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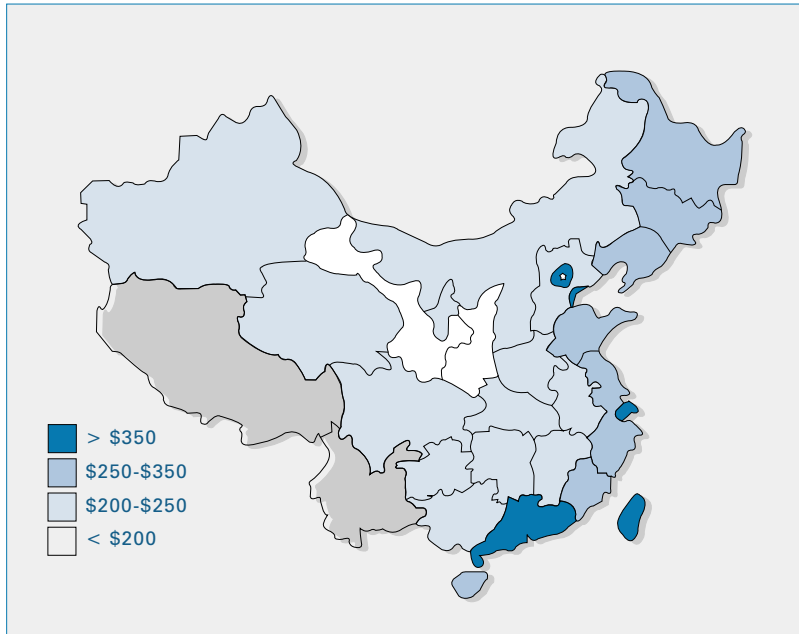
通向中国

CONTACT CHINA

A Resource Guide for Doing Business in the People's Republic of China



China at a Glance



Message from the Ambassador



The relationship between the United States of America and the People's Republic of China is arguably the most important bilateral relationship of the Twenty-First Century. China is not only the world's most populous nation, but it is also the world's fastest growing developing country. China will play an increasingly important role in re-shaping the economic and political landscape of Asia, the world's economically most dynamic region. The United States desires a candid, constructive and cooperative relationship with China. How successful we are will affect the peace and prosperity of every man, woman and child.

This is a time of opportunity for those interested in doing business in China. With the country's recent accession to the World Trade Organization, Chinese leaders have made a bold commitment to accelerate China's journey along the path of reform and globalization that it began over twenty years ago. China has pledged to continue to open its markets, potentially the world's largest, to foreign goods and services and to abide by the laws and accepted practices of the international trading system.

China's journey, however, will continue to be fraught with enormous challenges. The United States is committed to tirelessly working with China to address these challenges.

Since the opening of United States relations with China by President Nixon just thirty years ago this year, our commercial ties with China have remained the strongest and most resilient component in our complex relationship. Now that China has joined the World Trade Organization, these commercial ties and opportunities for American firms will only increase. I would remind you, however, that the sea of changes now being implemented in China as its vast economy transitions from a planned economy to a market-driven economy carry with them risk as well as opportunity. As former Beijing Embassy Commercial Counselor Melvin W. Searls, Jr. said in 1982, "Don't forget the three 'p's': preparation, perseverance, and patience!"

As a former Foreign Commercial Service Officer in China, I am particularly honored and pleased to provide this brief introduction to *Contact China*. I hope that this handbook will prove to be a useful tool for American businessmen and firms interested in the China market. I would also urge you, if you have not already done so, to contact our United States Commercial Officers resident in Beijing, Shanghai, Guangzhou, Shenyang and Chengdu to see how they can help you and your business succeed in China. They comprise an important resource that should be part of your team.

We look forward to serving you.

Sincerely,

A handwritten signature in black ink, appearing to read "Clark T. Randt, Jr.".

Clark T. Randt, Jr.

Message from the Minister Counselor for Commercial Affairs



Welcome to China. For those of you attempting to enter this market for the first time, you are in for the experience of your life. Doing business internationally is always a challenge, but beginning a new venture in China brings the experience to a new level.

In the following pages you will find a wealth of helpful information. This booklet contains useful advice on market entry issues that will help you succeed in this market, and make sure you are paid for your product or service. There is a market research section that will assist you identify sales opportunities. In addition, there is information that will help you identify the resources you need to evaluate local demand patterns, and plan your business strategy. Finally, one of the most useful sections is a listing of service providers who can give you in depth support for your efforts in China.

We hope this booklet will put you on your first step toward a long and successful venture in China. Here, at the U.S. Commercial Service, *your success is our only mission*. This can include helping you identify markets, avoiding pitfalls, advocating on your behalf, identifying clients, and assisting in your marketing efforts.

The Commercial Service is often called "the best kept secret in the U.S. Government". The fact that you have found us means that all of our expertise, energy, contacts, and programs are now at your disposal. The Commercial Service, along with all other elements of the U.S. Embassy, are prepared to serve you.

Please feel free to call upon us at any time in your efforts to penetrate this vast and interesting market.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas Lee Boam".

Thomas Lee Boam

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Please visit our website at www.usembassy-china.org.cn

Editor's Caution

The economic and business environment in China is constantly changing which means that some of the information in this book may be out-of-date before you even read it. To help us improve next year's book, please send suggestions by fax or email to the Commercial Service Office in Beijing. We plan to post major changes to Contact China on your website.

This guide is published by the U.S. Commercial Service – China as a service to U.S. exporters. Reference in this publication to any specific commercial product, service, manufacturer, or company does not constitute its endorsement or recommendation by the U.S. Government or the U.S. Embassy in Beijing.

Much of the contact information in this publication was provided by the American Chamber of Commerce in China, whose support we gratefully acknowledge.

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How the U.S. Commercial Service Can Help You

U.S. Commercial Service China Website

For more detailed information on any of the CS China products, services, and resources described in this booklet, please visit the U.S. Commercial Service section of the American Embassy-China website: www.usembassy-china.org.cn

Our regularly updated, bilingual site contains:

- *detailed descriptions of CS China products, services, and resources*
- *information on regional Chinese markets*
- *lists of upcoming trade events*
- *links to other useful websites*
- *Information on WTO & the Beijing 2008 Olympics*

Export Assistance Centers

U.S. Export Assistance Centers are the best place to start for international business inquiries. They are located throughout the United States bringing U.S. government export promotion resources to you. These centers are the result of a cooperative effort among the U.S. Commercial Service, the Small Business Administration, and the Export-Import Bank to help you increase international sales. For the location of the EAC nearest you, visit www.usatrade.gov

Export Assistance Centers can help by providing:

- Export and trade finance counseling
- Market research
- Access to business contacts
- Trade promotion events and programs

- International contract bidding support through the U.S. Advocacy Center

Gold Key Service (GKS)

Make your next trip to China more productive through the Gold Key Service. We will identify contacts and set up appointments during your trip to China – typically four per day – with potential agents and distributors, major end-users, key government officials, and other important contacts. The Commercial Service will provide an Embassy briefing on political and economic conditions, U.S.-China relations, and tips on doing business in China. We can also locate an interpreter to escort you to your appointments. Six weeks lead-time is recommended. The GKS service fee is \$400 for the first day, \$200 for the second and each additional day and \$150 for an interpreter per day.

Platinum Key Service (PKS)

The Platinum Key Service provides long-term, sustained support to a firm's activities in the China market. Whether you need help in developing and implementing a market entry strategy, are involved in a major project, or require U.S. government advocacy on a protracted trade dispute, the Platinum Key Service will ensure that you receive the long-term, focused support you need to achieve success.

This market development support is defined in a scope of work statement that is specifi-

cally tailored to a client's unique needs. A dedicated account executive will help design and implement a strategy to meet your specific needs, and oversee the delivery of all our services to you. Finally, each month you will receive a monthly progress report from your account executive.

Among the types of services that Platinum Key clients may select are:

- Consultations: In-depth advice dedicated to specific client products/services which is focused on specific client goals/objectives;
- Early Alerts: Early information on emerging business opportunities and major projects;
- Dispatches: Focused bimonthly intelligence, analysis, and commentary on emerging opportunities, market trends, key players, government projects and policies specific to the client's needs. As appropriate, we will provide abstracts on relevant articles from major newspapers;
- Special Events: Early notice on and priority treatment from U.S. Commercial Service sponsored events, e.g. roundtables, briefings, trade events, and meetings with industry/government players;
- Access to CS Services: Priority access to U.S. Embassy and U.S. Consulate market information and services including customized tele- and video-conferences.

International Partner Search (IPS)

Looking for representatives in China? We 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. We will search for up to six of the best-qualified contacts who are interested in representing your product, or in the type of business relationship you specify, and provide comments and contact information for each. Turnaround time is 15 days after we receive your company's product literature. Each report is developed from on-the-spot research by U.S. Embassy and Consulate staff. The search is done on a regional basis so a request to Shanghai will turn up contacts in the Yangtze Delta while a request to Shenyang covers Heilongjiang, Jilin and Liaoning. The fee for IPS service is \$600 for each related product line in each district.

International Company Profile (ICP)

To assist U.S. companies enter international business relationships with confidence, the International Company Profile (ICP) reports help U.S. companies evaluate potential business partners by providing a detailed report on Chinese companies. CS China now subcontracts part of these reports to Kroll Associates, a leading American investigative service firm. Reports include up-to-date information such as:

- Bank and trade references
- Principals, key officers and managers
- Product lines
- Financial data
- Reputation
- Market outlook
- And much more!

ICP reports cost \$600 and can be delivered in 20 days or less.

Customized Market Analysis (CMA)

This market research program is tailored to your specific product and helps you define key sectors of the China market. This report will help you assess local and foreign competitors, determine sales channels and market size, and identify key industry contacts. A standard CMA answering nine typical questions costs you approximately \$3,100 for each product line in each district. A non-standard CMA answers your own specific questions on your products or services.

Commercial Service Publications

We offer a wide range of publications about business in China, including

- In-depth industry reporting: *Industry Sector Analyses*
- Brief, topical reporting: *International Market Insights*
- Annual report on China's economy and business: *Country Commercial Guide*
- Free, bi-weekly e-newsletter for U.S. companies interested in the Chinese market: *China Commercial Brief*
- U.S. Business Directories for five regions throughout China

Beijing and Shanghai Commercial Libraries

CS China has two Commercial Libraries

(Shanghai and Beijing) open to U.S. companies and other firms interested in sourcing products or services from America. Our staff can help you access Market Research Reports, locate information on key contacts or introduce you to our business facilitation programs. Please call for an appointment.

Shanghai Commercial Center

The U.S. Commercial Center in Shanghai offers a wide range of business services and facilities to help launch your business in China and Asia, including:

- trade event support
- conference facilities
- an up-to-date resource library
- a 20 member professional trade promotion staff

The Shanghai Commercial Center is located in the Shanghai Center (adjacent to the Portman Ritz Carlton Hotel) in the heart of Shanghai's business district near shops, restaurants and corporate apartments. For more information please contact the Shanghai Commercial Center at (86-21) 6279-7630 or by fax: (86-21) 6279-7639.

BuyUSA.com

BuyUSA.com combines the expertise of the U.S. Commercial Service and the technology

of IBM in creating a powerful e-marketplace. Its mission is to bring suppliers of U.S. products and services together with companies outside the United States, and give both groups the services they need to conduct successful business worldwide. As a subscriber, you can receive instant access to qualified foreign partners, business opportunity postings, exposure at promotional events worldwide, international export business guidance and counseling, and much more. Check it out at www.BuyUSA.com.

