



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

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- [Chapter 1: Doing Business In China](#)
- [Chapter 2: Political and Economic Environment](#)
- [Chapter 3: Selling U.S. Products and Services](#)
- [Chapter 4: Leading Sectors for U.S. Export and Investment](#)
- [Chapter 5: Trade Regulations and Standards](#)
- [Chapter 6: Investment Climate](#)
- [Chapter 7: Trade and Project Financing](#)
- [Chapter 8: Business Travel](#)
- [Chapter 9: Contacts, Market Research and Trade Events](#)
- [Chapter 10: Guide to Our Services](#)

## Chapter 1: Doing Business In China

- [Market Overview](#)
- [Market Challenges](#)
- [Market Opportunities](#)
- [Market Entry Strategy](#)

### Market Overview

[Return to top](#)

- China acceded to the WTO five years ago and is currently in the process of completing a seven-year transitional period. Overall, the Chinese economy has shown exceptional economic growth over the last five years, closely associated with China's increased integration with the global economy. Many American companies have benefited from Chinese economic growth, as evidenced by rapid and sustained increases in U.S. exports to China. U.S. exports to China increased 28, 22 percent and an estimated 19 percent in 03, 04 and 05, respectively. In 2005, China surpassed the U.K. to become our fourth largest export market.
- Meanwhile, China's macro economy continues to grow robustly. According to China's National Bureau of Statistics, China's economy increased by 9.8 percent in 2005. Total retail sales rose 13 percent last year and are expected to continue to rise rapidly in 2006 as a result of increased consumer credit, expansion of the retail sector and increased income in rural areas. Foreign currency reserves exceeded USD 800 billion by yearend. Partially due to a bumper harvest, inflation in China fell to an estimated 1.3 percent at the end of 2005. In 2005, the government enjoyed a USD 44 billion fiscal surplus, due to the growing economy and increased efforts to collect taxes. Total trade equaled USD 1.4 trillion (70 percent of GDP). This resulted in a multilateral surplus of over USD 100 billion, representing more than 5 percent of GDP. Fixed asset investment rose rapidly (28 percent) to reach about 44 percent of GDP. Foreign direct investment remained brisk (an estimated USD 60 billion), but preliminary statistics suggest a small decline from 2004.
- Despite tremendous progress, China remains a developing country, albeit one with vast potential. Spread over a population of 1.3 billion, China's 2 trillion USD economy does not represent a large amount of disposable income for each person. Per capita income in China is approximately USD 1,538. However, the income distribution within the country is highly uneven with urban centers, such as Beijing, enjoying a per capita income of almost USD 5,000. China's middle class, those with per capita income over USD8,000 is estimated at over 200 million. At the same time, the Chinese government estimates that several hundred million Chinese are very poor with per capita income of USD 300 or less.

- Rapid economic growth has fueled strong growth in imports. According to the National Bureau of Statistics, the total value of imports increased to USD 596 billion from January to November 2005, increasing 17 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 of 2005, China-U.S. trade reached a historical high of USD 260 billion. The U.S. imported USD 222 billion of goods from China, up 24 percent. China is our second largest supplier, after Canada. The U.S. exported 38 billion to China during the same period, up 19 percent from the year before. China has become our 4th largest export market – after Canada, Mexico and Japan. The trade imbalance between China and the United States continues to grow rapidly, up 25 percent in the first 11 months of 2005.
- In Chapter 4 of this year's CCG, we have provided numerous best prospects for U.S. companies to export to China.

## **Market Challenges**

[Return to top](#)

- American companies continue to have mixed experiences in China. Many have been extremely profitable, while others have struggled or failed. 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. However, China's 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 damaging issue for many American companies, both those who operate in China and those who do not, have had their products stolen by Chinese companies.
- China has a government that practices mercantilistic style policies. China has made significant progress toward a market-oriented economy, but parts of its bureaucracy still protect local firms, especially state-owned firms, from imports, while encouraging exports. WTO accession will mitigate these tendencies over time – but progress is only gradual.
- China retains much of the apparatus of a planned economy. A five-year program sets economic goals, strategies, and targets. The government maintains effective control over all of the major banks and other financial intermediaries. The State and the Communist Party 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, do not perform the necessary risk assessment, and fail to get legal counsel. Without the necessary preparation, these companies often enter into bad business deals, resulting in trade complaints and lost investments.
- It is important to understand that while continued reform is absolutely essential for China to achieve the economic growth it requires and 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**

[Return to top](#)

- 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 important and viable market. 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.

### **Market Entry Strategy**

[Return to top](#)

- 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) growing the American economy by increasing exports thereby reducing the bilateral trade imbalance and (b) ensuring that the Chinese government fully complies with its commitments to the WTO in order to expand our companies' ability to compete on a more level playing field.
- 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.

- Continued long-term 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. For more information on CS programs please see: [www.buyusa.gov/china](http://www.buyusa.gov/china)
- China is a very large country with multiple economic sub-regions. In 2005, the Department of Commerce established fourteen “American Trade Center” field offices in coordination with the China Council for the Promotion of International Trade (CCPIT). These offices cover the important regional markets in China. They are designed to assist American exporters to identify possible agents, buyers, importers or distributors in the regional market through the provision of normal DOC services at standard DOC prices. All services are offered with a proviso that the payment will be returned if the American exporter is not satisfied with the service rendered. For more information on CS programs please see: [www.buyusa.gov/china](http://www.buyusa.gov/china).

[Return to table of contents](#)

[Return to table of contents](#)

## **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](http://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 information.

[Return to table of contents](#)

[Return to table of contents](#)

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

- [Using an Agent or Distributor](#)
- [Establishing an Office](#)
- [Franchising](#)
- [Direct Marketing](#)
- [Joint Ventures/Licensing](#)
- [Selling to the Government](#)
- [Distribution and Sales Channels](#)
- [Selling Factors/Techniques](#)
- [Electronic Commerce](#)
- [Trade Promotion and Advertising](#)
- [Pricing](#)
- [Sales Service/Customer Support](#)
- [Protecting Your Intellectual Property](#)
- [Due Diligence](#)
- [Local Professional Services](#)
- [Web Resources](#)

### Using an Agent or Distributor

[Return to top](#)

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. December 11, 2004 was to mark the date by which China would fully implement a system to grant trading and distribution rights to foreign investors. However, the government did not fully clarify the application procedures for foreign investors to obtain trading and distribution rights until mid-2005. As it now stands, U.S. companies are no longer required to use domestic import-export agents and distributors for their imported products (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](http://www.usembassy-china.org.cn)).

Trading and Distribution are two separate issues and are, accordingly, covered separately by the WTO implementation documents. Trading covers the rights to import and export product into and from China. Distribution, on the other hand, covers the sale - either wholesale or retail - of products within China.

#### 1. Trading Companies

Prior to WTO accession, only state-owned Chinese trading companies were granted import and export licenses. Foreign-invested enterprises (FIEs) only had the rights to import materials and equipment needed for production and to export the products they produced. The new rules were designed to allow manufacturing FIEs to become export

trading companies, purchasing and exporting any products free from quotas, license control and government monopoly.

As the first step towards implementing China's commitment to liberalize trading rights, China's Ministry of Commerce (MOFCOM) released the "Expanding Import and Export Management Rights of Foreign Invested Enterprises" rule in July of 2001. Under this rule, FIEs in foreign trade zones were allowed to establish offices outside the zones, thereby enabling FIEs to establish trading companies and to obtain trading rights before the phase-in of the distribution rights. Chinese companies that have RMB one million in capitalization and are registered can obtain an import/export license.

In April of 2004, MOFCOM released new measures to further implement its WTO commitment to liberalize trading rights. The measures did not clearly define the process and various local authorities offered different interpretations of the measures. This, combined with insufficient interagency preparatory work and coordination, led to confusion and delay.

In late 2005, MOFCOM issued additional documents that fully clarified the application procedures for investors to establish new foreign-invested commercial enterprises (FICEs), for existing FICEs to open new distribution and trading business, and for existing FIEs to expand their business scopes. The documents give provincial-level agencies the authority to review and approve applications. Thus, almost one year after the stated WTO implementation date, the process by which FIEs can obtain trading rights finally came into place.

## 2. Distribution

As with trading rights, distribution rights have become more liberalized in the last year. Distribution covers 1) commission agent services, 2) wholesale services, and 3) retailing. Current laws and regulations allow foreign companies to establish wholly owned distribution entities for imported and domestically produced products, including books and periodicals, pharmaceutical products and pesticides. Distribution of chemical fertilizers, processed oil and crude oil will be permitted at the end of 2006, at the end of the five-year WTO accession process.

Foreign companies may choose one of two ways to acquire trading and distribution rights. They can set up a new, stand-alone FICE or apply to expand the business scope of an existing FIE.

Given the complexities of the markets in China, foreign companies should also consider using 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.

## 3. Local agents



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 foreign products and importing them through entities that have an import/export license by paying a commission. 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 may make 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. For companies not able to travel to China, our 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 500 for each product line and the company's product literature. A report is developed from on-the-spot research by U.S. Embassy/Consulate staff and provides the contacts needed to launch marketing efforts in China. A visit to China can be supported by our Gold Key Service (GKS), whereby we arrange appointments with prospective agents and distributors, and key government officials responsible for an industry (USD 685 per location). Regional IPSs and GKSs are available from USCS offices in Beijing, Shanghai, Guangzhou, Shenyang, and Chengdu or through any of our 14 American Trade Center/International Partner Network Offices in other major cities throughout China. For more information about these offices, see <http://www.buyusa.gov/china/en/ipn.html>

The USCS also offers 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

## **Establishing an Office**

[Return to top](#)

### **1. Establishing a Presence in China (Representative Office, Wholly Foreign Owned 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 many 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.

Establishing a representative office gives a company increased control over its staff. The cost of supporting a modest representative office ranges from USD 100,000 to USD

500,000 per year, depending on its size and how it is staffed. The largest expenses are rent for office space and expatriate package (not required).

Since July 1, 2004, foreign trading companies, manufacturers, forwarding companies, contractors, consulting firms, advertising firms, investment companies, leasing companies and other economic and trade organizations have been able to register their representative offices directly with locally Administrations of Industry and Commerce (AICs) without prior approval from the Foreign Economic Relation and Trade Commission. Foreign government entities and foreign commercial/industry associations are still required to obtain an approval from the Foreign Economic Relation and Trade Commission.

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 in some sectors, such as banking, insurance, accounting, and for 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.

## 2. Establishing a Chinese Subsidiary

A locally-incorporated equity or cooperative joint venture with one or more Chinese partners, or a wholly-owned foreign enterprise (WFOE, 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. As a result, WFOEs in China have gained in popularity among U.S. firms as a result of the easing of various restrictions, in part because of China's accession to the WTO, as well as the increased experience US firms have gained in China as the economy has continued to open up.

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 to be successful.

## **Franchising**

[Return to top](#)

Many foreign companies are beginning to establish multiple retail outlets under a variety of creative arrangements, including some which for all practical purposes function like franchises. Virtually all of the foreign companies who franchise business in China either manage the 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. In December 2004, the China Ministry of Commerce published the Measures for the Administration of Commercial

Franchise Operations, which took effect on February 1, 2005. These measures apply to all foreign and domestic franchise relationships in China and include additional regulations for foreign enterprises. FIEs can apply to set up franchise operations in China. However, the requirement that companies own and operate two units for 12 months prior to franchising present significant challenges for new foreign entrants.

The promulgation of a more comprehensive legal framework is a laudable improvement in the infrastructure of China's franchise industry. It is expected that the State Council will issue new franchise laws or regulations in 2006. This formal legislation is currently pending before the State Council. The 2005 Measures will likely co-exist (with a lower level of authority) with whatever is produced by the State Council.

## **Direct Marketing**

[Return to top](#)

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 picked up by domestic Chinese companies, some of whom 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, they were allowed to operate only in a "modified" manner, to sell via retail stores or franchise outlets.

As part of China's WTO commitment, the Chinese government agreed to allow market access for "wholesale or retail trade services away from a fixed location" by December 11, 2004. Nine months after this commitment date, on September 2, 2005, China issued two long awaited regulations governing the sector. These new regulations are quite restrictive, however. Multi-level marketing (MLM) organizations are characterized as illegal pyramids, compensation is capped at 30% based on personal sales, and language exists which will require the construction of fixed location "service centers" in each area where sales occur. Significant barriers exist for new entrants, as evidenced by a 3-year foreign experience rule, and a required 20-100 million RMB bond deposit.

## **Joint Ventures/Licensing**

[Return to top](#)

To assist foreign companies set up joint ventures or other investments in China, the State Development and Reform Commission and the Ministry of Commerce have 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, there is also the "Provisions on Guiding the Orientation of Foreign Investment" from April 2002 (<http://www.fdi.gov.cn/ltlaw/lawinfodisp.jsp?id=ABC00000000000004008>).

As mentioned above, joint ventures, although a way to limit investment and perhaps quickly access the market, entail considerable risk (loss of control of investment, theft of intellectual property, conflicts of interest, etc.) As such, the trend in recent years has been for foreign companies to establish wholly foreign-owned entities (WOFEs) to retain

greater control of their business, although many companies still enter into JVs for strategic reasons, or as required by law in some sectors.

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

Licensing contracts must be approved by and registered with the Ministry of Commerce (formerly, 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.

### **Selling to the Government**

[Return to top](#)

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 regulations controlling government procurement. While ostensibly making the system more transparent and open, it also greatly centralized the procedure. 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 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**

[Return to top](#)

Before China's accession to the WTO, China prohibited foreign companies from distributing imported products or providing repair and maintenance services. As discussed above, since WTO accession, China has worked towards liberalizing its

distribution system to provide full distribution rights for U.S. firms. Beginning December 11, 2004, China has reduced restrictions on foreign companies setting up distribution and retailing channels in China (see above, Section A). The only legacy from previous regulations is that foreign companies need to apply for approval from the local Foreign Economic Relations and Trade Commission before they can register with the local AICs (Administration of Industry and Commerce).

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, though more and more U.S. companies are working to control this chain as much as possible.

### 1. Trading Companies

(see above, Section A).

### 2. Distribution

Distribution covers 1) commission agent services, 2) wholesale services, and 3) retail services. As discussed above (Section A), the current laws and regulations allow foreign companies to establish wholly owned distribution entities for imported and domestically produced products. Due to market complexities, however, many foreign companies distribute their products through their sole distributors or regional distributors. The foreign companies provide technical and sometimes financial support while the distributors establish outlets, second tier distribution operations and branches to reach the local end users.

### 3. Local agents

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

## **Selling Factors/Techniques**

[Return to top](#)

### 1. Relationships

Personal relationships (“guanxi” in Chinese) in business are critical. “Guanxi” is deeply rooted in Chinese culture and is basically "a tool to get business" and "a way of getting things done." It often takes months, perhaps even a year or more, to establish “guanxi”.

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 can often help ensure expedited governmental procedures and the 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 on-site training, service centers in China, local representatives, as well as catalogues, user manuals in Chinese, etc.

### 3. Logistics

U.S. exporters should keep in mind that timely delivery and adequate inventory are crucial to success in the Chinese market.

### 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 rule allowing some Chinese enterprises that meet 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 its policies regarding Chinese enterprises' foreign currency accounts and further lowered the criteria for establishing such foreign currency accounts.

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.

In contrast, FIEs are permitted to retain foreign exchange contributed to or earned by the enterprise. Banks require certain documentation before converting renminbi (RMB) profits to foreign currency. This paperwork includes tax certification, board of directors' approval, registered capital verification, and official forex registration. However, foreign exchange balancing requirements remain in effect in other Chinese laws and regulations and in joint venture contractual arrangements.

Repatriation of profits continues to be somewhat troublesome, and all new business entrants are advised to obtain advice from competent tax experts.

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 domestic 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 Chinese customers. At the same time, foreign banks are only allowed to offer Chinese currency services to foreign corporate and individual clients in 16 cities. According to the WTO accession timetable, all restrictions will be removed by the end of 2006.

The Chinese Government has adopted an open attitude towards the advent of electronic commerce in China. There is interest among both Chinese and international businesses centers on investing and on establishing vertical integration and sales channels on-line. In 2005, the number of internet users in China reached 103 million. According to a 2004 survey by the China Internet Network Information Center, 17.9% of Chinese internet users have online shopping experience. 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 systems, and an efficient physical delivery system. Many U.S. IT companies have been actively engaged in jointly developing these systems in China. 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 accepted; 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 April 2005, the Law on Electronic Signatures took effect and enhanced the safety of online transactions.

## 1. Advertising

Advertising is an effective way to create product awareness among potential consumers in China. Channels for mass advertising include publications, radio, television, outdoor, online, in-store and sponsorship.

Advertising in China is regulated by the Advertising Law of the People's Republic of China, passed in 1994. This law outlines content prohibitions and advertisers' responsibilities. Advertising should "be good for the physical and mental health of the people" as well as "conform to social, public, and professional ethics and safeguard the dignity and interests of the state." Specific rules include a prohibition on the use of national symbols and government images, and prohibit advertisements that are obscene, superstitious, discriminatory, and/or dangerous to social stability. The full text of the law may be found on multiple websites. The advertising industry in China is heavily regulated, and the government still exercises ultimate control over content. The Advertising Law is not completely transparent; therefore, interpretation and enforcement may be arbitrary and varied, and legislation usually favors consumer protection over business promotion.

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.

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), overall advertising spending reached USD 23.3 billion in 2004, a 40 percent increase over 2003. Until WTO regulations are fully implemented, however, foreign participation is limited to joint ventures, and the foreign firm may own no more than 49% of the JV. According to China's WTO commitments, however, these restrictions were to have been phased –out, and wholly foreign-owned advertising entities permitted, by December 2005. 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 95 percent of China's 1.3 billion people. Major articles sold on television include toiletries, foodstuffs, pharmaceuticals, liquor, home electronics and real estate. Television stations in big markets (Beijing, Guangzhou, Shanghai) require advertisers to book and pay for specific spots two to ten months in advance. TV advertising turnover for 2004 was about UD\$4.6 billion. Newspapers and periodicals are also major advertising channels.

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 key 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.

## 2. Trade Shows and Missions

Thousands of exhibitions are now held annually in China and can be excellent venues to gauge market interest, develop leads and make sales. Most are sponsored or co-sponsored by government agencies, professional societies, or the China Council for the Promotion of International Trade (CCPIT). Some shows are organized by U.S., Hong Kong or other foreign show organizers. Show participation costs are sometimes high, and some shows may reach only a local audience, so companies are advised to scrutinize shows. The Commercial Service organizes U.S. Pavilions at a number of trade shows around China – information about these shows can be found on our website. In addition, a list of trade shows that are screened by the U.S. Department of Commerce appears in Chapter 13 of this report.

## 3. Electronic Commerce and the Internet

As growth in internet usage rises in China, so too 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.



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 certain larger purchases, attractive export-import financing that lowers the effective price is offered by Japanese, European and other foreign companies, and may make some U.S. products less competitive.

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 that were export-oriented, did not pay duty on imported manufacturing equipment.

A comprehensive guide to Chinese 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. Starting January 1, 2005, there have been substantial tariff cuts on several categories of products, including automobiles, food, winery, and cosmetics. Exporters should check with China Customs to take advantage of these tariff cuts.

Until July 2004, China Customs used eight-digit codes exclusively in its harmonized tariff system, as opposed to the more detailed ten-digit codes. Without detailed codes, Customs officers had wide discretion to classify in what general category to place each import. In 2004, 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 these regulations, China Customs has been tasked with assessing a fair valuation for 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

China is bound by WTO rules to offer identical tax treatment for domestic and imported products. 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, repair and replacement services. VAT is assessed after the tariff, and incorporates the value of the tariff. VAT is collected regularly on imports at the border, although importers note that their domestic competitors often fail to pay taxes. Business taxes are assessed on providers of services, the transfer of intangible assets and/or the sales of immovable properties within China.

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 one 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 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.

Companies operating in China are required to pay an income tax, which is calculated differently according to their ownership (ie, domestic vs. foreign), but this two-tier income tax system for domestic and foreign enterprises will be phased out. 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 some time.

## **Sales Service/Customer Support**

[Return to top](#)

Until recently, foreign companies were clearly not permitted to directly provide after-sales service and customer support for their foreign-made products sold in China, though FIEs have been able to 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.

However, since China started to relax controls in the services sector in 2004, many foreign companies have started to form wholly owned service companies to provide after-sales customer service, with the right to import spare parts for service purposes. As discussed in Section A above, however, the regulations in this area are somewhat unclear.

The Regulations on Management of Foreign Investment in Commercial Enterprises ("FICE regulations"), issued on 16 April 2004 by China's Ministry of Commerce. See URL <<http://www.mofo.com/news/updates/files/update1245.html>>, which explains the implications for distribution in China.

The FICE regulations may govern the establishment of equipment maintenance centers. Article 3 of the regulations authorizes the establishment of foreign-funded commercial enterprises for the purpose of engaging in retail and related auxiliary services. Per Section A above, these regulations implement China's WTO obligation to liberalize distribution services by December 11, 2004. Prior regulations restricted service centers to generating revenue on the sale of spare parts and equipment repair / maintenance services and required investment with a Chinese partner. Also note that the degree to which foreign companies may engage in operation of bonded warehouses remains unclear.

The FICE regulations allow foreign companies more direct involvement in distribution and related services. Detailed implementing regulations have not been issued by the Chinese government despite the urging of the U.S. government and trade associations.

## **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. In addition, an increasingly large number of Chinese individuals and small companies are involved in manufacturing and international trade. While this has many positive effects for the Chinese economy, one ancillary effect of the growing trade and market liberalization has been the simultaneous growth in infringement of intellectual property rights. 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 apparent 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. Chinese companies are increasingly found squatting on the trademarks, company names, and design patents of well-established companies, even companies with household names. Within China, significant regional differences exist, with some areas showing higher levels of protection of IPR, while others apparently affording 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. Since WTO accession, China passed implementing regulations including measures on pharmaceutical data exclusivity (TRIPS 39.3), a new Chinese Trademark Office ministerial regulation on well-known marks, new Customs Regulations for Protection of Intellectual Property Measures for Protection of Intellectual Property, new Administrative Protection of Copyright on the Internet, Regulations on Collective Administration of copyright, and other rules. . Although some progress has been made the Chinese Government has yet to implement effective enforcement measures to deter widespread infringements of intellectual property rights.

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 U.S. Government is urging China to adopt a robust implementation package and accede to the Internet Treaties at mid-year 2006. The treaties help define global standards needed to keep pace with distribution of copyright over global networks. With over one hundred million users of the Internet in China, it is critical that China adopt these measures in the near term in order to discourage China's Internet environment from developing into a safe harbor for Internet piracy.

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. More recently, China has also committed to take additional steps to protect IPR in the context of the annual meetings of the Joint Commission on Commerce and Trade and in the context of other bilateral initiatives.

## 2. IPR Climate

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. Many 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. These problems are compounded by widespread squatting on the rights of others' trademarks, company names, domain names, or design patents, theft by employees of trade secrets, exports of infringing products, and other challenges.

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. 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.

Limited market access for products such as foreign movies and entertainment software as well as restriction in investment in distribution channels provide additional incentives 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 the Silk Market in Beijing or at the border with Hong Kong.

## 3. IPR Enforcement Strategies

Any U.S. company or individual encountering or anticipating encountering problems arising from IPR protection in China should consider an appropriate strategy to minimize the risks and actual losses it faces. Some assistance can be found at the "IPR Toolkit" hosted at the website of the U.S. Embassy in Beijing. <http://www.usembassy-china.org.cn/ipr/>. 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. 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.

#### 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 trademarks 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. However such confiscations can require

coordination, support and the posting of a substantial bond at the port where the goods are seized. 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 provide for 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. A recent focus of U.S. government efforts has been to improve the speed and efficiency by which administrative agencies transfer cases to criminal enforcement in appropriate circumstances. 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 has published draft regulations for comment on the transfer of administrative cases to criminal prosecution and it is expected that such rules will go into effect in 2006.

China continues to determine the magnitude of certain IPR violations and penalties by calculating the value of infringing goods. In December 2004, China's Supreme People's Court and Supreme People's Procuratorate issued a judicial interpretation that lowered the monetary thresholds for criminal prosecution in IPR cases. The Judicial Interpretation also changed the requirement that a minimum amount of sales be proven and instead now requires that a minimum value of illegal business activity be proven. Thus, contrary to prior practice, large amounts of unsold infringing products can now form the basis of a criminal prosecution. The judicial interpretation does not provide a clear formula for valuation, however, and after one year of implementation, a modest increase in the number of criminal trademark prosecutions has resulted. Some cases have not been prosecuted or have resulted in light penalties because courts have used the relatively low value of the infringing products, as opposed to the retail value of legitimate products, to calculate the amount of illegal activity. Criminal copyright prosecutions in China are still rare.

China has established special IPR courts, 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. In late 2005, a specialized criminal intellectual property office was established within the national Ministry of Public Security, which may become a model nationwide for police investigations in intellectual property matters.. 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. 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, SIPO is however actively involved in 2006 in coordinating the drafting of a National IPR Strategy as part of China's own efforts to boost its IPR protection and enforcement.

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. In late 2005, SIPO also issued a rule regarding compulsory licensing of pharmaceutical products to prevent or cure infectious diseases during public health crises. This is an apparent attempt to implement the consensus reached in the WTO on access to medicines and public health. There have not, however, been any reported instances of compulsory licensing of patents to date.

U.S. companies have not actively pursued protection for utility models or design patents in China. In certain cases, Chinese companies, after viewing a new design on the Internet or at a trade fair, have filed for patent protection of the designs of a foreign company. While such patents may be invalidated, such a process can be time consuming and expensive. U.S. companies may wish to proactively consider applying for design patent protection as a way to reduce these risks.

Some Chinese scholars and officials have also begun to advocate that patent protection can be a "technical barrier to trade", a "monopolistic" or "unfair activity", or that foreign companies should be forced to license their patents as part of a national standards



setting process. The U.S. Government is closely monitoring legislative and policy developments in this area.

