widely according to the location, type, and size of the enterprise. Terminating a worker for cause may require prior notification/consultation with the local labor bureau and with the labor union. In general, it is easier to fire workers in southern China than in the northeast, and in smaller enterprises than in larger ones. FIEs generally do not encounter problems when workers are let go at the end of a short-term contract. However, enterprises that take on workers from SOEs usually find it difficult to terminate their employment. Investors should be aware that large-scale layoffs from long-established SOEs have created tensions, and prompted demonstrations by Chinese workers. In some cases, violence occurs, although not to a degree that threatens social stability.

Worker Rights: It is illegal under Chinese law to oppose efforts to establish officially sanctioned unions. Amendments to the Trade Union Law, passed in 2001, provide legal sanctions for anti-union activity. The amendments are widely perceived as strengthening the ability of unions to organize in the private sector, including in FIEs. However, these amendments do not require the establishment of a union in an enterprise. 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. FIEs without unions often have worker organizations that perform some functions that Chinese unions have traditionally performed, such as organizing social and charitable activities.

China's Labor Law provides for collective, as well as individual, labor contracts specifying wage levels, working hours, working conditions, insurance and welfare. Most consultations over collective contracts do not rise to the level of negotiations, in part because local Communist Party committees, rather than the workers themselves, control the selection of union leaders.

Although China has ratified several International Labor Organization conventions, it has not ratified core conventions on freedom of association, collective bargaining and discrimination in employment. In 2001, China ratified the International Covenant on Economic, Social and Cultural Rights, with the reservation that the right of freedom of association would be dealt with in accordance with Chinese law.

## Foreign-Trade Zones/Free Ports Return to top

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 (FTZs) 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. The future of FTZs is in question due to China's WTO commitment to grant trading rights to all enterprises. Some trade analysts think most FTZs will either die out or be scaled back after full trading and distribution rights are implemented, because so much of their current attraction stems from the trading rights they offer.

China's General Administration of Customs 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.

## Foreign Direct Investment Statistics Return to top

The Ministry of Commerce produced most of the data below. The statistics on utilized investment are based on required reporting by FIEs of committed capital. Cumulative values are simple totals of data collected each year. As such, they are based on historical costs, 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.

Many mainland companies invest via subsidiaries in the Special Administrative Regions (SARs) of Hong Kong and Macau in order to obtain investment incentives, such as tax breaks, which are available only to foreign 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 Macau statistics, many Taiwan firms invest in the mainland via these SARs in order to avoid the scrutiny of the Taiwan authorities. Indeed, some observers estimate actual accumulated stock of FDI inflows from Taiwan at two to three times the $39.6 billion formally recorded by China.

China records FDI contracts and reports these data regularly. "Contracted FDI" correlates only very weakly with FDI actually utilized and has proven a misleading indicator of future FDI inflows. Contracted FDI is also not comparable with data from other major developed and developing economies, which generally do not collect or publish such data. Consequently, contracted FDI figures are not reported here.

Table 1 -- Utilized Foreign Direct Investment in China from All Sources (1979-2004) (In $ Millions)

| Year | Utilized FDI |
|---|---|
| 1979-84 | 3,060 |
| 1985 | 1,658 |
| 1986 | 2,244 |
| 1987 | 2,314 |
| 1988 | 3,194 |
| 1989 | 3,392 |
| 1990 | 3,487 |
| 1991 | 4,366 |
| 1992 | 11,008 |
| 1993 | 27,515 |
| 1994 | 33,767 |
| 1995 | 37,521 |
| 1996 | 41,726 |
| 1997 | 45,257 |
| 1998 | 45,463 |
| 1999 | 40,319 |
| 2000 | 40,714 |
| 2001 | 46,878 |
| 2002 | 52,743 |
| 2003 | 53,505 |
| 2004 | 64,029* |
| Total | 563,789 |

Source: National Bureau of Statistics
Note: Yearly figures do not sum exactly to total due to rounding.
*: As of January 16, 2005 the 2004 numbers are preliminary statistics from the Ministry of Commerce.

Table 2 -- U.S. Utilized Foreign Direct Investment in China (1979-2004) (In $ millions)

| Year | Utilized FDI |
|---|---|
| 1979-84 | 274 |
| 1985 | 357 |
| 1986 | 326 |
| 1987 | 263 |
| 1988 | 236 |
| 1989 | 284 |
| 1990 | 456 |
| 1991 | 323 |
| 1992 | 511 |
| 1993 | 2,063 |
| 1994 | 2,491 |

| | |
|---|---|
| 1995 | 3,083 |
| 1996 | 3,443 |
| 1997 | 3,239 |
| 1998 | 3,898 |
| 1999 | 4,216 |
| 2000 | 4,384 |
| 2001 | 4,433 |
| 2002 | 5,424 |
| 2003 | 4,199 |
| 2004 | 3,941* |
| Total | 48,030 |

Source: Ministry of Commerce
Note: Yearly figures do not sum exactly to total due to rounding.
*: As of January 16, 2005 the 2004 numbers are preliminary statistics from the Ministry of Commerce.

Table 3 -- China's Utilized and Cumulative Foreign Direct Investment by Selected Source Economy for 2004 and as of 2004 (In $ millions)

| | Utilized FDI | Cumulative FDI |
|---|---|---|
| Hong Kong | 18,999 | 241,574 |
| Virgin Islands | 6,730 | 36,895 |
| Japan | 5,452 | 46,846 |
| Korea | 6,248 | 25,936 |
| United States | 3,941 | 48,029 |
| Taiwan | 3,117 | 39,605 |
| Cayman Islands | 2,043 | 6,712 |
| Singapore | 2,008 | 25,539 |
| Western Samoa | 1,129 | 5,798 |
| Germany | 1,058 | 9,909 |
| Total (All Sources) | 64,029 | 563,789 |

Source: Ministry of Commerce

Table 4 -- China's Utilized Foreign Direct Investment by Sector (In $ millions)

| | Utilized FDI | Change from 2002 (%) to 2003 |
|---|---|---|
| Agriculture, Forestry, Animal Husbandry & Fisheries | 1,001 | -2.6 |
| Mining | 336 | -42.1 |
| Manufacturing | 36,936 | 0.4 |
| Utilities | 1,295 | -5.8 |
| Construction | 612 | -13.7 |
| Transport, Warehousing, Post & Telecommunication | 867 | -5.0 |
| Wholesaling and Retail | 1,116 | 19.7 |
| Banking and Insurance | 232 | 117.5 |

| | | |
|---|---|---|
| Real Estate Management | 5,236 | -7.5 |
| Social Services | 3,161 | 7.4 |
| Health Care, Sports, and Social Welfare | 127 | -0.5 |
| Education, Culture and Arts, Radio, Film and Television | 58 | 53.0 |
| Scientific Research and Polytechnic Services | 259 | 31.0 |
| Other Sectors | 2,269 | 70.8 |

Source: National Bureau of Statistics

Table 5 -- Role of FDI in China's Economy (In $ millions)

| | 2003 | %Change | %of 2003 National Figures |
|---|---|---|---|
| FIE-Generated Industrial Value Added | 135,639 | 20.0 | 27.2 |
| FIE-Generated Exports | 240,341 | 41.4 | 54.8 |
| FIE-Generated Imports | 231,914 | 44.7 | 56.2 |
| FIE-Generated Tax Revenues | 51,627 | 22.8 | 20.9 |
| 2003 FDI inflows/GDP | - | - | 3.8 |
| 2003 FDI stock/GDP | - | - | 35.5 |
| 2003 FDI share of total fixed investment | - | - | 8.0 |

Source: Ministry of Commerce
Note: "Stock" is actually a cumulative total of historical inflows, not necessarily current stocks.

Table 6 -- Chinese FDI Outward Flows and Stock, 1997-2003 (In $ billions)

| Year | Outflow | Outward Stock |
|---|---|---|
| 1997 | 2.6 | 19.6 |
| 1998 | 2.6 | 22.2 |
| 1999 | 1.8 | 24.0 |
| 2000 | 0.9 | 25.8 |
| 2001 | 6.9 | 32.7 |
| 2002 | 2.5 | 35.2 |
| 2003 | 5.5 | 37.0 |

Source: UNCTAD
Note: "Stock" is actually a cumulative total of historical inflows, not necessarily current stocks.

Major U.S. Investors in China:

| | 2003 Sales Volume (In $ millions) |
|---|---|
| Motorola | 5,763 |
| General Motors | 2,242 |
| Dell Computer | 2,123 |
| Hewlett-Packard | 1,341 |
| Kodak | 606 |
| IBM | 440 |
| Microsoft | 213 |
| Dupont | 207 |
| Coca-Cola | 204 |
| Wrigley Chewing Gum | 206 |
| Budweiser | 190 |
| Lucent | 315 |
| Johnson & Johnson | 164 |
| Avon | 137 |

Source: Ministry of Commerce

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Chinese Catalogue of Investment Restrictions lifted per WTO Commitments
www.ndrc.gov.cn/a/news/200412101b.htm

Chinese Ministry of Commerce
www.mofcom.gov.cn

Chinese Ministry of Commerce website that contains many investment-related laws and regulations in both the original Chinese and English translation as well as research reports and statistics on FDI in China
www.fdi.gov.cn

National Natural Science Foundation of China
www.nsfc.gov.cn

Chinese Ministry of Science and Technology
www.most.gov.cn

China International Economic and Trade Arbitration Commission (CIETAC)
www.cietac.org.cn/index_english.asp

International Center for the Settlement of Investment Disputes (ICSID)
www.ritze.net/icsid.htm

State Asset Supervision and Administration Commission (SASAC)
www.sasac.gov.cn/eng/eng_index.htm

China Securities Regulatory Commission (CSRC)
www.csrc.gov.cn/en/homepage/index_en.jsp

The People's Bank of China (BOC) is China's central bank
www.pbc.gov.cn/english

Multilateral Investment Guarantee Agency (MIGA), an organization affiliated with the World Bank, can provide political risk insurance for investors interested in investing in China
www.miga.org

People's Insurance Company of China (PICC) offers political risk insurance
www.picc.com.cn/en/index.shtml

All-China Federation of Trade Unions (ACFTU), controlled by the Chinese Communist Party is the country's sole officially recognized workers' organization
www.acftu.org.cn/index2.htm

Chinese National Bureau of Statistics
www.stats.gov.cn/english

UNCTAD
www.unctad.org/Templates/StartPage.asp?intItemID=2068

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# Chapter 7: Trade and Project Financing



## How Do I Get Paid (Methods of Payment)

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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.