U.S. Export-Import Bank

The U.S. Export-Import Bank is pleased to offer its short-, medium-, and long-term programs to support sales of U.S. exports to the People's Republic of China. Exports of consumer goods, spare parts, raw materials, bulk agricultural commodities and quasi-capital goods can be supported under Ex-Im Bank's short-term credit insurance policies. Ex-Im Bank's medium- and long-term loan and guarantee programs can support exports

of capital goods and related services. For more information, please call Ex-Im Bank's representative in Beijing at 6532-6924 or e-mail at Douglas.Lee@mail.doc.gov, or contact Ex-Im Bank's Business Development Office in Washington, D.C. at (202) 565-3900, in the U.S (800) 565-EXIM or fax (202) 565-3733. Letter of Interest Applications are available on-line on the Ex-Im Bank Website at <http://www.exim.gov>.

Trade Development Agency

The Trade Development Agency (TDA) provides funding for feasibility studies, orientation visits, specialized training grants, business workshops, and various forms of technical assistance that enables American businesses to compete for important developmental infrastructure and industrial projects in middle-income and developing countries. TDA returns to China this year after an 11-year absence. For more information about how TDA can help you, please visit www.tda.gov.

FCS Office Hours	
Beijing	Shanghai
Monday - Thursday	Monday - Friday
9:00 am - 12:00 p.m.	9:00 am - 12:00 p.m.
1:00 p.m. - 5:00 p.m.	1:00 p.m. - 4:30 p.m.
Tel: (86-10) 8529-6655	Tel: (86-21) 6279-7630
Fax: (86-10) 8529-6558/9	Fax: (86-21) 6279-7539

How the Embassy Can Help You

U.S. Embassy

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Beijing, China 100600
Switchboard: (86-10) 6532-3831, 6532-3431

Commercial Section

The U.S. Commercial Service (U.S. Department of Commerce) is the largest U.S. Government agency devoted to promoting American commercial interests abroad. In addition to counseling dozens of business people every day, the U.S. Commercial Service assists exporters by offering customized market-entry services, market research, trade leads and access to business contacts. The U.S. Commercial Service also is an advocate for U.S. firms bidding on projects in China and works closely with State Department Economic Officers and China's Ministry of Foreign Trade and Economic Cooperation (MOFTEC) to help improve American companies' access to the Chinese market.

Agricultural Section

The Foreign Agricultural Service (FAS) works to increase the sale of U.S. agricultural products to China. The FAS Office of Agricultural Affairs in Beijing focuses on market intelligence and government relations, with a particular interest in improving China's agricultural trade-policy environment and access to the Chinese market. The FAS Agricultural Trade Offices in Shanghai (covering Northern

and Eastern China) and Guangzhou (covering Southern and Western China) sponsor promotional activities, support existing U.S. products, and aggressively help to promote and introduce new products from the United States. FAS will open a new Agricultural Trade Office in Beijing during fall, 2002.

Economic Section

The Economic Section (U.S. Department of State) oversees U.S.-China economic policy and trade and investment policy issues. It directly supports economic negotiations and exchanges, including talks on China's implementation of WTO commitments, market access problems, intellectual property rights issues, APEC, and broad-based economic policy dialogue. The ECON Section regularly exchanges views with a broad range of Chinese government contacts and with the U.S. and Chinese business communities. Economic officers welcome the opportunity to brief visiting U.S. businesspersons and others on economic developments in China.

Environment, Science & Technology Section

The U.S. Embassy Environment, Science & Technology section covers a wide range of issues in the areas of environment, science, technology, and health. ES&T manages official cooperation between the two countries and makes reports in many areas of interest to U.S. business. Over 200 ES&T section reports are available at www.usembassy-china.org.cn/sandt/index.html.

Political Section

The Political Section (U.S. Department of State) reports on a wide range of topics of significance to U.S. interests and policy, from non-proliferation and human rights to Chinese political developments and social changes. The Political Section also supports many high-level visitors who come to Beijing each year, including Congressional and Executive branch officials. The Political Section also plays an important advocacy role in explaining U.S. Government policies and positions to the Chinese Government and the general public.

Public Affairs Section

The Public Affairs Section (PAS) manages the United States Government's official information, educational and cultural exchange activities in China. Concurrently, PAS is the official voice of the United States Embassy in China. Through its Press Section, PAS handles all public affairs matters and media relations concerning the Embassy, the United States Government and its policies toward China. PAS' Cultural Section manages the Fulbright Program, the International Visitors Program, the American Center for Educational Exchanges, a speaker program and other activities.

American Citizen Services

The American Citizen Service (ACS, U.S. Department of State) unit in the Consular section of the Embassy assists Americans who need to replace lost or stolen passports, notarize documents, register the birth of new born children, or who are experiencing medical, financial or legal difficulties. It is also a valuable source of general information. ACS is open Monday through Friday from 8:30 am to 12:00 noon and from 2:00pm to 4:00pm

(Chinese and American holidays excepted). All Americans who stay in China should register at ACS in person, by fax 6532-4153 or on-line at www.usembassy-china.org.cn. ACS telephone number is (86-10) 6532-3431 ext. 5609, 5028, 5344. In case of an after-hours emergency, please call (86-10) 6532-1910. Similar service are available from the Consulates General in Chengdu, Guangzhou, Shanghai and Shenyang for persons in their districts. Be sure to bring your passport with you when you come to the ACS unit for service.

Visa Unit

The Embassy in Beijing and the Consulates General in Chengdu, Guangzhou, Shanghai and Shenyang process all categories of nonimmigrant visas. Under U.S. law, it is the responsibility of the visa applicant to establish that he or she has compelling reasons to return to China and consular officers alone are authorized to adjudicate visa applications. The Commercial Service or other sections of the Embassy are not able to facilitate or interfere in the visa process. U.S. firms who are planning to sponsor and/or host Chinese business travelers should ensure that they are fully familiar with the applicant(s) before assisting them. They should provide clear and specific invitation letters to the applicants while advising them to provide accurate information on their application forms. Approved visas are generally issued in one or two working days, though cases submitted through the Chinese government can take several weeks to wind through the Chinese bureaucracy. Applicants and sponsors should note that most visa applicants need appointments for visa interviews. Travel should be planned well in advance. Consult the website for more information www.usembassy-china.org.cn/visa.

Market Overview

For over 200 years U.S. exporters have been enticed by the potential of the China market. U.S. business' romance with China lay dormant for thirty years after WWII, but the love affair was rekindled in the late 1970's when China adopted a policy of "reform and opening up." Since the initiation of that policy, China's economy has grown at an average annual rate of nearly 9%, and the number of foreign firms doing business in or with China has grown exponentially. According to Chinese statistics, U.S. firms have invested over \$25 billion in China – 90% of it within the last ten years.

Despite this interest and investment, China remains a medium-sized market. In 2001, China's Gross Domestic Product was about \$1.19 trillion. This is roughly the size of the GDP of Italy, and about 1/3 smaller than the GDP of the State of California (in 2001, about \$1.4 trillion). Obviously, the GDP number is far more significant in evaluating the importance of the Chinese market than the 1.3 billion people who live here. Market "demand" is not just the desire to buy products, but desire coupled with disposable income. Income and GDP are growing rapidly in China, but from a very low base, and it will take many years before China's ability to purchase goods in the world markets will match the potential its population promises. This is probably the single biggest mistake American companies make in evaluating the Chinese market. Population is not the proper basis for evaluating market potential. Population *and* disposal income must be considered together.

Of course, the difference between China and other medium-sized markets is growth. The Chinese Government claims growth of over 7% last year. Many economic indicators in China are imprecise, so it is not clear exactly what the actual growth rate was. It is clear, however, that the number is positive, making China one of the few markets worldwide to experience strong growth last year.

Since 1990, U.S. exports to China have grown almost 12% annually. Even with this growth, China consumes less than 2% of all U.S. exports worldwide. Still, this is nearly triple the growth rate for U.S. imports from China, a positive sign for American industry. U.S. investments in China (plus retained earnings) are a tiny portion of the total U.S. holdings overseas.

With a relatively small market and low disposable income, it is clear that China will be a selective consumer of American goods. Not only are tastes different than in the U.S., but the ability to pay for relatively expensive American products will not be universal. Companies wishing to enter the China market need to make certain that an existing market, or market potential exists for their products. If there is an existing market, companies need to find out how crowded it is. American suppliers also need to determine their competitive advantage, find a market niche, and understand the distribution channels. For products with untapped market potential, market penetration costs should be clearly established. Any marketing plan should also have funding included for a company

Intellectual Property Rights (IPR) protection program.

American companies who have sound marketing plans have done well in China. The attraction of China's huge potential for future business has spurred great interest in this market. Unfortunately, not all companies have been careful enough in their planning and execution, and as a result many U.S. firms find the Chinese market frustrating and difficult. The successful companies are those that have thoroughly investigated the market, pre-qualified business partners, assured payment will be made and crafted contracts which minimize misunderstandings. Successful ventures are scrupulous in their "due diligence," verify all claims made by potential partners, and receive extensive advice from lawyers, accountants, and even private investigators.

Since you are reading this, we know that you already have an interest in doing business in China. We probably don't have to encourage you to be excited about this market. Given the huge potential of doing business in China, your interest is justified. This is a market too important to ignore. Your interest, however, is to be part of the successful group of companies doing business in China, and to avoid the pitfalls.

The problems of doing business in China can be grouped in four large categories:

□ *China often lacks predictability in its business environment.* A transparent and consistent body of laws and regulations can provide predictability. Achieving this requires strong central authority, with clear and uniform economic goals, and the ability to enforce its will throughout the country. China is lacking in both. Its

current legal and regulatory system can often be opaque, inconsistent, and arbitrary. Political power in China is disbursed among competing bureaucracies with conflicting interests. Frequently, they not only disagree among themselves, but also with their own, reform-minded top leaders. With China's accession to the WTO, this situation is improving, but major shifts in the business environment will not occur overnight.

□ *China still tends to be mercantilist and protectionist.* China has made significant progress toward a market-oriented economy, but some elements of its bureaucracy still tend to protect local firms and state-owned firms from imports, while encouraging exports. This means that foreign firms and products can be subject to *de facto* discrimination or unfair treatment. Again, WTO accession for China will bring slow improvement in this area.

□ *China has the remnants of a planned economy.* In many sectors of the Chinese business community, the understanding of free enterprise and competition is incomplete. The Chinese economy is often prone to over-investment and over-production, for reasons not related to supply and demand. Local bureaucrats sometimes keep companies alive by artificial means, even though the firms have not been profitable for years. Banks have often been ordered to give loans to insolvent companies, when there is no hope of repayment. American businesses must be wary of businesses which appear on the surface to be viable, but which are in reality, bankrupt.

□ *Foreign businesses have been over-enthusiastic about China.* Encouraged by a government eager for foreign capital and technology, and entranced by the prospect of 1.3 billion consumers, thousands of foreign firms have charged into the Chinese market. These companies often do not fully investigate the market situation, don't perform the necessary risk assessment, and fail to get counsel. Without the necessary preparation, these companies often stumble into bad business deals, resulting in trade complaints and lost investments. *Lack of thorough due diligence is the primary cause of financial losses for American businesses.* Companies often assume that China is "different," and don't think they need to investigate partners or clients. They do not protect themselves to make certain they get paid. As a result, through bad business deals, careless American companies lose millions of dollars in China each year. Most of these losses could have been avoided by

proper due diligence and risk analysis.

For the next few years, we assume the following:

- The Chinese economy will continue to grow, but the growth will be slower than in the recent past. You should not discount the possibility of significant problems arising in the Chinese economy from unforeseeable political or economic disruptions. The problems in the state sector – especially the banking system – could rapidly become critical if they are not properly managed. Unemployment could cause social unrest. WTO will actually increase the economic volatility of China, as adjustments are made to meet its requirements.
- China will continue to have a collective, conservative leadership that pursues economic liberalization because it must. Reform will be slow, and in certain sectors, grudging. Nevertheless, eco-

nomie growth will be the government's major source of legitimacy. As a result, liberalization will continue, but will be tainted with mercantilism and protectionism. There will continue to be regional protectionism that impacts both foreign and domestic products. Improvement will be slow, but sustained.