China's patent law does not currently afford "patent term restoration" to extend the patent term due to delays in marketing approval for patented pharmaceutical products. 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. It is hoped that China will formally adopt measures to improve the environment for pharmaceutical research and development. Additional challenges that innovative pharmaceutical companies face includes: widespread counterfeiting, widespread availability of certain bulk active ingredients, patent challenges, and delays and restrictions in market access for their products.

## 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. Software end-user piracy by enterprises remains a major challenge. Industry groups report that piracy on University campuses is widespread, including textbook piracy and Internet piracy. The United States has also asked for increased ministerial coordination, as well as legislative changes, in copyright enforcement.

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. Delays may occur in content review for entertainment software, which must be reviewed by two ministries for both Internet-based content and physical (CD) content. 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 revenue sharing 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. 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 addition to the administrative registration process, China's civil courts have also recognized trademarks as well-known in the context of civil litigation.

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 or transliterations, as well as appropriate Internet domains. Foreign companies have found that Chinese squatters have registered trademarks they had previously registered in Hong Kong or Taiwan but neglected to register in Mainland China. 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. 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." 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. Further changes to these requirements may occur as a result of proposed changes to China's labor laws.

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.

#### 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. Administrative and civil enforcement measures exist for semiconductor layout designs.

#### 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. Laws concerning foreign investment generally regulate contracts transferring intellectual property as part of the foreign equity contribution by foreign invested enterprises. 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. Some foreign companies complain that many Chinese localities continue to impose burdensome requirements on technology transfers and intervene in the commercial negotiations, despite changes in Chinese law to record, but not review such agreements.

Although the pace of filing has been actively 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/>. Additional advice on handling IPR problems is available at [www.stopfakes.gov](http://www.stopfakes.gov).

### **Due Diligence**

[Return to top](#)

Undertaking a due diligence investigation prior to engaging in a trade or investment transaction can minimize the 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 not fully transparent. Companies new to the 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 U.S. 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 major U.S. accounting firms (KPMG Peat Marwick, PWC, Deloitte Touche Tohmatsu, and Ernst & Young) 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

Prior to 1992, most foreign law firms were registered as consulting firms. Since that time, over one hundred U.S. and international law firms have received approval to register in China as a foreign law firm, and currently operate in China. 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. Recently, China has removed restrictions on the number of offices that may be opened by a particular law firm and a growing number of international firms now have offices in both Shanghai and Beijing. 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 a foreign law office can provide are limited to: 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 the impact of Chinese legislation.

### 3. Management Consultants

Foreign companies new to the Chinese market often engage the services of local consultants to develop market entry strategies, conduct due diligence investigations, and identify potential investment partners, sales agents and customers. Most of the major foreign consulting firms are active in the Chinese market, along with a number of small niche players, as well as many local companies. Licensed and unlicensed firms compete in the market, and the regulatory environment for this sector is unclear.

### 4. Advertising

Almost 100,000 advertising firms exist in China, of which perhaps 400 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 with whom 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>.

## Web Resources

[Return to top](#)

USCS'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=ABC000000000000010453&appId=1>

Provisions on Guiding the Orientation of Foreign Investment  
<http://www.fdi.gov.cn/ltlaw/lawinfodisp.jsp?id=ABC000000000000004008>

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](http://www.cctv.com)

Local professional services

<http://www.buyusa.gov/china/en/bsp.html>

[Return to table of contents](#)

[Return to table of contents](#)

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

- [Agricultural Sector](#)

### **Commercial Sectors**

- [Agrochemicals](#)
- [Air Traffic Management Equipment Market](#)
- [Safety and Security Market](#)
- [Automotive Components Market](#)
- [Coal Mining Equipment](#)
- [Construction Equipment Market](#)
- [Banking Technology](#)
- [Credit Card Market](#)
- [Education and Training](#)
- [Franchising](#)
- [Semiconductor Industry](#)
- [Machinery](#)
- [Marine Industries](#)
- [Liquefied Natural Gas](#)
- [Power Generation](#)
- [Software](#)
- [Telecommunications Market](#)
- [Water and Wastewater Treatment](#)
- [Medical Equipment](#)

## Chapter 4: Leading Sectors for U.S. Agricultural Exports

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/scripts/w/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.

## AgroChemicals

### Overview

[Return to top](#)

Unit: (Million USD)

	2003	2004	2005
<b>Total Market Size</b>	11,250	10,952	12,587
<b>Total Local Production</b>	10,296	11,016	11,676
<b>Total Exports</b>	1,147	2,390	2,327
<b>Total Imports</b>	2,101	2,326	3,238
<b>Total Imports from U.S.</b>	720	502	487

- 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 one of the biggest agro-chemical consumers and a large agro-chemical importer. Agro-chemical exports to China ranked as the top destination for U.S. fertilizer exports until 2003. In the first eleven months of 2005, China imported \$414.55 million in fertilizers and \$32.27 million in pesticides from the U.S., accounting for 14.79% and 19.63% of total imported fertilizers and pesticides respectively. U.S. DAP (Diammonium Phosphate) has a strong position in the China fertilizer market. By the end of November of 2005, 45.78% of China's DAP imports came from the United States. China's goal is to rely less on fertilizer imports in the future, but domestic output cannot meet the total market demand, forcing China to import high-concentration and compound fertilizers. The import of such fertilizer is still controlled by a quota management system.

China's accession to the WTO provides benefits to U.S. fertilizer exporters. On accession, tariffs dropped 6% from the 11% import duty rate. In October 2005, China's Ministry of Commerce (MOFCOM) released the 2006 fertilizer import tariff rate quotas (TRQs). The total 2006 TRQs will be 3.3 million tons of urea imports, 6.9 million tons of diammonium phosphate (DAP) and 3.45 million tons of NPK compound fertilizers. Of the TRQs, 2.97 million tons of urea, 4.49 million tons of DAP and 2.24 million tons of NPK are for state trading while non-state trading TRQs will be 330,000 tons of urea, 2.41 million tons of DAP and 1.21 million tons of NPK. The import volumes within the quota are levied an import duty of 4%, while imports exceeding the quota are levied a duty of 50%. Perhaps most significant, foreign firms will gain the right to import and distribute fertilizers after a five-year transition period after 2006, gradually dismantling the state-controlled trading monopoly, setting the stage for greater market access for U.S. suppliers.

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**

[Return to top](#)

### **Fertilizer**

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**

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. China aims to curtail 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**

[Return to top](#)

### **Fertilizer**

7th China International Agrochemical & Crop Protection Exhibition

Date: March 1 – March 3, 2006

Venue: Shanghai Mart

No.2299, Yan'an Road West, 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

Overseas Supporters:

British Crop Protection Council

CropLife China  
International Fertilizer Industry Association  
Pesticides Manufacturers & Formulators Association of India  
Vietnam National Fertilizer Association  
Taiwan Crop Protection Industry Association

**Supporters:**

China Petroleum and Chemical Industry Association  
China National Agriculture Means of Production Group Corporation  
Institute of Plant Protection of Chinese Academy of Agricultural Sciences  
Institute of Agricultural Resources and Regional Planning of CAAS  
Institute of Environment & Sustainable Development in Agriculture of CAAS

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**Pesticides**

The Ministry of Agriculture and National Development and Reform Commission 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) are 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 issues so as to: 1) enforce registration administration and promote pesticides structural adjustment; 2) enforce 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 -----

China Fertilizer Information Net

[www.china-fertinfo.com.cn](http://www.china-fertinfo.com.cn)

China National Chemical Information Center

<http://www.sinofi.com/english/>

China Chemical Information Net

[www.chinachemnet.com.cn](http://www.chinachemnet.com.cn)

China Chemical Industry Information Center

[www.cncic.gov.cn](http://www.cncic.gov.cn)

China Chemical News Net

[www.chemnews.com.cn](http://www.chemnews.com.cn)

State Environmental Protection Administration

[www.zhb.gov.cn/english](http://www.zhb.gov.cn/english)

China Association of Environmental Protection Industry

[www.cepi.com.cn](http://www.cepi.com.cn)



## Air Traffic Management Equipment Market

### Overview

[Return to top](#)

#### China's ATM Equipment Market Information (USD Millions)

	2003	2004	2005 (as of Nov.)
Total Market Size	N/A	N/A	N/A
Total Local Production	N/A	N/A	N/A
Total Exports	55	85	616
Total Imports	136	187	353
Imports from the U.S.	47	28	33

(Source of Data: World Trade Atlas)

China is a fast-growing market for air traffic control equipment. Over the past decade, the General Administration of Civil Aviation of China (CAAC) has spent approximately \$1 billion on air traffic management (ATM) infrastructure improvements, and is expected to spend another \$1.2 billion on ATM equipment through 2015. The majority of this equipment will be imported, as locally manufactured ATM equipment is not yet able to match foreign quality.

The CAAC Air Traffic Management Bureau's (ATMB) goal over the next ten 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 radar systems. China also plans to introduce ground-to-air communications and automatic dependent surveillance services for international and polar routes in the west.

### Best Prospects/Services

[Return to top](#)

In their efforts to upgrade current ATM facilities in China, ATMB is focusing on the following sectors that should serve as excellent 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 radar systems 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.

In the next 10 years, China will see strong growth in its number of flights, airports, and air routes. This surging demand plus close cooperation with the Federal Aviation Administration (FAA) will greatly boost required investment in China's ATM system and provide numerous opportunities for U.S. ATM exporters.

In recent years China's air traffic volume has increased between 8-10% annually and is expected to grow 10-15% per year over the next ten years. In 2005, there were 2.3 million total flights, an increase of 55% over a five-year period. At present, landings and take-offs from airports along the Beijing-Guangzhou route account for over 76% of domestic flights. In the future, the country will also face increasing air traffic congestion in central and western China.

To handle this increase, China has invested extensively in its ATM system over the last few years, installing 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). Expansion of airport infrastructure will continue with 40 airports slated for construction or upgrade by 2010, which will bring the total number of airports to 187. To manage this growth, 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, while upgrading the remaining three in Beijing, Shanghai, and Guangzhou, which now handle over 70% of China's air traffic. The existing ATC system for the Beijing-Guangzhou route has already been upgraded and preparation work has started on the Beijing-Shanghai and Shanghai-Guangzhou routes to implement radar control procedures.

As China will emphasize flight safety and service quality, the CAAC is working closely with the Federal Aviation Administration (FAA) to ensure the safe handling of increased air traffic during the 2008 Olympics. CAAC also has ongoing initiatives under the China-Boeing Joint Air Traffic Services program, which provides training programs and seminars for CAAC personnel covering a wide spectrum of air traffic issues.

#### 1. Major Trade Shows:

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 or 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

Airport and Air Traffic Control Expo China 2007

Dates TBC (Probably September 2007)  
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

2. 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 (ATMB)  
Tel: (86-10) 6731-8866 x 2252  
Fax: (86-10) 6731-8519  
China Aviation Supplies I/E Corporation  
Tel: (86-10) 6568-7858  
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## Safety and Security Market

### Overview

[Return to top](#)

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.

. 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

[Return to top](#)

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. 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](#)

### 1. Major Trade Shows

3<sup>rd</sup> Beijing International Public Security Products and Technical Equipment Exhibition

Date: March 22-24, 2005

Venue: China Agriculture Center, Beijing

10<sup>th</sup> 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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Cathy Wang

## Automotive Components Market

### Overview

[Return to top](#)

#### China's Automotive Components Market Information (USD Millions)

	2003	2004	2005 (projected)
Total Market Size	22,600	28,800	35,800
Total Local Production	8,000	9,200	10,580
Total Exports	3,220	4,500	6,300
Total Imports	5,940	6,500	6800
Imports from the U.S.	510	585	620

- 1) Statistics collected from National Bureau of Statistics and World Trade Atlas.
- 2) 2005 figures are projected based on 2005, 3rd Quarter data.
- 3) Automotive Component figures based on five categories: engine parts, chassis parts, automotive body, electrical systems, and general parts.

### Best Prospects/Services

[Return to top](#)

- Engines for motor vehicles and motorcycles;
- Auto and motorcycle casting blanks;
- Key automotive parts and components including disc-type breaking assembly, drive axle assembly, automatic transmission box, diesel engine fuel pump, engine admission supercharger, engine displacement control device, electric servo steering system, viscous continuous shaft device (for four-wheel drive), air shock absorber, air suspension frame, hydraulic tappet, and compound meter;
- Auto electronic devices and instruments (including control systems for engine, chassis and vehicle body);
- Fuel cell technology;
- Automotive accessories;

### Opportunities

[Return to top](#)

China is trying to develop its automotive industry into a key industry of the national economy by 2010. China now has 6,224 automotive enterprises, which are scattered in five sectors: motor vehicle manufacturing (145), vehicle refitting (536), motorcycle production (1,162), auto engine production (58), and auto parts manufacturing (4,323).

Chinese output of motor vehicles reached 5.075 million in 2004, according to statistics from the China Association of Automobile Manufacturers (CAAM). As of Q3 2005, China had already produced 4.5 million vehicles, a 10% rise from Q3 2004. The automotive industry generated total industrial output value of approximately \$106 billion by Q3 2005, a 5.7% increase year on year.

China's accession to the WTO has had a great impact on the automotive industry. By July 1, 2006, tariffs on imported automobiles will be reduced to 25 percent, which is the 5<sup>th</sup> reduction since 2001, and tariffs on imported automotive parts 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.

The main goals for automotive components, parts, and accessories manufacturers are to improve technology and quality and to develop design capability. Most of the domestic automotive parts manufacturers' R&D capabilities are limited due to the small scale of their operations and a shortage of capital as compared to international companies. In the next five years, the Chinese Government will continue to encourage foreign investment in automotive component development and manufacturing. In the meantime, there is a growing market for imports and American products are generally highly regarded by Chinese customers.

Many U.S. firms have already begun exporting to this quickly growing market. U.S. automotive component firms enjoy 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, as there is no import tariff on locally made products.

The reductions in automobile tariffs will make it much more cost effective for U.S. firms to export finished vehicles to China and reduced tariffs on parts will allow companies to import essential components that cannot currently be found domestically. Additionally, as China's restrictions on trading and distribution are reduced, American companies are gaining the right to distribute most products, including automobiles and related parts, in any part of China, whereas formerly, foreign companies could only distribute parts to one interior destination in China and they were not allowed to ship or distribute products between cities without employing a Chinese freight company.

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

## Resources

[Return to top](#)

### 1. Major Shows/Exhibitions:

Shanghai International Exhibition for Auto Parts & Accessories (Auto Parts Shanghai 2006)

Dates TBD (probably Dec. 2006)

Shanghai International Exhibition Center, Shanghai

<http://www.2456.com/eng/showsinfo/info/info1.asp?eid=3191&order=113>

The 5th China (Shanghai) International Auto Parts & Related Products Exhibition 2006  
February 22-24, 2006

Shanghai New International Expo Centre, Shanghai

<http://www.apmt-expo.com/>

The 2nd (Shandong) International Commercial and Specialized Automotive Vehicle Exhibition 2006

March 9-11, 2006  
International Exhibition Center, Jinan  
Tel: (86-531) 8353-2222/2223  
Fax: (86-531) 8353-2333  
Email: [gejunwei6616@126.com](mailto:gejunwei6616@126.com)

Guangzhou Automobile Cosmetology Exposition Fair 2006  
March 9-11, 2006  
Guangzhou Jinghan Exhibition Center, Guangzhou  
<http://www.84t.cn/mr/english.asp>

2006 Northeast China International Special Vehicles, Engineering Machinery and  
Commercial Vehicles Exhibition  
June 26-28, 2006  
Shenyang (International) Conference & Exhibition  
<http://www.svwe.com.cn/>

Automotive Testing Expo China 2006  
September 6-8, 2006  
Shanghai Everbright Convention and Exhibition Centre  
<http://www.testing-expo.com/china/home.html>

Automechanika 2006 Shanghai  
Nov. 30 to Dec. 2, 2005  
Shanghai New International Expo Center  
Messe Frankfurt Shanghai  
Room 2703 CITIC Square  
1168 Nanjing Road West  
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[http://www.catarc.ac.cn/index\\_english.htm](http://www.catarc.ac.cn/index_english.htm)

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## Coal Mining Equipment

### Overview

[Return to top](#)

	2003	2004	2005 (estimated)
Total Market Size	1682	3174.2	2593.7
Total Local Production	1530.8	2808.3	2363.5
Total Exports	189	258.2	295
Total Imports	340.2	624.1	525.2
Imports from the U.S.	53.2	97.3	146.4

Coal is the most dominant energy source in China, making up about 70% of total primary energy consumption in the country. China's coal-producing area exceeds 550,000 square kilometers. It has 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 2005, China's coal production reached 2.1 billion tons, an 8% increase. The percentages of central government-managed coal mines, provincial government-managed coal mines, and township coal mines are 48%, 14% and 38% respectively. With the ease of power shortages in 2006, experts predict that China's under supply of coal will be eased as well. Coal production will surpass 2.2 billion tons in 2006, and the export quota will be 80 million tons.

Generally speaking, the China's domestic coal mining equipment occupies a dominant (90%) position in China market. 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, and safety. Thus, U.S. coal mining equipment manufacturers and coal mine investors face long-term opportunities in China's coal industry, particularly with China's large coal firms.

### Best Prospects/Services

[Return to top](#)

U.S. companies enjoy the greatest competitive advantage in supplying heavy coal mining machines and systems. For underground mining operations, U.S. firms compete well in the following categories: longwall shearers, stageloaders, continuous miners, batch haulage vehicles, road headers, hydraulic roof support systems, and armored face conveyors. For open-pit mining operations, U.S. firms compete well in the following categories: electric mining shovels, walking draglines, blast hole drills, and heavy mining trucks.

Coalmine safety remains a critical issue at Chinese coalmines. Accidents in 2005 killed over 6,000 coal workers. Chinese government is trying to close 4,000 small coalmines without sufficient protection on coalmine safe production. Only 35% of China's more than 25,000 coal mines have safety equipment. According to the State Administration of Coal Mine Safety Supervision, China will invest USD 6 billion over the next few years for

safety equipment in its large, state-owned coal mines. Of this investment, the central government will contribute \$605 million and coal companies will cover the rest. This investment will create significant opportunities for foreign companies to export 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. 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 established 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.

## **Resources**

[Return to top](#)

### 1. Major Trade Shows

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

### 2. Main Contacts:

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

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

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

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## Construction Equipment Market

### Overview

[Return to top](#)

	2003	2004	2005 (Estimated)
Total Market Size	US\$ 2.1 billion	US\$ 10.6 billion	US\$ 12.2 billion
Total Local Production	US\$ 0.9 billion	US\$ 4.3 billion	US\$ 11.9 billion
Total Exports	US\$ 90 million	US\$ 99 million	US\$ 698 million
Total Imports	US\$ 1.3 billion	US\$ 6.4 billion	US\$ 1.0 billion
Imports from the U.S.	US\$ 24 million	US\$ 25 million	US\$ 38.9 million

(Source: China Customs statistics for construction equipment.)

The Chinese construction equipment market presents many opportunities and challenges to American companies seeking to increase their sales in China. 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. The rapid growth of fixed asset investment in China is helping to boost growth in this sector. Yet the macro control measures the Chinese government began to implement in the second half of 2004 is expected to have a cooling effect on the overall construction market. Meanwhile, U.S. companies are encountering fierce competition from Korean, Japanese, European, and as domestic manufacturers.

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.

### Opportunities

[Return to top](#)

#### South–North Water Diversion Project

The vast South–North Water Diversion Project started in 2002. The purpose is to divert water from the Yangtze River in the south to China's north, where water is in critical need for agricultural and industrial applications. The project consists of three south-to-north canals, and will cost US\$59 billion; when completed in 2010 it will pump about 13 trillion gallons of water to the north every year. The middle route of the three canals is the most complicated and will provide the most market opportunities for American construction equipment manufacturers that offer advanced technology. Different types of equipment are needed for the project, including scrapers, Excavators, vibratory rollers, dump trucks, truck cranes, etc.

#### 2008 Olympics, Beijing

The Beijing municipal government plans to invest nearly \$22 billion in infrastructure construction for the 2008 Beijing Olympic Games. Main projects include:

Public Transportation:

- 93 kilometers of the fifth ring road
- 35 kilometers of express rail
- 105 kilometers of major roads
- 192 kilometers of railroad
- Subway lines to airport and Green Olympic Park

Airport:

- One new runway
- One new terminal
- 55 standard aircraft parking aprons

### World Expo 2010, Shanghai

Shanghai will host the World Expo from May 1 through October 31, 2010. To support the event, the Shanghai government will invest over US \$10 billion in infrastructure modernization (harbor, airport, city transportation, and cultural facilities). Major projects include:

Public transportation:

- 270 kilometers of metro lines
- 400 kilometers of road improvement
- One under-river tunnel
- 6300km<sup>2</sup> parking space
- Country pavilions in the Expo Park

Airport:

- Two runways
- One new terminal

### Resources

[Return to top](#)

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/>

### Major Shows

- **CONEXPO® Asia 2006 (CONEXPO Asia Construction Machinery Exposition)**  
 May 15 – 18,2006  
 Beijing National Agricultural Exhibition Center  
 Organizer: Association of Equipment Manufacturers (AEM)  
 E.J. Krause and Associates

phone +1-800-867-6060, +1-414-298-4141, fax +1-414-272-2672  
email: [info@conexpoasia.com](mailto:info@conexpoasia.com)  
<http://conexpoasia.aem.org/EN/index.asp>

- **The 8<sup>th</sup> 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  
Tel: 6491-4811, 6495-3233, 6427-7470  
Fax: 6491-4814, 6425-1287  
[www.chinatranspo.com](http://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 – Council  
  
CNCMC – China National Construction Machinery Corporaton  
CCMA – China Construction Machinery Association  
[www.bauma-china.com](http://www.bauma-china.com)

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## Banking Technology

### Overview

[Return to top](#)

In 2005, the banking sector spent approximately US\$2.95 billion on IT products. This marked an increase of 3.47% in spending compared to 2004 figures. According to the CCW Research (<http://www.ccwresearch.com.cn>), investment in IT products is expected to increase by 10.55% approximately US\$3.26 billion in 2006.

As part of its WTO accession agreement, China pledged to phase-in national treatment for foreign banking services over a five-year period and to reform its domestic banking system. On December 11, 2006, foreign controlled banks will be permitted fully competitive access to the Chinese market, since geographic and client restrictions, which currently limit foreign banks' business in China, will be lifted. In order to compete with foreign banks from 2007 onward, both the Chinese government and Chinese banks are determined to continually modernize the banking technology used in China.

### Best Products/Services

[Return to top](#)

The best export opportunities for American IT companies selling systems and equipment to the financial sector\* include:

- Core Banking Systems
- Risk and Management Information Systems
- Disaster recovery systems
- Accounting/Card/Capital Management Systems
- Modern payment systems
- Anti-Money Laundering Monitoring and Analysis Systems
- Network Security
- IT Services
- IT Hardware
- Credit Cards
- On-line banking related products

\* Purchases by non-banking institutions comprise a relatively small fraction of overall investment in IT systems and software.

### Opportunities

[Return to top](#)

Chinese banks prefer to purchase practical, and reliable, and mature products with good after-sales service. Once banks decide to purchase IT products, they generally utilize contacts, internal bidding or trade shows to identify suppliers and arrange procurements. Therefore, banking technology companies that are well known in China have a significant advantage. American companies' IT products enjoy a good reputation in China's banking sector for their high quality and advanced technology.

In 2005, the banking sector spent the largest percentage (16.4%) on applications software. In 2006, Chinese banks will also focus on purchasing server and network

hardware. With the completion of the national data integration work and the setup of the disaster recovery center, the demand for storage equipment, and security products, hardware firewalls, (5.99%) and intrusion detection systems (5.45%) is expected to increase rapidly.

## **Resources**

[Return to top](#)

### China International Exhibition on Financial Banking Technology & Equipment (CIFTEE)

CIFTEE is China's largest and sole exhibition showcasing banking technology & equipment. In 2005, the organizer reported that more than 230 banking technology companies participated, of which more than half were foreign companies including IBM, Cisco, SUN, NCR, Nixdorf, Diebold, and Fiserv, to name a few. Each year, more than ten thousand professional visitors attend the CIFTEE Exhibition and Conference. The U.S. Commercial Service in Beijing organized a 14-booth U.S. Pavilion at CIFTEE 2005, which featured ten U.S. companies.

CIFTEE 2006 will be held in Beijing during September 17 – 20, 2006. It again promises to be a great opportunity for American firms to showcase their products & services in this sector. The U.S. Pavilion will offer prospective U.S. exhibitors the following services: streamlined booth arrangements, market entry counseling and logistics liaison with Chinese organizers etc. For general information about this trade show and the U.S. Pavilion, please refer to the following contact information.

#### CIFTEE 2006

Date: September 17 – 20, 2006  
Venue: Beijing Exhibition Center, Beijing  
Contact: Ms. Ida Peng  
Telephone: 0086-10-85296655 ext. 862  
Fax: 0086-10-85296558  
Email: [aiqun.peng@mail.doc.gov](mailto:aiqun.peng@mail.doc.gov)  
Website: [www.ciftee.com.cn](http://www.ciftee.com.cn)  
<http://www.buyusa.gov/china/en/ciftee2006.html>

#### **Key Websites:**

People's Bank of China (PBC)  
[www.pbc.gov.cn](http://www.pbc.gov.cn)

China Banking Regulatory Commission (CBRC)  
[www.cbrc.gov.cn](http://www.cbrc.gov.cn)

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

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

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

Industrial and Commercial Bank of China

<http://www.icbc.com.cn>

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

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

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

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

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

CITIC Bank  
<http://www.ecitic.com/citicib/>

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

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## Credit Card Market

### Overview

[Return to top](#)

Through the year ending December 31, 2004, China issued 762 million bankcards, of which 664 million were debit cards and 98 million were credit cards, according to the latest statistics from the People's Bank of China (hereafter, PBOC), the nation's central bank. There are over 150 banking card issuers, including the 'big four' banks: the Industrial and Commercial Bank of China; the Bank of China; the China Construction Bank, and the Agricultural Bank of China. There is also a fast-growing second tier of shareholding banks and city commercial banks that issue banking cards. China's state-owned commercial banks also issue dual-currency cards that allow cardholders to purchase goods within China, in RMB, and while abroad, in US dollars.