1. 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 can also issue letters of credit.

China, as a member of the International Chamber of Commerce since 1995, is subject to the Unified Customs and Practice (UCP) 500 code regarding international trade payments; however, in local Chinese practice, terms and conditions are generally negotiable and set on a transaction-by-transaction basis in the form of a "silent" confirmation.

2. 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.

3. Other methods

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

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

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

## How Does the Banking System Operate

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### 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.  China's accession to WTO will lead to a significant opening of this industry to foreign participation.

1. Central Bank and Banking Regulatory Commission

The People's Bank of China (PBOC) is China's central bank, which formulates and implements monetary policy.  (The State Council, however, continues to make all final decisions on major financial and monetary policy issues.)  The PBOC maintains the banking sector's payment, clearing and settlement systems, and manages official foreign exchange and gold reserves.  It oversees the State Administration of Foreign Exchange (SAFE) for setting foreign-exchange policies.

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.

China Banking Regulatory Commission (CBRC) was officially launched on April 28, 2003, to take over the supervisory role of the PBOC.  The goal of the reform is to improve the efficiency of bank supervision and to help the PBOC to further focus on the macro economy and currency policy.

According to the official announcement by CBRC posted on its website, the CBRC is responsible for "the regulation and supervision of banks, asset management companies, trust and investment companies as well as other deposit-taking financial institutions.  Its mission is to maintain a safe and sound banking system in China."

2. State-Owned Commercial Banks – The 'Big Four'

In 1995, the government introduced the Commercial Bank Law to standardize the operations of China's commercial banking institutions.  At present four major 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), dominate the banking system and together account for well over half of all loans and deposits in China's banks.

The Industrial & Commerce Bank of China (ICBC) is the largest bank in China by total assets, total employees and total customers.  ICBC differentiates itself from the other state-owned commercial banks by being second in foreign exchange business and first in RMB clearing business.  It previously was the major supplier of funds to China’s urban areas and manufacturing sector.

The Bank of China (BOC) specializes in foreign-exchange transactions and trade finance.  In 2002, BOC Hong Kong (Holdings) was successfully listed on the Hong Kong Stock Exchange.  The USD 2.8 billion offering was over-subscribed by 7.5 fold.  The deal was a significant move in the reform of China’s banking industry.

The China Construction Bank (CCB) specializes in medium to long-term credit for long-term specialized projects, such as 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.

3. Policy Banks

Three  "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.

4. 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, CITIC Industrial Bank, China Everbright Bank, Hua Xia Bank, China Minsheng Bank, Guangdong Development Bank, Shenzhen Development Bank, China Merchants Bank, Shanghai Pudong development bank and Fujian Industrial Bank.  The second tier banks have, on the whole, tended to adhere more closely to commercial principles in their operations but, nevertheless, have also encountered problems with respect to asset quality.

5. 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.

6. Non-Performing Loans and Asset Management Companies

In 1999, four asset management companies (AMC) were established to transfer the non-performing assets from the banks. The AMCs plan to repackage the non-performing loans (NPLs) into viable assets and sell them off to the investors. Based on the five-category classification, the outstanding balance of NPLs held by the main banking institutions declined by RMB96.6 billion yuan, and the NPL ratio was reduced by 4.37 per cent to 18.74 percent in the first nine months of 2003. In particular, the outstanding balance and the ratio of NPLs of the four state-owned banks stood at RMB1999.23 billion yuan and 21.38 percent respectively, which were RMB88.876 billion yuan and 4.83 percent lower than those at the beginning of the year.

As of the end-June, 2004, the four asset management corporations (AMCs) have altogether disposed of RMB567.26 billion worth of non-performing assets, and recovered an aggregate of RMB112.83 billion in cash, accounting for 19.9 per cent of the disposed non-performing assets. To be specific, China Huarong Asset Management Corporation has disposed of RMB169.56 billion and recovered RMB33.84 billion in cash, accounting for 20 per cent; China Great Wall Asset Management Corporation has disposed of RMB176.49 billion and recovered 18.3 billion in cash, accounting for 10.4 per cent; China Orient Asset Management Corporation has disposed of RMB92.3 billion in non-performing assets and recovered RMB19.17 billion in cash, accounting for 20.8 per cent; China Xinda Asset Management Corporation has disposed of RMB128.91 billion in non-performing assets and recovered RMB41.48 billion in cash, accounting for 32.2 per cent.

B. Banking System Reform

Currently, the state-owned commercial banks occupy a dominant share in China's banking industry, accounting for 56 percent of the total banking assets in China. Therefore, the banking industry reforms are centered on the wholly state-owned banks. Progress has been made over recent years in reforming the wholly state-owned banks in areas including the improvement of the banks' risk management, the enhancement of the banks' internal controls and the upgrade of the banks' IT systems

However, in order to meet the needs of economic and financial developments and opening-up, the CBRC deems it necessary to further accelerate the reforms so as to transform the wholly state-owned banks into modern financial corporate entities with good corporate governance, a sound operational mechanism, well-defined business strategies, strong financial conditions and competitiveness in international markets. Subsequently, the qualified wholly state-owned banks will be restructured into joint-equity banks, and the eligible banks will be further allowed to be listed on the stock market.

The reform of the banking system has been accompanied by the Chinese leadership's decision to decontrol interest rates gradually over an indefinite period of time. Market-based interest rate reform aims at establishing the pricing mechanism of deposit and lending rate based on market supply and demand. The central bank would continue to adjust and guide the interest rate development which allowing the market mechanism to play a dominant role in financial resource allocation.

The sequence of the reform, as outlined by the PBOC, is to liberalize the interest rate of foreign currency before that of domestic currency, lending before deposit, large amount and long term before small amount and short term. As a first step, the PBOC liberalized the interest rates for large deposits (USD 3 million and over) and loans in foreign currency in September 2000. Rates for deposits below USD 3 million remains subject to PBOC control. In March 2002, the PBOC unified foreign currency interest rate policies for Chinese and foreign financial institutions in China. Small foreign exchange deposits of Chinese residents with foreign banks in China were included in the PBOC interest rate administration of small foreign exchange deposits, so that domestic and foreign financial institutions are treated fairly with regard to the interest rate policy of foreign exchange deposits.

As interest rate liberalization progressed, the PBOC has liberalized, simplified or abandoned 114 categories of interest rates initially under control since 1996. At present, 34 categories of interest rates remain subject to PBOC control. 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.

## Foreign-Exchange Controls

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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 RMB. (Large exporters were allowed to retain up to 15 percent 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.

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. Foreign-invested enterprises (FIEs) are permitted to keep foreign exchange in foreign exchange accounts at commercial banks. 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.

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. In June 2002, SAFE authorized FIEs to draw on foreign exchange in their capital fund accounts for transaction settlements without prior SAFE approval. SAFE has also authorized designated Chinese commercial banks to change domestic currency needed by Chinese citizens for educational or travel expenses within specified limits, thus streamlining access to foreign currency for many individuals. Nevertheless, China's stated goal of achieving a fully convertible currency remains distant because of political concerns over the potential impact to the Chinese economy, and the authorities refuse to commit to a specific timetable for capital account liberalization.

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 unless they are in certain designated cities and have been specially licensed for domestic currency business. 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 eliminate all geographical restrictions within five years of its 2001 entry to he World Trade Organization (WTO) and has subsequently increased the number of cities in which foreign banks may undertake RMB business each year since its WTO accession.

## U.S. Banks and Local Correspondent Banks

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China's entry into the WTO will bring tremendous opportunities to foreign banks. As a milestone move to honor its WTO commitments, China released the Rules for Implementing the Regulations Governing Foreign Financial Institutions in the People's Republic of China in January 2002. The rules provide detailed regulations for implementing the administration of the establishment, registration, scope of business, qualification, supervision, dissolution and liquidation of foreign financial institutions. They also stipulate that foreign bank branches conducting full aspects of foreign-currency business and full aspects of RMB business to all categories of clients are required to have operating capital of at least USD 72.3 million, of which at least USD 48.2 million must be held in RMB (RMB 400 million) and at least USD 24.1 million in freely convertible currency.

Client restriction on foreign currency business was lifted immediately after China's entry into the WTO on December 11, 2001. For local currencies, geographic restriction will be phased out beginning with four major cities—Shanghai, Shenzhen, Tianjin and Dalian being open upon China's WTO accession. Foreign-funded banks were further allowed to do RMB business in Guangzhou, Zhuhai, Qingdao, Nanjing and Wuhan from December 1, 2002. With respect to the client restriction, foreign financial institutions have been permitted to provide foreign currency services to Chinese enterprises and individuals, and will be permitted to provide local currency business to all Chinese clients within five years after WTO accession.

One hundred foreign banking institutions (making up 50 per cent of all foreign banking institutions incorporated in China) have been approved to conduct RMB business, including 53 in Shanghai, 19 in Shenzhen, 8 in Tianjin, 6 in Dalian, 7 in Guangzhou, 2 in Zhuhai, 2 in Qingdao, 2 in Fuzhou, and 1 in Wuhan. Among these institutions, 53 have been granted to provide RMB services to the Chinese enterprises. In comparison, the number of foreign banks authorized to conduct RMB business was 30 at the end of 2001.

## Project Financing Return to top

Sources of financial support available to U.S.-based exporters are:

1. 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 supporting the financing of U.S. export sales. Ex-Im Bank guarantees the repayment of loans or makes loans to international purchasers of U.S. goods and services. Ex-Im Bank also extends export credit insurance to overseas buyers and protects U.S. exporters against the risks of non-payment for political or commercial reasons. A reasonable assurance of repayment on every transaction financed must be concluded.

Ex-Im Bank has signed master credit agreements with Bank of China and China Development Bank but can work with any Chinese bank that meets its credit guidelines. Ex-Im Bank has worked with China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China and Bank of Communications. For private sector borrowers, Ex-Im Bank will accept financial statements audited according to acceptable accounting practices with notes that adequately disclose financial conditions and afford a reasonable basis for reliance on the information provided. The terms and conditions of standard export financing are governed by the OECD Arrangement on export credits. For Ex-Im Bank direct loans, lending rates (commercial interest reference rates or CIRR) are set monthly and are based on a spread above U.S. Treasuries.

The U.S. Ex-Im Bank is also 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. One such project, an ethylene cracker plant, was recently approved for financing by Ex-Im Bank under this facility. Project financing is also available from the various multilateral financial institutions as described in item number 3 below.