- The WTO agreement will provide U.S. policymakers with a new tool to create market openings in China, but the agreement will not lead to quick changes in the fundamental business environment. Progress will be hindered by both a lack of understanding of the WTO process, and by violations committed by individuals with a full knowledge of the rules. Nevertheless, top Chinese Government officials will continue to strongly support WTO, resulting in increasing acceptance by national and local government leaders.
- The WTO agreement will lead to increased interest in the Chinese market by U.S. businesses and political institutions. Thus, the pressure on the USG and private sector service providers to provide services in China will steadily increase. As various phases of the WTO agreement become effective (i.e. tariff reductions, service agreements, etc.), the demands on services by U.S. business will increase rapidly. Similarly, implementation and compliance activities by various USG elements will begin immediately and will be effective in modifying behavior.

Top Ten Tips for Doing Business

In this environment, it is necessary for American companies to have a well-planned strategy. The following list is not

comprehensive, but a guideline for an initial market evaluation. Companies entering this market should consider the following:

1. *Have clear contract terms.* When entering into a contract with a Chinese partner you must be careful. Specify exact terms of payment, and performance standards. Set time lines. Pay careful attention to details, such as initialing pages of contracts and signing properly. Do not attempt to enter into an agreement without sound legal advice. Have your own legal counsel. Do not rely on the legal advice from your Chinese partner. Beware of claims that the Chinese law requires specific covenants in your contract. Verify this with your own counsel. Do not agree to provisions in a contract that are not under your control. For example, if your client or partner wants you to specify in the contract that they must visit your plant in the United States, remember that you cannot guarantee that he or she will receive a visa. This could invalidate your contract. Make certain that your partner is not a shell subsidiary of a larger company. If the partner defaults, do you have the ability to collect from the parent company? Specify this in your contract. *Remember that the best contracts are those that do not have to be enforced.* Make certain your client or partner is not only *willing*, but *able* to do all they say they will do in the contract. Assure yourself that it is in their best interest to perform as agreed. Lastly, be careful that your partner is allowed by law to fulfill the promises in the contract. Do not assume that local or provincial officials actually have the authority to give you permits and permissions. Verify these claims from independent sources.

DID YOU KNOW?

China in the WTO: What it Means for U.S. Business

On December 11, 2001 China became the 143rd member of the WTO (World Trade Organization). Although China has already been working hard on liberalizing their economy for over 20 years, this accession truly validates their long march. For U.S. interests, China's accession is a very positive thing. With the WTO we can expect lower market barriers, a more transparent investment environment, tariff reductions, support of WTO dispute resolution, and development of a working legal system in China. But bear in mind, while these reforms will happen, they will not take place overnight. Many of the reforms are being phased in over the next few years while others we may not see for over a decade.

For more information and a free .pdf version of CS China's WTO guide booklet, please visit www.usembassy-china.org.cn or pick up a hard copy at one of our Commercial Libraries.

2. *Make certain your project is economically viable.* Profitability of a project or the sale of goods and services should be based on sound economic criteria. Do not rely on promises of subsidies, special considerations, or non-market related sources of income to create a profit. If subsidies are offered, they should be used to augment profit, not create it. Make certain your partner has the authority to offer subsidies and assure yourself from independent sources that the subsidies will actually be paid. Look for examples of companies who have actually received such benefits.

3. *Make sure you know your partner.* Do your “due diligence,” and do it well. Check the reliability of the data on your partner or customer from independent sources. Avoid being “stovepiped” – talking only to a narrow band of people to whom your partner or buyer directs you. Seek other sources of information outside the stovepipe.

4. *Make sure you get paid.* A contract with an insolvent partner or customer is worthless. Pay careful attention to how you get paid, when you get paid, and in which currency. If you want to be paid in U.S. dollars, be certain you are able to convert profits. Use letters of credit, and other financial instruments to protect yourself. If you do not want to use a letter of credit, require your partner to make advanced payment. Remember that Chinese companies usually do not use terms that allow unsecured payments after delivery of the product. For example, payment terms of “30% letter of credit, 70% payment 120 days after delivery,” would not be customary in China. For

large projects, terms of “70% advance payment, 30% letter of credit,” would not be unusual. NEVER agree to unsecured payments after delivery. Doing so signals your potential partner that you do not know what you are doing, and marks you as a gullible target for fraud. Remember that providing a product without payment is called *charity*, and unless you are running a philanthropic organization, this is not your intended goal. Before you complete any sale, make sure you know how and when you will be paid. Most importantly, know *why* you will be paid. You should understand the motives of your partner to pay you. If you don’t build mutually beneficial reasons into your contract, you may not get your money.

5. *Do not enter into prohibited agreements.* American companies have often entered into agreements with promises from local officials that national rules will not be enforced in the provinces. Indeed, often they are not. Problems arise when these rules are suddenly applied – sometimes retroactively – leaving the company with little recourse. You must be ready to obey WTO compliant regulations, even if you initially can successfully avoid them. Seriously question any agreement where you are told you can ignore or avoid rules.

6. *Never agree to pay bribes of any kind.* This is not only a bad business practice, but may cause you to be in violation of the U.S. Foreign Corrupt Practices Act (FCPA). You should be aware that China is also cracking down on corruption. You do not want your business to be associated with corrupt officials or illegal practices. You also don’t want to be the cause of your Chinese partner being punished. In severe

cases, accepting bribes may be punishable by death. Many American companies have reported that their Chinese partners respect their requirement to be in compliance with the FCPA and do not expect American companies to pay bribes. If pressed for a bribe, you may need to remind local officials of this fact. No contract is worth the potential negative outcomes of bribery.

7. *Be careful to base your business on WTO compliant rules.* The U.S. government cannot support you if you are relying on a business plan that is not WTO compliant. China has agreed, as part of WTO accession, to change its rules to make them compliant. Some American companies may have taken advantage of old rules, which protected existing industries. As such rules are replaced, they will need to modify their business plan. Otherwise they may find their competitive advantage eroded by the new lack of protectionism.

8. *Search for problems before they materialize.* In addition to creating *pro-forma* balance sheets, spend some time at the beginning of a project to create scenarios of what you will do if things go wrong. Try to anticipate possible problem areas. If you can’t find any, you are not looking hard enough. Create a strategy to deal with potential problems. Have dispute resolution scenarios in place. You know how much profit you want to make, but do not forget your company can lose as well.

9. *Limit your exposure.* Do a thorough risk analysis before you begin doing business in China. Know your own company’s risk profile and weigh it carefully against the realities of the Chinese market. Be realistic

about how much risk you are willing to accept in your business venture. Make sure you use reliable sources for this assessment. Use more than news media sources, or your immediate partners to evaluate the market. Set milestones in the project for performance. Have an escape strategy for each stage of the project, even though you don’t plan to use it. Remember that you should not have a separate risk policy for China. Losing money in China is exactly the same as losing money anywhere else. Your methods of assessing risk may differ in China, but your policy should not.

10. *Mind the store.* Projects and sales in China require constant attention. Do not assume they will run themselves. Follow up on all details. Never let your partner assume you have forgotten about them. Keep in mind that the last payment is just as important as the first one.

Market Entry Options for Foreign Firms

Trading Companies and Local Agents: With China’s accession to the WTO, foreign companies will be allowed to trade in China. Still, trading companies and local agents remain an important option to consider. With careful selection, training and constant contact, U.S. firms can obtain good market representation from a Chinese trading company, many of which are authorized to deal in a wide range of products. Local agents who handle internal distribution and marketing offer relatively low risk representation.

Representative Offices: Representative offices are the easiest type of offices for foreign firms to set up in China, but they are limited by law to performing “liaison”

activities. They cannot sign sales contracts, directly bill customers or supply parts and after-sales services for a fee.

Chinese subsidiaries: A locally incorporated equity or cooperative joint venture with one or more Chinese partners, or a wholly foreign-owned enterprise (WFOE), avoids import restrictions – including relatively high tariffs – and provides greater control over both marketing and management. Successful joint ventures require good partners, time and patience. If you are not willing to provide constant monitoring of critical areas such as finance, personnel and basic operations, then consider other market entry alternatives.

Wholly Foreign Owned Enterprises: Establishing a WFOE helps retain greater management control and IPR protection. The current law on WOFEs requires that firms either provide advanced technology or be primarily

export-oriented, and restricts or prohibits them in a number of service and public utility sectors. With WTO accession, many of these requirements are being phased out.

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

Franchising: China has no laws as yet which specifically address franchising, but many foreign companies are beginning to establish multiple retail outlets under a variety of creative arrangements, including some which

for all practical purposes function like franchises. Virtually all of the foreign companies who operate multiple-outlet retail venues in China either manage the retail operations themselves with Chinese partners (typically establishing a different partner in each major city) or sell to a master franchisee which then leases out and oversees several franchise territories within the territory. Within three years of WTO accession, restrictions on equity share, number of outlets and geographical area are to be eliminated.

Direct selling: The U.S direct selling industry is working pro-actively with various Chinese government departments and agencies, as part of an overall effort toward China's WTO accession, to construct a fairer business climate in this industry. The implementation of WTO commitments promises to change this method of marketing in a rapidly changing business environment.

E-commerce: The Chinese government has adopted an open attitude towards the advent of electronic commerce in China. Interest among both Chinese and international businesses focuses on investing and on establishing vertical integration and sales channels on-line. Investment is risky, however, due to the lack of defined regulatory powers over the industry, effective Chinese certificate authentication systems, secure and reliable on-line settlement systems, and an efficient physical delivery system.

DID YOU KNOW?

Beijing 2008

On July 13, 2001, Beijing won the bid to host the 2008 Summer Olympics. Not only is this an extremely exciting event for China, it is also a tremendous business opportunity. The City of Beijing is planning to invest more than \$23 billion in preparation for the Olympic Games in 2008. Much of this money will be spent on construction projects in the following areas: Olympics facilities, transportation, telecommunications, and environmental improvements. While some of the projects are continuations of city improvements that have been planned for years, others are entirely new projects that will now come to fruition since Beijing has been officially selected to hold the Olympics. The Beijing municipal government has promised that bidding on these projects will be open on an equal basis to both foreign and domestic companies.

For up to date news and bidding announcements, visit the Olympics section of CS China's website at www.usembassy-china.org.cn.

Regional Briefs

Shanghai and East China

CS Shanghai covers the Consular District of Jiangsu, Anhui and Zhejiang provinces and Shanghai Municipality. The region's GDP hit \$268.06 billion in 2001, roughly 25% of China's total. The region's trade with the U.S. equals \$21.22 billion, accounting for 28.5% of China's total. The economy of this region is roughly equivalent in size to Indonesia and Thailand combined.

Shanghai is the industrial, financial, and commercial center of China. It hosts a concentration of manufacturing activity in the key industries of automotive, electronics, telecommunications, machinery, textiles, iron and steel, and petrochemicals. Shanghai has a population of over 16 million.

In 2001, Shanghai's GDP grew by 10.3% to \$59.9 billion, accounting for over 5% of China's total output. GDP per capita is over \$4,500 with average per capita income around \$3,000. Also in 2001, Shanghai's exports equaled \$27.63 billion, 10% of China's total. 25% of China's total exports pass through Shanghai ports.

Foreign direct investment is on the rise again after falling off in the late 1990's. Contracted investment for 2001 was \$7.37 billion.

Cumulative contracted FDI equals \$52.79 billion, 9.37% of nation's total. Realized investment is \$30.89 billion, 9.13% of the nation's total.

The U.S. ranks second as an investor in Shanghai, after Hong Kong. Total U.S. contracted investment equals \$5.9 billion, 13% of Shanghai's total. There are over 2,900 U.S. invested projects. With 1,600 members and growing at a rate of 50 companies a month, Shanghai's American Chamber of Commerce is the largest in China.

The city has the status of a province and receives preferential treatment from the central government, particularly as an incubator for reforms and pilot projects. Costs tend to be somewhat higher in Shanghai than in nearby cities, but the business environment is generally more transparent.