Nationwide, about five percent of purchases are made using bankcards, up 2.9 percent from three years earlier. The percentage is as high as 20 percent in big cities such as Beijing, Shanghai, and Guangzhou and Shenzhen. Consumers use their credit cards mainly to purchase houses, vehicles, and home appliances, as well as to pay utility bills. China UnionPay, which was established to set up a national processing network connecting merchants and banks, has set up a national bankcard information switch center and bankcard network service centers in 18 cities. As of December 30, 2005, China had approximately 500,000 POS machines and 70,000 ATMs. About 300,000 merchants in China accept banking cards.

### Best Products/Services

[Return to top](#)

There are many opportunities for U.S. companies in the credit card market:

- Credit card-related hardware, including POS and ATMs etc.;
- Credit card-related software for banks and merchants;
- Credit, risk and client management software or training programs for banks;
- Disaster back-up system for the banks' individual credit information database
- Call center related products for banks

### Opportunities

[Return to top](#)

The Chinese government is working with relevant industries to advance the development of the credit card system in China.

In August 2005, the PBOC promulgated the *Provisional Rules on Management of Individual Credit Information Database*, which is a milestone in the construction of a national credit information system. Once activated, the system will play an important role in ensuring the smooth operation of an individual credit information database and in facilitating the healthy development of credit card industry in China. Since 2004, efforts have been made to speed up the construction of an individual credit database on the basis of the national bank credit registry and inquiry system network. After a successful pilot operation of the individual credit database was conducted in seven cities in December

2004, the database has since been expanded to cover 127 commercial banks throughout the country. The network connects four state-owned commercial banks, 12 national joint-stock commercial banks, and 111 city commercial banks. Additionally, two commercial banks in unidentified cities are currently conducting tests.

China is gearing up to host the Beijing 2008 Olympics Games, an international event that can help to spur faster growth in the credit card industry. According to the Beijing municipal government's credit card development plan, by 2008, 90 percent of business establishments in Beijing will accept credit cards. Card expenditures will account for 25 percent of total consumption.

## **Resources**

[Return to top](#)

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Website: [www.ciftee.com.cn](http://www.ciftee.com.cn)  
[www.buyusa.gov/china/en/ciftee2006.html](http://www.buyusa.gov/china/en/ciftee2006.html)

#### **Key Websites:**

People's Bank of China (PBC)  
[www.pbc.gov.cn](http://www.pbc.gov.cn)

China Banking Regulatory Commission (CBRC)  
[www.cbrc.gov.cn](http://www.cbrc.gov.cn)

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

VISA International Service Association  
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Bank of China Limited  
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Industrial and Commercial Bank of China  
<http://www.icbc.com.cn>

China Construction Bank Limited  
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Agricultural Bank of China  
<http://www.abchina.com/>

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

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

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

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## Education and Training

### Overview

[Return to top](#)

As China continues to integrate with the global economy, Chinese enterprises need to recruit graduates with internationally recognized standards of education and maintain professional training for their employees to stay competitive. Since the United States' 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 or 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

[Return to top](#)

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. The national education budget allocation reached 50.8 billion U.S. dollars in year 2004. 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.

The Chinese government has made it a national priority since 1999 to increase the number of students in the university system. In 2005, there were 23 million students studying at colleges and universities. The National university entrance rate reached 21%. China's 1,552 colleges and universities enrolled 15 million students for bachelor degrees, and over 900,000 students for master degrees. The country's 475 adult higher learning institutions, for those who did not enter college, enrolled more than 1.4 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, the Ministry of Education has approved 137 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 it comparatively more difficult to study in the U.S. 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 has 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 have also heeded the e-learning call; many now offer vocational training and certification exam preparation online.

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

## Opportunities

[Return to top](#)

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

## Resources

[Return to top](#)

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](mailto:zhourong@cciee.com.cn)    [zhaopeng@cciee.com.cn](mailto:zhaopeng@cciee.com.cn)

### **11th China International Education Exhibition (CIEET) Tour 2006**

Sponsored by Chinese Service Center for Scholarly Exchange (CSCSE)

Website: [www.cscse.edu.cn](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

### Overview

[Return to top](#)

Franchising is a very promising sector in China. American franchising companies have been in China for almost two decades now, beginning with KFC's 1987 opening in Beijing. Although the concept of franchising as a business was only introduced to China seven or eight years ago, its pace of development has overtaken that of other business models, and franchising has made important inroads into the world's largest consumer market. Enterprises from more than 50 industries have applied for franchise operations, including enterprises from the traditional sectors of catering, retailing, and individual and business services. New franchises are developing in the fields of commercial services, family services, automotive care, and education. Currently, China has 2100 franchise and chain store companies, and the number is rising rapidly.

Challenges to U.S. franchise firms include a weak regulatory system and a lack of qualified Chinese franchisee candidates. In addition, new legislation from the Ministry of Commerce require new franchise firms to first own and operate two company-owned stores for one year within China. The impact of such barriers to entry is still being evaluated by the international franchising community.

### Best Products/Services

[Return to top](#)

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. By the end of 2004, KFC had established about 1,200 outlets in China. McDonald's has established over 700 outlets nationally.

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 this form of franchising include car rental and services, education, training, real estate, dry cleaning, and executive search.

### Opportunities

[Return to top](#)

Major international franchise firms have established the following best practices for doing business in China:

- Register the brand before entering the China market.
- Carefully seek local partners who can help navigate the local business environment.
- Understand the cultural differences and adjust market access strategies accordingly.
- Have an ability and willingness to localize your product if necessary, without changing the core product.

- Minimize the price of the final product and the franchising fee to achieve rapid expansion and mass acceptance.

## **Resources**

[Return to top](#)

### **Major Shows/Exhibitions**

CCFA Franchise Expo, Shanghai  
[www.ccfa.org.cn/english/index.jsp](http://www.ccfa.org.cn/english/index.jsp)  
August 25-27, 2006

### **Resources**

#### **International Franchise Association**

1501 K Street NW, Suite 350  
Washington, D.C.  
(202) 662-0767  
[www.franchise.org](http://www.franchise.org)

#### **China Chain Store and Franchise Association**

Tel: (86-10) 6839-2260  
Fax: (86-10) 6839-2210  
Website: <http://www.ccfa.org.cn>

#### **Ministry of Commerce (MOFCOM)**

Tel: (86-10) 6519-7327/7301  
Fax: (86-10) 6519-7322  
Website: <http://www.mofcom.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](mailto:ccpitsli@public3.bta.net.cn)  
Website: <http://www.ccpit.org>

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## Semiconductor Industry

### Overview

[Return to top](#)

#### China's Local IC Manufacturing Output Volume and Sales Value

Year	2001	2002	2003	2004
Output Volume (100 million pieces)	63.6	96.3	134	211
Sales Value (\$bln)	2.28	3.25	4.25	6.56
Volume Growth Rate	8.2%	51.4%	39.1%	57.5%
Value Growth Rate	1.2%	42.5%	30.8%	55.2%

(Source: China Semiconductor Industry Association)

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

	2002	2003	2004	2005(Jan-Oct)
Total exports (million USD)	1,664	2,142	3,269	3386
Total imports (million USD)	5,350	6,721	9,767	9,022
Imports from the U.S. (million USD)	640	365	283	236

Source: World Trade Atlas

Driven by sustained strong demand for integrated circuits by the rapidly growing electronics manufacturing industry, the implementation of a series of government preferential policies, the push of government sponsored development programs, and most important of all, active participation of leading international players, China's semiconductor industry has made progress by leaps and bounds in almost all sectors since 2000. As a result, a full-fledged semiconductor industry, encompassing wafer fabrication, testing and packaging, and IC design has started to take shape in this country.

According to the US Semiconductor Industry Association (SIA), China is now the third largest market in the world for semiconductors (after Japan and the US), and boasts the world's highest growth rate. China's official statistics show that in 2004, the semiconductor market size was \$35.1 billion, which accounted for about 16.5% of the global total, which was \$213 billion.

By end of 2004, China had about 50 wafer fabs, 102 IC packaging and testing factories, and 457 IC design firms. In terms of industry size, China's 2004 domestic semiconductor sales revenue (\$6.56 billion) accounted for 3% of the total global semiconductor sales revenue (\$213.0 billion). Semiconductors manufactured in China reached a level that could have supplied 18.7% of China's total 2004 market demand. However, about half of the domestically made semiconductors were exported. Therefore, according to an official of the Ministry of Information Industry (MII), only about 10% of China's domestic demand was met by domestically made semiconductors.

## Best Prospects/Services

[Return to top](#)

Despite the rapid all-round development within this sector, the semiconductor industry is still at its initial stage. Due to the weak infrastructure and unevenness of the supporting industry, China has to rely on imports for a majority of its integrated circuit consumption, packaging equipment, integrated circuits testing and assembly equipment, as well as development tools for the design of integrated circuits. Market size for semiconductors is estimated to be around \$30 billion at end of 2004. According to estimates of a leading research firm, China's semiconductor market size was \$42 billion in 2004 and expected figure to rise to \$46 billion in 2005 (final figures not yet confirmed).

According to Semiconductor Equipment and Materials Industry Association (SEMI), market demand for semiconductor equipment is estimated to reach \$4.5 billion in 2005 from the \$1.16 billion in 2003.

The best prospects for ICs will be within the robust new sectors of information communication industry, (i.e., audio/visual applications for wireless, broadband communications, and digital television). The imminent launch of 3G applications and the transition from analog to digital television will be strong drivers for increased demand of IC applications. Demand for ICs used in personal computers, telecommunications equipment and handsets, consumer electronics such as digital cameras, MP3 and MP4 players will remain strong since most of the production has been relocated to China.

## Opportunities

[Return to top](#)

Major semiconductor projects under construction or planned in China.

Company	Total investment (Million USD)	Wafer size	Location
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

## Resources

[Return to top](#)

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

Exhibition	Date	Website
SEMICON China	March 21-23, 2006	<a href="http://www.semi.org">www.semi.org</a>
NEPCON China	April 12-15, 2005	<a href="http://www.nepconchina.com">www.nepconchina.com</a>

**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) 6820-8589  
<http://www.csia.net.cn/>

United States Information Technology Office (USITO)  
7 East Mid Third Ring Road, Suite 516 Fortune Plaza, Beijing 100020 China  
Tel: (86 10) 6530 9368; 6530 9369; 6530 9370  
Fax: (8610) 6530-9367  
<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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## **Machinery**

### **Overview**

[Return to top](#)

US machinery exports have experienced healthy growth over the past four years rising nearly US \$3 billion 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 great 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. China is expected to continue to import advanced equipment and technology valued in the tens of billions of US dollars.

### **Best Products/Services**

[Return to top](#)

With respect to specific areas of China total imported machine tools, metal-cutting machine tools increased by 20.6%, with a total value of US \$ 2.07 billion, and metal forming machine tools increased by 40.26%, 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.

### **Resources**

[Return to top](#)

#### **U.S. Associations**

Association of Manufacturing Technology (AMT)

[www.amtonline.org](http://www.amtonline.org)

[www.amtchina.org](http://www.amtchina.org)

#### **Chinese Association**

China Machine Tool & Tool Builders' Association

[www.cmtba.org.cn](http://www.cmtba.org.cn)

#### **Trade Shows**

The 5th China International Equipment and Manufacturing Exposition (CIEME 2006)

August 29- September 2, 2006

Shenyang, China

[www.zxexpo.com](http://www.zxexpo.com) / [www.cieme.org](http://www.cieme.org)

10th China International Machine Tool Show  
China International Exhibition Center (Beijing)  
April 2007  
[www.cimtshow.com](http://www.cimtshow.com)

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## Marine Industries

### Overview

[Return to top](#)

	2003	2004	2005 (Estimated)
Total Market Size	US\$ 51.8 billion	US\$ 57.9 billion	US\$ 77.2 billion
Total Local Production*	US\$ 54.0 billion	US\$ 60.0 billion	US\$ 81.0 billion
Total Exports**	US\$ 3.0 billion	US\$ 3.1 billion	US\$ 4.1 billion
Total Imports **	US\$ 0.8 billion	US\$ 1.1 billion	US\$ 0.4 billion
Imports from the U.S. **	US\$ 25.8 million	US\$ 35.0 million	US\$ 15.0 million

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.)

This section covers the use and development of various sea-related industries, including shipbuilding, ports, pleasure boats, sea communications and transportation, offshore oil and gas, sea-related chemicals and sea fishery, etc.

China's marine market has been growing strongly for the past several years. According to the "National Marine Economy Development Program" issued by the State Council, the value of sea-related industries would constitute approximately 4% of GDP by 2005; and the aggregate marine industries will gradually become one of the pillar industries in China's economy.

According to Chinese Customs statistics, China's total value of ship imports and exports reached US\$4.2 billion in 2004, of which ship imports accounted for US\$1.1 billion, an increase of 32.7% from 2003. Trade volume reached a new height in 2005. However, oceanic pollution and the industry's structural imbalances continue to present challenges for the development of the marine industry.

### Opportunities

[Return to top](#)

Best prospects in China's marine industries include shipbuilding, pleasure boats, and port related accessories and sea transportation.

#### Shipbuilding

Since 1999, the output of China's shipbuilding industry has been ranked number three in the world. According to the latest estimates from the China Association of the National Shipbuilding Industry (CANSI), in 2005 China's shipbuilding output is projected to exceed 12 million deadweight tons (DWT), and its global market share to rise to a historical high of 18%. China's top two shipbuilding entities, the China Shipbuilding Industry Corporation (CSIC) and the China State Shipbuilding Corporation (CSSC) reported annual output of 3 million tons and 5 million tons

respectively and both have a full production schedule over the next three years. By 2015, China is expected to become the No. 1 shipbuilding power in the world.

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

#### Recreational Boats

With the rapid growth of the economy, China's recreational marine market is forecast to grow sharply in the coming years. Based on a belief that recreational boats will become a part of the life style of the country's expanding middle and wealthier classes, provincial governments, property developers and boat builders are all investing heavily in this industry. Business experts estimate that the market will pick up speed after 2005, and the overall market size would reach US\$10 billion over the next decade, which will present significant opportunities for the export of U.S. pleasure boats, accessories, marina planning and construction materials.

#### Port and Sea Transportation

China is allocating a massive amount of money to port and waterway construction to meet the significant growth of freight volume. Since 2004, China has stepped up the construction of ports. China's port throughput is increasing rapidly. According to the Ministry of Communications, China's port throughput increased 21.3% to four billion tons in 2004, ranking first in the world.

China has also strengthened the container transport system. Container ports have been growing at a rate of 20 percent or more per year for over 10 years. In 2004, the total container throughput in Chinese seaports reached 61.5 million TEU (twenty-foot equivalent units), an increase of 26.4 percent. Eight ports, namely Shanghai, Shenzhen, Qingdao, Tianjin, Guangzhou, Xiamen, Ningbo and Dalian, are included among the 50 top container harbors in the world.

To facilitate increased global trade, most ports in China are emphasizing the expansion of their capacity as well as the modernization of operations. Products and technologies in high demand include Vessel Traffic Management Information Systems, laser-docking systems, terminal tractors, dredging equipment and security equipment for International Ship and Port Security Codes (ISPS).

#### Shipbuilding bases

According to the shipbuilding industry report issued by the State Council, China is embarking on major efforts to increase shipbuilding capacity. The country plans to build three major shipbuilding bases in the Bohai rim, East China Sea and South China Sea. The China State Shipbuilding Corporation (CSSC), the country's leading shipyard, began construction of the Changxing Shipbuilding Base on the Shanghai

coast in 2003. When completed in 2015, the Changxing Base will be the largest shipyard in the world with annual shipbuilding capacity reaching eight million tons.

#### Marina development

Although there are presently only a handful of marinas in China, dozens more are under construction being planned. 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 for the city's yachting industry development over the next two decades. The success of Shanghai's bid to host the 2010 World Expo will push the boat industry to develop more rapidly. The Shanghai Government has decided to build marinas and cruise ship centers along the downtown river as part of its efforts to make Shanghai into a world class city.

Other cities and areas that either have on-going marina projects, or are in the planning process, include Zhoushan, Qingdao ,Dalian, Ningbo, Beihai, Dongguan, Shengzhen and Hainan Island.

#### Deepwater Port

China is building more deep-water berths to handle the larger fifth and sixth generation container vessels. The largest project is the Yangshan deep-water port, approximately 20 miles offshore from Shanghai. The first phase was completed and put into operation at the end of 2005, adding 5 new berths and a capacity of 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 US\$10 billion. The master plan also includes a 32 KM causeway bridge (already completed), as well as a logistics park and new harbor city on the mainland.

### Resources

[Return to top](#)

#### Major shows

##### **China International Boat Show 2006 (Incorporating: China Fast Ferry & Commercial Craft Show)**

DATE: 6--9 April 2006

VENUE: Shanghai Exhibition Centre

Shanghai CMPsinoexpo International Exhibition Co., Ltd.

Tel: +86 21 64371178

Fax: +86 21 64370982

E-mail: [helenagao@cmpsinoexpo.com](mailto:helenagao@cmpsinoexpo.com) or [Angelahe@cmpsinoexpo.com](mailto:Angelahe@cmpsinoexpo.com)

Web Site: <http://www.cmpsinoexpo.com/boat/>

##### **Shipport China 2006**

DATE: October 25-28, 2006

VENUE: Dalian Xinghai Convention & Exhibition Center, China

Organizers:

China Association of the Shipbuilding Trade  
China Association of Shipbuilding Industry  
Dalian Municipal Government  
Enquiry: Dalian Xinghai Exhibitions Co., Ltd.  
EAST 14, No.18, Huizhan Road, Shahekou District  
Dalian 116023 PR China  
Tel: 0086-411-88816912 88816900 84809644 □ CHINESE □  
0086411-88816904 84809625 □ ENGLISH □  
Fax: 0086-411-84809988 84809999  
E-mail: Shiport@dxceczch.mail.sohu.net  
Website: www.shiport.com.cn

### **Marintec China 2007- the all China Maritime Conference & Exhibition**

DATE: December 2007  
VENUE: Shanghai New International Expo. Center, Pudong, Shanghai, China  
CMP Aisa, Ltd.  
Tel: (852) 2585 6124  
Fax: (852) 2827 7831  
Email: AmyLai@cmpasia.com  
Website: [www.marintecchina.com](http://www.marintecchina.com)

### **Key websites**

1. Ministry of Communication (MOC)  
[Http://www.moc.gov.cn](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](http://www.buyusa.gov/china)



## Liquefied Natural Gas Industry

### Overview

[Return to top](#)

China's natural gas supply comes entirely from domestic production, and will fall short of future demand. Imported LNG and pipeline gas will supply the difference. China National Offshore Oil Corp. estimates natural gas demand in 2020 will reach 251 bcm, of which 109 bcm will be produced domestically. Gas-price competitiveness should emerge once the government loosens its price control on coal.

The NDRC predicts China will require an investment of USD27 billion to construct its natural gas and LNG infrastructure, providing excellent opportunities for U.S. manufacturers and suppliers of LNG equipment.

The first LNG import terminal, a 3.7mmt/year facility in Guangdong (GDLNG), will import LNG from Australia's North West Shelf project. By 2010, the GDLNG's annual receiving capacity will increase to 10mmt. Australia will be one of China's major suppliers. The Chinese government has expressed a preference for LNG from Australia and Indonesia, while minimizing dependency on Qatar and other Middle East countries because of political risk.

The LNG projects will require receiving terminals, tanks, gas-fueled power plants, cycle gas turbines, and gas pipelines to transport LNG after gasification. Some projects may need to install a 100,000DWT port and a gas grid.

LNG projects will involve "upstream" and "downstream" sections. "Upstream" will require terminal and trunk line construction. "Downstream" will require LNG transportation, gas power plants, city LNG application and distribution projects, and network construction. The LNG industry chain typically includes a LNG plant, terminals, storage devices, transporting vehicles, and gasifying stations.

The development of China's LNG industry will require four specific needs: small-scale liquefying equipment, cryogenic energy utilization, key equipment in the LNG chain, and energy-saving liquefying process.

Developing the LNG industry in China is critical for diversifying China's energy structure and establishing a stable gas supply. Expanding the LNG industry in China will help develop relevant industries, such as transportation, liquefying equipment, low temperature storage, high-end pumps and valves, and trunk-line construction.

U.S. companies take the leading roles and provide advanced technologies in LNG "upstream" and "downstream" construction and development. Many Chinese end-users have favorable opinions of American products and are eager and willing to do business with the United States. China's booming LNG industry will spur demand for LNG related products, equipment and engineering services. "American" equipment has a reputation for technological excellence and quality. Innovation, automation, and precision make U.S. equipment and technology superior to that of its competitors.

**LNG Gas Power Stations**

Greater natural gas supplies will create demand for small-scale (under 5MW) industrial and commercial co-generators. While facing strong competition from the 30MW coal-fired district Combined Heat and Power (CHP) systems, there is strong market potential for small-scale, co-generators as they significantly improve energy efficiency, energy security, and the environment.

**LNG Carriers**

China will build at least 30 LNG carriers over the next 10 years to transport LNG from abroad. Several Chinese shipyards are already capable of constructing LNG carriers. Chinese officials expect Chinese shipyards to have the ability to build more than 10 carriers annually by 2015.

**Equipment:**

- Containment LNG Tanks
- Insulation systems
- Resilient blanket to reduce perlite pressure
- Cryogenic piping and insulation systems
- Recondenser
- High pressure pumps
- Vaporizers
- Vapor recovery systems
- Instrumentation & control systems
- Low temperature, low-pressure valves: ball, gate, globe and butterfly valves for LNG applications.
- Low Temperature Terminals
- Automatic welding equipment
- LNG trunk-line system
- LNG Compressors and Engines

**Equipment for Infrastructure Construction**

- Loading and discharging ports
- Jetty: Unloading arms, suspended deck
- LNG peak-shaving plant
- Equipment for trunk-line system construction

**Other Related Equipment**

- LNG transportation trucks or tank cars
- LNG gasifying stations and relevant equipment
- Small-sized natural gas liquefying equipment: for natural gas stations and LNG vehicles
- LNG cold power utilization technology and equipment
- Compressors
- Expanders

- Pumps
- Heat exchangers

### Related Materials

- 9% nickel
- Perlite for keeping low temperature
- Semi-automated UT inspection (SAUT) for 9% nickel steel

In much of the equipment listed above, U.S. LNG equipment manufacturers are especially well received in the global LNG industry due to consistently superior quality and performance.

### Opportunities

[Return to top](#)

Table I: 9 approved LNG Projects in China

Owner	Location	Capacity MTA	Status	LNG Supplier	Start Up
CNOOC 36% BP 30%	Guangdong	Phase I: 3.7 Phase II: 5.0	Construction 2 <sup>nd</sup> tank roof raised	Australia	2007
CNOOC 60% Local Gov. 40%	Fujian	Phase I: 2.6 Phase II: 5.0	Construction 1 <sup>st</sup> tank piling	Indonesia	2007
CNOOC 51% Local Gov. 49%	Ningbo	Phase I: 3.0 Phase II: 6.0	FEED under preparation	Australia	2008
CNOOC 45% ShenEnergy 55%	Shanghai	Phase I: 3.0 Phase II: 6.0	FEED under preparation	Malaysia	2008
CNPC/Local	Tangshan	Phase I: 3.0 Phase II: 3.0	Feasibility Study Report Submitted	Sakhalin 2	2008
Sinopec Shell (TBD)	Qingdao	Phase I: 3.0 Phase II: 5.0	Feasibility Study Report Submitted	Sakhalin 2/Iran	2008
CNPC/Local	Dalian	Phase I: 3.0 Phase II: 3.0	Feasibility Study Report Finished by July 05	TBD	2010
CNPC/Local	Jiangsu	Phase I: 3.0	Conceptional Planning Phase, in 5 <sup>th</sup> Year Plan	TBD	2010
Sinopec/Local	Tianjin		Conceptional Planning Phase, in 5 <sup>th</sup> Year Plan	TBD	2010

Table II: 8 LNG Projects under Pending Approval

Owner	Location	Capacity MTA	Status	LNG Supplier	Start Up
CNOOC	Shantou			TBD	After 2010
CNOOC Local Gov.	Liaoning	Phase I: 3.0		TBD	After 2010
CNOOC	Wenzhou			TBD	After 2010
CNOOC	Hainan			TBD	After 2010
CNOOC	Zhuhai			TBD	After 2010
CNOOC China National	Qinhuangdao	Phase I: 2.0 Phase II: 3.0		TBD	After 2010
CNOOC	Yancheng, Jiangsu Province			TBD	After 2010
CNPC	Guangxi Province			TBD	After 2010
CNPC	Lianyungang, Jiangsu Province			TBD	After 2010

## Resources

[Return to top](#)

### Major Shows:

#### **The 5th China (Shanghai) International Gas Technology & Equipment Exhibition 2006**

Date: TBD, 2006

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: TBD, 2006

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 2006**

#### **The China International Petroleum & Petrochemical Technology and Equipment Exhibition**

Date: April 3-5, 2006

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](mailto:ling.wang@mail.doc.gov)  
Website: <http://www.cippe.net>

### **Expec 2005**

#### **China International Industrial Explosion-proof Products Exhibition**

Date: April 5-7, 2006  
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](mailto:zwzlbj@163bj.com)

### **CIGUE2005**

#### **The China International Gas Utility Technological Equipment & Instrumentation Exhibition**

Date: October, 2006  
Venue: Shanghai Ever bright Exhibition Center  
Contact: Mr. Wang Zong Po  
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Email: [cippe@163.com](mailto: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/>  
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Liu Yang

## Power Generation

### Overview

[Return to top](#)

	2003	2004	2005 (estimated)
Total Market Size *	10,200	12,000	18,750
Total Local Production	11,840	14,213	16,913
Total Exports **	4,710	6,272	7,632
Total Imports **	3,070	4,059	4,633
Imports from the U.S. **	199	270	234

(Millions of US dollars)

Sources: \* from China Electric Equipment and Instrument Net

\*\* from customs statistics for electric power supply machinery

The total power generation capacity of China reached 500GW in 2005, an increase of 60GW from 2004, making China the second-largest power generator and the fastest-growing power generation market in the world. It took China only 19 months to increase its power generation capacity from 400GW to 500GW. 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 investment will be in power generation, while the other half will go to transmission and distribution. Currently, thermal energy comprises most (73.5%) of China's generating capacity, while hydropower provides 24.5% and nuclear power only 1.6% of total capacity. With the limited supply of fossil fuels for power generation, the Chinese government is encouraging alternative forms of power supply, such as hydropower, wind power, solar power, etc.