The Chinese Government and Chinese borrowers from time to time receive concessional financing terms and conditions designed to support a third country's exporters. The credits can be offered under government-to-government protocols related to a particular sector or project. U.S. firms, otherwise competitive on price and quality, often lose contracts because they are unable to compete with such concessional loans. Ex-Im Bank will, under certain circumstances, consider matching the specific financing terms of a competing government offer. Tied Aid matching funds must be approved by both the Board of Directors of the Ex-Im Bank and the President.

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 Ms. Marilyn Taylor at the U.S. Commercial Service, U.S. Embassy Beijing at Tel: (86-10) 8529-6655, x806, Fax: (86-10) 8529-6558. Exposure fee calculations and applications can be found on-line at www.exim.gov.

2. Direct grants

U.S. Trade & Development Agency fund 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 2001. 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. In China, contact the TDA Representative, Ms. Wan Xiaolei, at the U.S. Commercial Service, U.S. Embassy Beijing at Tel: (86-10) 8529-6655, x839, Fax: (86-10) 8529-6558. Website: www.tda.gov

3. 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 (IFC) 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 USD 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) is a multilateral development finance institution owned by 61 member countries, including 34 emerging market countries in Asia, provides loans and technical assistance to governments for specific projects and programs. In 2002, ADB loan approvals totaled USD 5.7 billion for 89 loans and four equity investments. Co-financing for the year amounted to USD 2.7 billion.

In 2002, the PRC, traditionally the largest lending and technical assistance borrower, came in third (15.3 percent or USD 868 million). ADB's cumulative public sector lending to the PRC reached USD 12.04 billion at the end of December 2002.

Between 1988 and 2002, ADB has approved about USD 233 million in loans and equity investments for private sector projects in China.

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 at Tel: (86-10) 6642-6601, Fax: (86-10) 6642-6606. Website: http://www.adb.org

## Web Resources

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Export-Import Bank of the United States: http://www.exim.gov

Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html

OPIC: http://www.opic.gov

Trade and Development Agency: http://www.tda.gov/

SBA's Office of International Trade: http://www.sba.gov/oit/

USDA Commodity Credit Corporation: http://www.fsa.usda.gov/ccc/default.htm

U.S. Agency for International Development: http://www.usaid.gov

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# Chapter 8: Business Travel



## Business Customs

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### Colors and clothing

Colors
In Chinese culture there are three central colors: red, black and white.
Red, being the color of blood, symbolizes the positive aspects of life such as happiness, wealth, fame etc. Red is always associated with good luck.
Black, being the color of faces is associated with dirt, sin, evil, disasters, sadness, cruelty and suffering among other negative things. Black signifies bad fortune and must not be worn during festivals, wedding celebrations etc. or used in-home decoration. Black symbolizes a lack of civilization and backwardness. However, traditions associated with this color are quickly fading, and among the younger generations black can be frequently seen as a clothing color.
White symbolizes the mother's milk and is intermediate between red and black, balancing the two colors. It signifies moderation, purity, honesty and life, but is also used at funerals, as it is believed it can harmonize all elements. It can be used in all rituals and ceremonies, as it is essentially neutral. Other colors are classified according to their relative darkness and lightness and associated significance thereof.

Clothing
There are no specific rules in Chinese custom governing dress. Traditional costumes are rarely worn and clothing is usually chosen for comfort or according to the fashion of the day.
Bright colors are preferred for clothing in Chinese culture, but the color of one's clothing is generally suited to the environment: for example manual workers and farmers will often wear dark colors because of the nature of their work. Some conventions are considered with regards to age: the elderly are not encouraged to 'dress young', for example t-shirts and jeans.

**Speech and greeting conventions**

Many western visitors to China have had a rude shock: Chinese conversations in public tend to be loud and highly audible- to western ears the conversationalists appear to be arguing. Arguments usually result not in especially loud speech, but in the use of curses and swear words, regardless of sex or age.

However, Chinese etiquette states that the best way to speak is softly and with one's head slightly bowed. 'Answering back' to those older is considered ill mannered: the advice of elders should be accepted. Children who answer back or swear are considered bad mannered and their parents are held responsible.

Chinese men speaking loud are not considered bad mannered: a woman speaking loudly is, and may have abuse and ridicule heaped upon herself.

The correct way of greeting a person is very important in Chinese culture: inappropriate greeting is considered very much undesirable. Among strangers, acquaintances or at formal occasions the greeting (in Mandarin) 'Ni Hao' (or 'Nin Hao if much respect is meant) meaning, literally 'you good?' is used. The phrase 'Have you eaten?' is used as a more familiar greeting and testifies to the centrality of food in Chinese culture. Chinese culture considers it impolite to meet someone and not ask him/her to eat: he/she may be hungry!

The traditional Chinese 'handshake' consists of interlocking the fingers of the hands and waving them up and down several times. This is today rarely used (except during festivals, weddings and birthdays of the elderly), and the western style handshake is ubiquitous among all but the very old or traditional. When greeting, a slight bow often accompanies the handshake, with the bow being deeper the more respect is being proffered to the person, for example an elderly person or someone of high social status. The Chinese tend not to greet those close to them with greetings that may bear a negative slant such as 'you're looking sad' or 'you're looking tired': this is deemed improper. In formal contexts, or when addressing an elder or person with high status it is considered highly inappropriate and rude to address the person by their given name. They should be addressed according to their designation, for example 'Mr Tang, Doctor Liu, Chairman Lee' etc.

Business/name cards are ubiquitous in Chinese business and will almost always be exchanged upon meeting a stranger in such a context. The card should be held in both hands when offered to the other person: offering it with one hand is considered ill mannered.

**Miscellaneous customs and beliefs**

## Brooms

Many superstitions abound in Chinese culture about brooms. The use of brooms should only be for cleaning the house, shop etc. Traditional Chinese culture holds that a broom is inhabited by a spirit, thus explaining why it should not be used for games, playing etc. The broom should not be used for cleaning the household gods or altar as this is disrespectful. These objects are cleaned with a cloth or a special small brush. During the Spring Festival, Chinese custom prohibits the use of the broom for three days from New Year's Day, as it is thought that use of it will sweep away the good luck the new year brings.

Beating a person with a broom will rain bad luck upon that person for years. The curse can however be lifted by rubbing the part of the body hit several times. The broom should never touch the head: this is very bad luck. In gambling, the spirit in the broom is sometimes invoked by 'threatening' it until luck in gambling ensues. The broom is also sometimes used in temple rituals. Here, the person's whole body is swept with the broom in front of the deities and the broom then beaten. This functions to remove bad luck.

## Numbers

Numbers play a role second only to food in Chinese custom and culture. It is believed that numbers can determine a person's fate- for example in the naming of a child. Certain numbers are considered lucky, and others unlucky. The luckiest number in Chinese culture is eight, as the Chinese for eight sounds like the word for 'lucky'. Four, conversely is a very unlucky number as in Chinese it sounds like the word for death. Thus Chinese adhering to the customs try to avoid the number four in, for example, car number plates, house addresses etc. Seven can also signify death, and '1' loneliness.

## Moustaches and beards

Despite a long history of beards and moustaches in Chinese heroes and Chinese deities pictured with beards, wearing a moustache is considered bad luck by Chinese custom, and can bring misfortune on the family and relatives of the wearer. Being unshaven is associated with the working classes- who are thought not to have time to shave- and thus lowers the status of the wearer.

## Finger and toe nails

Chinese custom forbids the clipping of one's toe or finger nails at night as it is believed that this may cause a visit from the dead or a ghost. Nail clippings are to be carefully collected and disposed of in a place unknown to others as it is believed that nail clippings can be used to cast a spell or curse upon the person from whom the clippings have come.

## The fluid from a dog's eye

Dogs are believed to have the ability to see supernatural beings such as ghosts and phantoms, and howl when they see one. If a dog howls continuously, it is believed that this presages an imminent death.

Following from this, it is believed that the fluid from a dog's eye can enable humans to see the spirit world, for example ancestors' souls. A medium will smear the fluid on his/her eyes in order to see the supernatural world for the purposes of exorcism etc.

However it is believed that ordinary people who smear the fluid from a dog’s eye on their own eyes may die from the shock of seeing the afterlife.

Miscellaneous customs and superstitions
Other customs and superstitions include:

Dreaming of snow or teeth presages the death of a parent.
Hearing a crow cawing between 3 and 7am means the hearer will receive gifts, whereas hearing a crow caw between 7 and 11am rain and wind will follow, and between 11am and 1pm quarrels will ensue.
If a man's ears burn it can mean special things: if they burn between 11pm and 1pm there will be harmony between him and his wife; if they burn between 1 and 3 in the afternoon, a guest will soon arrive.
Yarrow and tortoiseshell are considered to be lucky.

(Source: Network Center of MOFCOM)

## Travel Advisory

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In accordance with Article 20 of Chapter 4 of the Law of the People's Republic of China Governing Foreigners' Entry and Exit, foreigners with valid visas or residence permits may travel to the following 1330 locations without special permission.

(Please note that even though an area itself is "open," the route there may not be open to foreigners.) If an area is not listed below, permission to travel in that area must be sought from the local office of the Public Security Bureau (Gong An Ju). Travelers should be aware that foreigners who travel without permission to restricted areas might be detained by local authorities or expelled from China. Restrictions on travel are subject to change without notice, and travelers should consult with local authorities or the American Consulate if there is any doubt as to whether a particular area is open to travel by foreigners.

Recent travel advisories and other useful information can be found on the U.S. State Department’s travel website: http://travel.state.gov/

## Visa Requirements

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**ENTRY/EXIT REQUIREMENTS:** A valid passport and visa are required to enter China and must be obtained from Chinese Embassies and Consulates before traveling to China. Americans arriving without valid passports and the appropriate Chinese visa are not permitted to enter and will be subject to a fine and immediate deportation at the traveler’s expense. Travelers should not rely on Chinese host organizations claiming to be able to arrange a visa upon arrival. Chinese Authorities have recently tightened their visa issuance policy, in some cases requiring personal interviews of American citizens and regularly issuing one or two entry visas valid for short periods only.

Visas are required to transit China. Persons transiting China on the way to and from Mongolia or North Korea or who plan to re-enter from the Hong Kong or Macau Special Administrative Regions should be sure to obtain visas allowing multiple entries. Permits are required to visit Tibet as well as many remote areas not normally open to foreigners.