Sectors to watch in the region: IT, telecommunications services, transportation infrastructure (ports, metro and light rail), distribution services, environmental technologies, construction materials, architectural and engineering services, industrial equipment, machine tools and manufacturing process controls.

Key Contacts

American Chamber of Commerce in Shanghai
Tel: (86-21) 6279-7119
Fax: (86-21) 6279-7643
www.amcham-shanghai.org

Shanghai Municipal People's Government
Foreign Economic Relations & Trade
Commission (SMERT)
Tel: (86-21) 6275-2200
Fax: (86-21) 6275-1159

Shanghai Foreign Investment
Development Board

Tel: (86-21) 6236-8800
Fax: (86-21) 6236-8024
www.fid.org.cn

Southern China

The area generally referred to as Southern China covers the provinces of Guangdong, Fujian, Guangxi Autonomous Region, and Hainan Island. These four provinces have a population in excess of 200 million, and contain China's richest cities, as the South was the first area in China to be opened to the outside world.

Much of that development, especially in Guangdong, has been fueled by the region's proximity to the Hong Kong Special Administrative Region (HKSAR) and Taiwan. HKSAR has provided much of the capital, technology and business savvy that has made the Pearl River Delta China's most prosperous region. Meanwhile, Taiwanese firms are the leading investors in Fujian, which is home to two of China's wealthiest and most developed cities, Xiamen and Fuzhou.

The rest of Southern China is not as well off as Guangdong and Fujian. Hainan Island enjoyed a boom in the late 1980s when it was declared a Special Economic Zone, but that boom went bust when many of Hainan's special privileges were revoked. Hainan is still trying to develop as a tourist center, but its appeal is largely to Chinese vacationers. Guangxi, home to famous Guilin, is largely mountainous, rural and poor.

The concentration of highly polluting industries has created considerable environ-

mental problems, and the population density (over 25 million in the Pearl River Delta alone) has contributed to increasing infrastructure problems for the movement of goods and people. This has led to increased infrastructure expansion in roads, bridges and mass transit facilities, as well as airports.

Key Contacts

The Department of Foreign Trade and Economic Cooperation of Guangdong Province
Tel: (86-20) 3880-7168
(switch board), 3880-2410
Fax: (86-20) 3880-2219

Guangdong Sub-Council of the China Council for the Promotion of International Trade
Tel: (86-20) 8657-8331
ext 1837, 1972, 1989, 1969
Fax: (86-20) 8657-4574, 8657-7278

Guangzhou Municipal Bureau of Foreign Trade and Economic Cooperation
Tel: (86-20) 8108-1272
Fax: (86-20) 8109-7451

The Bureau of Foreign Trade and Economic Cooperation of Fujian Province
Tel: (86-591) 785-3616
Fax: (86-591) 785-6133

The Department of Foreign and Economic Cooperation of Guangxi Zhuang Autonomous Region
Tel: (86-771) 280-0676
Fax: (86-771) 532-6743

The Hainan Provincial Department of Foreign Trade and Economic Cooperation
Tel: (86-898) 6533-7135
Fax: (86-898) 6533-8762

The Trade Development Bureau of Xiamen Special Economic Zone
Tel: (86-592) 530-2555
Fax: (86-592) 530-2666 (working hours),
530-2777 (24 hours on duty)

The Northeast

Northeast China, historically known as Manchuria, is comprised of three provinces: Liaoning, Jilin, and Heilongjiang. With a population of over 106.5 million people, the region is rich in natural resources and is known as a center of state-owned heavy industrial manufacturing. While reform of public sector enterprises continues to lag behind schedule throughout the region, provincial governments are encouraging development of private sector businesses in information technology, telecommunications, environmental technologies, and tourism.

Regional leaders would like to see the Northeast become the fourth great coastal area to increase trade and draw in foreign direct investment. While it is well known that the Chinese government strongly encourages the economic development of the Southwest, it is little known that the Northeast is also a top priority. In 2000, total trade value for the Northeast reached \$24.56 billion, which represented eight percent of China's total trade. The Southwest accounted for \$6.93 billion, which was two percent of China's total trade in 2000.

Shenyang, the capital of Liaoning Province, is considered the industrial center and transportation hub for Northeast China. Shenyang's comprehensive manufacturing base is divided into forty sectors, including nonferrous metals, chemicals, automobiles, aircraft, machine tool manufacturing, building materials, electronics, textiles, pharmaceuticals, and light industrial products. The city's GDP reached \$113 billion in 1999. Industrial production accounts for 42% of total GDP, while agriculture accounts for 12.5%, and services for 45%.

Liaoning Province is the region's leader in international trade. In 1999, total trade value reached \$19.02 billion, with imports accounting for \$8.17 billion and exports accounting for \$10.5 billion. This total trade activity represents a 38.53% increase over 1999. Meanwhile, in Jilin, total trade value reached \$2.55 billion, up 15.38% over 1999. Total trade in Heilongjiang reached \$2.99 billion, up 36.53% compared to 1999. Comparing Liaoning's import volume between its partners in 2000, the United States ranks third, with imports valued at \$530 million. Liaoning's imports from Japan hit \$2.8 billion; and imports from South Korea reached \$1.47 billion in 2000.

Key Contacts

American Chamber of Commerce in Liaoning
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Fax: (86-024) 2334-1654

Shenyang Commission for Foreign Economic Relations and Trade (COFERT)
Tel: (86-024) 2272-8904
Fax: (86-024) 2272-1429

Dalian Commission for Foreign Relations and Trade (COFERT)
Tel: (86-411) 369-8000 or 368-6575
Fax: (86-411) 368-6426 or 368-6865

The Southwest

Chengdu is the most important commercial center in China's vast interior. This metropolis of 10 million lies 1,500 miles from China's eastern seaboard. The city has a "market reach" of 300 million consumers and it is the distribution center for southwest China: Sichuan, Yunnan, Guizhou, Tibet and the autonomous city of Chongqing. Sichuan Province boasts one of the most diversified industrial bases in the country, in part

because Mao Zedong moved much of the PRC's military-industrial complex to Sichuan in the 1960's, leading to the development of high-technology civilian industries in recent years. Chengdu is a key manufacturing center for electronics, machinery, pharmaceutical and food industries. It is also the national headquarters for feed grain companies. In 2000, the city of Chengdu had a GDP of RMB 131 billion (\$15.8 billion), a 10% increase over 1999.

Chongqing, a municipality directly under the Central government since 1997, is the largest area of administration in China with a population of 30.9 million. Because Chongqing lies in the upper reaches of the Yangtze River, it has a strategic position. According to the current pattern of Chinese economic development, there are three economic belts: the eastern, western, and central belts. Chongqing has been identified as the connecting point between the eastern and western belts. These two geographical aspects combined with the central government's stance allow Chongqing to enjoy numerous economic opportunities. Since the early 1980's, many companies in the national defense industry have shifted to manufacturing civilian products, playing an important role in the automobile and motorcycle industries in the city. With its strong heavy industry foundation, Chongqing is expected to become the auto city in western China. In 2000, Chongqing had a GDP of RMB 159 billion (\$19.1 billion) which was an eight percent increase over 1999. The economy of Southwest China has enjoyed relatively sustained growth over the past years and will remain at growth rates of 6-9% for the next few years.

Key Contacts

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Mr. Shao Xianglin

Yunnan Commission of Foreign Trade and Economic Cooperation
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Fax: (86-871) 312-3541
Mr. Sun Xiaohong

Chongqing Commission of Foreign Trade and Economic Cooperation
Tel: (86-23) 6901-8014, 6901-8015
Fax: (86-23) 6901-9397
Mr. Jiang Zhongquan

Industry Briefs

Aerospace and Aircraft

Over the next twenty years, China predicts that its air transportation passenger volume is expected to grow annually by 8.5%. It will become the world's second largest aviation market and will need to acquire an additional 1,588 aircraft to handle the volume. Expansion of airport infrastructure will also continue with 40 airports slated for construction or upgrade under China's current Five-Year Plan, which began in 2001. Furthermore, a new system of regional control centers and full conversion from program to radar based air traffic control will be introduced over the next 10-15 years, will make the skies safer for the increase in air traffic.

The General Administration of Civil Aviation of China (CAAC) is making efforts to rationalize the country's airlines. It urged mergers between the "Big 3" (Air China, China Eastern and China Southern) and China's smaller, less profitable airlines and suggested concentrating on expanding the number of smaller, single aisle aircraft while phasing out additional wide-body, twin aisle aircraft in the Chinese fleet. CAAC also expects the airlines to improve operating efficiencies and concentrate on developing a modern "hub-and- spoke" air routing system, which it hopes to have in place by 2005.

Airports and Ground Equipment

During the 10th five-year plan, the national airport systems will be improved and more regional airports will be built. The important

projects include relocating Guangzhou Baiyun Airport, increasing the abilities of the Beijing and Shanghai Airports as national air transfer centers and international airports, and improving trunk airports on the subsidiary hub knot. In line with its preferential policy CAAC plans to build more airports in the western region. By the end of 2005, it is estimated that the number of airports with scheduled airlines will be 160, growing to 260 by 2015.

Along with passenger airport equipment, a big growth area appears to be in air cargo. New agreements have been signed to add cargo-carrying capacity to three Chinese airlines. With that capacity will come the need for better ground facilities to handle the additional cargo. China strives to improve aviation security systems and equipment, computer information management, settlements ticketing systems, global distribution systems and E-commerce. Airport retail concessions are also a new concept for the Chinese airport authorities to ponder. As airports are faced with the challenge of making money they are considering bringing in partners via food and other retail concessions. Finally, safety equipment – including emergency vehicles – has been an area of interest for Chinese airport authorities. Priority will be given to foreign investment directed toward airport infrastructure construction, technology upgrade and management training.

2001 Air Traffic	
Cargo Traffic	17 billion tons <i>6.6% increase</i>
Passenger Traffic	75.24 million persons <i>10.9% increase</i>
Total Traffic	14.12 billion ton-kilometers <i>10.3% increase</i>

U.S. Position in the Market

China is a developing country building infrastructure in virtually every area of its economy, including telecommunications, roads, ports and rail. Competitive financing can be a major barrier to success for U.S. firms. The Chinese are sophisticated at playing one competitor against another. While CAAC thinks highly of U.S. products and services, competition continues to be fierce. Political issues between our two countries often have a strong influence on U.S. sales, especially of aviation equipment.

Key Contacts

General Administration of Civil Aviation of China (CAAC)

Tel: (86-10) 6403-0868
Fax: (86-10) 6403-0868

CAAC Air Traffic Management Bureau

Tel: (86-10) 6731-8866 x 2252
Fax: (86-10) 6731-8519

China Aviation Supplies I/E Corporation

Tel: (86-10) 6568-7858
Fax: (86-10) 6568-6902

Major Shows/Exhibitions

*China International Aviation and Aerospace Fair
Zhuhai, November 4-10, 2002*

Zhuhai Airshow Co. Ltd.

Tel: (86-756) 3369-235

Fax: (86-756) 3376-415

E-Mail: Zharshow@pub.zhuhai.gd.cn

www.airshow.com.cn

10th Aviation Expo/China 2003

Beijing, September 17-20, 2003

China Promotion Ltd. Beijing Rep. Office

Tel: (86-10) 6872-8993

Fax: (86-10) 6871-6028

E-Mail: cpehbit@public.fhnet.cn.net

Automotive

Under the umbrella of the country's protectionist policies, China's automotive industry has witnessed rapid development since the country opened up to the outside world and adopted economic reforms. Now China is capable of manufacturing a complete line of automobile products and large automotive enterprises, such as the China First Automobile Group Corp. (FAW), Dongfeng Motor Corp. (DMC) and Shanghai Automotive Industry (Group) Corp. (SAIC), have flourished. Currently, domestic motor vehicles have more than 95 percent market share.