### Best Products/Services

[Return to top](#)

The most competitive products and services for U.S. companies will be in advanced thermal power generation (including large-capacity gas turbines, super critical and super super critical large capacity coal-fired power generation equipment, clean coal technology, and combine cycle technology), alternative power supplies (including wind, solar, 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 strong market potential for U.S. companies.

### Opportunities

[Return to top](#)

By 2020, China plans to build 30 nuclear generators of one million-kW and above, bringing the country's total nuclear capacity to 40GW.

There is also strong demand for the following products:

- 900 MW and above thermal power generating equipment, gas turbines
- 700 MW and above hydro power turbines, large-capacity pump storage units, advanced nuclear power station equipment, clean-coal technology power generating equipment
- 300 MW and above cogeneration and trigeneration units
- 600 MW and above air cooling power generation units
- Combine cycle units
- 300 MW and above circulating fluidized-bed boilers and Integrated Gasification Combined Cycle (IGCC) units
- 750 kv and above transmission lines equipment
- 1.3MW capacity and above wind turbines, thermal power plant flue gas desulphurization equipment, power industry automation equipment, power grid safety supervision and control software and equipment, and middle and high voltage capacitors.

## Resources

[Return to top](#)

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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Cui Shiyang

## **Upcoming Exhibition**

The U.S. Commercial Service will organize a U.S. Pavilion at the 11<sup>th</sup> International Exhibition on Electrical Power (EP China) from October 31 to November 3 in Beijing. Since we only have limited booths available, we welcome and encourage interested U.S. companies to contact us as soon as possible. For more information about this event, please visit the following website.

<http://www.buyusa.gov/china/en/epchina2006.html>

## Software

### Overview

[Return to top](#)

#### Packaged Software Import & Export

(USD millions)

	2003	2004	2005 (Jan.-Oct.) <sup>1</sup>	Full Year 2005 (Estimated)	2006 (Estimated) <sup>2</sup>
Total Market Size	4,915	5,598	N/A	6,380	6,960
Total Local Production	4,171	4,832	N/A	5,500	6,010
Total Exports	301.	206	121.4	150	180
Total Imports	1,045	1,076	894.4	1,030	1,130
Imports from the U.S.	243.1	229	203.1	240	264

Source of Imp & Exp data from World Trade Atlas

Source of local production: CCID Consulting

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

[Return to top](#)

China's software industry, with the considerable aid of government incentive programs, is in the midst of a period of steady growth after more than 10 years of slow development. In 2005, the sale revenue generated from sales of software in China is expected to reach US\$7 billion, an increase of 17.9%, while the IT service market is expected to reach US\$10.1 billion, an increase of 20.1%.<sup>3</sup> In 2004, China's software exports reached \$320 million, however, Chinese produced software only accounted for 3.55% of the global software market<sup>4</sup>. Foreign software still dominate the Chinese market and should continue to realize strong sales potential, especially in the high-end software market.

It is very difficult to obtain accurate and consistent market data for this industry in China. To illustrate, according to an IDC forecast, the packaged software market will reach US\$6.234 billion in 2009 with a 2004-2009 compound growth rate (CAGR) of 18.7%<sup>5</sup>. Clearly, these projections vastly understate the above CCID figures (it should be noted that CCID is connected to the Chinese Ministry of Information Industry). We highlight this difference to caution readers to thoroughly evaluate all market data available and evaluate such statistics with a 'grain of salt.'

<sup>1</sup> Actual full year 2005 figures are due to be released in March 2006

<sup>2</sup> Sources: Based on CCID projected growth rate of 17.9%.

<sup>3</sup> Sources: CCID Consulting 2005.12.

<sup>4</sup> Sources: DG Zhang Qi, Ministry of Information Industry. (Includes all software, not just packaged software)

<sup>5</sup> Sources: www.idc.com

Many software vendors have penetrated the China market relying mostly on channels and partners, especially systems integrators (SIs), and independent software vendors (ISVs) to sell their products.

## **Opportunities**

[Return to top](#)

2006 marks the first year of China's Eleven-Five Year Plan (2006-2010). The Ministry of Information Industry will draft a new plan on software development. In order to further develop the IT infrastructure in finance, telecommunication, banking, education, medical, construction, media, communication, and traditional manufacturing entities, the software market will have more opportunities not only for domestic software vendors but also for foreign entities. Furthermore, software vendors will have good opportunities in China's mobile business fields.

The application field will include financial, government, telecom and the manufacturing industries.

Application software and customized software such as ERP, CRM, middleware and open-source software will have good development in the China market. Competition in China's software market is fierce. Foreign vendors still account for about 65% of China's total software market. In the Enterprise management software market, local Chinese products accounted for 50%, however, about 90% of the system and office automation software come from foreign vendors<sup>6</sup>. High-end products such as database management systems, systems management software, networking security software, and industry application software are the fastest growing prospects for foreign firms selling into the China market.

Starting from 2003, import tariffs on software were eliminated. The Chinese government issued a number of policies ranging from export incentives, value-added tax rebates, and financial assistance for 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 State-Owned Enterprises) procure domestically produced products whenever commercially available. However, with respect to software, these regulations are still under draft; of particular ambiguity is what constitutes a "domestic" product.

## **Resources**

[Return to top](#)

INT'L SOFT CHINA 2006  
[www.softdriver.org.cn](http://www.softdriver.org.cn)

China International Software and Information Service Fair  
[www.cisis.com.cn](http://www.cisis.com.cn)

CHINA ELECOMM 2006  
May 23 – 26, 2006  
Shanghai Ever bright Convention & Exhibition Center, Shanghai

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<sup>6</sup> Sources: [www.enet.com.cn](http://www.enet.com.cn)

## Telecommunications Market

### Overview

[Return to top](#)

	2003	2004	2005 <sup>7</sup>
Total Market Size	35,165	31,662	28,635
Total Local Production	40,833	46,385	56,589
Total Exports	20,420	34,476	48,936
Total Imports	13,950	18,055	20,982
Imports from the U.S.	998	916	848

Sources of Data: Chinese Customs, China's Ministry of Information Industry, World Trade Atlas, China's Ministry of Information Industry

China's 11<sup>th</sup> Five Year Plan starts in 2006. In the coming five years, the Chinese government expects the telecom service industry to grow at an average annual growth rate of 10% and the revenue generated by the telecom service industry to reach USD 114 billion by 2010. Also by 2010, the number of telephone users is expected to reach 1,000 million and Internet users to reach 200 million. Telephone service is expected to be available in each and every village in China by the end of 2010.

In 2006, 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 30 million fixed line telephone subscribers and 48 million cellular phone users. MII expects the penetration rate of fixed line telephone to reach 29% by the end of 2006 and a penetration rate for mobile communications of 34%. It is likely that the number of telephone users could reach 800 million by the end of 2006. With such an investment, Chinese telecom carriers expect to generate revenues of \$87.5 billion, 10% more than that in 2005.

Chinese telecom carriers continued their efforts in 2005 to try out the 3<sup>rd</sup> generation (3G) of mobile communications technologies: CDMA2000, WCDMA and TD-SCDMA. The Chinese government is holding back issuing 3G operating licenses for three main reasons---1) a lack of a successful business model worldwide; 2) home-grown TD-SCDMA is not yet mature; and 3) the expectation for lower royalty fees for local telecom manufacturers. With the deployment of 3G communications network, the Chinese government wishes to change the current market competition structure, in which European and North American companies are dominant players and help local Chinese manufacturers to gain a larger market share. On December 29, 2005, MII announced that 3G would be deployed in 2006.

### Opportunities

[Return to top](#)

<sup>7</sup> Note: For the purpose of comparison, the figures in this table are from the January-October period of each year. The total local production in 2005 is an estimation made by U.S. Foreign Commercial Service.

### **Mobile Communications**

The two current Chinese mobile operators, China Mobile and China Unicom, will continue to expand their mobile networks in 2006 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.

The reported reorganization of the telecom industry before the issuance of 3G licenses has been under discussion for one year. It is believed that there will be more than two mobile communications carriers when China issues 3G licenses, possibly in the second half of 2006. China's 3G market has huge potential for US companies selling telecom hardware and services.

### **Value-added Services**

Both Chinese fixed line and mobile telecom operators are changing their development strategies. They are moving from infrastructure builders to service providers. They will utilize their resources to not only build the infrastructure but also develop more services, value-added services in particular, so as to generate more revenues and remain competitive in the market. The Chinese consider any platforms, applications, or ideas that can help increase revenue/productivity and enable offer customers differentiated services attractive. They are increasingly open to partnerships with other service/solution providers. For more information, please refer to "Telecommunications Service Market in China" a [http://www.buyusainfo.net/docs/x\\_8516024.pdf](http://www.buyusainfo.net/docs/x_8516024.pdf)

### **Online Gaming/Mobile Gaming**

Chinese fixed line telecom operators will continue to work with their business partners, online gaming operators, and ISPs/ICPs, to provide online games and mobile games in 2006. The gaming content market is one that proves to be lucrative for foreign companies that can provide localized and customized content. 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.

### **IP and Broadband**

Chinese fixed line telecom operators, China Telecom, China Netcom and China TieTong increased their input in IP and broadband infrastructure. In September 2005, the MII approved China Telecom to conduct PC-to-Phone trials (which is SIP-based and known in China as Web Phone Service) in Shenzhen city of Guangdong Province and Shangrao City of Jiangxi Province, while China Netcom was cleared for trials in Changchun city of Jinlin Province and Tai'an city of Shangdong Province. The fixed line operators may seek to expand their services to more regions. Using their broadband infrastructure, the telecom carriers would like to develop more services including IPTV, multi-party calling and multi-media communications, etc.

### **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 integrating TETRA-based digital trunking systems with their existing analogue

systems. The Chinese government requires all counties and cities to build their own integrated emergency responding system by the end of 2006. Without investment from the central government, local governments will have to either build a brand new system or upgrade their existing system. Given their long-standing experience and know-how, U.S. companies can expect strong demand for database software, interoperability consoles, and data management systems.

## **Resources**

[Return to top](#)

### **Major Show**

#### **CHINA ELECOMM 2006**

May 23- 26, 2006

Shanghai Everbright Convention & Exhibition Center, Shanghai

ITU Telecom World 2006

December 4-8, 2006

Asiaworld-Expo

Hong Kong, China

<http://www.itu.int/WORLD2006/>

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[Liu Yang](#)

## **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>

China Tietong  
<http://www.chinatietong.com>

ChinaSat  
<http://www.chinasatcom.com>

## Water and Wastewater Treatment

### Overview

[Return to top](#)

	2002	2003	2004	2005
Total Market Size	14,085	16,840	19,377	22,313
Total Local Production	10,224	11,800	13,565	15,600
Total Exports	360	523	585	643
Total Imports	4,221	5,563	6,397	7,356
Imports from the U.S.	422	556	639	735

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

\* China's environmental protection industry is growing at approximately 15 percent annually during the past several years.

### Best Products/Services

[Return to top](#)

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 environmental impacts. In recent years, China has seen a significant improvement in its water and wastewater infrastructure, but there is still an annual water shortage of 30 - 40 billion cubic meters. Among the 669 cities in China, nearly 400 cities suffer from inadequate water supply, among which 110 cities, including Beijing, Shanghai and Dalian, suffer from severe water shortage. In the wastewater treatment sector, the official municipal wastewater treatment rate was only 45.7% at the end of 2005. According to a report released by Chinese Ministry of Construction, as of June 2005, there are still 297 cities in China which do not have any wastewater treatment facilities.

The water and wastewater treatment industry has been considered a public service 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 the squandering and pollution of large amounts of water a scarcity of capital for the construction, renovation, operation, and maintenance of water and wastewater infrastructures or facilities. The Chinese Government has realized this and is determined to reallocate resources by introducing market mechanisms in the water supply and wastewater treatment sector. In April 2005, the Chinese government issued the National Water-saving Technology and Policy Guideline which is aimed at promoting development and application of water-saving technology, and improving water usage rate to achieve sustainable unitization of water resources. Water tariff and wastewater treatment fees are rising to a rational level and public water infrastructure has been opened to foreign and non-state owned capital financing.

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, which provide technology and equipment supply, and long-term investment opportunities for foreign enterprises. It is anticipated that the following technology and associated technology transfer needs and product demand will provide U.S. companies the most opportunities:

- 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.

## **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 will be spent on 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, wastewater treatment projects will be implemented in Hubei, Sichuan, Guizhou, Yunnan Provinces and Chongqing Municipality. From 2006 to 2010, 146 projects with the total budget of US\$0.93 billion will be conducted. According to a recent report dated December 30, 2005, China plans to build 20 more sewage disposal plants in the Three Gorges Reservoir area in central Hubei Province on the Yangtze River to further improve water quality in the reservoir. These projects will be built in Zigui, Xingshan, Badong, Yuan'an, Enshi and Lichuan counties. Meanwhile, the province will build 20 garbage-processing plants in the next five years with an additional daily handling capacity of 1,000 tons.

### **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.

**Updated bidding projects can be found at:**  
[www.chinabidding.com.cn](http://www.chinabidding.com.cn)

**Resources**

[Return to top](#)

**Major shows:**

**Pollutec 2006**

***(U.S. Department of Commerce Certified Show)***

Date: March 8-10, 2006

Venue: Intex Shanghai, China

Contact: Stellar Chu, American Consulate General in Shanghai

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Or Eden Chow of Reed China

Tel: +86-21-63614450 x 120

Email: [eden.chow@reedexpo.com](mailto:eden.chow@reedexpo.com)

Web: [www.pollutec-china.com](http://www.pollutec-china.com)

**Water Expo China 2006**

***(U.S. Department of Commerce Certified Show)***

Date: April 26-29, 2006

Venue: Beijing Agriculture Exhibition Center, China

Contact: Liu Yan, Yang Fan

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Fax: +86-10-63202037

Email: [liyuan@mwr.gov.cn](mailto:liyuan@mwr.gov.cn)

Or E.J. Krause & Associates, Inc.,

Contact: Kong Qingtang, Ding Huiqun

Tel: 010-84511832

Fax: 010-84511829

Email: [ejk@public3.bta.net.cn](mailto:ejk@public3.bta.net.cn)

Web: [www.waterexpo.cn](http://www.waterexpo.cn)

**Water, Wastewater & Water Treatment China 2006**

Date: Mar.6-9, 2006

Venue: Guangzhou International Convention & Exhibition Center

Xingang Dong Road, Guangzhou, China

Contact: Liu Yan, Yang Fa

Tel: (86-20) 8667-4011

Fax: (86-20) 8666-6409

Email: [diana.liu@mail.doc.gov](mailto:diana.liu@mail.doc.gov)

Web: [www.waterchina-gz.com](http://www.waterchina-gz.com)

**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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Olevia Yim

[Return to table of contents](#)

**Market Overview:**

China is now the world's eighth largest market for medical equipment, according to published market data, and continues to grow at a tremendous pace. The combined value of imports and exports of medical devices in 2004 was nearly \$6.1 billion, of which imports accounted for \$3.3 billion, or 54 %. Sales of high-end ticket medical equipment, much of which is imported, has been increasing by 20% per annum. Another industry source stated that China's medical equipment market topped \$6.8 billion in 2005. China's total market size is said to be growing at about 15 % per annum and has been forecasted to exceed US\$8 billion in 2006.

The top three supplier countries through 2004 include the United States, which sold \$904 million worth of equipment and captured a 27.54 % market share. Second, exports from Japan topped \$682 million and garnered a 20.78% share. Third, German suppliers grabbed 17.96% of the market with \$589 million in exports. Seven of the ten best selling producers of medical equipment in China are joint ventures and foreign-invested firms. Moreover, the leading fifty foreign and domestic firms in this industry in China account for over fifty percent of total sales and profits. Currently, Chinese end users view U.S. products as superior in quality and the most technologically advanced. China's hospitals particularly welcome medical equipment and products with high-technology content. At the same time, domestic medical device companies are consolidating, upgrading quality, and beginning to compete in medium-level technology niches.

Although the long-term outlook for American suppliers is good, the problem of redundancy in the product registration testing process and the uncertainty of the regulatory environment (centralized procurement regulations and pricing issues) will continue to have an impact upon the profit expectations for U.S. companies doing business in China.

**Resources****CHINA MED**

In 2005, the organizer reported that 451 exhibitors, including 163 foreign companies participated. National pavilions were organized by Germany, Spain, Japan and the Republic of Korea. The 18th annual international medical instruments and equipment exhibition has been certified by the U.S. Department of Commerce and will feature a U.S. Pavilion which is being organized by ChinaMed show management. For general information about this trade show and to reserve space, visit the [organizer's website](#), or contact [shuyu.sun@mail.doc.gov](mailto:shuyu.sun@mail.doc.gov).

Date: April 11-14, 2006

Venue: China International Exhibition Center  
Contact: Flora Wang, Messe Dusseldorf  
Telephone: 86-10-6510-2751  
Fax: 86-10-6517-1476  
E-mail: [chinamed@mdc.com.cn](mailto:chinamed@mdc.com.cn); [flora@mdc.com.cn](mailto:flora@mdc.com.cn)  
Website: <http://www.chinamed.net.cn/>

## **MEDTEC China**

Canon Communications LLC based in Los Angeles, U.S, will organize two MedTec China events in Shanghai and in Guangzhou in 2006. Based on the success of the certified trade fair in Shenzhen, China in 2005, and its five medical design and manufacturing shows in the U.S. and Europe, the show organizer expects to recruit over 200 U.S. and European exhibitors to participate in the Shanghai event. Local manufacturers will have access to hundreds of leading medical OEM suppliers from around the globe providing a vast array of equipment, materials, and services. In addition to a major exhibition, MEDTEC China will also feature a conference with presentations by CAMDI, the State Food & Drug Administration (SFDA), and U.S. FDA. For general information about these trade shows, For general information about this trade show and to reserve space, visit the [organizer's website](#) or contact [Lynn.Jiao@mail.doc.gov](mailto:Lynn.Jiao@mail.doc.gov) (Shanghai) or [Shuquan.Li@mail.doc.gov](mailto:Shuquan.Li@mail.doc.gov) in Guangzhou.

### **Shanghai**

Date: June 21-23, 2006  
Venue: Intex Center  
Contact: Kevin O'Keefe  
Telephone: 1 310 445 4200  
E-mail: [kevinokeefe@cancom.com](mailto:kevinokeefe@cancom.com)

### **Guangzhou**

Date: November 7-9, 2006  
Venue: Chinese Export Commodities Fair - Pazhou Complex  
Contact: Kevin O'Keefe  
Telephone: 1 310 445 4200  
E-mail: [kevinokeefe@cancom.com](mailto:kevinokeefe@cancom.com)

## **55th China Medical Equipment Fair (CMEF Shenzhen)**

The China Medical Equipment Fair (CMEF) was first introduced in 1979 and has become the largest event of its kind in China. The most recent Fair in Chengdu during November 1-5, 2005, featured over 1,770 exhibitors from 16 countries in 3,000 booths occupying over 77,000 M2 of exhibit space. Leading foreign exhibitors include Siemens, Philips, GE Medical, Roche, Hitachi, Toshiba, Aloka, Samsung, Fuji, Shimadzu, Kodak, Agfa, Drager, etc. CMEF attracts a large attendance of medical device distributors from across the country. A recent survey conducted by the show organizer indicated that as high as 40% of the 46,346 domestic attendees were distributors or agents. This semi-annual Fair series provides opportunities for U.S. exhibitors to identify, screen, and

evaluate prospective distributors. The organizer states that the 2006 events in Shenzhen during April 25-29, and in Zhengzhou (Oct. 31-Nov. 4) are each expected to utilize 80,000 of exhibit space. For general information about this trade show, please contact [shuquan.li@mail.doc.gov](mailto:shuquan.li@mail.doc.gov) or visit the [organizer's website](#).

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## Chapter 5: Trade Regulations and Standards

- [Import Tariffs](#)
- [Trade Barriers](#)
- [Import Requirements and Documentation](#)
- [U.S. Export Controls](#)
- [Temporary Entry](#)
- [Labeling and Marking Requirements](#)
- [Prohibited and Restricted Imports](#)
- [Customs Regulations and Contact Information](#)
- [Standards](#)
- [Trade Agreements](#)
- [Web Resources](#)

### Import Tariffs

[Return to top](#)

China's December 11, 2001 WTO accession represented a major step forward in the United States' ongoing effort to open China's market to U.S. goods and services and in China's efforts to join the world economy. 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 resulted in continued high economic growth and an acceleration in 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.

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. At the same time, China has employed its tariff reductions for 2005 on schedule.

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. Tariffs for some passenger cars, over 100 percent prior to accession, is reduced to 30% 2005 and are scheduled to be reduced to 25 percent by June 30, 2006. Following the Information Technology Agreement (ITA), China eliminated all ITA tariffs on January 1, 2005, bringing the tariffs to zero; the same figure stood at 13.3 percent prior to its WTO accession. Still, China plans to maintain high duties on products that compete with those of domestic industries the Chinese Government seeks to protect. By the end of 2005, China's tariff commitment has large come into effect; 2006 will see far fewer changes. By 2007-2008, only individual products will see a rate decline.

#### 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. Beginning on January 1, 2005, China fully eliminated import quotas except for those for the agricultural sector.

#### 3. Tariff-Rate Quotas (TRQs)

China applies TRQs to imports of wheat, barley, corn, rice, wool, cotton, sugar and fertilizer. TRQs for soy oil, palm oil, and vegetable oil have been lifted, and a single rate of nine percent tariff is now applied. 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

On December 30, 2005, MOFCOM promulgated the 2006 Catalogue for Goods Subject to Import Licensing, which supersedes the 2005 document known by the same title. Three categories of products require import licenses; they include raw materials for chemical weapons and ozone-destroying chemicals. Please refer to [www.mofcom.gov.cn](http://www.mofcom.gov.cn) for more information.

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-six 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](http://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](http://chinaonline.com), [sinolaw.com](http://sinolaw.com), and [sohu.com](http://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.

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## 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. China has promulgated regulations on direct sales distribution. In addition, China also promulgated rules that equate multi-level compensation with illegal pyramid schemes and thus restrict common business practices of many direct sales companies.

#### 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 reviewed by the State Council; it has now been passed on to the National People's Congress, which has announced that it intends to promulgate the law by during 2006.

### 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's 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. As China heads toward the December 2006 deadline to fulfill its WTO commitment, sectors to be watched include banking, architectural, engineering, and urban planning services. A word of caution, however: in some sectors, such as construction, regulatory and other barriers to access have actually increased since China's WTO accession in 2001.

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](#)

The United States imposes export controls to protect national security interests and participates in various multilateral arms control regimes to prevent the proliferation of weapons of mass destruction. The Bureau of Industry and Security (BIS) administers U.S. laws, regulations and policies governing the export and reexport of sensitive dual-use controlled commodities and technologies. "Dual-use" refers to items or technologies that have both civilian commercial and military applications. BIS implements U.S. export controls on "dual use" and commercial items. Other agencies regulate more specialized items, for example; the U.S. Department of State administers U.S. export control regulations covering defense items and services that appear on the U.S. Munitions List. Additional information on export controls and BIS, including the Export Administration Regulations (EAR), can be found on the internet at [www.bis.doc.gov](http://www.bis.doc.gov).

The primary goal of BIS is to protect U.S. national security interests and promote economic and foreign policy objectives. BIS also enforces antiboycott laws, coordinates with U.S. agencies and other countries on export control, nonproliferation and strategic trade issues, and assists U.S. exporters in complying with export control regulations, international arms control agreements and export licensing procedures. The Office of Exporter Services provides information on BIS programs, offers seminars on complying with the EAR and licensing requirements and procedures, and presents an annual Update Conference as an outreach program to industry. The Office of Export Administration processes applications to license exports, reexports and deemed exports (technology transfers to foreign nationals in the United States). The Office of Export Enforcement is staffed with approximately 100 Special Agents and investigates illegal transfers of dual-use goods and technologies. BIS Special Agents are also posted as attaches (Export Control Officers) in Beijing, Hong Kong, New Delhi, Moscow and the United Arab Emirates.

A license requirement is imposed on the export and reexport of certain commodities and technologies controlled for dual-use purposes to end-users in China. In some cases, an end-use check, which can take the form of either a Pre-License Check (PLC) or Post-Shipment Verification (PSV), is also required. During the 2004 Joint Commission on Commerce and Trade, BIS signed an Exchange of Letters on End-Use Visit Understanding (EUVU) with the Chinese Ministry of Commerce. This Exchange of Letters establishes procedures for arranging end-use visits in China and for these visits to be conducted jointly by MOFCOM and the BIS Export Control Officer. The EUVU requires U.S. exporters to obtain an end-user certificate from MOFCOM as part of the license application process. Information on end-user certificates can be obtained from MOFCOM, Department of Science and Technology, Export Control Division I.



Implementation of the EUVU helps ensure that the intended recipients of U.S. exports of controlled dual-use items are using these commodities for their intended purposes and facilitates licensing determinations.

In 1990 the U.S. Congress passed P.L. 101-246, commonly referred to as the “Tiananmen Sanctions”, which restrict the export and reexport of crime control and crime detection equipment and instruments listed in the EAR to China’s police agencies. The Tiananmen Sanctions also prohibit the export of commodities on the U.S. Munitions List. These restrictions apply regardless of the end-user in China and the sale of these items to third parties as a means of circumventing the Tiananmen Sanctions is also prohibited. A Presidential waiver may be required for certain exports and the waiver must include a certification that the specific proposed export would not be detrimental to interests nor substantially contribute to improving China’s military, space launch or missile capabilities or weapons development programs.