For information about landing visa requirements and other entry requirements and restricted areas, travelers may consult the Embassy of the People's Republic of China (PRC) at 2300 Connecticut Avenue N.W., Washington, D.C. 20008, or telephone (1-202) 328-2500, 2501 or 2502. For a list of services and frequently asked visa questions and answers, travelers can view the Chinese Embassy's web sites at http://www.china-embassy.org/ . The Chinese Embassy's visa section may be reached by e-mail at chnvisa@bellatlantic.net . There are Chinese Consulates General in Chicago, Houston, Los Angeles, New York, and San Francisco. Americans traveling in Asia have been able to obtain visas to enter China from the Chinese visa office in Hong Kong and the Embassy of the People's Republic of China in Seoul, South Korea.

Americans who overstay or otherwise violate the terms of their Chinese visas will be subject to a maximum fine of 5,000 RMB (approximately $600) and departure delays and may be subject to detention. Travelers should note that international flights departing China are routinely overbooked, making reconfirmation of departure reservations and early airport check-in essential. Passengers must pay a RMB 90 airport user fee (approximately $11 US) when departing China on international flights and RMB 50 airport fee (approximately US $6.10) for all domestic flights.

In an effort to prevent international child abduction, many governments have initiated new procedures at entry / exit points. These often include requiring documentary evidence of relationship and permission for the child's travel from the parent(s) or legal guardian if they are not present. Having such documentation on hand, even if not required, may facilitate entry/departure.

**DUAL NATIONALITY:** China does not recognize dual nationality. Some U.S. citizens who are also Chinese nationals (mostly U.S.-born children of Chinese nationals or Legal Permanent Residents) have experienced difficulty entering and departing China on U.S. passports. In some cases, such dual nationals are required to use Chinese travel documents to depart China. Normally this causes inconvenience but no significant problems for affected persons; however, in child custody disputes, the ability of dual national children to depart from China could be affected. Chinese "Travel Permits" (Luxingzheng) are usually issued to U.S. citizen children of Chinese citizens in lieu of a visa. These documents are essentially one-way permits that allow entry into China, but do not permit the holder to depart. Persons holding Chinese "Travel Permits" are regarded as Chinese citizens by Chinese authorities. In addition to being subject to all Chinese laws, dual nationals may also be subject to other laws that impose special obligations on Chinese citizens. In some cases, such dual nationals are required to use Chinese documentation to enter China, in which case U.S. consular access and protection has been routinely denied. Dual nationals who enter and depart China using a U.S. passport and a valid PRC visa retain the right of U.S. consular access and protection under the U.S.-PRC Consular Convention. The ability of the U.S. Embassy or Consulates General to provide normal consular services may be extremely limited should a dual national enter China on a Chinese or other non-U.S. travel document, including PRC documents issued to persons from Taiwan, Hong Kong, and Macau.

If one or both parents of a child are PRC nationals who have not permanently settled in another country, then China regards their children as PRC nationals and does not recognize any other citizenship they may acquire at birth, including U.S. citizenship. This is true regardless of where the children are born. Such children are required to enter and depart China on PRC travel documents. Although Chinese consulates have frequently issued visas to such individuals in error, they are treated solely as PRC nationals by Chinese authorities when in China. Specific questions on dual nationality may be directed to the Office of Overseas Citizens Services, Department of State, Room 4811, Washington, D.C. 20520 or to the U.S. Embassy or one of the U.S. Consulates General in China. For additional information, please see the Bureau of Consular Affairs home page on the Internet at http://travel.state.gov/ for the Dual Nationality flyer.

U.S. Companies that require travel of foreign businesspersons to the United States should be advised that security options are handled via an interagency process. Visa applicants should go to the following links.

State Department Visa Website: http://travel.state.gov/visa/index.html

United States Visas.gov: http://www.unitedstatesvisas.gov/

(http://www.usembassy-china.org.cn/)

## Telecommunications Return to top

International and domestic phone calls can be made without too much hassle in China, particularly in the major cities. International and domestic calls can typically be made directly from hotel rooms and phone cards and pre-paid cellular phone chips are widely available.

Local/Domestic Calls

Most hotel rooms have phones at which local and domestic calls. Calls are usually free for guests and Y1 for non-guests. Local /Domestic calls can also be made from public pay phones or at domestic phones found at newspaper stands and kiosks on the street.

Long Distance/International Calls

International calls are quickly becoming cheaper if you use an IP card or a calling card (see Phone Cards following). If you are expecting a call-either international or domestic- try to advise the caller beforehand of your hotel room number as hotel operators often have trouble with or respond slowly to English names. (even at international hotels)

Phone Cards

There is a wide range of local and international phone cards available. Lonely Planet's eKno Communication Card is aimed specifically at independent travelers and provides budget international calls, a range of messaging services, free email, and travel information. You can join online at http://www.lonelyplanet.ekit.com/ekit/home/, or by phone from China at the following local access number: 10800 140 0208. Check the eKno Web site for access numbers from other countries and updates on super budget access numbers and new features.

International phone calls can also be made on IP (Internet Phone) cards which are sold at Y100 increments at most hotels, kiosks, and international cafes. To use, simply dial the local access number, enter the pin number, and the number you wish to call.

## IMPORTANT TELEPHONE NUMBERS

## U.S. LONG DISTANCE ACCESS NUMBERS

(From all cities in China)

AT & T –10811
MCI –10812
SPRINT – 10813

**CHINA IDD CODE** – 86

## CITY CODES

Beijing 10
Shanghai 21

**HONG KONG IDD CODE** –852

**TELEPHONE OPERATORS**

Local Directory Assistance (some English) 114
International Directory Assistance (some English) 115
International Long Distance Operator (usually has English speaking operators) 115
Domestic Long Distance Operator (some English) 113, 173

## OTHER NUMBERS

Emergency (Chinese) 999
Police (Chinese) 110
Public Security Bureau (English Assistance) 6525-2729

China International Travel
English Service – China World Hotel 6505-2266

## CELLULAR TELEPHONE DIALING INSTRUCTIONS

When using Embassy provided cellular telephones, the following instructions apply:

Cell phone to Cell phone, dial the entire 11-digit number.

Cell phone to land line in Beijing first dial 010 and then the 8-digit number.

Cell phone to a landline in another Chinese city, dial 0+ two-digit city code, plus the number.

Cell phone to the US, dial 001+area code and number.

From a landline to a cell phone, dial the entire 11-digit number.

## Transportation

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Taxis are plentiful and can be hailed along most main streets especially near hotels and major sightseeing attractions. Transportation is easily arranged at the front door of the hotel. Taxis are a convenient and fairly inexpensive means of transport, especially if you have your destination address written in Chinese. Concierge desks have cards with the name and address of the hotel in Chinese and can assist with giving instructions to the taxi driver.

Take only metered taxis. In Beijing, fares start at RMB 10-RMB 12 and cost from 1.2 RMB to 2.00 RMB per kilometer depending on the size of the taxi. Drivers will give receipts if requested.

| | |
|---|---|
| Beijing Taxi (some drivers speak English) | 6852-4088 |
| Capital Taxi (some drivers speak English) | 6852-7998 |

Airlines

| | |
|---|---|
| Cathay/Dragon Air | 6518-2533 |

| | |
|---|---|
| CAAC | 6601-7755 |
| Domestic/reconfirm | 6601-3336 |
| International/reconfirm | 6601-6667 |

| | |
|---|---|
| Japan Airlines | 6513-0888/6459-0065 |
| Korean Airlines | 8453-8888 |
| Malaysian Airlines | 6505-2681 |
| Northwest | 6505-3505 |
| Qantas | 6467-3337/4794 |
| Singapore Airlines | 6505-2233 |
| Thai Airways | 6460-8899 |
| United | 6463-1111 |
| United – Airport Information | 6459-8855 |
| Vietnam Airlines | 8454-1196 |

Ticket Reconfirmation: It is recommended that you reconfirm your ticket 72 hours in advance.

International departure tax is 90 RMB, which can also be paid in U.S. dollars. 90 RMB is equivalent to $10.98 but is now supposed to be included in all tickets final purchase price.

## Language Return to top

The Pinyin System of Romanization

On January 1, 1979, the Chinese Government officially adopted the pinyin system for spelling Chinese names and places in Roman letters. A system of Romanization invented by the Chinese, pinyin has long been widely used in China on street and commercial signs as well as in elementary Chinese textbooks as an aid in learning Chinese characters. Variations of pinyin are also used as the written forms of several minority languages.

Pinyin has now replaced other conventional spellings in China's English-language publications. The U.S. Government has also adopted the pinyin system for all names and places in China. For example, the capital of China is now spelled "Beijing " rather than "Peking."

In the pinyin system, letters are pronounced much as they would be in American English with the following exceptions.

Complex initial sounds:

c – like the t's in it's
q – like the ch in cheap
x – like the sh in she
z –like the ds in lids
zh – like the j in just

Final Sounds:

e – Pronounced like “uh”
eng – like the ung in lung
ai – as in aisle
ui –pronounced way
uai – like the wi in side
i – like the i in skin
ua –like the wa in waft
ao – like the ow in now
ian – pronounced yen
ou – like the ow in dnow
uan – pronounced when

*When zh, ch, sh, zh are followed by an “i,” the “i” is pronounced like an r.

## BASIC CHINESE WORDS/PHRASES

| | | |
|---|---|---|
| Hello | ni hao | .. |
| Goodbye | zài jiàn | .. |
| Please | qing | . |
| Thank you | xiè xiè | .. |
| You're welcome | bù .è .ì | ... |
| Excuse me | d.ì .ù .ì | ... |
| Have | y o. | . |
| Do not have | méi.ou | .. |
| No problem | méi.è..í | ... |
| It doesn't matter | méi.u[illegible]..ì | ... |
| Want | yào | . |
| Do not Want | bù .à./.ù .òng | ../.. |
| Yes | shì | . |
| No | bù s.ì | .. |
| Correct/Yes | duì | . |
| Incorrect/Wrong/No | bù .uì | .. |
| Chopsticks | kuà. .ì | .. |
| Toilet | cè suo | .. |
| Toilet paper | wè. sh[illegible].g .h i | ... |
| How are you? | Ni hao ma? | ... |
| Have you eaten? (greeting) | c.¯ fàn le ma. | .... |
| Do you understand? | dong ma. | .. |
| I don't understand | bù dong | .. |

**SHOPPING:**

| | | |
|---|---|---|
| How much does it cost? | du[illegible] shao qián | .... |
| Too expensive! | tài guì l. | .... |
| A little cheaper please | pián yi dian ba | .... |

Please write the price on a piece of paper and show it to me.
..............