China had a total of 2,391 automotive enterprises by the end of 1999. The total output value of the automotive sector in 1999 was \$41.2 billion, with sales of \$37.7 billion and profit of \$1.29 billion. In 2000, total sales reached \$47.3 billion and profit reached \$2.14 billion.

Since 1998, 50% of motor vehicles in China have been purchased by individuals. As economic development continues, this percentage will steadily grow and they will become the main force bringing growth in China's automobile market. Once the government promulgates a consumer policy to encourage private purchase and use of automobiles, a high annual growth rate of private ownership is expected.

Impact of the WTO

China's accession to the WTO will help facilitate the development of the automobile market by encouraging an open, rational

market structure. However, membership in the WTO will also mean reduction of tariffs, abolition of non-tariff barriers and the opening up of the country's service sector. China's domestic auto industry is weak in comparison with developed countries, and will have to face increasing competition as the market becomes internationalized.

Alternative Fuel Vehicles

China encourages the development of clean and fuel efficient vehicles in an effort to sustain continued growth of the country's automobile industry. By the end of 2005, China plans to reduce the average fuel consumption per 100 km of all types of vehicles by 10%. The proportion of vehicles burning alternative fuel will be increased to help optimize the country's energy consumption. Priority will be given to facilitating the research and development of electric and hybrid vehicles as well as alternative fuel vehicles.

Auto Parts

Currently auto parts and accessories enjoy a lower level of tariffs than cars (the average tariff is 26% for parts and accessories and 90% for cars). China has agreed to lower tariffs on imported auto parts and accessories to 10% over a period of five years from the WTO accession date (December 2001). Although this difference in duty rate was initially responsible for an increase in car kit imports, the loophole has been tightened. Now, only replacement parts and accessories enter China under the lower duty level.

Used Motor Vehicles

Although there are case-by-case exceptions for antiques and diplomats, it is currently illegal to import used motor vehicles into China.

Automotive After-Sales Products and Services

Although improvements have been made in this field in the past decade, China's after-sales products and services still lag far behind those of developed countries. However, WTO commitments will bring about significant changes in the after-sale market. China now faces the following obligations:

- Swift establishment of an information feedback system with end-users in order to improve service;
- Modernize the outdated sales system to reflect the shift from a planned economy to a market economy;
- Increase the competitiveness of domestic auto parts and accessories;
- Crack down on counterfeit products.

U.S. Position in the Market

China's production capacity is approximately two million cars per year. Sales are not yet at this same level, and inventory continues to pile up. Thus this sector appears to be facing several tough years. However, with continued economic growth, continuing development of roads and expressways, and expected reforms in used cars and financing legislation, the auto market outlook should improve for U.S. interests.

Key Contacts

State Economic and Trade Commission
Investment and Planning Department
Tel. & Fax: (86-10) 6319-2525
Website: www.setc.gov.cn

China Association of Automobile
Manufacturers (CAAM)

Tel: (86-10) 6859-5239
Fax: (86-10) 6959-5234

China Automotive Technology and
Research Center

Tel: (86-10) 6328-3523
Fax: (86-10) 6346-2256

Ministry of Communications (MOC)

Tel: (86-10) 6529-2215
Fax: (86-10) 6529-2248

Major Shows/Exhibitions

Beijing International Automotive Parts
Manufacturing & Related Products Show
(AMS 2003)
September, 2003

Tel: (86-10) 6493-8403, 6491-5259
Fax: (86-10) 6496-8699

The 8th Beijing International Automotive
Industry Exhibition (Auto China 2004)
June, 2004

Tel: (86-10) 8460-1973
Fax: (86-10) 6467-7385

Computers and Networking

Computing has entered the network era and China has felt the impact. Related information technology sectors have witnessed rapid growth and many new digital products are entering the China market. Though domestic firms make competitive products, foreign involvement in technology and new ventures is expanding.

Personal Computers

With increases in power and speed and concurrent decreases in price, PCs are now within the reach of individual Chinese buyers. U.S. computers still hold a small market share, but Chinese computers with U.S. components dominate the market. PCs are becoming essential appliances for Chinese families who want the best for their children, and who have unprecedented buying power due to "4-2-1" demographics: four grandparents, two parents and one child. Information appliances linked to Internet access are poised to attack this market at even lower prices. The growth of subscribers and users of the Internet is stunning; by June 2002, about 30 million subscriptions shared by multiple users pointed to many more users than frequently reported.

Growth of the Internet

The rapid expansion of the Internet infrastructure in China attracts a growing number of new business ventures. For computing and network companies, the provision of personal computers, information appliances, routers, broadband switches, fiber optic networks and digital wireless devices means new business.

The China Internet Network Information Center (CNNIC) foresees quick growth of these networks with another doubling of subscribers in the next year. As prices and demand adjusts in the Chinese market, American firms must aim to meet the challenges and opportunities.

Wireless Device Subscribers: 133 million
Est. Internet Users in 2002: over 30 million

Networks and High Performance Computers (HPC)

China seeks to import servers and workstation computers that support the Internet and local networks. China also seeks the information technology associated with these HPCs and across many areas of electronic commerce, but faces constraints on purchasing power and access. In addition, HPCs and encryption software require licenses for export.

Export Controls

U.S. Department of Commerce export licensing applies to technology that has potential for "dual-use" as both civilian and military technology. U.S. export control restrictions set license requirements for HPCs destined for end-users of computers with processing speeds based on increasing M-TOPS levels. Debates continue about the revision of existing levels of controls as the technology rapidly increases the speed of computing used for everyday commercial purposes. The Bureau of Industry and Security (BIS) is the new name of the regulatory agency overseeing this area.

U.S. Position in the Market

U.S. firms in computer and networking markets enjoy an excellent reputation among Chinese users. However, domestic firms still dominate the PC market and the Chinese government seeks to promote domestic information technology producers. Hardware makers in particular will face stiffening price competition. Despite these challenges, substantial numbers of firms will find growing markets among new Internet users and rising educational needs.

Key Contacts

Ministry of Information Industries (MII)

Tel: (86-10) 6602-0839
Fax: (86-10) 6601-1370
www.mii.gov.cn

China Internet Network Information Center (CNNIC)

www.cnnic.net.cn

United States Information Technology Office (USITO)

Tel: (86-10) 6465-1540
Fax: (86-10) 6465-1543
E-mail: djbrody@usito.org
www.usito.org

Major Shows/Exhibitions

Computer World Expo '02
Beijing, Sept 2002
Computer World Publication

Tel: (86-10) 6825-9420
Fax: (86-10) 6825-9768
Email: ccwexpo@ccw.com.cn
Website: <http://www.ccwexpo.com.cn>

Environmental Technologies

China's acute environmental problems stem from a deteriorating natural resource base, dense population, heavy reliance on soft coal, outmoded technology, underpriced water and energy, and break-neck industrial growth. The World Bank estimates that air and water pollution cost the Chinese economy up to eight percent of GDP. In response, the government has unleashed a burst of environmental legislation, shut down thousands of small, dirty factories, and decreed by 2005 the country will reduce its total pollution discharge by 10% from the 2000 level.

Still, local enforcement of environmental laws is spotty, investment in pollution control infrastructure inadequate, and competition from domestic firms increasingly strong. Products enjoying the best sales prospects include low-cost flue gas desulfurization systems, air and water monitoring instruments, drinking water purification products, vehicle emissions control and inspection devices, industrial wastewater treatment equipment, and resource recovery technologies.

Environmental Investment

China is expected to spend \$84 billion (1.2% of GDP) on environmental protection to meet the goals of the 10th five-year plan (2001-2005). Yet, according to World Bank estimates, two percent of the GDP is needed just to bring air quality standards to levels near those seen in the U.S. during the 1980s. During this 5-year period, the central government is expected to

make 11.4% (\$9.7 billion) of the investment, while 34% will come from provincial and local governments and the remaining 55% from business enterprises. Meanwhile, some booming coastal cities such as Shanghai, Xiamen, and Dalian claim to be spending 2-3% of local GDP on environmental protection.

In fact, the central authorities inevitably look to local governments and foreign lenders to provide the lion's share of investment. Determining which projects will ultimately receive funding and necessary approvals is often a daunting task. Most large U.S. environmental firms have looked to World Bank and Asian Development Bank projects for opportunities, and as of July 2001 the U.S. Trade Development Agency is again providing grants in China. The future may be brighter as affluent cities increase spending, multinational investors uncork new sources of demand, and municipalities experiment with new project financing models.

Air Pollution Control

China recently overhauled its clean air act and now mandates desulfurization systems on all new power plants and industrial facilities located in designated sulfur dioxide and acid rain control zones. China is also embarking on an ambitious campaign to curb vehicle emissions in major cities by phasing out leaded gasoline, issuing new tailpipe standards, developing alternative fuel technologies, and investing in emissions control and inspection equipment.

Water and Wastewater Treatment

China and its foreign lenders still spend far more on the water sector than on air and solid waste, especially on the clean up of priority river basins and lakes. But domestic competition is also stiffest in this market. In November 2000, the State Council issued a notice requiring all cities with populations over 100,000 to build wastewater treatment facilities by 2005. To meet funding demands, water tariffs are set to rise, cities are starting to levy wastewater surcharges, and BOT-type concession projects are emerging.

Solid Waste Management

China is slowly beginning to enforce its comprehensive solid and hazardous waste law. But investment remains low, despite a dire need for hazardous waste treatment technologies. Low-cost resource recovery and refuse handling systems enjoy the best prospects.

U.S. Position in the Market

American firms have lagged behind their competitors despite China's high regard for U.S. technology. Many American companies attribute this to the substantial tied aid programs of other developed countries, which subsidize their firms' entry into the China market. Some Chinese end-users credit the aggressive marketing, flexible financing, and the ability to provide turn-key solutions of U.S. competitors. Some firms find joint venture manufacturing in China a successful strategy for lowering costs in the face of high import duties and growing local competition, although China's accession to the WTO may somewhat mitigate the need for such strategies.

Useful Environmental Websites

State Environmental Protection Administration
www.sepaic.gov.cn

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

China Environment Reporter
www.chinaenvironment.net/cer/CER-9709.html

Shanghai Environment Online
www.envir.online.sh.cn/Eng/index.asp

World Bank – China Pollution Intensities
www.worldbank.org/nipr/data/china

U.S. Dept. of Commerce - China Environmental Market
www.environment.ita.doc.gov

Key Contacts

State Environmental Protection Administration
Bilateral Cooperation Division
Tel: (86-10) 6615-1934
Fax: (86-10) 6615-1762

Major Shows/Exhibitions

China International Exhibition on Environmental Monitoring Instrumentation (CIEEMI 2002)
October 29-31, 2002, Beijing
Website: www.cieemi.com
Email: cieemi@k263.com

2nd China International Energy and Environmental Protection Exhibition and Conference (CERE 2002)
November 4-7, 2002, Beijing
web site: www.ciscexpo.orgcn.net

8th China International Environmental Protection Exhibition and Conference (CIEPEC 2003)
June 5-8, 2003, Beijing, China
Website: www.zhb.gov.cn/english,
www.chinaenvironment.com,
www.cepi.com.cn
Email: fair@cepi.com.cn,
caepi@public3.bta.net.cn

Healthcare Products and Services

China's medical device market is the largest in Asia outside Japan, and one of the fastest growing in the world. The medical sector experienced 18% growth in 2001, and is expected to achieve 15% growth in 2002. Imports account for approximately 50% of China's \$2.5 – 3.0 billion medical device market, with the U.S. controlling around 36% of the total imported products. As China's WTO commitments are phased in over the next three years, the instability of the regulatory environment will negatively effect profit expectations. Over the next 10-12 years, however, China should deliver the type of returns it is capable of.