High Performance Computers meeting a threshold of 190,000 Millions of Theoretical Operations per Second (MTOPS) are subject to license requirements when exported and reexported to China. Additionally, the National Defense Authorization Act (NDAA) requires BIS to conduct Post-Shipment Verification end-use checks on High Performance Computers shipped to certain countries including China. Additional information on regulations applying specifically to the export of High Performance Computers to end-users in China can be found on the BIS website.

Exporters are urged to check lists identifying specific end-users (persons, companies and entities) that are under U.S. government sanctions or for whom export licenses may be required. Information on these lists, which include the Entity List, Unverified List, Denied Persons List, Specially Designated Nationals List and Debarred List, is available on the BIS website at [www.bis.doc.gov](http://www.bis.doc.gov). In some cases exports and reexports to parties named on these lists may be prohibited and U.S. exporters who engage in transactions with listed parties may themselves become subject to administrative and criminal penalties. Additionally, the U.S. Department of State also imposes sanctions relating to proliferation of weapons of mass destruction and arms control. On June 28, 2005, President Bush signed Executive Order 13382, which amended E.O. 12938 by providing sanctions against entities that finance and support proliferation activities. On December 23, 2005, the Federal Register published the names of seven Chinese entities that have been sanctioned under this Executive Order. Chinese entities have also been sanctioned pursuant to the Iran Nonproliferation Act of 2000 (P.L. 106-178), Iran-Iraq Arms Nonproliferation Act of 1992, and Executive Order 12938, as amended (E.O. 13094, E.O. 13882). Additional information on these sanctions can be found on the State Department website at [www.state.gov/t/np](http://www.state.gov/t/np) or through the Bureau of International Security and Nonproliferation (ISN).

The “Unverified List” names companies for whom BIS have been unable to conduct Pre-License Checks or Post-Shipment Verifications. The list notifies U.S. exporters that involvement of a listed person or company as 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 or company is party. The Unverified List can be viewed on the BIS website at [www.bis.doc.gov](http://www.bis.doc.gov).

U.S. exporters can obtain information about regulations that may apply to the sale of their goods to China by requesting an advisory opinion from BIS. The advisory opinion will provide information on commodity classification as well as any applicable restrictions on exporting to China. Information on advisory opinions, commodity jurisdiction, commodity classification and export licenses can be obtained through the BIS website at [www.bis.doc.gov](http://www.bis.doc.gov) or by contacting the Office of Exporter Services:

Washington, D.C.	tel: (202) 482-4811	fax: (202) 482-3322
Western Regional Office	tel: (949) 66-0144	fax: (949) 660-9347

Information about U.S. export controls on “dual-use” commodities and technologies can be obtained from the BIS Export Control Officer at the Foreign Commercial Service, U.S. Embassy Beijing, tel: (86)(10) 8529-6655 ext 810 or fax: (86)(10) 8529-6558.

The U.S. Department of State, Office of Defense Trade Controls administers the International Traffic in Arms Regulations (ITAR) under the Arms Export Control Act (AECA). This office regulates the export of items on the U.S. Munitions List including satellites and related technologies. Information on U.S. Department of State export licensing procedures can be found at [www.pmdtc.org](http://www.pmdtc.org) or at tel: (202) 647-1817. The point of contact of U.S. Department of State licensing issues at the U.S. Embassy Beijing is the Economic Section, tel: (86)(10) 6532-3831 or fax: (86)(10) 6532-6422.

## **Temporary Entry**

[Return to top](#)

### 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.

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.

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.

## Customs Regulations and Contact Information

[Return to top](#)

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](http://www.customs.gov.cn)

## Standards

[Return to top](#)

- [Overview](#)
- [Standards Organizations](#)
- [Conformity Assessment](#)
- [Product Certification](#)
- [Accreditation](#)
- [Publication of Technical Regulations](#)
- [Labeling and Marking](#)
- [Contacts](#)

## Overview

[Return to top](#)

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

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 21,342 national standards as compiled by the end of 2004, of which about 3,045, or 14 per cent, are mandatory. These mandatory standards are known as Guojia Biaozhun or GB standards, are generally related to safety or quality, and are required of both domestic and imported products. Second, for products in 139 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.

## **Standards Organizations**

[Return to top](#)

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.

SAC has overall management responsibility for standards development in China and supervise the standards development work of approximately 264 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 academia.

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.

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 China National 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, 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.

The China Compulsory Certification (CCC) Mark is China's national safety and quality mark. The mark is required for products in 139 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 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 \$5,000 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/cccguid.htm>. The Department of Commerce has also sponsored CCC Mark Seminars in cities across the U.S. Contact the China Desk of the Department of Commerce, International Trade Administration 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 WTO members of all technical regulations that impact trade and diverge from existing international standards. China's designated notification authority, the Ministry of Commerce, gives notice of proposed standards, technical regulations, and conformity assessment procedures, as required by the TBT Agreement. Almost all of these provided TBT measures have come from AQSIQ however, and have not included measures that other agencies should make available. 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](mailto:tbt@aqsiq.gov.cn)  
<http://www.tbt-sps.gov.cn>

### **Labeling and Marking**

[Return to top](#)

As noted in the 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 (AQSIQ) 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 registered in the country.)

## **Contacts**

[Return to top](#)

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## **Trade Agreements**

[Return to top](#)

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 WTO. The Protocol on the Accession of the People's Republic of China, and the Report of the Working Party on the Accession of China, signed by China and other WTO members, have become part of the Marrakesh Agreement that established the World Trade Organization. Any trade agreement, signed by China and (an) other country/ies, should be in accordance with the rights and obligations enumerated 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.

## **Web Resources**

[Return to top](#)

Ministry of Foreign Affairs  
[www.fmprc.gov.cn](http://www.fmprc.gov.cn)

National Development and Reform Commission  
[www.sdpc.gov.cn](http://www.sdpc.gov.cn)

Ministry of Education  
[www.moe.edu.cn](http://www.moe.edu.cn)

Ministry of Science and Technology  
[www.most.gov.cn](http://www.most.gov.cn)

Commission of Science Technology and Industry for National Defense  
[www.costind.gov.cn](http://www.costind.gov.cn)

The Ministry of Public Security  
[www.mps.gov.cn](http://www.mps.gov.cn)

Ministry of Justice  
[www.legalinfo.gov.cn](http://www.legalinfo.gov.cn)

Ministry of Finance  
[www.mof.gov.cn](http://www.mof.gov.cn)

The Ministry of Land and Resources  
[www.mlr.gov.cn](http://www.mlr.gov.cn)

Ministry of Construction  
[www.cin.gov.cn](http://www.cin.gov.cn)

Ministry of Communications  
[www.moc.gov.cn](http://www.moc.gov.cn)

Ministry of Information Industry  
[www.mii.gov.cn](http://www.mii.gov.cn)

Ministry of Agriculture  
[www.agri.gov.cn](http://www.agri.gov.cn)

Ministry of Water Resources  
[www.mwr.gov.cn](http://www.mwr.gov.cn)

Ministry of Culture  
[www.ccnt.gov.cn](http://www.ccnt.gov.cn)

Ministry of Commerce  
[www.mofcom.gov.cn](http://www.mofcom.gov.cn)

Ministry of Health  
[www.moh.gov.cn](http://www.moh.gov.cn)

State Administration For Industry & Commerce  
[www.saic.gov.cn](http://www.saic.gov.cn)

Customs General Administration  
[www.customs.gov.cn](http://www.customs.gov.cn)

State Environmental Protection Administration of China  
[www.sepa.gov.cn](http://www.sepa.gov.cn)

State Intellectual Property Office  
[www.cpo.cn.net](http://www.cpo.cn.net)

General Administration of Quality Supervision, Inspection and Quarantine  
[www.aqsiq.gov.cn/cms/template/index.html](http://www.aqsiq.gov.cn/cms/template/index.html)

Standardization Administration of the People's Republic of China  
[www.sac.gov.cn/home.asp](http://www.sac.gov.cn/home.asp)

Certification Accreditation Administration  
[www.cnca.gov.cn](http://www.cnca.gov.cn)

State Food and Drug Administration  
[www.sfda.gov.cn](http://www.sfda.gov.cn)

China Special Equipment Inspection and Research Center  
[www.csei.org.cn/csei](http://www.csei.org.cn/csei)

## Chapter 6: Investment Climate

- [Openness to Foreign Investment](#)
- [Conversion and Transfer Policies](#)
- [Expropriation and Compensation](#)
- [Dispute Settlement](#)
- [Performance Requirements and Incentives](#)
- [Right to Private Ownership and Establishment](#)
- [Protection of Property Rights](#)
- [Transparency of Regulatory System](#)
- [Efficient Capital Markets and Portfolio Investment](#)
- [Political Violence](#)
- [Corruption](#)
- [Bilateral Investment Agreements](#)
- [OPIC and Other Investment Insurance Programs](#)
- [Labor](#)
- [Foreign-Trade Zones/Free Ports](#)
- [Foreign Direct Investment Statistics](#)
- [Web Resources](#)

### A. Openness to Foreign Investment

[Return to top](#)

China maintained its position as one of the world's top destinations for foreign direct investment (FDI), adding \$60.325 billion for a cumulative total of \$622.426 billion through the end of 2005. FDI growth in 2005 slowed markedly, but still matched its previous year's record-breaking total. New U.S. direct investment in China reached \$3.060 (3.941 billion 04 figure), 22% short of its 2004 total, but still accounted for 5.0% of China's total FDI intake behind Hong Kong, the British Virgin Islands, Japan, and South Korea as the fifth largest investor in China in 2005. Foreign-invested enterprises contribute to a disproportionately large part of China's economy, accounting for 27% of value-added production, 20% of national tax revenue, and over 58% of foreign trade.

#### Origins of FDI to China

On a cumulative basis through the end of 2005, the United States ranks third with \$51.090 billion (based on Chinese statistics) invested after Hong Kong's \$259.523 billion. Prior to China's WTO entry in 2001, many international firms allied with Hong Kong companies to gain access to the China market, which partially explains its place at the top of the "foreign" direct investment rankings accounting for 42% of the cumulative total. 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 Greater China, although China's weak rule of law, lack of transparency, and

cumbersome approval processes on currency convertibility continue to present problems for many investors, regardless of investment form, origin or destination within China.

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 2005, new FDI nominally from these three tax haven economies accounted for 20.0% of total FDI. The ultimate origin of this FDI is unclear, but anecdotal information suggests that it includes investments from corporations headquartered in the economies of the Organization of Economic Cooperation and Development (OECD), Taiwan, and even China itself. The first notable upsurge 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 reported FDI in China is ultimately Chinese funds returning in the guise of foreign investment to take advantage of FDI incentives.

### **From Opening to the WTO**

China's potential market of over 1.3 billion people and its now 26-year run at reform and opening of the economy undergird its ability to attract investment. In the last two decades, China's economic landscape has changed dramatically transitioning from a planned economy to a more market-based system. 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, while leaving China's service sector highly underdeveloped. According to some Chinese officials, the service industry in China is roughly over a third of gross domestic product (GDP), while in the United States that figure is about 70%. Those officials now recognize the need to develop the services sector in China.

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. As part of its accession to the WTO, China also committed to granting national treatment to economic actors of other WTO member economies. Not all of the thousands of government officials understand this concept, however, and implementation is likely to pose periodic problems. In addition, WTO national treatment rules aim to eliminate discrimination against imported goods and do not apply fully to investment. China is conducting training programs to educate central and local government officials on China's WTO obligations.

New laws, regulations, and administrative measures aimed at implementing general and sector-specific WTO 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. Not all central government agencies and even fewer local authorities fully embrace WTO principles. Moreover, 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. Prospective U.S. investors will want to examine carefully the particulars of new measures as they emerge. Chinese authorities rarely exceed the commitments made in China's WTO accession agreement, and move cautiously, if at all, in remaining non-covered areas.

Chinese society is in transition from rule by man to rule of law, and the WTO has helped chart a course to a more transparent, rules-based trade and investment environment. Nevertheless, enforcement of economic laws, especially those concerning intellectual property, continues to be weak and inconsistent, which affects every aspect of business and investment in China.

### **Recent Trends**

FDI has surged in the past few years bolstered by China's WTO accession and subsequent gradual improvements in the trade and investment environment. The American Chamber of Commerce in China (AmCham) reported that for the third year in a row since China's WTO accession, more than two-thirds of its member companies had profit levels at or above their worldwide margins. In 2005, of the firms responding to AmCham's annual Business Climate Survey, 62 percent indicated presence in China to serve the local market, 20 percent to export to the United States and other markets, 11 percent to export to China, and 5 percent to serve as a regional headquarters. AmCham's surveys of the past two years show that many of the top business challenges are related to the arbitrariness and lack of clarity and transparency of China's regulatory environment, although they also find that the situation is improving. Beyond the regulatory environment, AmCham members reported for the first time that their top challenge is in attracting, developing and retaining management level human resources. Other challenges included "dealing with corruption" and "difficulty enforcing contracts." Local protection entered the list for the first time and AmCham companies felt this area had deteriorated compared to 2004. (The annual AmCham White Paper can be found on [www.amcham-china.org.cn](http://www.amcham-china.org.cn).)

Despite the increasing openness in the economy, state economic planners tend to fall back on the blunt instruments of regulatory control rather than on market mechanisms to achieve economic targets in the economy. Such rules can interfere with foreign investments. Throughout 2004 and carrying into 2005, state planners hoping to achieve "macroeconomic balance" employed sector-specific regulatory controls in an attempt to cool what many considered to be an overheated economy that has been growing at over 9% annually. In July 2005, state planners issued steel regulations to curb what they considered rampant, unhealthy growth of steel manufacturers. The rules aimed to block import of older technology by requiring new proprietary steel technology as a condition for investment approval. The policy also announced the goal of consolidating the industry and specified the maximum number of competitors envisioned. Furthermore, investment threshold requirements are set higher for foreign investors, for example, by requiring them to have full intellectual property rights on their iron and steel products. Despite this and many other administrative measures to limit certain overheated sectors, including real estate and construction, foreign investment kept pace with previous levels while domestic investment continued to reach new heights.

Periodically, Chinese leaders restate the general policy direction of the Chinese Government to remain open to foreign investment. The draft 11<sup>th</sup> 5<sup>th</sup> Year Economic Plan for 2006-2010 features language that restates China's welcome to foreign investment. Nevertheless, the situation is dynamic. Interest groups, officials and certain economic agencies became more vocal in 2005 regarding what they considered ills of foreign investment and raised questions of whether China has benefited fully from FDI. Some of these concerns include the over-reliance on FDI in China's foreign trade, continued weak FDI interest in the less-developed western and northeastern provinces, lack of technology transfer and "round tripping" of domestic money re-entering China disguised as foreign investment to take advantage of FDI incentives. Such discussions have permeated internal government discussion on whether to continue special treatment for foreign investors including the proposal of equalizing tax rates between foreign and domestic firms. These discussions have extended to the question of whether the government should protect certain intellectual property rights of foreigners or force compulsory licensing. At the same time, Chinese policies continue to encourage foreign companies to locate research and development centers in China and transfer technology. Many Chinese localities have also continued to review technology transfer contracts and seek changes to commercial terms, despite China's commitments to only register such contracts and not provide substantive examination. Some have advocated that anti-monopoly legislation, now under consideration, should attack dominant market positions enjoyed by certain foreign multinational companies. At the same time, state economic planners also have expressed their desire to see Chinese national champions in major sectors.

Another 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, a government agency, dashing hopes of the development of a completely independent voice for local industry. However, industry associations increasingly downplay formal ties with the government, but tout their close informal relationships as an effective channel to present business concerns to the benefit of their member companies. Some foreign observers are concerned that membership restrictions against FIEs could exclude foreign companies from the self-regulatory and standards setting functions these business groups aspire to carry out. Participation of foreign firms depends on the individual charter of each association. Moreover, foreign standards setting organizations and other NGO's, such as those involved in intellectual property protection usually have a highly restricted scope of operation and may be limited to a "representative office" rather than receive a full business license to conduct their operations in China.

## **Investment Structure**

Types of Foreign Enterprises in China: Foreign direct investment may flow to China through wholly foreign-owned enterprises (WFOEs), joint ventures (JVs), or contractual joint ventures (CJVs). Among the three main investment vehicles available to foreign investors, WFOEs are currently the most popular. New registrations of WFOEs exceeded that of joint ventures (JVs) for the first time in 2000. WFOEs accounted for 73.4% of projects approved in 2005. By value, WFOEs represented 71.2% 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. (See Section F for more details on investment vehicles.)

Encouraged versus Restricted Investment: China attempts to guide foreign investment towards "encouraged" industries and regions. Over the past eight years, China has implemented new policies introducing incentives for investments in high-tech industries and in the central, western and northeastern parts of the country in order to stimulate development in those areas. China designates sectors in which foreign investment is encouraged, restricted or prohibited through the "Catalogue for the Guidance of Foreign Investment Industries." 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 (VAT) rebates on inputs. 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. A new "Catalogue of Foreign Investment" took effect January 5, 2005, replacing the April 2002 catalogue.

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. Specifically, that catalogue provided for the removal of the existing mandated Sino-joint venture requirement for foreign investment in China's retail, wholesale, franchise and commission agency sectors by December 2004. As part of the fulfillment of this promise, on April 2004 the Ministry of Commerce introduced regulations that considerably liberalized the distribution services sector, though actual implementing regulations were delayed many months afterwards. 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. While the catalogues lift restrictions on paper, American businesses complain that government officials in practice continue to consider such factors as local content and potential impact on domestic competitors when deciding whether to approve projects or recommend bank loans from Chinese policy banks to foreign investors. A copy of the Catalogue for the Guidance of Foreign Investment Industries, as well as other relevant laws and regulations, can be found on [www.fdi.gov.cn](http://www.fdi.gov.cn) in the Laws/Investment Direction section.

With the exception of real estate, investment in the service sector has been well behind that in the manufacturing sector, mainly due to Chinese Government restrictions. The ratio of manufacturing to service investment should continue to shift over the coming several years as China phases out current barriers to foreign access in more service industries as part of its WTO accession agreement. FDI in the banking and insurance sectors has surged in the past two years, 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.

In other 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 minimally under WTO,



collectively received only \$58 million in FDI 2003. New sectors or sectors scheduled for further opening to foreign participation by December 2006 include insurance, banking, architecture, engineering, urban planning and retailing of chemical fertilizer. Those scheduled for December 2007 include telecommunications and professional taxation services.

New FDI in China continues to flow overwhelmingly to the manufacturing sector, which accounted for nearly 71% of FDI in 2004. 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, industrial clusters have cropped 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.

FDI distribution in China also has been uneven. The vast majority of FDI is directed to China's coastal provinces. From 1979 through 2004, 86.25% 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 and cities with the rank of province: Guangdong, Jiangsu, Fujian, Shanghai and Shandong. 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.

While Western China has seen lower overall FDI than eastern and coastal areas, the situation has started to change in some areas. The "Great Western Development" campaign outlined in the 10th five-year plan (2001-05) included a variety of provisions for increased investment in Western China. In the early years of the plan, provincial and local governments in western areas often tried to steer prospective investors toward struggling state-owned enterprises (SOEs) in the hopes of saving large numbers of jobs. Many prospective foreign investors were driven away by highly unattractive business propositions and by over-inflated values of available SOEs. Potential investors also struggled with Western China's higher logistics costs, lack of attractive export routes, and less developed domestic consumer market segments. Due to these limitations, Western China only accounted for 4.59% of cumulative FDI by the end of 2004.

In recent years, however, an increasing number of foreign companies are looking to Western China when considering investment opportunities. Intel's investment in Chengdu alone totals almost one half billion U.S. dollars. As wages and costs in China's coastal areas continue to increase, foreign investors see Western China as potentially able to offer higher growth and returns. Over the past five years Sichuan Province and Chongqing Municipality have been especially successful in attracting significant amounts of foreign investment. Sichuan has the highest rate of FDI of all provinces in Western

China, 72.1% of which is from the United States. Since 2001, forty-eight Fortune 500 companies have invested in Sichuan, including high-tech giants such as Intel and Motorola. In the same period, twenty-four Fortune 500 companies entered Chongqing, including Ford Motor Company and Liberty Mutual.

The business environment in Western China is still less sophisticated and transparent than in China's coastal areas. Furthermore, Sichuan's track record for quickly resolving commercial disputes continues to draw concern. Despite these issues, Sichuan and Chongqing's talented labor pool, lower labor costs, lower real estate costs, and vastly improved infrastructure have started to lure foreign investors to the region. As a result of these developments, Southwest China is expected to see a steady increase in FDI over the next five years.

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 fully assess the success of the campaign, though it has reportedly resulted in some new investments in China's automotive and food industries. Furthermore, many major cities in the northeast actively seek investors and several have websites or are designing websites to provide information on opportunities. Although starting from a relatively low base of foreign investment, the Northeast has experienced both FDI and domestic investment growth above the national average in the past two years. The 11th Five-Year Plan, announced in October 2005 and expected to be formally approved in March 2006, will set economic priorities for the 2006-2010 period. One basic tenant of the plan is to establish a "New Countryside," which emphasizes the importance of attracting investment and encouraging technological innovation in China's poorest regions. The New Countryside is a policy priority for the Central Government and aims to increase social sector spending in tandem with bolstering private sector development.

**Mergers and Acquisitions (M&A):** M&A as a channel of investment in China has potential to grow substantially. Despite the many challenges to conducting M&As in China, the volume of concluded deals has been growing. 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 (UNCTAD). According to the same source, M&A in China grew another 77% in 2004 reaching \$6.8 billion.

Over the past three 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 requirements 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 to allow foreign investment to reorganize SOEs. These reorganizations, however, require extensive approvals and full agreement of the domestic enterprise's labor union. These requirements have limited 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. 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 the State Council is preparing to submit to the China's legislative body, could pass by late-2006 or early-2007. 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.

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). A number of Chinese companies have been able to attract foreign venture capital and at least 24 firms have listed on the NASDAQ. There has been some broadening of investment options since late 2002, however, when the Qualified Foreign Institutional Investors (QFII) program allowed qualified foreign investors to purchase limited quantities of renminbi (RMB) shares in the domestic stock market. Foreign investors can even obtain state-owned shares under certain circumstances. According to Chinese official statistics, mainland companies raised \$8.0 billion through overseas equity placements in 2004, up from \$6.5 billion in 2003.

A new effort to reform China's stock markets was launched in April 2005 with a new initiative to address the non-tradable share problem (only one-third of the shares of listed companies are tradable). Although this initiative improves the chances that China's stock markets will be a significant source of capital in the future, the reform process is expected to be slow.

China encourages reinvestment of profits. A foreign investor may obtain a rebate of 40 percent 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 indicate a possible target date of 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 six 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 loopholes. In 2004, the Chinese Government also announced an average three percentage point reduction in VAT rebates for exports.

**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. Project 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 (R&D):** The Chinese government increasingly recognizes the need to encourage "independent innovation," as evidenced by recent speeches by both President Hu Jintao and Premier Wen Jiabao. The Central government provides \$2 billion in annual funding to Universities for technology research and has a \$10 billion revolving fund for basic research. GDP per capita spending on R&D has doubled from 0.65% in 2001 to 1.3% in 2005 (on an annualized basis). China currently boasts forty-four national science parks, many of them focused primarily on commercializing research developed in Chinese universities. The parks provide infrastructure,

management and funding support for start-ups across a variety of industries. The government aggressively recruits overseas Chinese to return to China to pursue their entrepreneurial dreams in the science parks. In addition, the government has established several quasi-venture capital funds to provide additional financing to high-potential, technology-based companies. The Ministry of Science and Technology's Innofund, for example, has funded over 6,000 projects since 1999 for a total of more than \$500 million. However, these funds have been criticized as an attempt by the government to "pick winners."

Despite these efforts, the political and economic structures of the old "planned economy" are still important obstacles. Lack of confidence in domestic intellectual property protections discourage Chinese companies from investing in research. Although an increasing and record number of domestic patents continue to be filed in China, most of these patents are design or utility model patents, rather than invention patents. China still lags considerably in securing patents in core commercial technologies. Patent, copyright, and trademark infringement often prevent companies from recapturing their investment in product R&D. Lack of thorough understanding of how to successfully commercialize technology has also impeded progress. 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.

Foreign companies' research and development centers in China have, until recently, typically 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. However, most companies have chosen not to transfer critical application research to China-based R&D centers due to piracy concerns. 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.

### **Basic Laws and Regulations Covering or Affecting FDI**

Laws and regulations in China tend to be more general and ambiguous than in other countries. While this approach allows the Chinese authorities to apply laws and regulations flexibly, it also results in inconsistency and confusion in application. Companies often have difficulty determining whether their activities contravene a particular law or regulation. China's top leaders undoubtedly play a major role in deciding sensitive political cases, and many foreign businesses report that Communist Party and government officials at times interfere with court decisions. China has a civil law system that includes some common law elements, although relatively less emphasis is placed on legal precedent. Courts do issue guidance on adjudication in key areas, such as technology transfer contracts or criminal judicial enforcement, through issuance of "judicial interpretations".

In China, regulations are also promulgated by a host of different ministries and governments at the central, provincial and local levels, and it is not unusual for the resulting regulations to contradict one another. Even though finalized regulations are now routinely published in China, they often leave room for discretionary application and inconsistency, either through honest misunderstanding or by design. Indeed,

government bureaucracies have sometimes been accused of selectively applying regulations. China has many strict rules that are often ignored in practice until a person or entity falls out of official favor. Governmental authorities can wield their discretionary power to "crack down" on disfavored investors, foreign or domestic, or make special demands on such investors simply by threatening to wield such power. The matter can become even more complicated at a local level, where conflicting rules, such as those governing non-compete agreements with ex-employees, can make it difficult to determine an appropriate course of conduct.

This lack of clear and consistent framework of laws and regulations can be a barrier to participation of foreign firms in the Chinese domestic market. However, the Chinese central government is currently reviewing and revising all laws, rules, regulations, and implementing regulations for consistency with new WTO commitments. One recent comprehensive government website is <http://www.fdi.gov.cn>. The site also has some English content and links to other Chinese government websites. 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.