**DIRECTIONS:**

Please take me to the: .....

St. Regis Hotel □ □ □ □ □ □ □

Kerry Centre Hotel □ □ □ □ □ □

Jianguo Hotel □ □ □ □

China World Hotel (Beijing) .....
Jianguomenwai Dajie, 1 ......1.
American Embassy (Beijing) ....
3 Xiu Shui Bei Jie ......3.
Airport (Beijing) (..)..

AEA Medical Clinic (Beijing) ..........

Can you please help me find...? ..........

Can you please help me get a taxi? ...........

I am from the United States ......

Excuse me, where is .i.. . è...a l. y o.
.....

Please help me .in. .ā.. . á.. ...

| | | |
|---|---|---|
| Who? | s.é. | . |
| What? | s.é. .e | .. |
| When? | s.é. . e s.í .o. | .... |
| Where? | n ar | .. |
| Why? | w è. s.é. .e | ... |
| How? | .ě. .. | .. |

**Health** [Return to top]

**MEDICAL FACILITIES:** Western-style medical facilities with international staffs are available in Beijing, Shanghai, Guangzhou and a few other large cities. Many other hospitals in major Chinese cities have so-called VIP wards (gaogan bingfang). These feature reasonably up-to-date medical technology and physicians who are both knowledgeable and skilled. Most VIP wards also provide medical services to foreigners and have English-speaking doctors and nurses. Most hospitals in China will not accept medical insurance from the United States, with the exception of the following hospitals, which are on the BlueCross BlueShield's worldwide network providers - overseas network hospitals' list (http://www.fepblue.org/wasite/wabenefits/wa-benefitsoverseas04.html): Hong Kong Adventist Hospital, Beijing United Family Hospital, Beijing Friendship Hospital, International Medical Center in Beijing, and Peking Union Medical Center. Travelers will be asked to post a deposit prior to admission to cover the expected cost of treatment. Hospitals in major cities may accept credit cards for payment. Even in the VIP/Foreigner wards of major hospitals, however, American patients have frequently encountered difficulty due to cultural and regulatory differences. Physicians and hospitals have sometimes refused to supply American patients with complete copies of their Chinese hospital medical records, including laboratory test results, scans, and x-rays. All Americans traveling to China are strongly encouraged to buy foreign medical care and medical evacuation insurance prior to arrival. Travelers who want a list of modern medical facilities in China can access that information at the Embassy's website.

Ambulances do not carry sophisticated medical equipment, and ambulance personnel generally have little or no medical training. Therefore, injured or seriously ill Americans may be required to take taxis or other immediately available vehicles to the nearest major hospital rather than waiting for ambulances to arrive. In rural areas, only rudimentary medical facilities are generally available. Medical personnel in rural areas are often poorly trained, have little medical equipment or availability to medications. Rural clinics are often reluctant to accept responsibility for treating foreigners, even in emergency situations.

Foreign-operated medical providers catering to expatriates and visitors are available in China.

***** SOS International, Ltd., operates modern medical and dental clinics and provides medical evacuation and medical escort services in Beijing, Nanjing, Tianjin and Shekou, as well as 24hr Alarm Centers in Beijing and Shanghai. Through clinics in Beijing (24 hours), Tianjin, Nanjing and Shekou, SOS offers international standard family practice services, emergency medical services and a range of clinical services.

The emergency assistance services SOS offers through alarm centers in Hong Kong, Shanghai and Beijing compliment their clinics. Each Alarm Center provides 24-hour hotline services to all our global members when they are in China. Any problem from lost luggage to a serious medical condition can be reported to the alarm center, where multilingual coordinators and doctors are on duty to respond to all manners of emergencies.

To provide these services, SOS has developed an external network of hospitals, airlines and local authorities with whom they work to deliver a fast and efficient response. These services also support the many remote site medical staff, equipment and facilities that SOS provides to clients.

For medical emergencies anywhere in mainland China, Americans can call the SOS International, Ltd., 24-hour "Alarm Center" in Beijing at telephone (86-10) 6462-9100 or in Shanghai at (86-21) 6295-0099 for advice and referrals to local facilities. SOS International Alarm Centers can also be contacted in Hong Kong at telephone (852) 2428-9900 and in the United States at (215) 245-4707. For a full list of SOS locations and phone numbers, consult the SOS website at http://www.internationalsos.com .

*Beijing United Family Hospital and Clinics ("BJU") is the first and remains the only foreign-invested full service international standard 50 bed hospital operating in Beijing, China. BJU was opened in 1997 by Chindex International, an American company, which in 2002 was awarded the US Secretary of State's Award for Corporate Excellence. BJU offers the full range of specialties including Family Practice, Internal Medicine, Surgery, Obstetrics/Gynecology, Pediatrics, Dentistry, Psychiatry and Physiotherapy, in addition to a 24 hour Emergency Room staffed solely by Expatriate Staff Specialists. These Physicians are all board qualified (or equivalent) in their respective fields and include specialties such as Anesthesiology, and Intensive Care Medicine. Additionally, staff are fluent in not only English, but also a wide range of languages including French, German, Japanese, Spanish, Swedish, and Finnish to name a few.

Facilities include 2 Operating Theatres, international standard 5 star LDRP birthing suites, Neonatal ICU, a 4-bed Adult ICU, General Inpatient facilities, and standard support services such as Digital Radiology, Ambulance services, Pharmacy, Laboratory and a 24 hour on-site Blood Bank with emergency blood pre-screened to the American Blood Bank standard.

Bayley & Jackson Beijing Medical Center
#7 Ritan Dong Lu, Chaoyang District, Beijing 100020
( 8610) 8562-9998 Fax: (8610) 8562-3497
email: info@bjhealthcare.com
Website: www.bjhealthcare.com

Beijing United Family Hospital and Clinics
#2 Jiang Tai Lu, Chaoyang District, Beijing 100016
(8610) 6433-3960 Fax: (8610) 6433-3963
Emergency Hotline: (8610) 6433-2345
Website: www.bjunited.com .cn Beijing United Family Clinic - Shunyi

Pinnacle Plaza, Unit # 818, Tian Zhu Real Estate Development Zone, Shunyi District, 101312
(8610) 8046-5432 Fax: (8610) 8046-4383
Peking Union Medical Hospital
1 Shui Fu Yuan, Dong Cheng Distict, Beijing 100730
Tel: 010-6529-6114 (registration); 010-6529-7292 (information); 010-6529-5284 (24 hours)
Modern Facilities with English speaking staff. Separate ward for foreign patients.

World Link Shanghai Clinics. Expatriate doctors and imported vaccines.

Portman Clinic:
Shanghai Center #203 W, 1376 Nanjing Xi Lu, 200040
Tel: 6279-7688. For appointments: 6279-8678
Fax: 6279-7698
Hong Qiao Clinic:
Mandarin City Unit 30, 788 Hong Xu Lu, 201103
Tel: 6405-5788; Fax: 6405-3587

Shanghai United Family Hospital and Clinics – To open in 2004
1111 Xian Xia Xi Lu, Chang Ning District, Shanghai 200336 PRC
Website: http://www.shanghaiunited.com/

GlobalDoctor, Ltd., has opened clinics staffed by English-speaking doctors within the VIP wards of government-run hospitals in Chengdu, Nanjing, and Beijing. GlobalDoctor can be reached by telephone from China at 86-10-8456-9191 or on the Internet at http://www.eglobaldoctor.com/ .

Additional information on medical providers specializing in treating foreigners for general medical, dental and orthodontic problems are available at http://www.usembassy-china.org .cn/ .

**MEDICAL INSURANCE:** The Department of State strongly urges Americans to consult with their medical insurance company prior to traveling abroad to confirm whether their policy applies overseas and if it will cover emergency expenses such as a medical evacuation. U.S. medical insurance plans seldom cover health costs incurred outside the United States unless supplemental coverage is purchased. Further, U.S. Medicare and Medicaid programs do not provide payment for medical services outside the United States. However, many travel agents and private companies offer insurance plans that will cover health care expenses incurred overseas, including emergency services such as medical evacuations.

When making a decision regarding health insurance, Americans should consider that many foreign doctors and hospitals require payment in cash prior to providing service and that a medical evacuation to the U.S. may cost well in excess of $50,000. Uninsured travelers who require medical care overseas often face extreme difficulties. When consulting with your insurer prior to your trip, ascertain whether payment will be made to the overseas healthcare provider or if you will be reimbursed later for expenses you incur. Some insurance policies also include coverage for psychiatric treatment and for disposition of remains in the event of death.

Two private emergency medical assistance firms, SOS International, Ltd., and Medex Assistance Corporation, offer medical insurance policies designed for travelers. Both of these companies have staff in China who can assist in the event of a medical emergency.

SOS International, Ltd.
Beijing Clinic address: Building C, BITIC Leasing Center

No. 1 North Road, Xingfu Sancun, Sanlitun, Chaoyang District, Beijing 100027
Beijing SOS International Clinic, telephone: (86-10) 6462-9112, Fax (86-10) 6462-9111.

For medical emergencies, please telephone the SOS International Alarm Center at (86-10) 6462-9100 from anywhere in Mainland China. From Hong Kong: (852) 2528-9900. From the U.S.: 1-215-245-4707. These phone lines are answered 24 hours by SOS International Alarm Center personnel. For information on purchasing health or travel insurance from SOS International, please telephone (1-800) 523-8930 ( 8:30 a.m. to 4:30 p.m. Eastern Time, Monday through Friday) in the U.S. or visit http://www.intsos.com/ on the Internet or e-mail: china.marketing@internationalsos.com .

SOS members calling with a medical emergency should first telephone the Alarm Center in Beijing at (86-10)6462-9100.

MEDEX Assistance Corporation
871 Poly Plaza
Beijing 100027
Toll Free Number from China to U.S.: 10811-800-527-0218
Email: info@medexassist.com (Baltimore, Maryland)
U.S. telephone: (1-800) 537-2029 or (1-410) 453-6300 (24 hours)
Emergencies (members only): (1-800) 527-0218 or (1-410) 453-6330
Web site: http://www.medexassist.com/

Medex members calling with a medical emergency should call Medex-Emergency in China at telephone (86-10) 6595-8510.