Healthcare Services

The market for high quality, patient-oriented healthcare services is small, but growing steadily. Most Chinese, as many as 85%, lack health insurance and only 1-2% of the population can afford top-end Western medical care. The ongoing reforms are not designed to expand the number of insured, but rather to replace government funding with enterprise/employee funding. In the past, all government employees and workers at state-owned enterprises enjoyed virtually free medical care for themselves and their dependents. A new urban medical insurance system was introduced in 2000, with the goal of offering basic health care to urban workers. Currently, there are many successful foreign and joint venture healthcare service providers already in the China. Their experiences point to growing opportunities for U.S. companies looking to invest in this segment of the market.

Product Registration

Depending on the product being exported to China, up to three Chinese agencies have regulatory roles in the approval processes for medical devices. All medical and dental equipment must be registered with the State Drug Administration (SDA) before sales and distribution in China. The General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ) is tasked with establishing technical standards for import and export through compulsory product certification. Furthermore, the State Administration for Technical and Quality Supervision is responsible for certifying all pressure vessels.

Market Access

China's rapidly changing regulatory environment will likely have a short-term negative impact on the overall market. A new regulatory system, established by the SDA in 2001, was designed to streamline a confusing regulatory framework. AQSIQ also introduced a new certification system in 2002 for certain medical equipment. It is a step towards resolving national treatment and transparency issues, though expensive, time-consuming, and redundant testing requirements remain. It is unclear if or when this regulatory and certification system will be redressed. China has also agreed to reduce their tariffs on medical devices in accordance to WTO rules by 2003.

U.S. Position in Market

U.S. products are viewed by Chinese end-users as being of superior quality and

possessing the highest level of advanced technology. The domestic industry is consolidating and upgrading and beginning to compete more on medium level technologies.

Key Contacts

Ministry of Health (MOH)

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Tel: (86-10) 6879-2290
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General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)

No. A10, Chaowai Dajie, Beijing
Tel: (86-10) 6599-3922
Fax: (86-10) 6599-4421

People's Liberation Army (PLA)
Bureau of Drugs & Medical Instruments
22 Fuxing Rd, Beijing 100842
Tel: (86-10) 6821-6117
Fax: (86-10) 6821-6628

Major Shows/Exhibitions

International Medical Technology Exposition
September 3-6, 2002
Shanghai Mart, Shanghai
Tel: (86-21) 6256-0100
Fax: (86-21) 6255-7491
E-mail: eryan@itpc.com.cn
Contact: Eryan Zhang

China Med 2003
April 25-28, 2003
Beijing Exhibition Center, Beijing
Tel: (86-10) 6505-3832
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E-mail: dianaliang@263.net
Contact: Diana Liang

Housing

The U.S. – China Presidential Housing Initiative, which began in July 1998 has provided a framework upon which opportunities for U.S. building materials companies have become available. The initial cooperation between the U.S. (USDOC and HUD) and China’s Ministry of Construction (MOC) has been unprecedented, and more is in store for the foreseeable future. The Chinese are interested in learning more about what our companies have to offer, and although IPR issues must always be considered when doing business here, there do seem to be sales opportunities being generated.

In an effort to stimulate the economy, the Chinese government began moving home ownership responsibilities from the State to individuals at the same time that the Presidential Initiative began. Home ownership has been increasing fast in China’s major cities supported by government subsidized housing funds and housing mortgages. According to government statistics, 73% of Chinese families have gained ownership over their homes.

The Chinese government reported actual growth rates for housing in the range of 20% during 2001. This is down from the 35% estimate and may still be too high. Nevertheless, even conservative numbers suggest there will be growth in housing of about 15% for the next few years. In 2001 alone, \$59.4 billion was spent on urban housing, according to Chinese statistics. Although attitudes are changing, price remains a stronger factor than quality or

incentives in much of the Chinese market.

Intellectual Property Rights (IPR) violations are a serious concern in the housing market. The market is filled with illegal, locally produced knock-offs which are much cheaper than their technologically advanced foreign counterparts. Hopefully, with WTO, IPR violations in the housing industry will decrease quickly.

Home Ownership Benefits

A substantial tax advantage is available for those Chinese in the high-income bracket who own their own homes. People in this category are a small minority, but are still comparable in numbers to the entire population of Canada. Some people are buying consecutive homes just so they can continue receiving the tax benefit.

Home Financing

State issued “employment credits” are making affordable housing a reality. These credits are redeemable as cash supplements to first time home buyers. In addition, mortgages are becoming more available to the average citizen with rates and parameters closer to what the market will bear.

Building Materials

Growth rates for both internal and external building materials are strong. The living space of the average Chinese is estimated to grow from only six square meters per urban dweller in 2000 (nine square meters overall) to 12 square meters by 2005. Energy-efficient building materials will especially be needed to maintain these levels of growth. Double-

paned windows, efficient heating and cooling systems, insulation and wood products are highly sought after already.

There is also a large market for interior decoration and furniture products. Most housing in China is sold in shell form. Thus, transforming the shell into a livable space is the homeowners responsibility. Carpeting, flooring, furniture, and fixtures are just some examples of the possible areas in which U.S. exporters might be able to penetrate the market.

U.S. Position in the Market

U.S. firms enjoy an excellent reputation in China, and are viewed as high quality suppliers. According to Chinese statistics, U.S. products still enjoy a substantial percentage of the import market. In most cases however, imported products are significantly more expensive than domestically manufactured alternatives. Current import tariffs plus VAT add an average of 40% to base prices. WTO should improve this situation, though the phase-in period is five years.

Key Contacts

Ministry of Construction
Tel: (86-10) 6839-4049
Fax: (86-10) 6831-3669
www.cin.gov.cn

Association of Building Materials Industries
Tel: (86-10) 6831-1144
Fax: (86-10) 6831-2191

Fast Facts:

- Housing mortgage terms have been extended to 30 years though down payments are still around 40%.
- China expects to build between 486 million- 549 million square meters of floor space annually in the first 20 years in the 21st century.
- China completed the construction of 19.25 million square meters of commercial housing by April, 2002, up 10.5% over 2001 figures.

Pharmaceuticals

China is the fastest growing pharmaceutical market in the world. It grew at an average rate of 10-12% in 2001. China is the ninth largest pharmaceutical market in the world, with nearly \$7 billion in sales in 2001. China's changing healthcare environment is designed to extend basic health insurance to a larger portion of the population and give individuals greater access to products and services. Following this period of change, the pharmaceutical industry is expected to continue its expansion.

Medicines

The pharmaceutical market in China is dominated by its non-branded generic industry that operates with basic technology and simple production methods. Domestic pharmaceuticals are not as technologically advanced as western products, but nonetheless occupy approximately 70% of the market in China. Domestic companies are mainly government owned and fraught with overproduction and losses. The Chinese government has begun consolidating and upgrading the industry in an effort to compete with foreign firms.

It is estimated that most hospitals derive 25 - 60% of their revenue from prescription sales, hospitals remain the main outlets for distributing pharmaceuticals in China. This will change with the separation of hospital pharmacies from healthcare services and with the growing numbers of retail pharmacy outlets. Retail pharmacy outlets are expected to grow in number once the government finally introduces its system to classify drugs

as over-the-counter (OTC). The government is now encouraging development of chain drug stores, but the full effect might not be seen for several years.

Dietary Supplements

The dietary supplements sub-sector has doubled from \$3 billion in 1998 to a total sales volume of \$6 billion in 2001. Experts estimate that the industry will reach \$10 billion in annual sales by 2010, and will continue as consumers seek products with curative weight loss and other health enhancing effects. Over 3,000 domestic manufacturers of dietary supplements produce more than 4,000 different types of products. Domestic manufacturers fail to develop product branding and credibility and rely heavily on advertising to generate sales. As such, most domestic products, due to loss of credibility amongst consumers, tend to have short life cycles. High quality imported products only account for 10% of total sales. Companies report that complicated product registration, expensive and time-consuming certification requirements, and inexperienced and inefficient distributors are common obstacles in China.

WTO

In accordance with World Trade Organization (WTO) regulations, China has committed itself to cutting tariffs, liberalizing its domestic distribution practices, and restructuring its regulatory environment. Over the next three years, China will allow foreign enterprises to import products and engage in distribution services. Furthermore, China has

also implemented new drug administration laws designed to streamline product registration and protect Intellectual Property Rights (IPR). These new laws will likely have a negative effect on market growth and profitability during the transitional period, but over the next 5-10 years this market should be able to provide the returns it is capable of.

Intellectual Property Rights

Since China's accession to the WTO, many laws have been revised to address IPR protection requirements in TRIPS. China has agreed to six years of "data exclusivity" and has committed itself to implementing a patent linkage system. The SDA has worked to crack down on counterfeiters but without greater resources and stricter legal consequences these actions alone will not be enough to curb this rampant problem.

U.S. Position in the Market

Imported and locally produced foreign joint-venture medicines account for 30% of the market, with U.S. products well regarded for their high quality and reasonable prices. The drug distribution system in China is inefficient and adds considerably to the retail costs of medicine. Many U.S. companies complain of strict import regulations, low profitability, complex licensing procedure, hospital bidding, and reimbursement schemes.

Key Contacts

Ministry of Health (MOH)

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State Drug Administration (SDA)

Address: A38 Beilishilu
Tel: (86-10) 6831-3344
Fax: (86-10) 6831-5648

General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)

No. A10, Chaowai Dajie, Beijing
Tel: (86-10) 6599-3922
Fax: (86-10) 6599-4421

People's Liberation Army (PLA)
Bureau of Drugs & Medical Instruments
22 Fuxing Rd, Beijing 100842
Tel: (86-10) 6821-6117
Fax: (86-10) 6821-6628

Major Shows/Exhibitions

International Medical Technology Exposition
September 3-6, 2002
Shanghai Mart, Shanghai

Tel: (86-21) 6256-0100
Fax: (86-21) 6255-7491
E-mail: eryan@itpc.com.cn
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China Pharm 2002
November 11-16, 2002
China International Exhibition Center, Beijing

Tel: (86-10) 6512-8587
Fax: (86-10) 6526-9675
E-mail: chinapharmex@china.com
Contact: Hao Bin, Qiao Yan

China Med 2003
April 25-28, 2003
Beijing Exhibition Center, Beijing

Tel: (86-10) 6505-3832
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E-mail: dianaliang@263.net
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Sino Dental 2003
June 12-15, 2003
Beijing Exhibition Centre, Beijing

Tel: (86-10) 6879-2540
Fax: (86-10) 6879-2543
Email: dental@chsi3.moh.gov.cn
Contact: Liu Zhigui, Zhou Shaobo

Power

After several years of poor growth, infrastructure investment in China's power industry is regaining momentum once again. According to official statistics, China's fixed assets investment in the power sector completed in 2001 was approximately \$25.72 billion, an increase of 15.7% over the previous year.

Official statistics show power consumption has grown along with GDP in China averaging 7.8% annually throughout the 1990's. The Chinese government's 10th Five-Year Plan (2001-2005) set a target of seven percent annual GDP growth. The plan also predicts that power consumption will grow by 5.5% annually for the next ten years, while peak demand is forecasted to grow at 6.5% annually over that period. Experts have questioned these official statistics and place real growth somewhat lower.

The Chinese government is in the final stages of a decade-long effort to restructure the \$120 billion State Power Corp. (SPC). It is aimed at a fully integrated national grid system and an independent, merchant power sales system. Under the announced outline of the plan, SPC will no longer be involved in power generation. The new plan gives SPC control of electricity transmission redistri-

buting power-generation assets among regional power companies. The Chinese government says the new plan will separate power plants from power-supply networks, privatize a significant amount of state-owned property, encourage competition, and revamp pricing mechanisms. They also say the plan will set up a national power regulatory committee that will formulate a set of fair, rational, and transparent supervisory regulations.

U.S. Position in the Market

While China recognizes the need for imported foreign technologies, it also wants to nationalize as much of this technology as possible. China continues to demand full technology transfers and localization whenever possible. Provisions in the WTO agreement between China and the U.S. may give U.S. exporters some relief in these areas. Many U.S. power equipment manufacturers and related construction/engineering firms have formed joint ventures to compete better domestically in this market.