Under the terms of its WTO accession, China agreed to designate a single official journal for the publication of all laws, regulations, and other measures affecting international trade. This obligation should also encompass many regulations affecting foreign investment. However, China has not yet fully implemented this commitment. The basic laws and regulations governing FDI in China are complex.

A summary of some of the more important of those currently in effect is provided below. For laws concerning the right of establishment, see Section F.

**Contract Law:** China's revised 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.

**Tendering Law:** Concerns over the WTO consistency of the draft tendering law led the National People's Congress, on April 9, 1999, to make a surprise announcement that it had decided to move key sections relating to government procurement into a separate law. The tendering law (which 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, the latest Government Procurement Law 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. Foreign reactions to the 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.

China agreed to join the WTO's Government Procurement Agreement (GPA) as soon as possible after accession. It has not yet done so, but at the U.S.-China Joint Commission on Commerce and Trade (JCCT) in 2005, China agreed to postpone implementation of rules on government procurement of software and further agreed to work toward joining the GPA.

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. The non-tradable share reform program provides for non-tradable share shareholders to compensate tradable "A" share shareholders; however the program does not provide for holders of "B" and "H" shares to receive any compensation as non-tradable shares are made tradable.

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 2005, 32 foreign firms had been granted QFII status, and 31 of these had received investment quotas totaling \$5.645 billion, although the CSRC has pledged to increase the quota to \$10 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. Although recent government regulations appear to limit some activities of foreign-invested venture capital firms, in practice, they may have little real effect.

Regulations and periodic updates on China's investment laws, projects and conditions can be found on MOFCOM's website: [www.mofcom.gov.cn](http://www.mofcom.gov.cn) and its affiliated website [www.fdi.gov.cn](http://www.fdi.gov.cn).

## **Conversion and Transfer Policies**

[Return to top](#)

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 (over \$818 billion by the end of 2005), 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. As authorities implemented the new regulations, bureaucratic procedures created difficulties for many foreign and domestic companies requiring hard currency to complete their transactions. On July 21, China effected a 2.1 percent revaluation of the RMB and announced that, henceforth, the value of the RMB will be allowed to float within a predetermined band around the dollar, and with reference to a basket of currencies. This move away from the dollar peg toward a "managed float" is seen as the first step in a process that should eventually allow the value of the RMB to be determined by market forces.

As for 2003, Foreign bank branches are theoretically allowed to engage in foreign currency business according to the same rules as Chinese banks. In practice, however, because the government has yet to issue regulations allowing domestic corporations to do business with foreign banks without special approvals. 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 2005, foreign banks were able to engage in local currency operations in 25 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**

[Return to top](#)

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 Foreign Relations Authorization Act.

## **Dispute Settlement**

[Return to top](#)

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. They have experienced mixed results, but generally find arbitration time-consuming and unreliable.

Most Chinese parties and standard 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. However, 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 at least one purely foreign party, offshore arbitration may be adopted and it is advisable to ensure that the contract contains a clause that names the foreign arbitration body. If CIETAC arbitration is chosen in such cases, a panel with a foreign arbitrator is also possible. (Note: Foreign JVs are considered "Chinese legal persons" under the JV Law. Since Chinese law does not allow for foreign arbitration between two Chinese legal persons, it is questionable whether a local court would consider valid a foreign arbitral award in a dispute between a Chinese entity and a foreign JV.)

Provinces and municipalities also have their own arbitration institutions. Some foreign investors have been favorably impressed with the Beijing Arbitration 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 by central authorities.

**Legal System:** 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.

China also has an extensive "administrative" legal system, which typically adjudicates more minor criminal offenses. This relatively inexpensive and informal system is extensively used to address IPR infringements, although with limited deterrent impact.

**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.

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. In December 2005, the former policy prohibiting banks from foreclosing on owner occupied residences was reversed.

## **Performance Requirements and Incentives**

[Return to top](#)

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 National Development and Reform Commission (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. 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. 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. Nevertheless, the government continues to seek transfer of technology in discussions related to approval and selection of major government contracts and projects, and occasionally slips technology requirements into new measures. This problem appears to be especially acute on a local level.

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. 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. Furthermore, the amended EJV Law provides that the joint venture partners will determine, by consultation, the Chairman and Vice-Chairman.

Investment Incentives and Programs: 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. 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. The 54 national-level SEZs accounted for over 22% of total FDI in 2004.

In recent years, SEZs have sought to enhance their autonomy while officials from inland China have pressed the central government to reduce SEZ privileges. In addition, China witnessed an explosion in growth of new "economic zones", especially in less developed provinces and cities. Many of these zones attempted to attract FDI, but did not have the authorization to deliver preferential treatment, especially national tax breaks. Central authorities began to crack down on this rampant growth of illegitimate zones in 2004. By late 2005, they had reduced by more than half the number of SEZs to around 2000. Besides the incentives for foreign investors, some SEZs have attracted both domestic and foreign investors through high-level support and services to businesses, including the streamlining of required local government approvals.

Outside of SEZs, 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.

## **Right to Private Ownership and Establishment**

[Return to top](#)

China increasingly is moving 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. Similar restrictions and limits, however, continue to exist for FIEs even though some foreign investment officials have said foreign companies would also be able to participate in selected areas. 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.

### 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.

The New Company Law: China issued an amended Company Law, effective January 1, 2006. While the new law does not appear to make dramatic changes for foreign investors, it does address several problem areas prevalent in domestic companies. These areas include increased accountability for listed and non-listed limited liability companies, strengthened independence for auditors, requirements for corporate social responsibility, ability for shareholders to seek dissolution of a company under certain circumstances, and increased protection for labor. The revisions to the Company Law make up part of a package of reform bills that government has prioritized to help reform the economy. Other such bills, all still in draft, include the Anti-Monopoly Law, Bankruptcy Law and Tax Reform.

## Protection of Property Rights

[Return to top](#)

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

An extensive "toolkit" on IPR issues is available on the U.S. Embassy website: <http://beijing.usembassy-china.org.cn/ipr.html>. The Embassy also sponsors an annual roundtable on intellectual property issues, as well as numerous other IPR activities. A number of Washington, DC agencies are also actively involved in assisting U.S. businesses in better understanding and reacting to intellectual property challenges in China. A number of these can be accessed through <http://www.stopfakes.gov>.

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 by such activities

as squatting. The vast majority of China's trademark filings, design patent and utility model filings, are from Chinese applicants. Moreover 90% or more of relevant patent, trademark and copyright administrative or civil litigation typically involves Chinese rights holders only China has also recently begun to accelerate the pace of its trademark and patent filings overseas.

Despite the increasing growth of a Chinese rights holding community, 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.

U.S. companies contemplating investing or trading in China should consider developing an appropriate strategy to protect and enforce their IP rights at an early stage in their product development or investment cycle. These strategies may include use of different technologies or business models to protect, support and identify their products. All companies should consider appropriate strategies to protect proprietary information, including utilizing appropriate non-disclosure or non-compete agreements and other procedures to keep key corporate information secure. Trademarks typically should be secured in both Chinese and English for new products or products being sold in new trademark classes at an early stage of development, typically before being released to the public. U.S. companies may wish to consider obtaining design patent protection, which is relatively inexpensive and can be used to thwart activities of "squatters." In light of the actual potential for the legitimate product, U.S. companies may wish to file counterpart patent or trademark applications in China to reduce the mounting risk of product piracy. Patent, trademark and copyrights may also be recorded at Chinese Customs to deter exports of infringing goods. Companies should be wary of assigning their rights to Chinese partners, or recording the assignments with the patent or trademark agencies unless they have fully discussed the matter with counsel. Occasionally, the most effective remedy may also be to bring litigation or other actions in the United States or other countries to which infringing products may be exported.

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, although the Chinese government has committed to drafting appropriate regulations and an accession package by mid-2006.

IPR Enforcement: Despite the 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 some 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. Protection of copyright over the Internet is an increasing challenge. 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 that confidential data they are required to submit to the relevant government agencies is compromised, leading to 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 and is drafting rules to improve the procedures for transferring cases from administrative to criminal enforcement, it remains 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 will enable police and prosecutors to try more cases.

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. Criminal IPR cases are likely to be heard in the criminal division of the courts, where the lack of expertise in intellectual property matters can be severe. Similar institutional challenges exist in other areas as well. China's police, the Ministry of Public Security, handles 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, Qinqhua 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 in courts, and other challenges. Foreign governments and U.S. companies have provided resources for training judges and 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 among the major problems in China's investment climate. The situation tends to be worse outside of historically more popular investment areas in the coastal regions. 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. However, foreign investors reported the continued use of such internal documents in 2005.

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. However, the State Council Legislative Affairs Office demonstrated stellar transparency in its processing of draft anti-monopoly legislation in 2005, providing drafts and taking on both domestic and foreign comments at several stages. It remains to be seen whether such a transparent process will be used with other upcoming draft laws.

## **Capital Markets and Portfolio Investment**

[Return to top](#)

The development of China's domestic capital markets has not kept pace with economic needs. Indeed, despite China's surging economic growth, China's stock markets have been in a prolonged slump for the past five years. Two stock exchanges have been established in Shanghai (in November 1990) and in Shenzhen in southern China's booming Guangdong Province (July 1991). 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 reform of non-tradable shares may also offer opportunities for increased foreign investment in China's stock markets in the future.

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 creating 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 three of the four large state-owned banks. As part of the reform process, these three banks have also extensively revamped their corporate governance structures in preparation for public listings on domestic and overseas stock markets. Foreign strategic investors are also being sought to introduce new management expertise. To increase market discipline, the banks are also seeking public listings on international markets.

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. 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 2005, foreign banks could undertake business in domestic currency in 25 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.

The year 2005 saw an increase in 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 usually related to perceptions of abuse of power by local officials. Local authorities have generally dealt with urban and rural protests in a peaceful manner, although in several recent cases police units or groups of non-uniformed thugs have been called in to suppress protests.

## **Corruption**

[Return to top](#)

Corruption remains widespread in China. Although the government continued to emphasize anti-corruption campaigns, these efforts are hampered by the lack of truly independent investigative bodies. Numerous senior provincial and municipal officials came under scrutiny, and the former Minister of Land and Resources was sentenced to life imprisonment for bribes. However, it is generally believed that many senior officials and their family members used their connections to avoid investigation or prosecution. Banking and finance are among the sectors most afflicted by corruption, as are government procurement and construction projects. The wide public release of the National Audit Report of the Execution of the 2003 PRC Budget in 2004 was a positive development, however. That report revealed evidence of corrupt practices, embezzlement and fiscal mismanagement within the central government. The National Audit Office has continued to aggressively inspect the accounts of state-owned enterprises and government entities in 2005.

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. Corrupt officials are first investigated by the Discipline Inspection Committee, which gathers evidence outside of the judicial process and strips the official of Party membership before handing the case over to the judicial system. The media, while increasingly active in investigating and uncovering corruption

scandals, was faced with increasingly tighter content controls in 2005 and is unable to perform a reasonable watchdog function..

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. China has participated actively in OECD and APEC anti-corruption initiatives and ratified the UN Anti-Corruption Convention in late 2005.

## **Bilateral Investment Agreements**

[Return to top](#)

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**

[Return to top](#)

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**

[Return to top](#)

**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 continue to be in short supply. Talented and highly motivated recent university graduates are abundant, but many FIEs find that they must invest heavily in remedial training to help employees develop the critical thinking and soft skills not taught by the Chinese education system. 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 east and 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. As China has reformed the housing system and begun 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, including those prohibiting child labor and discrimination in employment, it has not ratified core conventions on freedom of association and collective bargaining. 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](#)

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## **P. Investment Statistics**

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 \$41.754 billion formally recorded by China. In addition, the past few years witnessed an upsurge in investment from tax-havens, such as the British Virgin Islands (BVI) and the Cayman Islands. The ultimate origin of this FDI is unclear, but anecdotal information suggests that it includes investments from corporations headquartered in the economies of the Organization of Economic Cooperation and Development (OECD), Taiwan, and even China itself. Some researchers estimate that as much as one-third of nominally foreign direct investment in China is ultimately Chinese funds returning in the guise of foreign investment to take advantage of preferential treatment.

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 (1979-2005) (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	60,630
2005	60,325
Total	622,426

Source: National Bureau of Statistics

Note: Yearly figures do not sum exactly to total due to rounding.

Table 2 -- U.S. Utilized Foreign Direct Investment in China (1979-2005) (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
2005	3,061
Total	51,090

Source: Ministry of Commerce

Note: Yearly figures do not sum exactly to total due to rounding.

Table 3 -- China's Utilized and Cumulative Foreign Direct Investment by Selected Source Economy for 2005 and as of 2005 (In \$ millions)

	Utilized FDI	Cumulative FDI
<i>Hong Kong</i>	17,949	259,523
<i>Virgin Islands</i>	9,022	45,917
<i>Japan</i>	6,530	53,376
<i>Korea</i>	5,168	31,103
<i>United States</i>	3,061	51,090
<i>Taiwan</i>	2,152	41,756
<i>Cayman Islands</i>	1,948	8,660
<i>Singapore</i>	2,204	27,743
<i>Western Samoa</i>	1,352	5,785
<i>Germany</i>	1,530	11,439
<i>Total (All Sources)</i>	60,325	622,426

Source: Ministry of Commerce

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

	2004 Utilized FDI	Change from 2003 (%) to 2004
Agriculture, Forestry, Animal Husbandry & Fisheries	1,114	11.3
Mining	538	60.1
Manufacturing	43,017	16.5
Production, Distribution of Electricity	1,136	-12.3
Construction	771	-26.0
Transport, Warehousing, Post & Telecommunication	1,273	46.8
Wholesaling and Retail	740	-33.7
Hotels and Restaurants*	840	--
Information Transmission, Computer Service and Software*	916	--
Banking and Insurance	252	8.6
Real Estate Management	5,950	13.6
Leasing and Business Service*	2,824	--
Social Services*	158	--
Health Care, Social Security, and Welfare*	87	--
Education*	38	--
Culture, Sports and Entertainment*	447	--
Scientific Research and Polytechnic Services	259	31.0

Source: National Bureau of Statistics

\*: Indicates change in category composition.

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

2004	%Change	%of 2004
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National Figures

FIE-Generated Industrial Value Added	188,885	18.8	27.8
FIE-Generated Exports	338,606	40.9	57.1
FIE-Generated Imports	324,557	39.9	57.8
FIE-Generated Tax Revenues	66,357	28.5	20.8
2004 FDI inflows/GDP	-	-	3.6
2004 FDI stock/GDP	-	-	33.2
2004 FDI share of total fixed investment	-	-	7.2

Source: Based on Ministry of Commerce and Customs statistics.

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

Table 6 -- Chinese FDI Outward Flows and Stock, 2000-2004 (In \$ billions)

Year	Outflow	Outward Stock
2000	0.92	27.77
2001	6.89	34.65
2002	2.52	37.17
2003	-0.15	37.03
2004	1.81	38.83

Source: UNCTAD

Major U.S. Investors in China:

Motorola (\$3.6 billion) -- Motorola's investment includes \$500 million in R&D.

General Motors (over \$2 billion) -- includes the \$1.0 billion Shanghai GM, the \$472.3 million Shanghai GM Dong Yue Automotive Powertrain, the \$282 million Shanghai GM (Shenyang) Norsom Motors, the \$256.9 million Shanghai GM Dong Yue Motors, the \$53.5 million Pan Asia Technical Automotive Center (PATAC), and the \$10.2 SAIC-GM-Wuling joint venture operations.

GE (\$2 billion) -- GE has established 50 JVs and WOFE entities in China. GE's China operations include medical equipment, plastics, lighting, power generation, silicones, special materials, industrial equipment, aircraft engines, airplane leasing, capital services, transportation systems, and a research and development center in Shanghai.

Kodak (\$1.5 billion) -- Kodak opened sensitizing facilities in Xiamen and Shantou in June 2000. Other Kodak investments include equipment manufacturing, including digital cameras, medical and commercial imaging equipment, and photochemicals.

Coca-Cola (\$1.25 billion) -- Coca-Cola operates 35 bottling plants throughout China. New local Coca-Cola bottling facilities have been built across China in the cities of Lanzhou, Chongqing, Changchun, Zhanjiang, Jinan, Wenzhou and Huizhou over the past two years. Coca-Cola operates one of the largest sales and distribution systems in China with over 700 sales centers and 30,000 distributors servicing 1.3 million retailers. Coca-Cola China is now the fourth largest operating division by volume in the global Coca-Cola system.

Pepsi (\$1 billion) – Pepsi has established WFOEs and 40 JV plants in China.

ExxonMobil (\$1 billion) – Exxon Mobil has total investments in mainland China of over \$1 billion. The bulk of this investment is in production-sharing contracts for upstream oil exploration, as well as chemical and lubricant blending plants. In 2002, ExxonMobil signed an agreement for potential participation in the West-East gas pipeline project. ExxonMobil also invested in Sinopec's IPO in 2000, thus forming strategic partnership with Sinopec, but recently sold its interest.

Anheuser Busch (\$700 million) – Anheuser Busch acquired Harbin Brewery in 2004, one of China's top four sellers of beer at that time.

DuPont (\$700 million) -- DuPont has seven wholly-owned manufacturing facilities and fifteen joint ventures throughout China. Its facilities manufacture a wide range of products including nylon, polyester, fibers, nonwoven fabrics, etc.

DaimlerChrysler (over \$1.4 billion – U.S. ownership about 44%) With DaimlerChrysler (DC) Financial Services, all business units of DC are present in the Chinese market – Mercedes-Benz Car Group, Chrysler Group, Commercial Vehicle Division and DC Financial Services. DC is investing \$1.4 billion in China for its ongoing and future projects. (Daimler-Benz merged with Chrysler in 1998, and each company took 44% of the shares in DC.)

Intel (\$500 million) -- Includes \$198 million in assembly/testing facility in Pudong and another \$302 million in 2001 to expand facility.

Alcoa (\$471 million) -- Includes 7 wholly-owned and 2 JV operations. Included is the recently approved and launched Alcoa controlled aluminum hot rolling project in Qinghuangdao, Hebei Province. Alcoa is also currently in negotiation to invest in Guangxi Province for a large integrated bauxite mining, alumina refining and aluminum smelter at Pingguo, targeting 50% ownership by Alcoa, and is also seeking to invest in power generation in Guangxi to supply energy needs of the integrated project (approx. total investment by Alcoa \$649 million).

United Technologies Corporation (\$450 million) -- Several of UTC's subsidiaries have established operations in China, including Otis Elevator, Carrier, UT Automotive, Turbo Power Systems, Pratt and Whitney, and New Training Center near Beijing Capital International Airport.

IBM (\$420 million) -- Includes \$300 million organic chip packaging base in Shanghai and \$17.5 million in Beijing Jinchangke International Electronics Co. with Great Wall Computer Shareholding Corp.

Ford (\$250 million) -- Ford investment in China includes several production facilities: Changan Ford Automotive Co., Ltd. with plants in Chongqing and Nanjing, Changan Ford Mazda Engine Co., Ltd. in Nanjing, and the publicly listed Jiangling Motors Co., Ltd. in Nanchang. These facilities produce passenger and commercial vehicle products as well as related parts. Ford also established an auto financing operation, Ford Automotive Financial Co., in Shanghai.

Wal-Mart (\$200 million) — Wal-Mart operates 53 stores in 21 cities, including Shenzhen, Kunming, Fuzhou, Dalian, Xiamen, Shantou, Dongguan, Harbin, Changchun, Shenyang, Changsha, Beijing, Nanchang, Ji'nan, Qingdao, Tianjin, Nanjing, Nanning, Wuhan, Guiyang and Taiyuan. Wal Mart plans to open 10-15 more supercenters in the mainland by year 2006. Wal-Mart employs more than 23,000 associates in China.

Cummins (\$154 million) -- Cummins has established eight factories and a research and development center with Cummins ownership producing nine engine families, turbochargers, filters, exhaust systems, alternators, and gensets. Cummins moved its East Asia regional headquarters to Beijing in 1997 to manage Cummins business operations in Mainland China, Taiwan, Hong Kong, Macao and Mongolia.

Note: This list provides a snapshot of U.S. investment in China as reported by the companies themselves. Some companies declined to provide public information regarding investment plans due to the sensitive nature of pending plans to divest or reinvest. Furthermore, much of the historical U.S. investment stock has since changed hands through both local and global mergers and acquisitions.

Source: U.S. Embassy Beijing.

[Return to table of contents](#)

## Chapter 7: Trade and Project Financing

- [How Do I Get Paid \(Methods of Payment\)](#)
- [How Does the Banking System Operate](#)
- [Foreign-Exchange Controls](#)
- [U.S. Banks and Local Correspondent Banks](#)
- [Project Financing](#)
- [Web Resources](#)

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

[Return to top](#)

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 (e.g., China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of Communications, China Merchants Bank, and CITIC Bank, etc;), 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 whereby 'A notifying bank appends its confirmation to a transaction without being instructed to do so by the opening bank'(source: [http://www.ubs.com/1/e/about/bterms/content\\_s.html](http://www.ubs.com/1/e/about/bterms/content_s.html)).

#### 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 only limited 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

[Return to top](#)

### A. Banking System

China's banking system has undergone significant changes in the last two decades. As part of its WTO accession agreement, China pledged to phase-in national treatment for foreign banking services over a five-year period and to reform its domestic banking system. On December 11, 2006, geographic and client restrictions, which currently limit foreign banks' business in China, will be lifted.

#### 1. Central Bank and Banking Regulatory Commission

The People's Bank of China (PBOC), China's central bank, formulates and implements monetary policy. The State Council, however, maintains oversight of the PBOC and continues to make all final decisions on China's major financial and monetary policy issues. According to the 1995 Central Bank Law, the PBOC has full autonomy in applying the monetary instruments, including setting interest rate for commercial banks and trading in government bonds. It maintains the banking sector's payment, clearing and settlement systems, and manages official foreign exchange and gold reserves. The PBOC also oversees the State Administration of Foreign Exchange (SAFE) in the setting of foreign exchange policies. An additional reform implemented to improve the efficiency of bank supervision and allow the PBOC to further focus on the macro economy and currency policy was the April 28, 2003 launch of the China Banking Regulatory Commission (CBRC). The CBRC assumed the supervisory role of the PBOC. 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 Industrial and Commercial Bank of China (ICBC), the Bank of China (BOC), the China Construction Bank (CCB), and the Agricultural Bank of China (ABC), dominate the banking system and together account for well over half of all loans and deposits in China's banks.



The Industrial & Commercial Bank of China (ICBC) is the largest bank in China in terms of total assets as well as the number of employees and customers. The 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. In April 2005, the State Council injected US\$ 15 billion (RMB 124 billion) through Central SAFE Investment Ltd, which let ICBC's core capital stand at RMB 248 billion. On October 25, 2005, ICBC was renamed the Industrial and Commercial Bank of China Limited, which marks the stock system reform of China's largest commercial bank. ICBC is currently negotiating with different foreign investors to establish strategic investment agreements.

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 US\$ 2.8 billion offering was over-subscribed by 7.5 fold. At the end of 2003, China's State Council instructed China SAFE Investments limited to inject a capital of US\$22.5 billion into the BOC, which was subsequently reformed as a shareholding commercial bank, and subsequently renamed the Bank of China Limited in August 2004. Through October 2005, the BOC had successively entered into strategic investment agreements with the Royal Bank of Scotland Group (RBS), Temasek Holdings Limited (Temasek), UBS and the Asian Development Bank (ADB). RBS and Temasek will respectively acquire a 10 percent interest in the BOC for US\$3.1 billion. UBS will make a US\$500 million equity investment and ADB will make a US\$75 million equity investment. The investment agreement between the Bank of China and the four foreign strategic investors represents a major milestone in the reform of state-owned commercial banks in China.

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. At the end of 2003, China's State Council instructed China SAFE Investments limited to inject a capital of US\$22.5 billion into CCB, which was subsequently reformed as a shareholding commercial bank in 2004. In June 2005, the Bank of America signed a strategic cooperation agreement with CCB to purchase nine percent of CCB's shares. This was done through a US\$2.5 billion pre-IPO purchase of existing shares from CCB's largest shareholder – China SAFE Investments Ltd. The Bank of America will also have an option to purchase additional shares in the future to increase its ownership in CCB by up to 19.9 percent. On October 27, 2005, the CCB was listed on the Hong Kong Stock Exchange. This was a precedent-setting achievement for a Chinese state-owned commercial bank in the international market.

The Agriculture Bank of China (ABC) is the fourth largest bank in China. It 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. As instructed by the government, the ABC will experience a similar stock system reform procedure in the near future.

### 3. Policy Banks

Three "policy" banks-the Agricultural Development Bank of China (ADBC), the 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 Shareholding 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 Bank, China Everbright Bank, Hua Xia Bank, China Minsheng Bank, Guangdong Development Bank, Shenzhen Development Bank, China Merchants Bank, Shanghai Pudong Development Bank and Industrial Bank. The second tier banks have, on the whole, tend to adhere more closely to commercial principles in their operations but, nevertheless, have also encountered problems with respect to asset quality. Since 2002, Shenzhen Development Bank, Shanghai Pudong Development Bank, Industrial Bank, Bank of Communications and China Minsheng Bank have each reached investment agreements with foreign strategic investors. Please refer to the following table.

<b>National Shareholding Banks</b>	<b>Foreign Investor(s)</b>	<b>Share Percentage</b>
Bank of Communications	HSBC	19.9%
Shanghai Pudong Development Bank	CitiBank	5% (optional acquisition will be 24.9%)
Shenzhen Development Bank	New Bridge Capital	17.89%
China Minsheng Bank	Asia Finance Co. Limited	4.55%
<b>Industrial Bank</b>	Hengsheng Bank IFC Singapore Government Direct Investment	15.98% 4% 5%

#### 5. City Commercial Banks

There are altogether 112 city commercial banks in China, which includes Bank of Shanghai, Bank of Beijing, Shenzhen City Commercial Bank, Tianjin City Commercial Bank, Guangzhou City Commercial Bank, Jinan City Commercial Bank, Hangzhou City Commercial Bank, Nanjing City Commercial Bank, Ningbo City Commercial Bank, Wuxi City Commercial Bank, Wuhan City Commercial Bank and Xian City Commercial Bank etc. Bank of Shanghai and Bank of Beijing are the largest city commercial banks, and they reached investment agreement with foreign strategic investors respectively. Xian City Commercial Bank, Jinan City Commercial Bank and Hangzhou City Commercial

Bank also received investment from the foreign partners. Please refer to the table below.