Other Evacuation Insurance Options:

Heathrow Air Ambulance
Heathrow is an air evacuation service with offices in the United States and England. Travelers can pre-arrange air evacuation insurance and other emergency travel assistance. This service also has a business plan to assist foreigners who lack travel insurance.
Heathrow Air Ambulance Service,

15554 FM, Suite 195 Houston, TX. 77095-2704. Office telephone 1-800-513-5192. Office fax 1-832-934-2395. E-mail: info@heathrowairambulance.com

Useful information on medical emergencies abroad, including overseas insurance programs, is provided in the Department of State's Bureau of Consular Affairs brochure, *Medical Information for Americans Traveling Abroad*, available via the Bureau of Consular Affairs home page.

**OTHER HEALTH INFORMATION:** Most roads and towns in Tibet, Qinghai, parts of Xinjiang, and western Sichuan are situated at altitudes over 10,000 feet. Travelers in these areas should seek medical advice in advance of travel, allow time for acclimatization to the high altitude, and remain alert to signs of altitude sickness. Reuse or poor sterilization practices are problems in China, contributing to transmission of diseases such as Hepatitis, which is endemic in China. In order to protect themselves from blood and other tissue borne disease such as Hepatitis and HIV, travelers should always ask doctors and dentists to use sterilized equipment and be prepared to pay for new syringe needles in hospitals or clinics. Tuberculosis is endemic in China. Air pollution is also a significant problem throughout China. Travelers should consult their doctor prior to travel and consider the impact seasonal smog and heavy particulate pollution may have on them. Travelers are advised to consult the CDC's traveler's health website at: http://www.cdc.gov/travel/eastasia.htm prior to departing for China.

Alcoholics Anonymous can be reached in Beijing at telephone (86-10) 139-1138-9075, e-mail: Beijingfellows@yahoo.com . On the Internet, http://members.cox.net/mppowers1/aa-china3.html lists AA meeting locations and contact information for other cities in China. Visit the U.S. Embassy web page in advance of travel to China for additional contact numbers. There is an Al-Anon chapter in Beijing that can be reached at (86-10) 6940-3935. Information on vaccinations and other health precautions may be obtained from the Centers for Disease Control and Prevention's hotline for international travelers at 1-877-394-8747; fax -888-232-3299, or via the CDC's Internet site at http://www.cdc.gov/ . For information about outbreaks of infectious diseases abroad consult the World Health Organization's website at http://www.who.int/en . Further health information for travelers is available at http://www.who.int/ith.

LifeLine Shanghai is a community-based, confidential hotline providing emotional support and information to Shanghai's expatriate community. HOTLINE: (86 21) 6279-8990.

## Local Time, Business Hours, and Holidays

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Time

Time throughout China is set to Beijing time, which is eight hours ahead of GMT/UTC. When it's noon in Beijing it's also noon in far-off Lhasa, Urumiqi, and all other parts of the country. However, Western China does follow a later work schedule so that they don't have to commute to work two hours before dawn.
12 noon in Beijing is the following time around the world:

| | |
|---|---|
| Wellington | 4PM |
| Sydney | 2PM |
| Hong Kong | noon |
| Frankfurt | 5am |
| Paris | 5am |
| Rome | 5am |
| London | 4am |
| Montreal | 11pm |
| New York | 11pm |
| Los Angles | 8pm |

* Please note that China DOES NOT observe day light savings

Business Hours

China officially has a five=day work week although some businesses stretch to six days. Offices and government departments are normally open Monday to Friday. They are typically open between 8:30 AM and 5PM with some closing for one or two hours in the middle of the day.

## 2005 Holiday Schedule

Below is a list of American and Chinese Holidays in 2005:

| | | | |
|---|---|---|---|
| December 31 | Friday | New Year's Day | US & China |
| January 17 | Monday | Martin Luther King, Jr's Birthday | US |
| February 9, 10, 11 | Wednesday, Thursday, Friday | Lunar New Year | China |
| February 21 | Monday | Presidents' Day | US |
| May 2, 3, 4 | Monday, Tuesday, Wednesday | International Labor Day | China |
| May 30 | Monday | Memorial Day | US |
| July 4 | Monday | Independence Day | US |
| September 5 | Monday | Labor Day | US |
| October 3, 4, 5 | Monday, Tuesday, Wednesday | Chinese National Day | China |
| October 10 | Monday | Columbus Day | US |
| November 11 | Friday | Veterans' Day | US |
| November 24 | Thursday | Thanksgiving Day | US |
| December 26 | Monday | Christmas Day | US |

## Temporary Entry of Materials and Personal Belongings

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China allows an individual to import 400 cigarettes (600 if you are staying more than six months), four bottles or wine or spirits, and a reasonable amount of perfume. Cash amounts exceeding US $5000 (or equivalent) should be declared.

Chinese law prohibits the import of cold cuts and fresh fruit. There are limits to other items, such as herbal medicine that can be taken out of the country. Rare animals and plants cannot be exported.

Cultural relics, handicrafts, gold and silver ornaments, and jewelry purchased in China have to be shown to customs upon leaving China. If these items are deemed to be "cultural treasures" they will be confiscated. All bags are X-rayed.

It is illegal to import any printed material, film, and tapes, etc. that are "detrimental too China's political, economic, cultural, or ethical interests. As you leave China, any tapes, books DVDs that "contain state secrets or are otherwise prohibited for export" can be seized.

SHIPPING

Fedex's web-page includes a useful tool called *Global Trade Manager*, http://www.fedex.com/gtm/international/ "a one-stop resource for international shipping assistance" in 238 countries around the world including China. The *Global Trade Manager* can "help you find and print the right documents to accompany your international shipment saving you time and reducing the chance of your shipment being delayed at the border."

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U.S. Embassy Beijing: http://www.usembassy-china.org.cn/index.html
U.S. Commercial Service, China: http://www.usembassy-china.org.cn/index.html
China Council for the Promotion of International Trade (CCPIT): www.ccpit.org
National Development and Reform Commission (NDRC) http://www.ndrc.gov.cn/ (Chinese)
Ministry of Information Industry (MII): www.**mii**.gov.cn (Chinese)
Chinese Ministry of Commerce: http://english.mofcom.gov.cn/

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# Chapter 9: Contacts, Market Research, and Trade Events



## Contacts Return to top

A. State Commissions

State Commission of Science, Technology, and Industry for National Defense
A8 Fucheng Lu, Haidian District, Beijing 100037, China
Beijing 2940 Post Box
Minister: Zhang Yunchuan
Tel: (86-10) 6851-6733
Fax: (86-10) 6851-6732
Website: www.costind.gov.cn

State Development and Reform Commission (or National Development and Reform Commission
38 Yuetannanjie, Xicheng District, Beijing 100824, China
Minister: Ma Kai
Tel: (86-10) 6850-2000
Fax: (86-10) 6850-1090
Website: www.sdpc.gov.cn

B. Chinese Ministries

Ministry of Agriculture
11 Nongzhanguan Nanli, Chaoyang District, Beijing 100026, China
Minister: Du Qinglin
Tel: (86-10) 6419-3366
Fax: (86-10) 6500-1869
Website: www.agri.gov.cn

Ministry of Communications
11 Jianguomennei Dajie, Dongcheng District, Beijing 100736, China
Minister: Zhang Chunxian
Tel: (86-10) 6529-2114
Fax: (86-10) 6529-2345
Website: www.moc.gov.cn

Ministry of Construction
9 Sanlihe Lu, Baiwanzhuang, Haidian District, Beijing 100835, China
Minister: Wang Guangtao
Tel: (86-10) 6839-4114
Fax: (86-10) 6833-5878

Website: www.cin.gov.cn

Ministry of Culture
10 Chaoyangmen Beijie, Dongcheng District, Beijing 10020, China
Minister: Sun Jiazheng
Tel: (86-10) 6555-1114
Fax: (86-10) 6555-1433
Website: www.ccnt.gov.cn

Ministry of Education
37 Damucang Hutong, Xidan, Xicheng District, Beijing 100816, China
Minister: Zhou Ji
Tel: (86-10) 6609-6114
Fax: (86-10) 6601-1049
Website: www.moe.edu.cn

Ministry of Finance
3 Nansanxiang, Sanlihe, Xicheng District, Beijing 100820, China
Minister: Jin Renqing
Tel: (86-10) 6855-1114
Fax: (86-10) 6855-1627
Website: www.mof.gov.cn

Ministry of Foreign Affairs
2 Chaoyangmen Nandajie, Chaoyang District, Beijing 100701, China
Minister: li zhoa xing
Tel: (86-10) 6596-1114
Fax: (86-10) 6596-1160
Website: www.fmprc.gov.cn

Ministry of Commerce
2 Dongchang'an Jie, Beijing 100731, China
Minister: Bo Xilai
Tel: (86-10) 6519-8114
Fax: (86-10) 6512-9568
Website: www.moftec.gov.cn

Ministry of Health
1 Xizhimenwai Nanlu, Xicheng District, Beijing 100044, China
Minister: Wu Yi (concurrently)
Tel: (86-10) 6879-2114
Fax: (86-10) 6879-2024
Website: www.moh.gov.cn

Ministry of Information Industry
13 Xichang'anjie, Beijing 100804, China
Minister: Wang Xu Dong
Tel: (86-10) 6601-4249
Fax: (86-10) 6201-6362
Website: www.mii.gov.cn

Ministry of Justice
10 Chaoyangmen Nandajie, Chaoyang District, Beijing 100020, China
Minister: Zhang Fusen
Tel: (86-10) 6520-5114
Fax: (86-10) 6520-5345
Website: www.legalinfo.gov.cn

Ministry of Labor and Social Security
12 Hepingli Zhongjie, Dongcheng District, Beijing 100716, China
Minister: Zheng Siling
Tel: (86-10) 8420-1114
Fax: (86-10) 8422-3056
Website: www.molss.gov.cn

Ministry of Land and Resources
No.64 Fu Nei street , Xicheng District, Beijing 100812, China
Minister: Tian Fengshan
Tel: (86-10) 66558001
Fax: (86-10) 66558004
Website: www.mlr.gov.cn

Ministry of Personnel
7 Hepingli Zhongjie, Dongchen District, Beijing 100013, China
Minister: Zhang Bo Lin
Tel: (86-10) 8421-4883
Fax: (86-10) 8422-3240
Website: www.mop.gov.cn

Ministry of Public Security
14 Dongchang'anjie, Beijing 100741, China
Minister: Zhou Yong Kang
Tel: (86-10) 6520-2114
Website: www.mps.gov.cn