U.S. companies should concentrate on those areas of this market that allow them to take advantage of the more sophisticated technologies. Control, monitoring and safety equipment, energy efficient and environmen-

tal friendly products, and management support for power generation and electric utilities will be competitive.

Several U.S. capital investors in power generation have experienced significant problems recently related to contract disputes, including failure to honor power purchase agreements or obtain promised permits.

Key Contacts

State Power Corporation, International Cooperation Department
137 Fuyou Street, Beijing
Tel: (86-10) 6659-7567
Fax: (86-10) 6601-6077

State Development Planning Commission, Department of Basic Industries (Energy)
38 Yuetan Nanjie, Beijing
Tel: (86-10) 6850-2875
Fax: (86-10) 6850-1458

State Economic and Trade Commission, Department of Electric Power
26 Xuanwumen Xidajie, Beijing
Tel: (86-10) 6319-3805
Fax: (86-10) 6319-3804

	1999	2000	2001
China's Worldwide Imports of Electronic Machinery	35,256	50,749	55,909
China's Worldwide Exports of Electronic Machinery	32,963	46,066	51,322

In Millions of U.S. Dollars. Source: World Trade Atlas

Retail

The retail sector has been plagued by weakening demand and falling prices. Retail sales increased by about 10% in both 2000 and 2001 – a significant decline from the 21% average annual rate of growth from 1990 through 1997. Competition in the retail sector is intense, as the growth in supply outpaces demand, leading to a decline in prices. Retail prices fell 0.8% in 2001.

Although the retail market is still dominated by domestic brands, foreign brands have made significant inroads. Foreign brands are particularly popular with the younger generations.

WTO

In late 1998, China started letting foreign retailers form joint ventures with local retailers to set up shops in 30 provincial capitals and major cities. However, barriers to direct entry remain high. Furthermore, sales arms of foreign-invested manufacturing firms are restricted to selling products that they produce in-country.

Most of the restrictions against foreign investment in the retail sector will be eliminated as a result of China's accession to WTO. Within three years of China's accession, there will be no restrictions on equity, geographic areas, or on the numbers of retail outlets for foreign investment in this sector.

Intellectual Property Rights

Inadequate protection of intellectual property rights is a major concern for foreign manufacturers. Counterfeits, especially

consumer goods, are widely available. Some foreign companies spend significant amounts of money to fight against this problem.

The government leadership is fully aware of this problem and China's Trademark Law, Patent Law, and the Copyright Law have been revised recently to strengthen the protection of the rights of intellectual property owners. However, the effects of these new laws have been minimal.

Advertising

As manufacturers vie for the attention of the Chinese consumers, the industry is experiencing a record boom. From a base of zero in 1979, it rose to annual billings of \$6.5 billion in 1998 making China the world's 7th largest market.

Retail Outlets

China's consumers are seeking more modern, value-oriented venues to do their shopping. Many large modern retail outlets have been constructed in major cities. Chain stores and discount stores have been increasing in number. However, since wholly-foreign owned retail outlets are officially restricted, most foreign investment in retail stores has taken the format of either joint ventures or wholly-owned Chinese organizations under management of a foreign parent company.

U.S. Position in the Market

Despite the restrictive business environment, some U.S. retailers have established strong footholds in China. Walmart, for example, has successfully opened discount retail

establishments in southern and northern China. It plans to open outlets in other cities, including Beijing. Most retail outlets in large urban centers such as Beijing and Shanghai stock U.S. branded products.

Key Contacts

China Chain Store and Franchise Association

Tel: (86-10) 6839-2260
Fax: (86-10) 6839-2210
www.cdfa.org.cn

Ministry of Foreign Trade & Economic Cooperation
Foreign Investment Administration

Tel: (86-10) 6519-7327/7301
Fax: (86-10) 6519-7322
www.moftec.gov.cn

China Council for the Promotion of International Trade (CCPIT)
Sub-Council of Light Industry

Tel: (86-10) 6839-6468
Fax: (86-10) 6839-6422
Email: ccpitsli@public3.bta.net.cn
Website: www.ccpit.org

Semiconductors and Software

Firms related to information technologies such as semiconductors, co-processors and software have expanded into China, but the international dominance of American firms does not yet extend to a growing China market. However, the rapid developments of microprocessors and network software means that these new markets are offering potential for growth.

Fast Facts:

Estimates of Pirated Software:
Over 90%

Operating Systems Based on Linux:
About 15%

Operating Systems Based on Windows:
About 85%

Software Market

Windows leads the operating systems market with Windows 2000, though Linux-based software has made significant inroads. Besides the increased sales of licensed software in the past year due to Y2K compliance purchases, Chinese users appear to be seeking more reliable service offered by licensed products. Replacement of non-compliant software with newly licensed Y2K ready software and with the better service offered by foreign vendors has increased imports. In the past year, Microsoft announced an 83% increase in China revenues.

Intellectual Property Rights (IPR)

The market for licensed software is nonethe-

less slow in developing. Many Chinese individuals and enterprises are unwilling to pay for licensed software due to financial constraints, the perception that software has no value, and the widespread availability of cheap, pirated software. Government policy and practices may be changing. Chinese companies involved in research, banking, and technology are less willing to purchase pirated software. Currently, pirated software is estimated to comprise over 90% of the market. Chinese companies and software engineers also often see their own software fall victim to IPR violations, which is increasing the pressure for better protection. The long-term solution against piracy lies in mobilizing domestic firms to take the lead in IPR protection.

Semiconductors and Components

Chinese manufacturers currently face a lack of technical know-how. China supports the entrance of foreign firms into the semiconductor and components manufacturing markets, but continuing problems with IPR and difficulties in creating wholly-owned foreign ventures or foreign-controlled joint ventures represent significant barriers to entry. Over 90% of U.S. electronic components used in China are purchased in Hong Kong and brought across the border in Guangdong.

Export Controls

Encrypted software products require export licenses from either the U.S. Department of Commerce or the State Department. The

latest generation of computer microprocessors are so powerful that a single chip powering a personal use PC is almost powerful enough to be rated a High Performance Computer (HPC). HPC's, often called Supercomputers, are subject to more stringent controls.

Key Contacts

Ministry of Information Industries (MII)

Tel: (86-10) 6602-0839
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Website: www.mii.gov.cn

MII Dept. of Electronics and IT Products

Tel: (86-10) 6820-8202
Fax: (86-10) 6827-1654

China Software Industry Association

Tel: (86-10) 6253-2559
Fax: (86-10) 6253-2553

United States Information Technology Office (USITO)

Tel: (86-10) 6465-1540
Fax: (86-10) 6465-1543
E-mail: usito@iuol.cn.net
www.usito.org

Major Shows/Exhibitions

China Computerworld Infoex-world Services Ltd., Beijing

Tel: (86-10) 6825-9420
Fax: (86-10) 6825-9768
E-mail: Zhangvvy@public3.bta.net.cn

NepCon Beijing 2002 CCPIT Electronics Sub-Council

Tel: (86-10) 6820-7928/7929
Fax: (86-10) 6827-2288
Website: <http://nepcon-china.asiansources.com>

E-Commerce Summit 2003 China Electronic Commerce Association

Tel: (86-10) 6820-0718, 6820-0725
Fax: (86-10) 6820-0717
E-mail: help@cegn.net

Telecommunications Equipment

China's telecommunications market continued its rapid growth in 2001. Chinese telecommunications carriers made an aggregated investment of \$32 billion in telecommunications infrastructure in 2001, an increase of 15.3 % from 2000. The investment helped generate total revenue of \$43.2 billion in 2001, 16.1 % more than 2000.

China now owns the world's largest fixed-line and mobile networks in terms of both network capacity and number of subscribers. By the end of 2001, the capacity of China's fixed-line telecom network reached 220 million lines while that of mobile networks 240 million. With 36 million additional subscribers in 2001, the year-end number of fixed-line telephone users reached 180 million. The mobile telecom operators recruited 60 million additional users in the year and the year-end total reached 144.8 million. By the end of May 2002, the number of fixed line telephone users reached 195.5 million, representing a 29% penetration rate while the number of mobile phone users reached 171.3 million, a 13.1 % penetration rate.

China's accession to the World Trade Organization (WTO) on December 11, 2001 resulted in the immediate opening of the value-added telecommunications services market to foreign participation. Beijing's hosting of the 2008 Olympic Games will create tremendous business opportunities for information and telecommunications companies as the city plans to invest billions of dollars to improve its IT and telecommuni-

cations infrastructure over the next five years to ensure the success of the Games. Industry restructuring, especially the division of the fixed-line giant, China Telecom, into two competing companies should bring more meaningful competition into the marketplace.

Regulatory Environment

China is accelerating the establishment of a legal framework for the telecommunications industry following its WTO accession. Two important regulations have been promulgated: the PRC Telecommunications Regulations and the Regulations on Foreign Investment in Telecom Enterprises. These regulations, together with others yet to come, will lay the groundwork for a comprehensive telecom law, which is currently expected to appear in late 2003.

China does not yet have a truly independent telecom regulator in place. The Ministry of Information Industry (MII) is still the most important regulator. In 2001, MII completed the buildup of a nationwide regulatory system by setting up provincial telecommunications administrations (PTAs), which have regulatory functions within their respective provinces. A number of other important regulators also influence China's telecommunications environment including the State Council Informatization Office, the State Development and Planning Commission (SDPC), and the Ministry of Science and Technology (MOST).

Telecom Operators

China further restructured its telecommuni-

tions industry in 2001, in an effort to introduce additional competition in the market and help local companies to prepare for the competition expected from capital-rich, well-managed and technologically strong international firms. There are now six basic telecom operators in the Chinese market. China Mobile and China Unicom are the only two of which are authorized to provide mobile telecom services at the present time. In addition to these basic telecom operators, there are many smaller value-added telecom service providers across the country.

Wireless Market

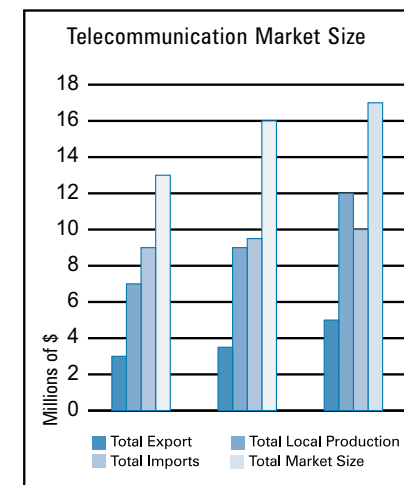
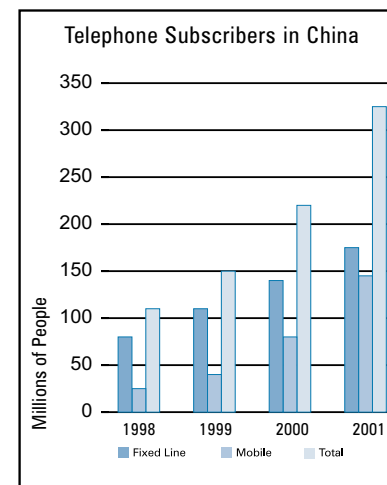
Wireless communication continues to be the fastest growing sub-sector in China's telecom market. China Mobile is expanding its GSM networks across the country in order to meet increasing demand. China Mobile is actively promoting general packet radio services (GPRS) nationwide. China Unicom, the only licensed CDMA operator in China, completed phase one construction of its

CDMA network based on CDMA IS-95 in 2001, with a capacity of over 15 million users. China Unicom is now actively conducting trial operations of CDMA2000 1x in major Chinese cities.

Both China Mobile and China Unicom are partnering with Internet service providers (ISPs), Internet content providers (ICPs), banks, and other companies to offer customers more value-added services, such as mobile banking, stock quotes, location services, and secretarial services.