<b>Chinese City Commercial Banks</b>	<b>Foreign Investors</b>	<b>Share Percentage</b>
Bank of Shanghai	HSBC IFC HSBC	8% 7% 3%
Bank of Beijing	ING Group IFC	19.9% 5% (under plan)
Xian City Commercial Bank	Bank of Nova Scotia IFC	2.5% (will increase to 12.4%) 2.5% (will increase to 12.5%)
Jinan City Commerical Bank	Australia's Commonwealth Bank	11% (optional acquisition to 20%)
Hangzhou City Commercial Bank	Australia's Commonwealth Bank	19.9%

## 6. Rural Credit Cooperatives

As of the end of 2004, there are more than 38,000 rural credit cooperatives in China. Since June 2003, when some rural credit cooperatives (RCCs) started their pilot reform program, the reforms have now been extended to cover 29 provinces (autonomous regions and municipalities). The restructured RCCs are classified into three types, namely rural commercial banks, rural cooperative banks and credit unions. Except in Beijing, Shanghai and Tianjin where the RCCs are reorganizing themselves into a rural commercial bank or a rural cooperative bank, the RCCs in other provinces decided to set up provincial credit unions as legal entities which are controlled jointly by county-level credit unions, local rural commercial banks and rural cooperative banks. The RCC is responsible for administration of all these institutions in the provinces. At present, nine rural commercial banks, 34 rural cooperative banks (including Tianjin Cooperative Bank), 172 county-level credit unions and 17 provincial credit unions have been established. Additionally, 13 rural commercial or cooperative banks (including Beijing Rural Commercial Bank and Shanghai Rural Commercial Bank), 273 county-level credit unions and nine provincial credit unions have been approved to prepare for incorporation.

## 7. Non-Performing Loans and Asset Management Companies

In 1999, four asset management companies (AMC) were established to transfer the non-performing assets from the four state-owned commercial banks. The AMCs plan to repackage the non-performing loans (NPLs) into viable assets and sell them off to investors.

As of the end-September 2005, the four AMCs resolved a total of RMB736.66 billion in non-performing assets (NPAs) and collected RMB155.03 billion in cash, with a recovery ratio of 21.04 per cent. To be more specific, China Huarong Asset Management Corporation resolved RMB223.80 billion and collected RMB45.52 billion in cash and had a recovery ratio of 20.34 per cent. The China Great Wall Asset Management

Corporation resolved RMB235.03 billion and collected RMB24.77 billion or 10.54 per cent. China Orient Asset Management Corporation performed better when resolving RMB113.47 billion with of NPAs and collecting RMB27.77 billion in cash or 24.48 per cent. China Cinda Asset Management Corporation has the highest collection percentage of 34.66 percent on cash collections of RMB56.97 billion out of RMB164.36 billion outstanding.

## B. Banking System Reform

Currently, the state-owned commercial banks occupy a dominant share in China's banking industry, accounting for 56 percent of total banking assets. Therefore, the banking industry reforms are centered on the wholly state-owned banks. Progress has been made in recent years in areas such as the improvement of the banks' risk management, enhancement of the banks' internal controls and upgrades 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, sound operations, 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 eligible banks can be listed on the stock market. In October 2005, the China Construction Bank Limited was listed on the Hong Kong Stock Exchange; this was a precedent-setting achievement for a Chinese state-owned commercial bank in the international 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 for deposits and lending rates, based on market supply and demand. The central bank would continue to adjust and guide interest rates and allow this 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 (US\$ 3 million and over) and loans in foreign currency in September 2000. Rates for deposits below US\$ 3 million remain 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 for foreign exchange deposits.

As interest rate liberalization progressed, the PBOC has liberalized, simplified or abandoned 119 categories of interest rates initially under control since 1996. At present, 29 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**

[Return to top](#)

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. Starting in late 1997, large exporters have been allowed to retain up to 15 percent of their earnings. When foreign exchange is required for import and other authorized transactions, the buying entity then applies to designated banks that are members of the interbank foreign-exchange market.

China 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 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.

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. For local currencies, geographic restrictions were first phased out in four major cities, Shanghai, Shenzhen, Tianjin and Dalian. Since then, foreign-funded banks have also been allowed to conduct RMB-denominated business in Guangzhou, Zhuhai, Qingdao, Nanjing and Wuhan from December 1, 2002. As of December 1, 2003, four more Chinese cities were added: Jinan; Fuzhou; Chengdu, and Chongqing. On December 1, 2004, the CBRC further opened Kunming, Beijing and Xiamen, as scheduled. Xi'an and Shenyang were opened a year and ahead of schedule to foreign banks seeking to handle RMB-denominated

business. To date, 18 cities are now open for foreign banks and 53 of the 116 foreign banking institutions incorporated in China have already been approved to conduct RMB-denominated business. China has pledged to eliminate all geographical restrictions by the end of 2006.

## **U.S. Banks and Local Correspondent Banks**

[Return to top](#)

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. In September 2004, the CBRC promulgated the new version which stipulated that foreign bank branches conducting a full range of foreign-currency-denominated and RMB-denominated financial products to all categories of clients are required to have operating capital of at least RMB500 million, of which at least RMB300 million must be held in RMB and at least RMB200 million in freely convertible currency.

Restrictions on the type of clients allowed to use foreign currency business provided by foreign banks was lifted immediately after China's entry into the WTO on December 11, 2001. Foreign financial institutions have been permitted to provide foreign currency-denominated products to Chinese enterprises and individuals, and will be permitted to provide RMB-denominated financial products to all types of Chinese clients by the end of 2006.

For local currencies, geographic restrictions were first phased out in four major cities, Shanghai, Shenzhen, Tianjin and Dalian. Since then, foreign-funded banks have also been allowed to conduct RMB-denominated business in Guangzhou, Zhuhai, Qingdao, Nanjing and Wuhan from December 1, 2002. As of December 1, 2003, four more Chinese cities were added to the list of cities: Jinan; Fuzhou; Chengdu, and Chongqing. On December 1, 2004, the CBRC further opened Kunming, Beijing and Xiamen as scheduled. Xi'an and Shenyang were opened a year ahead of schedule to foreign banks seeking to handle RMB-denominated business. To date, 18 cities are now open for foreign banks and 53 of the 116 foreign banking institutions incorporated in China have already been approved to conduct RMB-denominated business. In comparison, only 30 foreign banks were authorized through 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 also worked with the China Construction Bank, the Industrial and Commercial Bank of China, the Agricultural Bank of China and the 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. Project financing is also available from the various multilateral financial institutions as described in item number three below.

The Chinese Government and Chinese borrowers periodically 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. Exposure fee calculations and applications can be found on-line at [www.exim.gov](http://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, after a 12-year break, reopened its programs in China 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.

## 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 the 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. Mr. Yukon Huang, Country Director, can be contacted at tel: (8610) 6554-3361. The website URL is [www.worldbank.org/](http://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 US\$ 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 Finkelton at the Beijing office, Tel: (8610) 6554-4191, Fax: (8610) 6554-4192. Website: [www.ifc.org](http://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. The ADB provides loans and technical assistance to governments for specific projects and programs. In 2002, its loan approvals totaled US\$ 5.7 billion for 89 loans and four equity investments. Co-financing for the year amounted to US\$ 2.7 billion.

In 2002, the PRC, was the ADB's third largest lending and technical assistance borrower (15.3 percent or US\$ 868 million). The ADB's cumulative public sector lending to the PRC reached US\$ 12.04 billion at the end of December 2002. Between 1988 and 2002, the ADB approved about US\$ 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 Toru Shibuichi, Resident Representative at Tel: (86-10) 6642-6601, Fax: (86-10) 6642-6606. Website: [www.adb.org](http://www.adb.org).



Export-Import Bank of the United States: [www.exim.gov](http://www.exim.gov)

Country Limitation Schedule: [www.exim.gov/tools/country/country\\_limits.html](http://www.exim.gov/tools/country/country_limits.html)

OPIC: [www.opic.gov](http://www.opic.gov)

Trade and Development Agency: [www.tda.gov](http://www.tda.gov)

SBA's Office of International Trade: [www.sba.gov/oit](http://www.sba.gov/oit)

USDA Commodity Credit Corporation: [www.fsa.usda.gov/cc/default.htm](http://www.fsa.usda.gov/cc/default.htm)

U.S. Agency for International Development: [www.usaid.gov](http://www.usaid.gov)

- [How Do I Get Paid \(Methods of Payment\)](#)
- [How Does the Banking System Operate](#)
- [Foreign-Exchange Controls](#)
- [U.S. Banks and Local Correspondent Banks](#)
- [Project Financing](#)
- [Web Resources](#)

[Return to table of contents](#)

## Chapter 8: Business Travel

- [Business Customs](#)
- [Travel Advisory](#)
- [Visa Requirements](#)
- [Telecommunications](#)
- [Transportation](#)
- [Language](#)
- [Health](#)
- [Local Time, Business Hours and Holidays](#)
- [Temporary Entry of Materials and Personal Belongings](#)
- [Web Resources](#)

### Business Customs

[Return to top](#)

### 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.

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**

#### **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 (Source: Network Center of MOFCOM)

The threat level for all China posts is considered low for crime and medium for terrorism.

China experiences a moderate rate of crime, including recent incidents ranging from petty theft to murder. Pickpockets are particularly active in crowded markets and foreigners are often sought out as primary targets. Petty theft from hotel rooms is uncommon, but visitors are advised not to leave valuables lying loose or unattended in their rooms. Foreigners may be approached in tourist areas by individuals seeking to exchange U.S. dollars or to sell pirated or fake products, such as compact discs, in violation of intellectual property rights laws. These transactions are illegal and should be avoided.

Passports and visas are required. Americans arriving / transiting without valid passports and Chinese visas are not permitted to enter China and may also be subject to fines. Visas are required to transit China on the way to and from Mongolia or North Korea. Those visitors traveling to China on a single entry visa should be reminded that trips to Hong Kong or Macau Special Administrative Regions are treated as a visit outside Mainland China. If the traveler is planning to return to Mainland China after a visit to one of these two destinations on the same single entry visa, they will be denied entry. Visitors facing this dilemma will be required to apply for a new visa at the Chinese consulate in Hong Kong to gain re-entry into Mainland China.

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**[Return to top](#)**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](mailto: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.

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.

U.S. Companies should be advised that visa applicants with certain background or visiting the U.S. for certain purpose might be subject to a security review handled via an interagency process. The process can delay visa issuance, although normally only 2-3 weeks. Therefore, it is best to apply well in advance of travel. 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/>

U.S. Embassy, Beijing: <http://beijing.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. 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) 119  
Police (Chinese) 110  
Public Security Bureau (English Assistance) 6525-2729

### **Cellular Phones**

Cell phones are becoming ubiquitous in China. It is important to note that the cell phone frequency of GSM networks in China (900 MHz and 1800 MHz) is different from the frequency in the United States (1900 MHz). Thus only cell phone users from the United States who have cell phone tri/quad-band frequency capability can use their phones in China. For these users, pre-paid SIM cards for local numbers are easily purchased at most supermarkets and phone kiosks.

Convenient cell phone rental services also exist making it extremely easy for all travelers to obtain local phones and phone numbers. One such service allows for online reservation with foreign credit card and delivers/pick-ups the cell phone from anywhere in China's major cities. Please see: [www.95teleweb.com](http://www.95teleweb.com) for more details.

## **Cell Phone Dialing Instructions**

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**

[Return to top](#)

### **Taxis**

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	qǐng	□
Thank you	xiè xiè	□□
You're welcome	bù wèi	□□□
Excuse me	dùì wù wèi	□□□
Have	yǒu	□
Do not have	méi yǒu	□□
No problem	méi wèi	□□□
It doesn't matter	méi wǎn	□□□
Want	yào	□
Do not Want	bù yào / wù yào	□□/□□
Yes	shì	□
No	bù shì	□□
Correct/Yes	duì	□
Incorrect/Wrong/No	bù duì	□□
Chopsticks	kuàizi	□□
Toilet	cè suo	□□
Toilet paper	wèishǐgān	□□□
How are you?	Ni hao ma?	□□□
Have you eaten?		
(greeting)	cān fàn le ma	□□□□
Do you understand?	dòng ma	□□
I don't understand	bù dòng	□□

### Phrases for Shopping

How much does it cost?	duō shǎo qián	□□□□
Too expensive!	tài guì le	□□□□
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) (□□)□□

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□  
 □□□□□

Other

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-benefitoverseas04.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.

### **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](mailto: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](mailto: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](mailto: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.

## 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 2006:

**January 2**, (Mon) New Year's Day  
**January 16**, (Mon) Martin Luther King, Jr's Birthday  
**Jan 30, 31**, Feb 1, (Mon, Tue, Wed) Lunar New Year  
**February 20**, (Mon) Washington's Birthday  
**May 1, 2, 3**, (Mon, Tue, Wed) International Labor Day  
**May 29**, (Mon) Memorial Day  
**July 4**, (Tue) Independence Day  
**September 4**, (Mon) Labor Day  
**October 2, 3, 4**, (Mon, Tue, Wed) Chinese National Day  
**October 9**, (Mon) Columbus Day  
**November 10**, (Fri) Veterans' Day  
**November 23**, (Thu) Thanksgiving Day  
**December 25**, (Mon) Christmas Day

**Temporary Entry of Materials and Personal Belongings**

[Return to top](#)

China allows an individual to import 400 cigarettes (600 if you are staying more than six months), four bottles of 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 to 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."

### Web Resources

[Return to top](#)

U.S. Embassy Beijing: <http://beijing.usembassy-china.org.cn>

U.S. Commercial Service, China: <http://www.buyusa.gov/china/en/>

China Council for the Promotion of International Trade (CCPIT): [www.ccpit.org](http://www.ccpit.org)

National Development and Reform Commission (NDRC) <http://www.ndrc.gov.cn/>  
(Chinese)

Ministry of Information Industry (MII): [www.mii.gov.cn](http://www.mii.gov.cn) (Chinese)

Chinese Ministry of Commerce: <http://english.mofcom.gov.cn/>

[Return to table of contents](#)

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

- [Contacts](#)
- [Market Research](#)
- [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  
Main Line: (86-10) 6851-6733  
International Affairs: (86-10) 8858-1475  
Fax: (86-10) 8858-1514  
Website: [www.costind.gov.cn](http://www.costind.gov.cn)

State Development and Reform Commission (or National Development and Reform Commission)

38 Yuetannan jie, Xicheng District, Beijing 100824, China  
Minister: Ma Kai  
Main Line : (86-10) 6850-2114  
International Affairs: (86-10) 6850-1343  
Fax: (86-10) 6850-2117  
Website: [www.sdpc.gov.cn](http://www.sdpc.gov.cn)

#### B. Chinese Ministries

Ministry of Agriculture  
11 Nongzhanguan Nanli, Chaoyang District, Beijing 100026, China  
Minister: Du Qinglin  
Main Line: (86-10) 6419-3366  
International Affairs: (86-10) 6419-2440  
Fax: (86-10) 6419-2466  
Website: [www.agri.gov.cn](http://www.agri.gov.cn)

Ministry of Communications  
11 Jianguomennei Dajie, Dongcheng District, Beijing 100736, China  
Minister: Li Shenglin  
Main Line: (86-10) 6529-2114  
International Affairs: (86-10) 6529-2205  
Fax: (86-10) 6529-2259  
Website: [www.moc.gov.cn](http://www.moc.gov.cn)

Ministry of Construction  
9 Sanlihe Lu, Baiwanzhuang, Haidian District, Beijing 100835, China  
Minister: Wang Guangtao  
Main Line: (86-10) 5893-4114  
International Affairs: (86-10) 5893-3833  
Fax: (86-10) 6831-3669  
Website: [www.cin.gov.cn](http://www.cin.gov.cn)

Ministry of Culture  
10 Chaoyangmen Beijie, Dongcheng District, Beijing 10020, China  
Minister: Sun Jiazheng  
Main Line: (86-10) 6555-1114  
International Affairs: (86-10) 6555-1952  
Fax: (86-10) 6555-1958  
Website: [www.ccnt.gov.cn](http://www.ccnt.gov.cn)

Ministry of Education  
37 Damucang Hutong, Xidan, Xicheng District, Beijing 100816, China  
Minister: Zhou Ji  
Main Line: (86-10) 6609-6114  
International Affairs: (86-10) 6609-6275  
Fax: (86-10) 6601-3647  
Website: [www.moe.edu.cn](http://www.moe.edu.cn)

Ministry of Finance  
3 Nansanxiang, Sanlihe, Xicheng District, Beijing 100820, China  
Minister: Jin Renqing  
Main Line: (86-10) 6855-1114  
International Affairs: (86-10) 6855-1175  
Fax: (86-10) 6855-1125  
Website: [www.mof.gov.cn](http://www.mof.gov.cn)

Ministry of Foreign Affairs  
2 Chaoyangmen Nandajie, Chaoyang District, Beijing 100701, China  
Minister: Li Zhao Xing  
Main Line: (86-10) 6596-1114  
International Affairs: (86-10) 6596-1800  
Fax: (86-10) 6596-1808  
Website: [www.fmprc.gov.cn](http://www.fmprc.gov.cn)

Ministry of Commerce  
2 Dongchang'an Jie, Beijing 100731, China  
Minister: Bo Xilai  
Main Line: (86-10) 6519-8114  
International Affairs: (86-10) 6519-8203  
Fax: (86-10) 6519-8904  
Website: [www.mofcom.gov.cn](http://www.mofcom.gov.cn)

Ministry of Health  
1 Xizhimenwai Nanlu, Xicheng District, Beijing 100044, China



Minister: Gao Qiang  
Main Line: (86-10) 6879-2114  
International Affairs: (86-10) 6879-2292  
Fax: (86-10) 6879-2290  
Website: [www.moh.gov.cn](http://www.moh.gov.cn)

Ministry of Information Industry  
13 Xichang'anjie, Beijing 100804, China  
Minister: Wang Xu Dong  
Main Line: (86-10) 6601-4249  
International Affairs: (86-10) 6601-1365  
Fax: (86-10) 6601-1370  
Website: [www.mii.gov.cn](http://www.mii.gov.cn)

Ministry of Justice  
10 Chaoyangmen Nandajie, Chaoyang District, Beijing 100020, China  
Minister: Wu Aiyang  
Main Line: (86-10) 6520-5114  
International Affairs: (86-10) 6520-6239  
Fax: (86-10) 6520-5866  
Website: [www.legalinfo.gov.cn](http://www.legalinfo.gov.cn)

Ministry of Labor and Social Security  
12 Hepingli Zhongjie, Dongcheng District, Beijing 100716, China  
Minister: Tian Chengping  
Main Line: (86-10) 8420-1114  
International Affairs: (86-10) 8420-7243  
Fax: (86-10) 8422-1624  
Website: [www.molss.gov.cn](http://www.molss.gov.cn)

Ministry of Land and Resources  
No.64 Fu Nei street , Xicheng District, Beijing 100812, China  
Minister: Sun Wen Sheng  
Tel: (86-10) 66558001  
Fax: (86-10) 66558004  
Website: [www.mlr.gov.cn](http://www.mlr.gov.cn)

Ministry of Personnel  
7 Hepingli Zhongjie, Dongchen District, Beijing 100013, China  
Minister: Zhang Bo Lin  
Main Line: (86-10) 8421-4883  
International Affairs: (86-10) 8421-4865  
Fax: (86-10) 8421-4867  
Website: [www.mop.gov.cn](http://www.mop.gov.cn)

Ministry of Public Security  
14 Dongchang'anjie, Beijing 100741, China  
Minister: Zhou Yong Kang  
Main Line: (86-10) 6520-2114  
International Affairs: (86-10) 6520-3279  
Fax: (86-10) 6524-1596

Website: [www.mps.gov.cn](http://www.mps.gov.cn)

Ministry of Railways  
10 Fuxing Lu, Haidian District, Beijing 100844, China  
Minister: Liu Zhi Jun  
Main Line: (86-10) 5184-0114  
International Affairs: (86-10) 5814-1855  
Fax: (86-10) 6398-1065  
Website: [www.chinamor.cn.net](http://www.chinamor.cn.net)

Ministry of Science and Technology  
15 Fuxinglu, Haidian District, Beijing 100038, China  
Minister: Xu Guanhua  
Main Line: (86-10) 5888-1800  
International Affairs: (86-10) 5888-1333  
Fax: (86-10) 5888-1334  
Website: [www.most.gov.cn](http://www.most.gov.cn)

Ministry of Water Resources  
2 Baiguanglu Ertiao, Xuanwu District, Beijing 100053, China  
Minister: Wang Shucheng  
Main Line: (86-10) 6320-2114  
International Affairs: (86-10) 6320-2383  
Fax: (86-10) 6320-2383  
Website: [www.mwr.gov.cn](http://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](http://www.ggj.gov.cn)

General Administration of Civil Aviation of China  
155 Dongsi Xidajie, Beijing 100710, China  
Director: Yang Yuanyuan  
Main Line: (86-10) 6409-1114  
International Affairs: (86-10) 6409-1311  
Fax: (86-10) 6401-6918  
Website: [www.caac.gov.cn](http://www.caac.gov.cn)

General Administration of Customs  
6 Jianguomennei Dajie, Beijing 100730, China  
Director: Mu Xinsheng  
Main Line: (86-10) 6519-4114  
International Affairs: (86-10) 6519-5980  
Fax: (86-10) 6519-4354  
Website: [www.customs.gov.cn](http://www.customs.gov.cn)

National Tourism Administration  
Jia 9 Jianguomennei Dajie, Beijing 100740, China  
Director: Shao Qiwei  
Main Line: (86-10) 6520-1114  
International Affairs: (86-10) 6520-1819  
Fax: (86-10) 6520-1800  
Website: [www.cnta.com](http://www.cnta.com)

State Administration for Industry and Commerce  
8 Sanlihe Donglu, Xicheng District, Beijing 100820, China  
Director: Wang Zhongfu  
Main Line: (86-10) 6803-2233  
International Affairs: (86-10) 6803-2233 ext. 1508  
Fax: (86-10) 6802-3447  
Website: [www.saic.gov.cn](http://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  
Fax: (86-10) 6409-5000  
Website: [www.sara.gov.cn](http://www.sara.gov.cn)

State Administration of Radio, Film, and Television  
2 Fuxingmenwai Dajie, Beijing 100866, China  
Minister: Xu Guangchun  
Main Line: (86-10) 8609-3114  
International Affairs: (86-10) 8609-2141  
Fax: (86-10) 6801-0174  
Website: [www.sarft.gov.cn](http://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  
Main Line: (86-10) 8226-0114  
International Affairs: (86-10) 8226-2176  
Fax: (86-10) 8226-0552  
Website: [www.aqsiq.gov.cn](http://www.aqsiq.gov.cn)

State Bureau of Taxation  
5 Yangfangdian Xilu, Haidian District, Beijing 100038, China  
Director: Xie Xu Ren  
Main Line: (86-10) 6341-7114  
International Affairs: (86-10) 6341-7925  
Fax: (86-10) 6341-7870  
Website: [www.chinatax.gov.cn](http://www.chinatax.gov.cn)

State Food and Drug Administration  
Jia 38 Beilishilu, Xicheng District, Beijing 100810, China  
Director: Zheng Xiaoyu  
Main Line: (86-10) 6831-3344

International Affairs: (86-10) 6831-1986  
Fax: (86-10) 6833-7662  
Website: [www.sda.gov.cn](http://www.sda.gov.cn)

State Environmental Protection Administration  
115 Xizhimennei Nanxiaojie, Beijing 100035, China  
Minister: Zhou Shengxian  
Main Line: (86-10) 6655-6114  
International Affairs: (86-10) 6655-6527  
Fax: (86-10) 6655-6521  
Website: [www.zhb.gov.cn](http://www.zhb.gov.cn)

State Forestry Bureau  
18 Hepingli Dongjie, Beijing 100714, China  
Director: Jia Zhibang  
Main Line: (86-10) 8423-9000  
International Affairs: (86-10) 8423-8720  
Fax: (86-10) 6421-9149  
Website: [www.forestry.gov.cn](http://www.forestry.gov.cn)

State Intellectual Property Office  
6 Xituchenglu, Jimenqiao, Haidian District, Beijing 100088, China  
Director: Tian Lipu  
Main Line: (86-10) 6208-3114  
International Affairs: (86-10) 6208-3268  
Fax: (86-10) 6201-9615  
Website: [www.sipo.gov.cn](http://www.sipo.gov.cn)

General Administration of Press and Publication  
85 Dongsì Nandajie, Dongcheng District, Beijing 100703, China  
Director: Long Xinmin  
Main Line: (86-10) 6512-4433  
International Affairs: (86-10) 6523-1141  
Fax: (86-10) 6512-7875  
Website: [www.ncac.gov.cn](http://www.ncac.gov.cn)

State Sport General Administration  
2 Tiyuguanlu, Chongwen District, Beijing 100763, China  
Minister: Liu Peng  
Main Line: (86-10) 8718-2008  
International Affairs: (86-10) 8718-2732  
Fax: (86-10) 6711-5858  
Website: [www.sport.gov.cn](http://www.sport.gov.cn)

National Bureau of Statistics  
75 Yuetannanjie, Xi Cheng District, Beijing 100826, China  
Director: Li De Shui  
Main Line: (86-10) 6857-3311  
International Affairs: (86-10) 6857-6355  
Fax: (86-10) 6857-6354  
Website: [www.stats.gov.cn](http://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) 6309-6898  
Fax: (86-10) 6309-3102