Ministry of Railways
10 Fuxing Lu, Haidian District, Beijing 100844, China
Minister: Liu Zhi Jun
Tel: (86-10) 5184-0114
Fax: (86-10) 5184-2150
Website: www.chinamor.cn.net

Ministry of Science and Technology
15 Fuxinglu, Haidian District, Beijing 100038, China
Minister: Xu Guanhua
Tel: (86-10) 6851-5544
Fax: (86-10) 6851-5006
Website: www.most.gov.cn

Ministry of Water Resources
2 Baiguanglu Ertiao, Xuanwu District, Beijing 100053, China
Minister: Wang Shucheng

Tel: (86-10) 6320-2114
Fax: (86-10) 6320-3070
Website: www.mwr.gov.cn

C. Bureaus and Administrations Directly Under the State Council

Government Offices Administration of the State Council
22 Xi'anmen Dajie, Beijing 100017, China
Director: Jiao Huancheng
Tel: (86-10) 6603-6447
Fax: (86-10) 6309-6382
Website: www.ggj.gov.cn

General Administration of Civil Aviation of China
155 Dongsi Xidajie, Beijing 100710, China
Director: Yang Yuan Yuan
Tel: (86-10) 6525-2038
Fax: (86-10) 6401-3663
Website: www.caac.gov.cn

General Administration of Customs
6 Jianguomennei Dajie, Beijing 100730, China
Director: Mu Xinsheng
Tel: (86-10) 6519-4114
Fax: (86-10) 6519-4004
Website: www.customs.gov.cn

National Tourism Administration
Jia 9 Jianguomennei Dajie, Beijing 100740, China
Director: He Guangwei
Tel: (86-10) 6520-1114
Fax: (86-10) 6512-2096
Website: www.cnta.com

State Administration for Industry and Commerce
8 Sanlihe Donglu, Xicheng District, Beijing 100820, China
Director: Wang Zhongfu
Tel: (86-10) 6803-2233
Fax: (86-10) 6802-0848
Website: www.saic.gov.cn

State Administration for Religious Affairs
No.44, Hou Hai Bei Yan, Xi Cheng District, Beijing 100009, China
Director: Ye Xiaowen
Tel: (86-10) 6409-5114

State Administration of Radio, Film, and Television
2 Fuxingmenwai Dajie, Beijing 100866, China
Minister: Xu Guangchun
Tel: (86-10) 8609-3114
Fax: (86-10) 8609-2437

Website: www.sarft.gov.cn

State General Administration for Quality Supervision and Inspection and Quarantine
No.9 Ma Dian Bridge East, Hai Dian District, Beijing 100088, China
Director: Li Changjiang
Tel: (86-10) 8226-0114
Fax: (86-10) 8226-0011
Website: www.aqsiq.gov.cn

State Bureau of Taxation
5 Yangfangdian Xilu, Haidian District, Beijing 100038, China
Director: Xie Xu Ren
Tel: (86-10) 6341-7114
Fax: (86-10) 6341-7321
Website: www.chinatax.gov.cn

State Food and Drug Administration
Jia 38 Beilishilu, Xicheng District, Beijing 100810, China
Director: Zheng Xiaoyu
Tel: (86-10) 6831-3344
Fax: (86-10) 6831-0909
Website: www.sda.gov.cn

State Environmental Protection Administration
115 Xizhimennei Nanxiaojie, Beijing 100035, China
Minister: Xie Zhenhua
Tel: (86-10) 6615-3366
Fax: (86-10) 6615-1768
Website: www.zhb.gov.cn

State Forestry Bureau
18 Hepingli Dongjie, Beijing 100714, China
Director: Zhou Shengxian
Tel: (86-10) 8423-9000
Fax: (86-10) 6421-3193
Website: www.forestry.gov.cn

State Intellectual Property Office
6 Xituchenglu, Jimenqiao, Haidian District, Beijing 100088, China
Director: Wang Jingchuan
Tel: (86-10) 6209-3114
Fax: (86-10) 6201-9307
Website: www.sipo.gov.cn

General  Administration of Press and Publication
85 Dongsi Nandajie, Dongcheng District, Beijing 100703, China
Director: Shi Zongyuan
Tel: (86-10) 6512-4433
Fax: (86-10) 6512-7805
Website: www.ncac.gov.cn

State Sport General Administration
5 Tiyuguanlu, Chongwen District, Beijing 100763, China
Minister: Yuan Weimin
Tel: (86-10) 6711-2233
Fax: (86-10) 6713-1908
Website: www.sport.gov.cn

National Bureau of Statistics
75 Yuetannanjie, Xi Cheng District , Beijing 100826, China
Director: Li De Shui
Tel: (86-10) 6857-3311
Fax: (86-10) 6853-3618
Website: www.stats.gov.cn

D. Offices Under the State Council

General Office of the State Council
Zhongnanhai, Beijing 100017, China
Secretary General: Hua Jian Min
Tel: (86-10) 6309-5756
Fax: (86-10) 6610-6016

Hong Kong and Macau Affairs Office
77 Yuetannanjie, Beijing 100045, China
Director: Liao Hui
Tel: (86-10) 6857-9977
Fax: (86-10) 6857-6639

Information Office
225 Chaoyangmenwai, Dongcheng District, Beijing 100010, China
Director: Zhao Qizheng
Tel: (86-10) 8652-1199
Fax: (86-10) 6559-2364

Legislative Affairs Office
9 Wenjinjie, Beijing 100017, China
Director: Cao Kang Tai
Tel: (86-10) 6309-7599

Office of Overseas Chinese Affairs of State Council
35 Fuwaidajie, Beijing 100037, China
Director: Chen Yujie
Tel: (86-10) 6832-7530
Fax: (86-10) 6832-7538

Research Office
Zhongnanhai, Beijing 100017, China
Director: Wei Liqun
Tel: (86-10) 6309-7785
Fax: (86-10) 6309-7809

Taiwan Affairs Office
Jia 35 , Fuwai Dajie, Beijing 100037, China
Director: Chen Yunlin
Tel: (86-10) 6832-8320
Fax: (86-10) 6832-8321

E. Institutions

China Meteorological Administration
46 Zhong Guan Cun Street, Haidian District, Beijing 100089, China
Director: Qin Dahe
Tel: (86-10) 6840-6114
Website: www.cma.gov.cn

Chinese Securities Regulatory Commission
16 Jinrongdajie, Xicheng District, Beijing 100032
Director: Shang Fulin
Tel: (86-10) 8066-1000
Website: www.csrc.gov.cn

Chinese Academy of Engineering
3 Fuxinglu, Haidian District, Beijing 100038
President: Xu Kuang Di
Tel: (86-10) 6857-0320
Website: www.cae.ac.cn

Chinese Academy of Sciences
52 Sanlihe, Xicheng District, Beijing 100864
President: Lu Yongxiang
Tel: (86-10) 6859-7114
Website: www.cashq.ac.cn

Chinese Academy of Social Sciences
5 Jiannei Dajie, Beijing 100732, China
President: Chen Kui Yuan
Tel: (86-10) 6513-7744
Website: www.cass.net.cn

Development Research Center
225 Chaoyangmen Dajie, Beijing 100010
Director: Wang Mengkui
Tel: (86-10) 6523-0008
Fax: (86-10) 6523-0070
Website: www.drc.gov.cn

National School of Administration
6 Changchunqiaolu, Haidian District, Beijing 100089
President: Hua Jian Min
Tel: (86-10) 6892-9565
Website : www.nsa.gov.cn

China Seismological Bureau
63 Fuxing Lu, Haidian District, Beijing 100036, China
Director: Song Ruixiang
Tel: (86-10) 6821-9525
Website: www.csi.ac.cn

F. Bureaus Supervised by Commissions and Ministries

State Administration of Foreign Exchange
18 Fuchenglu, Beijing 100037, China
Director: Mr. Guo Shuqing
Tel: (86-10) 6840-2255
Website: www.safe.gov.cn

State Administration of Traditional Chinese Medicine
Building 13, Bajiazhuang Dongli, Chaoyang District, Beijing 100026
Director: Ms. She Jing
Tel: (86-10) 6506-3322
Website: www.satcm.gov.cn

State of Cultural Relics
10 Chao Yang Men Bei Da Jie, Chaoiyang District, Beijing 100020, China
Director: Shan Ji Xiang
Tel: (86-10) 6555-1572

State Administration of Foreign Experts Affairs
Buld 5 You Yi Hotel, No.1 Zhong guan cun street, Haidian District, Beijing 100873, China
Director: Wan Xueyuan
Tel: (86-10) 6894-8899
Website: www.safea.gov.cn

State Bureau of Surveying & Mapping
9 Sanlihelu, Baiwanzhuang, Beijing 100830, China
Director: Chen Bangzhu
Tel: (86-10) 6832-1893
Website: www.sbsm.gov.cn

State Administration of Grain
11A, Muxudi Belili, Xincheng District, Beijing 100038, China
Director: Nie Zhengbang
Tel: (86-10) 6390-6078
Website: www.chinagrain.gov.cn

China National Light Industry Council
Yi 22 Fuwaidajie, Beijing 100083, China
Director: Chen Shineng
Tel: (86-10) 6839-6328/6327
Fax: (86-10) 6839-6351

China Iron and Steel Association
46 Dongsi Xidajie, Dongcheng District, Beijing 100711, China

Director: Wu Xichun
Tel: (86-10) 6513-3322/1935
Fax: (86-10) 6513-0074

State Oceanic Administration
1 Fuxingmenwai Dajie, Beijing 100860, China
Director: Wang Shuguang
Tel: (86-10) 6803-2211
Website: www.soa.gov.cn

China Petroleum and Chemical Industry Association
Building 16, 4 District, Anhuili, Yayuncun, Chaoyang District, Beijing 100723, China
Director: Tan Zhuzhou
Tel: (86-10) 8488-5100/5430/5098
Fax: (86-10) 8488-5097
Website: www.apcia.org.cn

State Postal Bureau
131 Xuan Wu Men Xi Da Jie District, Beijing 100808, China
Director: Liu An Dong
Tel: (86-10) 6606-9955
Fax: (86-10) 6641-9711
Website: www.chinapost.gov.cn

China National Textile Industry Council
12 Dongchang'anjie, Beijing 100742, China
Director: Du Yuzhou
Tel: (86-10) 8522-9207/9205/9217
Fax:(86-10) 8522-9283

State Tobacco Monopoly Bureau
No2 Building, 26 West Xuanwumen Avenue, Xuanwu District, Beijing 100053, China
Director: Jiang ChenKang
Tel: (86-10) 6360-5852/5782
Fax: (86-10) 6360-5036
Website: www.tobacco.gov.cn

G. Associations & Corporations

All-China Federation of Industry and Commerce
93 Beiheyan Dajie, Beijing 100006
Chairman: Huang Meng Fu
Tel: (86-10) 6513-6677 Ext. 2233, 2234
Fax: (86-10) 6513-1769
Website: www.acfic.org.cn

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: Wan Ji Fei
Tel: (86-10) 6801-3344
Fax:(86-10) 6801-1370
Website: www.ccpit.org

China Huaneng Group
40 Xue Yuan Nan Lu, Haidian District Beijing 100088, China
President: Li Xiaopeng
Tel: (86-10) 6229-1535
Fax: (86-10) 6223-0171
Website: www.chng.com.cn

China International Trust and Investment Corporation
Capital Mansion, 6 Xinyuan Nanlu, Chaoyangqu, Beijing 100004 China
President: Wang Jun
Tel: (86-10) 6466-0088 8486-8718
Fax: (86-10) 6466-1186
Website: www.citic.com.cn

China Nonferrous Metals Industry Association
Yi 12 Fuxing Lu, Xicheng, Beijing 100814, China
President: Kang Yi
Tel: (86-10) 6396-6393 6397-1807
Fax: (86-10) 6396-5360

China National Offshore Oil Corp.
P.O. Box 4705, 6 Dongzhimenwai Xiaojie
Beijing 100027
President: Wei Liucheng
Tel: (86-10) 8452-1071/8452-1010
Fax: (86-10) 8452-1080

China National Petroleum Corp.
6 Liupukang, Xicheng District, Beijing 100724, China
President: Ma Fucai
Tel: (86-10) 6209-4798/6209-4114
Fax:(86-10) 6209-4806

China National Tobacco Corporation
#26 B. Xuwumenwai, Xi Da Jie, Xuanwu District, Beijing, 100053
President: Jiang Cheng Kang
Tel: (86-10) 6360-5678
Fax: (86-10) 6360-5681

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
Website: www.norinco.com.cn

China Petro-Chemical Corporation
6 Hui Xin Dong Jie Jia, Beijing 100029
President: Li Yizong
Tel: (86-10) 6499-9936
Fax:(86-10) 6421-8356

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

China State Shipbuilding Corporation
5 Yuetanbeijie, Xicheng District, Beijing 100861, China
President: Li Changyin
Tel: (86-10) 6803-8833  6803-9205 6803-3947
Fax: (86-10)6803-9205/ 6803-1579
Website: www.csic.com.cn

Everbright Industrial Corp.
6 Fu Xing Men Wai Street, Everbright Building, Beijing 100045, China
President: Wang Minquan
Tel: (86-10) 6856-1226/1206
Fax: (86-10) 6856-1121
Website: www.ebchina.com

People's Insurance Company of China
#69 Xuan Wu Men Dong He Yan Jie, Beijing 100052, China
President: Tang Yunxiang
Tel: (86-10) 6315-2033 / 6303-5376
Fax: (86-10) 6315-2033 / 6303-3589
Website: www.piccnet.com.cn

H. American 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, 6410-7375/76
Fax: (86-10) 6410-7334

American Chamber of Commerce in Beijing
Christian Murck, Chairman
Patrick Lin, (Acting) Executive Director
Suite 1903 China Resources Building
8 Jianguomenbei Avenue

Beijing 100005
Tel: (86-10) 8519-1920
Fax: (86-10) 8519-1910
Website: www.amcham-china.org.cn

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
Beijing 100044
Tel: (86-10) 6849-2403
Fax: (86-10) 6849-2404
Website: www.cm-1.com

U.S.-China Business Council
Patrick J. Powers, Director of China Operations
CITIC Building,Suite 26D
Beijing 100004
Tel: (86-10) 6592-0727
Fax: (86-10) 6512-5854,
Website: www.uschina.org

U.S. Grains Council
Todd Meyer, Director
China World Tower 2, Room 901
Beijing 100004
Tel: (86-10) 6505-1314, 6505-1302
Fax: (86-10) 6505-0236
Website: www.grains.org

U.S. Wheat Associates
Zhao Shipu, Director
China World Tower2, Room 903
Beijing 100004
Tel: (86-10) 6505-1278, 6505-3866
Fax: (86-10) 6505-5138
Website: www.uswheat.org

United States Information Technology Office (USITO)
Jim Gradoville, (Acting) Managing Director
C511B Lufthansa Center Office 50 Liangmaqiao Road
Chaoyang District, Beijing 100016
Tel: (86-10) 6465-1540/41/42
Fax: (86-10) 6465-1543
Website: www.usito.org

I. U.S. Embassy Contacts

U.S. Embassy Beijing
No. 3 Xiu Shui Beijie
Beijing, China 100600
Tel: (86-10) 6532-3831
Website: www.usembassy-china.org.cn

Mailing Address from U.S.:
U.S. Embassy Beijing
Department of State
Washington, D.C. 20521-7300

Ambassador's Office
Clark T Randt, Jr.
Tel: (86-10) 6532-3831, x 6400
Fax: (86-10) 6532-6422

Economic Section
Minister-Counselor for Economic Affairs: Bob Wang
Tel: (86-10) 6532-3831 x 6999
Fax: (86-10) 6532-6422

U.S. Commercial Service
Minister-Counselor for Commercial Affairs: Craig Allen
Tel: (86-10) 8529-6655 x801
Fax: (86-10) 8529-6558
Deputy : Denny Barnes
Tel: (86-10) 8529-6655 x802
Fax: (86-10) 8529-6558

Foreign Agricultural Service
Agricultural Affairs Office
Minister-Counselor for Agricultural Affairs: Maurice House
Tel: (86-10) 6532-1953
Fax: (86-10) 6532-2962

Beijing Agricultural Trade Office
Director: Laverne Brabant
Tel: (86-10) 8529-6418
Fax: (86-10) 8529-6692

Guangzhou Agricultural Trade Office
Director: Keith Schneller
Tel: (86-20) 8667-7553
Fax: (86-20) 8666-0703

Shanghai Agricultural Trade Office
Director: Ross Kreamer
Tel: (86-21) 6279-8622

Fax: (86-21) 6279-8336

Animal and Plant Health Inspection Service
Director Gary Greene
Tel: (86-10) 6532-3212
Fax: (86-10) 6532-5813

American Consulate General Chengdu
No. 4 Lingshiguan Road, Section 4
Renmin Nanlu, Chengdu China 610041
Consul General: Jeffrey Moon
Tel: (86-28) 8555-3119
Fax:(86-28) 8558-3520
Principal Commercial Officer: Denny Barnes
Tel: (86-28) 8558-3992
Fax: (86-28) 8558-9221

American Consulate General Guangzhou
No. 1 South Shamian Street, Guangzhou China 510133
Consul General: Edward Dong
Tel: (86-20) 8121-8000
Fax: (86-20) 8121-6296
Principal Commercial Officer: Robert Murphy
Tel: (86-20) 8667-4011
Fax: (86-20) 8666-6409

American Consulate General, Shanghai
1469 Huaihai Zhong Lu, Shanghai China 200031
Consul General: Douglas Spelman
Tel: (86-21) 6433-6880
Fax: (86-21) 6433-4122
Principal Commercial Officer: Ira Kasoff
Tel: (86-21) 6279-7630
Fax: (86-21) 6279-7639

American Consulate General Shenyang
No. 52, 14th Wei Road, Heping District
Shenyang China 110003
Consul General: David A. Kornbluth
Tel: (86-24) 2322-1198
Fax: (86-24) 2322 2374
Principal Commercial Officer: Soching Tsai
Tel: (86-24) 2322-1198
Fax: (86-24) 2322-2206

J. Washington-based USG China Contacts

U.S. Department of Commerce
International Trade Administration
Office of China Economic Area
Room 1229

14th & Constitution Avenue
Washington, D.C. 20230
Tel:  (202) 482-3583
Fax:  (202) 482-1576

Multilateral Development Bank Office
Brenda Ebeling, Director
Tel:  (202) 482-3399
Fax:  (202) 482-5179

The China Business Information Center (CBIC)
U.S. Department of Commerce
Tel:  800-USA-TRADE
www.export.gov/china

U.S. Department of State
Office of China and Mongolia
Bureau of East Asia & Pacific Affairs
Room 4318, 2201 C Street, N.W.
Washington, D.C. 20520
Tel:  (202) 647-6796
Fax:  (202) 647-6820
Office of Business Affairs
Tel:  (202) 746-1625
Fax: (202)647-3953

U.S. Department of Agriculture
International Trade Policy
Asia American Division
Foreign Agricultural Service
Stop 1023
14th and Independence SW
Washington, D.C. 20250-1023
Tel:  (202) 720-1289
Fax:  (202) 690-1093
Email: deatonl@fas.usda.gov

AgExport Services Division
Foreign Agricultural Service
Ag Box 1052
14th and Independence SW
Washington, D.C. 20250-1052
Tel:  (202) 720-6343
Fax:  (202) 690-4374
Trade Assistance & Promotion Office
Tel:  (202)  720-7420

Office of U.S. Trade Representative
China Desk
600 17th Street, NW
Washington, DC 20506

Tel: (202) 395-5050
Fax: (202) 395-3911

U.S. Ex-Im Bank
Business Development Office
Washington, D.C.
Tel: 202-565-3900
Fax: 202-565-3723
Website: www.exim.gov

K. U.S.-Based Multipliers

U.S.-China Business Council
John Frisbie, President
1818 N Street, N.W., Suite 500
Washington, D.C. 20036-5559
Tel: (202) 429-0340
Fax: (202) 775-2476

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Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

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Please click on the link below for information on all worldwide upcoming trade events.

http://www.export.gov/tradeevents.html

Please click on the link below for information on upcoming trade events in China.

http://www.buyusa.gov/china/en/chinashows.html

The U.S. Department of Commerce, Foreign Commercial Service will construct U.S. Pavilions at key trade shows throughout China to promote American goods and services.

Developed in coordination with major Chinese exhibition companies, the U.S. Pavilions provide a unique opportunity for American companies to be involved in key international exhibitions around China.

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# Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services the U.S. Commercial Service offers U.S. businesses, please click on the link below.

http://www.buyusa.gov/china/en/programs.html

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: http://www.export.gov