Hong Kong and Macau Affairs Office  
77 Yuetannanjie, Beijing 100045, China  
Director: Liao Hui  
Tel: (86-10) 6857-9977  
Fax: (86-10) 6857-6639  
Website: [www.hmo.gov.cn](http://www.hmo.gov.cn)

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  
Website: [www.chinalaw.gov.cn](http://www.chinalaw.gov.cn)

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  
Website: [www.gqb.gov.cn](http://www.gqb.gov.cn)

Research Office  
Zhongnanhai, Beijing 100017, China  
Director: Wei Liqun  
Tel: (86-10) 6309-7785  
Fax: (86-10) 6309-7803

Taiwan Affairs Office  
No.6-1 Guang'An Men South Avenue, Xuanwu District, Beijing 100053  
Director: Chen Yunlin  
Tel: (86-10) 6857-1900  
Fax: (86-10) 6832-8321  
Website: [www.gwytb.gov.cn](http://www.gwytb.gov.cn)

## E. Institutions

China Meteorological Administration  
46 Zhong Guan Cun Street, Haidian District, Beijing 100081, China  
Director: Qin Dahe  
Tel: (86-10) 6840-6114  
Website: [www.cma.gov.cn](http://www.cma.gov.cn)

Chinese Securities Regulatory Commission  
Tower A of Fukai Building  
19 Jinrong Avenue, Xicheng District, Beijing 100032  
Director: Shang Fulin  
Tel: (86-10) 8806-1000  
Website: [www.csrc.gov.cn](http://www.csrc.gov.cn)

Chinese Academy of Engineering  
3 Fuxinglu, Haidian District, Beijing 100038  
President: Xu Kuang Di  
Tel: (86-10) 6852-2662  
Website: [www.cae.cn](http://www.cae.cn)

Chinese Academy of Sciences  
52 Sanlihe, Xicheng District, Beijing 100864  
President: Lu Yongxiang  
Tel: (86-10) 6859-7114  
Website: [www.cas.ac.cn](http://www.cas.ac.cn)

Chinese Academy of Social Sciences  
5 Jiannei Dajie, Beijing 100732, China  
President: Chen Kui Yuan  
Tel: (86-10) 8519-5999  
Website: [www.cass.net.cn](http://www.cass.net.cn)

Development Research Center  
225 Chaoyangmen Inside Avenue, Beijing 100010  
Director: Wang Mengkui  
Tel: (86-10) 6523-0008  
Fax: (86-10) 6523-0070  
Website: [www.drc.gov.cn](http://www.drc.gov.cn)

National School of Administration  
6 Changchunqiaolu, Haidian District, Beijing 100089  
President: Hua Jian Min  
Tel: (86-10) 6892-9665  
Website : [www.nsa.gov.cn](http://www.nsa.gov.cn)

China Seismological Bureau  
63 Fuxing Lu, Haidian District, Beijing 100036, China  
Director: Chen Jianmin

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: Ms. Hu Xiao-Dong  
Tel: (86-10) 6840-2507  
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 Administration of Cultural Heritage  
10 Chao Yang Men Bei Da Jie, Chaoyang District, Beijing 100020, China  
Director: Shan Ji Xiang  
Website: www.sach.gov.cn  
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: Mr. Lu Xin-She  
Tel: (86-10) 6832-1893  
Website: www.sbsm.gov.cn

State Administration of Grain  
11A, Muxudi Beili, Xincheng District, Beijing 100038, China  
Director: Nie Zhengbang  
Tel: (86-10) 6390-6078  
Website: www.chinagrains.gov.cn

China National Light Industry Council  
Yi 22 Fuwaidajie, Beijing 100083, China  
Director: Chen Shineng  
Tel: (86-10) 6839-6228  
Fax: (86-10) 6839-6800

China Iron and Steel Association  
46 Dongsu Xidajie, Dongcheng District, Beijing 100711, China  
Director: Xie Qi Hua  
Tel: (86-10) 6513-3322/1935

Fax: (86-10) 6513-0074  
Website: [www.chinaisa.org.cn](http://www.chinaisa.org.cn)

State Oceanic Administration  
1 Fuxingmenwai Dajie, Beijing 100860, China  
Director: Sun Zhi-Hui  
Tel: (86-10) 6803-2211  
Website: [www.soa.gov.cn](http://www.soa.gov.cn)

China Petroleum and Chemical Industry Association  
Building 16, 4 District, Anhuili, Yayuncun, Chaoyang District, Beijing 100723, China  
Director: Li Yong-Wu  
Tel: (86-10) 8488-5100/5430/5098  
Fax: (86-10) 8488-5097  
Website: [www.cpcia.org.cn](http://www.cpcia.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](http://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  
Website: [www.cntac.org.cn](http://www.cntac.org.cn)

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](http://www.tobacco.gov.cn)

#### G. Associations & Corporations

All-China Federation of Industry and Commerce  
93 Beiheyuan 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](http://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

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.  
6 Dongzhimenwai Xiaojie  
Beijing 100027  
President: Fu Cheng-Yu  
Tel: (86-10) 8452-1071/8452-1010  
Fax: (86-10) 6460-2600  
Website: www.cnooc.com.cn

China National Petroleum Corp.  
6 Liupukang, Xicheng District, Beijing 100724, China  
President: Chen Geng  
Tel: (86-10) 6209-4798/6209-4114  
Fax:(86-10) 6209-4806  
Website: [www.cnpc.com.cn](http://www.cnpc.com.cn)

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: Mr. Zhang Guo-Qing  
Tel: (86-10) 6352-9988  
Fax: (86-10) 6354-0398  
Website: www.norinco.com.cn

China Petro-Chemical Corporation  
6 Hui Xin Dong Jie Jia, Beijing 100029  
President: Wang Tian-Pu  
Tel: (86-10) 6499-9936  
Fax: (86-10) 6421-8356  
Website: www.sinopec.com.cn

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  
Website: www.cscec.com.cn

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  
Emory Williams, Chairman  
Charlie Martin, President  
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](http://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](http://www.cm-1.com)

U.S.-China Business Council  
Patrick J. Powers, Director of China Operations  
CITIC Building, Room 1001  
Beijing 100004  
Tel: (86-10) 6592-0727  
Fax: (86-10) 6512-5854,  
Website: [www.uschina.org](http://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](http://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](http://www.uswheat.org)

United States Information Technology Office (USITO)

Anne Stevenson-Yang, Managing Director  
Room 516, Beijing Fortune plaza office Tower, No.7 Dongsanhuan Zhong Lu  
Chaoyang District, Beijing 100020, China  
Tel: (86-10) 6530-9368/69/70  
Fax: (86-10) 6530-9367  
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: Robert Luke  
Tel: (86-10) 6532-3831 x 6999  
Fax: (86-10) 6532-6422

U.S. Commercial Service  
Minister-Counselor for Commercial Affairs: Craig Allen (June 2006)  
Tel: (86-10) 8529-6655 x801  
Fax: (86-10) 8529-6558  
Deputy: William Brekke  
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: Vacant  
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](http://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](mailto: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](http://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

### **Market Research**

[Return to top](#)

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### **Trade Events**

[Return to top](#)

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<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.

[Return to table of contents](#)



[Return to table of contents](#)

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

- [Contacts](#)
- [Market Research](#)
- [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  
Main Line: (86-10) 6851-6733  
International Affairs: (86-10) 8858-1475  
Fax: (86-10) 8858-1514  
Website: [www.costind.gov.cn](http://www.costind.gov.cn)

State Development and Reform Commission (or National Development and Reform Commission)

38 Yuetannan jie, Xicheng District, Beijing 100824, China  
Minister: Ma Kai  
Main Line : (86-10) 6850-2114  
International Affairs: (86-10) 6850-1343  
Fax: (86-10) 6850-2117  
Website: [www.sdpc.gov.cn](http://www.sdpc.gov.cn)

#### B. Chinese Ministries

Ministry of Agriculture  
11 Nongzhanguan Nanli, Chaoyang District, Beijing 100026, China  
Minister: Du Qinglin  
Main Line: (86-10) 6419-3366  
International Affairs: (86-10) 6419-2440  
Fax: (86-10) 6419-2466  
Website: [www.agri.gov.cn](http://www.agri.gov.cn)

Ministry of Communications  
11 Jianguomennei Dajie, Dongcheng District, Beijing 100736, China  
Minister: Li Shenglin  
Main Line: (86-10) 6529-2114  
International Affairs: (86-10) 6529-2205

Fax: (86-10) 6529-2259  
Website: [www.moc.gov.cn](http://www.moc.gov.cn)

Ministry of Construction  
9 Sanlihe Lu, Baiwanzhuang, Haidian District, Beijing 100835, China  
Minister: Wang Guangtao  
Main Line: (86-10) 5893-4114  
International Affairs: (86-10) 5893-3833  
Fax: (86-10) 6831-3669  
Website: [www.cin.gov.cn](http://www.cin.gov.cn)

Ministry of Culture  
10 Chaoyangmen Beijie, Dongcheng District, Beijing 10020, China  
Minister: Sun Jiazheng  
Main Line: (86-10) 6555-1114  
International Affairs: (86-10) 6555-1952  
Fax: (86-10) 6555-1958  
Website: [www.ccnt.gov.cn](http://www.ccnt.gov.cn)

Ministry of Education  
37 Damucang Hutong, Xidan, Xicheng District, Beijing 100816, China  
Minister: Zhou Ji  
Main Line: (86-10) 6609-6114  
International Affairs: (86-10) 6609-6275  
Fax: (86-10) 6601-3647  
Website: [www.moe.edu.cn](http://www.moe.edu.cn)

Ministry of Finance  
3 Nansanxiang, Sanlihe, Xicheng District, Beijing 100820, China  
Minister: Jin Renqing  
Main Line: (86-10) 6855-1114  
International Affairs: (86-10) 6855-1175  
Fax: (86-10) 6855-1125  
Website: [www.mof.gov.cn](http://www.mof.gov.cn)

Ministry of Foreign Affairs  
2 Chaoyangmen Nandajie, Chaoyang District, Beijing 100701, China  
Minister: Li Zhao Xing  
Main Line: (86-10) 6596-1114  
International Affairs: (86-10) 6596-1800  
Fax: (86-10) 6596-1808  
Website: [www.fmprc.gov.cn](http://www.fmprc.gov.cn)

Ministry of Commerce  
2 Dongchang'an Jie, Beijing 100731, China  
Minister: Bo Xilai  
Main Line: (86-10) 6519-8114  
International Affairs: (86-10) 6519-8203  
Fax: (86-10) 6519-8904  
Website: [www.mofcom.gov.cn](http://www.mofcom.gov.cn)

Ministry of Health  
1 Xizhimenwai Nanlu, Xicheng District, Beijing 100044, China  
Minister: Gao Qiang  
Main Line: (86-10) 6879-2114  
International Affairs: (86-10) 6879-2292  
Fax: (86-10) 6879-2290  
Website: [www.moh.gov.cn](http://www.moh.gov.cn)

Ministry of Information Industry  
13 Xichang'anjie, Beijing 100804, China  
Minister: Wang Xu Dong  
Main Line: (86-10) 6601-4249  
International Affairs: (86-10) 6601-1365  
Fax: (86-10) 6601-1370  
Website: [www.mii.gov.cn](http://www.mii.gov.cn)

Ministry of Justice  
10 Chaoyangmen Nandajie, Chaoyang District, Beijing 100020, China  
Minister: Wu Aiyong  
Main Line: (86-10) 6520-5114  
International Affairs: (86-10) 6520-6239  
Fax: (86-10) 6520-5866  
Website: [www.legalinfo.gov.cn](http://www.legalinfo.gov.cn)

Ministry of Labor and Social Security  
12 Hepingli Zhongjie, Dongcheng District, Beijing 100716, China  
Minister: Tian Chengping  
Main Line: (86-10) 8420-1114  
International Affairs: (86-10) 8420-7243  
Fax: (86-10) 8422-1624  
Website: [www.molss.gov.cn](http://www.molss.gov.cn)

Ministry of Land and Resources  
No.64 Fu Nei street , Xicheng District, Beijing 100812, China  
Minister: Sun Wen Sheng  
Tel: (86-10) 66558001  
Fax: (86-10) 66558004  
Website: [www.mlr.gov.cn](http://www.mlr.gov.cn)

Ministry of Personnel  
7 Hepingli Zhongjie, Dongchen District, Beijing 100013, China  
Minister: Zhang Bo Lin  
Main Line: (86-10) 8421-4883  
International Affairs: (86-10) 8421-4865  
Fax: (86-10) 8421-4867  
Website: [www.mop.gov.cn](http://www.mop.gov.cn)

Ministry of Public Security  
14 Dongchang'anjie, Beijing 100741, China  
Minister: Zhou Yong Kang  
Main Line: (86-10) 6520-2114

International Affairs: (86-10) 6520-3279  
Fax: (86-10) 6524-1596  
Website: [www.mps.gov.cn](http://www.mps.gov.cn)

Ministry of Railways  
10 Fuxing Lu, Haidian District, Beijing 100844, China  
Minister: Liu Zhi Jun  
Main Line: (86-10) 5184-0114  
International Affairs: (86-10) 5814-1855  
Fax: (86-10) 6398-1065  
Website: [www.chinamor.cn.net](http://www.chinamor.cn.net)

Ministry of Science and Technology  
15 Fuxinglu, Haidian District, Beijing 100038, China  
Minister: Xu Guanhua  
Main Line: (86-10) 5888-1800  
International Affairs: (86-10) 5888-1333  
Fax: (86-10) 5888-1334  
Website: [www.most.gov.cn](http://www.most.gov.cn)

Ministry of Water Resources  
2 Baiguanglu Ertiao, Xuanwu District, Beijing 100053, China  
Minister: Wang Shucheng  
Main Line: (86-10) 6320-2114  
International Affairs: (86-10) 6320-2383  
Fax: (86-10) 6320-2383  
Website: [www.mwr.gov.cn](http://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](http://www.ggj.gov.cn)

General Administration of Civil Aviation of China  
155 Dongsu Xidajie, Beijing 100710, China  
Director: Yang Yuanyuan  
Main Line: (86-10) 6409-1114  
International Affairs: (86-10) 6409-1311  
Fax: (86-10) 6401-6918  
Website: [www.caac.gov.cn](http://www.caac.gov.cn)

General Administration of Customs  
6 Jianguomennei Dajie, Beijing 100730, China  
Director: Mu Xinsheng  
Main Line: (86-10) 6519-4114  
International Affairs: (86-10) 6519-5980  
Fax: (86-10) 6519-4354

Website: [www.customs.gov.cn](http://www.customs.gov.cn)

National Tourism Administration  
Jia 9 Jianguomennei Dajie, Beijing 100740, China  
Director: Shao Qiwei  
Main Line: (86-10) 6520-1114  
International Affairs: (86-10) 6520-1819  
Fax: (86-10) 6520-1800  
Website: [www.cnta.com](http://www.cnta.com)

State Administration for Industry and Commerce  
8 Sanlihe Donglu, Xicheng District, Beijing 100820, China  
Director: Wang Zhongfu  
Main Line: (86-10) 6803-2233  
International Affairs: (86-10) 6803-2233 ext. 1508  
Fax: (86-10) 6802-3447  
Website: [www.saic.gov.cn](http://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  
Fax: (86-10) 6409-5000  
Website: [www.sara.gov.cn](http://www.sara.gov.cn)

State Administration of Radio, Film, and Television  
2 Fuxingmenwai Dajie, Beijing 100866, China  
Minister: Xu Guangchun  
Main Line: (86-10) 8609-3114  
International Affairs: (86-10) 8609-2141  
Fax: (86-10) 6801-0174  
Website: [www.sarft.gov.cn](http://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  
Main Line: (86-10) 8226-0114  
International Affairs: (86-10) 8226-2176  
Fax: (86-10) 8226-0552  
Website: [www.aqsiq.gov.cn](http://www.aqsiq.gov.cn)

State Bureau of Taxation  
5 Yangfangdian Xilu, Haidian District, Beijing 100038, China  
Director: Xie Xu Ren  
Main Line: (86-10) 6341-7114  
International Affairs: (86-10) 6341-7925  
Fax: (86-10) 6341-7870  
Website: [www.chinatax.gov.cn](http://www.chinatax.gov.cn)

State Food and Drug Administration  
Jia 38 Beilishilu, Xicheng District, Beijing 100810, China

Director: Zheng Xiaoyu  
Main Line: (86-10) 6831-3344  
International Affairs: (86-10) 6831-1986  
Fax: (86-10) 6833-7662  
Website: [www.sda.gov.cn](http://www.sda.gov.cn)

State Environmental Protection Administration  
115 Xizhimennei Nanxiaojie, Beijing 100035, China  
Minister: Zhou Shengxian  
Main Line: (86-10) 6655-6114  
International Affairs: (86-10) 6655-6527  
Fax: (86-10) 6655-6521  
Website: [www.zhb.gov.cn](http://www.zhb.gov.cn)

State Forestry Bureau  
18 Hepingli Dongjie, Beijing 100714, China  
Director: Jia Zhibang  
Main Line: (86-10) 8423-9000  
International Affairs: (86-10) 8423-8720  
Fax: (86-10) 6421-9149  
Website: [www.forestry.gov.cn](http://www.forestry.gov.cn)

State Intellectual Property Office  
6 Xituchenglu, Jimenqiao, Haidian District, Beijing 100088, China  
Director: Tian Lipu  
Main Line: (86-10) 6208-3114  
International Affairs: (86-10) 6208-3268  
Fax: (86-10) 6201-9615  
Website: [www.sipo.gov.cn](http://www.sipo.gov.cn)

General Administration of Press and Publication  
85 Dongsì Nandajie, Dongcheng District, Beijing 100703, China  
Director: Long Xinmin  
Main Line: (86-10) 6512-4433  
International Affairs: (86-10) 6523-1141  
Fax: (86-10) 6512-7875  
Website: [www.ncac.gov.cn](http://www.ncac.gov.cn)

State Sport General Administration  
2 Tiyyguanlu, Chongwen District, Beijing 100763, China  
Minister: Liu Peng  
Main Line: (86-10) 8718-2008  
International Affairs: (86-10) 8718-2732  
Fax: (86-10) 6711-5858  
Website: [www.sport.gov.cn](http://www.sport.gov.cn)

National Bureau of Statistics  
75 Yuetannanjie, Xi Cheng District, Beijing 100826, China  
Director: Li De Shui  
Main Line: (86-10) 6857-3311  
International Affairs: (86-10) 6857-6355

Fax: (86-10) 6857-6354  
Website: [www.stats.gov.cn](http://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) 6309-6898  
Fax: (86-10) 6309-3102

Hong Kong and Macau Affairs Office  
77 Yuetannanjie, Beijing 100045, China  
Director: Liao Hui  
Tel: (86-10) 6857-9977  
Fax: (86-10) 6857-6639  
Website: [www.hmo.gov.cn](http://www.hmo.gov.cn)

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  
Website: [www.chinalaw.gov.cn](http://www.chinalaw.gov.cn)

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  
Website: [www.gqb.gov.cn](http://www.gqb.gov.cn)

Research Office  
Zhongnanhai, Beijing 100017, China  
Director: Wei Liquan  
Tel: (86-10) 6309-7785  
Fax: (86-10) 6309-7803

Taiwan Affairs Office  
No.6-1 Guang'An Men South Avenue, Xuanwu District, Beijing 100053  
Director: Chen Yunlin  
Tel: (86-10) 6857-1900  
Fax: (86-10) 6832-8321

Website: [www.gwytb.gov.cn](http://www.gwytb.gov.cn)

#### E. Institutions

China Meteorological Administration  
46 Zhong Guan Cun Street, Haidian District, Beijing 100081, China  
Director: Qin Dahe  
Tel: (86-10) 6840-6114  
Website: [www.cma.gov.cn](http://www.cma.gov.cn)

Chinese Securities Regulatory Commission  
Tower A of Fukai Building  
19 Jinrong Avenue, Xicheng District, Beijing 100032  
Director: Shang Fulin  
Tel: (86-10) 8806-1000  
Website: [www.csrc.gov.cn](http://www.csrc.gov.cn)

Chinese Academy of Engineering  
3 Fuxinglu, Haidian District, Beijing 100038  
President: Xu Kuang Di  
Tel: (86-10) 6852-2662  
Website: [www.cae.cn](http://www.cae.cn)

Chinese Academy of Sciences  
52 Sanlihe, Xicheng District, Beijing 100864  
President: Lu Yongxiang  
Tel: (86-10) 6859-7114  
Website: [www.cas.ac.cn](http://www.cas.ac.cn)

Chinese Academy of Social Sciences  
5 Jiannei Dajie, Beijing 100732, China  
President: Chen Kui Yuan  
Tel: (86-10) 8519-5999  
Website: [www.cass.net.cn](http://www.cass.net.cn)

Development Research Center  
225 Chaoyangmen Inside Avenue, Beijing 100010  
Director: Wang Mengkui  
Tel: (86-10) 6523-0008  
Fax: (86-10) 6523-0070  
Website: [www.drc.gov.cn](http://www.drc.gov.cn)

National School of Administration  
6 Changchunqiaolu, Haidian District, Beijing 100089  
President: Hua Jian Min  
Tel: (86-10) 6892-9665  
Website : [www.nsa.gov.cn](http://www.nsa.gov.cn)

China Seismological Bureau



63 Fuxing Lu, Haidian District, Beijing 100036, China  
Director: Chen Jianmin  
Tel: (86-10) 6821-9525  
Website: [www.csi.ac.cn](http://www.csi.ac.cn)

F. Bureaus Supervised by Commissions and Ministries

State Administration of Foreign Exchange  
18 Fuchenglu, Beijing 100037, China  
Director: Ms. Hu Xiao-Dong  
Tel: (86-10) 6840-2507  
Website: [www.safe.gov.cn](http://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](http://www.satcm.gov.cn)

State Administration of Cultural Heritage  
10 Chao Yang Men Bei Da Jie, Chaoyang District, Beijing 100020, China  
Director: Shan Ji Xiang  
Website: [www.sach.gov.cn](http://www.sach.gov.cn)  
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](http://www.safea.gov.cn)

State Bureau of Surveying & Mapping  
9 Sanliheli, Baiwanzhuang, Beijing 100830, China  
Director: Mr. Lu Xin-She  
Tel: (86-10) 6832-1893  
Website: [www.sbsm.gov.cn](http://www.sbsm.gov.cn)

State Administration of Grain  
11A, Muxudi Beili, Xincheng District, Beijing 100038, China  
Director: Nie Zhengbang  
Tel: (86-10) 6390-6078  
Website: [www.chinagrain.gov.cn](http://www.chinagrain.gov.cn)

China National Light Industry Council  
Yi 22 Fuwaidajie, Beijing 100083, China  
Director: Chen Shineng  
Tel: (86-10) 6839-6228  
Fax: (86-10) 6839-6800

China Iron and Steel Association  
46 Dongsu Xidajie, Dongcheng District, Beijing 100711, China

Director: Xie Qi Hua  
Tel: (86-10) 6513-3322/1935  
Fax: (86-10) 6513-0074  
Website: [www.chinaisa.org.cn](http://www.chinaisa.org.cn)

State Oceanic Administration  
1 Fuxingmenwai Dajie, Beijing 100860, China  
Director: Sun Zhi-Hui  
Tel: (86-10) 6803-2211  
Website: [www.soa.gov.cn](http://www.soa.gov.cn)

China Petroleum and Chemical Industry Association  
Building 16, 4 District, Anhuili, Yayuncun, Chaoyang District, Beijing 100723, China  
Director: Li Yong-Wu  
Tel: (86-10) 8488-5100/5430/5098  
Fax: (86-10) 8488-5097  
Website: [www.cpcia.org.cn](http://www.cpcia.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](http://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  
Website: [www.cntac.org.cn](http://www.cntac.org.cn)

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](http://www.tobacco.gov.cn)

#### G. Associations & Corporations

All-China Federation of Industry and Commerce  
93 Beiheyuan 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](http://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](http://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](http://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](http://www.citic.com)

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.  
6 Dongzhimenwai Xiaojie  
Beijing 100027  
President: Fu Cheng-Yu  
Tel: (86-10) 8452-1071/8452-1010  
Fax: (86-10) 6460-2600  
Website: [www.cnooc.com.cn](http://www.cnooc.com.cn)

China National Petroleum Corp.  
6 Liupukang, Xicheng District, Beijing 100724, China  
President: Chen Geng  
Tel: (86-10) 6209-4798/6209-4114  
Fax:(86-10) 6209-4806  
Website: [www.cnpc.com.cn](http://www.cnpc.com.cn)

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: Mr. Zhang Guo-Qing  
Tel: (86-10) 6352-9988  
Fax: (86-10) 6354-0398  
Website: www.norinco.com.cn

China Petro-Chemical Corporation  
6 Hui Xin Dong Jie Jia, Beijing 100029  
President: Wang Tian-Pu  
Tel: (86-10) 6499-9936  
Fax: (86-10) 6421-8356  
Website: www.sinopec.com.cn

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  
Website: www.cscec.com.cn

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  
Emory Williams, Chairman  
Charlie Martin, President  
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](http://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](http://www.cm-1.com)

U.S.-China Business Council  
Patrick J. Powers, Director of China Operations  
CITIC Building, Room 1001  
Beijing 100004  
Tel: (86-10) 6592-0727  
Fax: (86-10) 6512-5854,  
Website: [www.uschina.org](http://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](http://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](http://www.uswheat.org)

United States Information Technology Office (USITO)  
Anne Stevenson-Yang, Managing Director  
Room 516, Beijing Fortune plaza office Tower, No.7 Dongsanhuan Zhong Lu  
Chaoyang District, Beijing 100020, China  
Tel: (86-10) 6530-9368/69/70  
Fax: (86-10) 6530-9367  
Website: [www.usito.org](http://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](http://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: Robert Luke  
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 : Bill Brekke  
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: Vacant  
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](http://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](mailto: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](http://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

### **Market Research**

[Return to top](#)

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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.

### **Trade Events**

[Return to top](#)

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.

[Return to table of contents](#)

## 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>

[Return to table of contents](#)

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>

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.