Broadband and Access Networks

The former China Telecom had already completed the construction of a nationwide fiber optic cable network using ATM, SDH, and DWDM technologies, and this backbone network has been divided between China Telecom and China Netcom. The new operator, China RailCom is upgrading its system from a private network for the Ministry of Railways to a system that is able to provide telecom services to the general



public. Smaller access network operators have built LAN and wireless LAN based on xDSL, Ethernet and fixed wireless technologies operating on 3.5 GHz.

U.S. Position in the Market

U.S. firms, large and small, are competitive in the telecom sector. They are able to offer advanced technologies at reasonable prices and often provide follow-up services to equipment sales. The rapid development of China's telecom industry and increased competition between network operators will create more sales opportunities for U.S. firms, while the rapid development of China's indigenous telecom equipment manufacturers will increase the competitive pressures faced by U.S. equipment vendors. U.S. network operators will be afforded market entry opportunities as China phases in its WTO obligations.

Key Contacts

Ministry of Information Industry

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www.mii.gov.cn

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Fax: (8610) 6238-2482

TELPO (Yuetan Office)

Tel: (8610) 6809-4061
Fax: (8610) 6802-8601

Major Shows/Exhibitions

PT/EXPO COMM China 2002
China International Exhibition Center
Beijing, China
October 29-November 2, 2002
E.J. Krause & Associates, Inc.

Tel: (8610) 8451-1832
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Shanghai, China
First Quarter, 2003
Telecommunications Industry Association

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ELE/Expo Comm Shanghai 2003
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June, 2003
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Transportation Infrastructure

The Chinese government is in the midst of a massive upgrade of their existing transportation infrastructure. Until recently, China's economy was able to continue to grow despite deficiencies in infrastructure development. This is no longer the case, and the Chinese government realizes that, in order to keep their economy moving forward, they must have an efficient mechanism in place to move goods and people across this 9.326 billion sq. km. land mass. According to World Bank statistics, goods lost due to poor or obsolete transportation infrastructure amounted to one percent of China's GDP as recently as the most current survey (mid 1990's).

Passenger rail traffic has priority over freight on the many single-track rail lines across China, extending trips which could last a few days to two weeks or more, and limiting investment interests in all but a few coastal regions. Rail tracks are now being doubled to alleviate the freight train issues, expressways are being built to cut down on vehicular travel times, sealed roads are being extended to new locations, ports are being added or improved for greater use of China's waterways, and airports are being developed or improved across the country. All of these projects bring opportunities to U.S. construction equipment, engineering, and electronics and safety devices companies, although the better chances lie in projects funded by the World Bank, Asian Development Bank, OECF, and similar multilateral lending agencies that use transparent bidding procedures.

Distribution Services

Foreign companies have been banned from engaging in freight forwarding unless they form a joint venture with local partners. Many stayed away. With China's accession into WTO these and other structural issues are moving to positions more in line with international standards. These changes are to be fully compliant with negotiated accession terms within five years of the accession date.

Highways

China has been rapidly developing its highway system in the past few years. Investment in highways for 1999 was \$26.1 billion. It added 58,000km of highways and 2,852km of expressways in 1999 alone. In adherence to the government's stance on western expansion, Sichuan province plans to have 1,500 km of expressways built by 2002 and 4,600 by 2020.

Ports

China has thirteen major shipping ports each with a capacity of over 5 million tons per year, combined for total country shipping capacity in excess of 800 million tons. The Port of Shanghai is going through a significant upgrade. Shanghai Model Port Alliance, is behind many of the upgrade activities that will make Shanghai a more automated port facility, minimizing loss of goods and time while helping Customs collect more accurate tariffs. If the Shanghai project accomplishes its goals, there is interest in replicating the process in other Chinese ports.

U.S. Position in the Market
 U.S. firms' advanced technology and experience make them very competitive for projects using a transparent bidding system, such as those funded by the World Bank, Asian Development Bank or other multilateral funding source. Due to the massive upgrade program in transportation infrastructure currently being carried out, the ability to compete on projects in China depends a great deal upon available financing. In most cases, locally-financed projects use local construction products and services. Due to a lack of government funds, BOT (Build, Operate, Transfer) project financing is a possibility for U.S. firms, though these may not be viable business opportunities.

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State Bureau of Building Materials Industry

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Major Shows/Exhibitions

China Transpo 2002
 (Road and Water Transport
 Technology & Equipment)
 October 22-25, 2002

Tel: (86-10) 6422-7788 ext. 615
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Chengdu International Railway and Express-
 way Exhibition for Engineering Equipment,
 Infrastructure & Technology
 March 2004

Tel: (86-28) 3336-693, 3378-102
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AmCham-China's programs and services include aggressive U.S. and Chinese government relations efforts, a regular calendar of presentations on topics of interest to the American business community, social events, business surveys (including an annual compensation survey and a survey of office and expatriate housing costs), an annual *White Paper on American Business in China*, a monthly magazine *China Brief*, and an annual membership directory.

www.amcham-china.org.cn www.amcham-shanghai.org

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The US-China Business Council is a private, non-profit, non-partisan member-supported organization. Serving member companies from offices in Washington, Beijing and Shanghai, the Council since 1973 has played a key role in providing US firms with the information, analysis, and contacts they need to succeed in the China market. The Council provides extensive, tailored Business Advisory Services on a wide range of business interests to member companies with commercial relationships in China. Its programs in the U.S., Mainland China, and Hong Kong also provide both broad gauge and highly business-relevant information. The *China Business Review*, a leading U.S. periodical on China trade, is published in Washington, along with the members weekly electronic newsletter and numerous focused studies on current business topics. Membership stands at approximately 240 firms and continues to strengthen in response to both China's economic growth and to the many challenges and complexities U.S. firms face in China.

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BNI Information Co., Ltd.
(See listing under Advertising)

Chinabeat Ltd.
Tel: (86-10) 6214-3700
Fax: (86-10) 6214-4357
Website: www.handian.com.cn

Elegance Design & Graphics Co., Ltd.
Tel: (86-10) 6582-2506/1507
Fax: (86-10) 6582-1898

Empire Quick Print
Tel: (86-10) 6592-9511
Fax: (86-10) 6592-9510

Kinko's Document Solution Center
Tel: (86-10) 6595-6388/8020/8050
Fax: (86-10) 6595-8218

Real Estate

Goldlion Global Commercial Center
Tel: (86-20) 3878-1556, 38781551/12/13
Fax: (86-20) 38781510
Email: vip@goldlinet.com

Plaza Business Centre
Tel: (86-10) 8529-8000
Fax: (86-10) 8529-8866
Website: www.pbc-asia.com
Email: diana.zhang@plaza-asia.com

CB Richard Ellis
Tel: (86-10) 6539-1288
Fax: (86-10) 6539-1178/1198
Website: www.cbrichardellis.com
Email: bjcbre@public.bta.net.cn

Century 21 China Real Estate
Tel: (86-10) 6561-7788
Fax: (86-10) 6561-2928
Website: www.century21cn.com
Email: Bill_Hunt@century21cn

Cushman & Wakefield
Tel: (86-10) 6594-2288 ext. 7005
6591-5697/98
Fax: (86-10) 6591-5699
Website: www.cushwakeasia.com
E-mail: cwbj@public.bta.net.cn

Jones Lang LaSalle
Tel: (86-10) 6588-1300
Fax: (86-10) 6588-1330
Website: www.joneslanglasalle.com
Email: david.hand@ap.joneslanglasalle.com

Research and Information Services

Accenture
(See listing under consulting services)

ACNielsen, Beijing Branch
Tel: (86-10) 6588-0188
Fax: (86-10) 6588-0262

Amer-China Partners Ltd.
(See listing under consulting services)

Bloomberg
Tel: (86-10) 6539-1200~1202
Fax: (86-10) 6539-1299
Website: www.bloomberg.com
E-mail: mforsthe@bloomberg.net

China Link
(See listing under Consulting Firms)

Dow Jones & Co.
Tel: (86-10) 6581-4090
Fax: (86-10) 6581-4086
Website: www.dowjones.com

Dun and Bradstreet, Information Services
Tel: (86-10) 6310-1108
Fax: (86-10) 6310-1130

Gallup Research Co. Ltd.
Tel: (86-10) 6553-4828
Fax: (86-10) 6552-4824
Website: www.gallup.com
E-mail: info@gallup.com.cn

Internet Securities
Tel: (86-10) 6510-2596
Fax: (86-10) 6510-2597
Website: www.securities.com

Kroll Associates (Asia) Ltd.
(See listing under consulting services)

Pinkerton (China) Ltd.
(See listing under consulting services)

SinoFile Information Services, Ltd.
Tel: (86-10) 6605-9198
Fax: (86-10) 6605-9194
Website: www.sinofile.net
E-mail: sinofile@sinofile.com

SinoTrust Business Risk Mgt
(See listing under consulting services)

Shipping and Relocation firms

Air Sea Container Line Inc.
Tel: (86-21) 5385-3332
Fax: (86-21) 5385-3801

Airborne Express
Tel: (86-10) 6463-2233
Fax: (86-10) 6467-7866
E-mail: tony.khan@airborne.com
Website: www.airborne.com

Allied Pickfords
Tel: (86-10) 6595-8759/60
Fax: (86-10) 6595-8764
E-mail: general@alliedpickfords.com.cn
Website: www.alliedpickfords.com.cn

American President Lines (China) Co., Ltd.
Tel: (86-21) 6385-1881
Fax: (86-21) 6385-6123
E-mail: frankchan@ccgate.apl.com

Bax Global, Ltd.
Tel: (86-10) 6436-5553
Fax: (86-10) 6435-1441
E-mail: baxpek@public.bta.net.cn
Website: www.baxglobal.com

Circle International (China) Ltd.
Shanghai Rep. Office
Tel: (86-21) 6440-0456
Fax: (86-21) 6440-0198

Cosa-Crown Worldwide Ltd.
Tel: (86-20) 8383-5675, 8386-3869
Fax: (86-20) 8382-3365

Crown Worldwide (China) Ltd.
Tel: (86-10) 6585-0640~49
Fax: (86-10) 6585-0648
Website: www.crownrelo.com

CV Global Logistics (Beijing) Limited
Tel: (86-10) 6767-5566/8519-1535
Fax: (86-10) 8519-1530/8769-4013
Website: www.cvlogistics.com.cn

DHL-Sinotrans
Tel: (86-10) 6466-5566
Fax: (86-10) 6468-4310
Website: www.dhl.com

Emerge Logistics (Shanghai) Co., Ltd.
Tel: (86-21) 5866-7693
Fax: (86-21) 5866-8205
E-mail: jbernstein@online.sh.cn

Emery Worldwide Shanghai Rep. Office
Tel: (86-21) 6466-9559
Fax: (86-21) 6472-1824
Email: chang.george@emeryworld.com

EverReach Logistics (Shanghai) Co., Ltd.
Tel: (86-21) 5046-1000
Fax: (86-21) 5046-1666
E-mail: info@everreach.com

Federal Express Corp.
Tel: (86-10) 6468-5599
Fax: (86-10) 6468-7363
Website: www.fedex.com
E-mail: hao@fedex.com

Fritz Logistics Service (Tianjin) Co., Ltd.
Shanghai Branch
Tel: (86-21) 6268-1166
Fax: (86-21) 6268-6678

Global Silverhawk
Tel: (86-10) 6767-5566
Fax: (86-10) 6761-4013

Globe Express Services
Tel: (86-21) 6355-8181
Fax: (86-21) 6355-8282

IDG Industrial Distribution (Shanghai) Co., Ltd.
Tel: (86-21) 5046-1155
Fax: (86-21) 5046-0309
Email: idgbjsh@online.sh.cn

Interconex Int'l Moving and Shipping
Tel: (86-10) 6597-5211/12
Fax: (86-10) 6597-5209

Interdean Interconex
Tel: (86-21) 6270-2420
Fax: (86-21) 6270-2419
Email: gerry.liu@interconex.com

MSL Express Inc.
Tel: (86-21) 6270-2460
Fax: (86-21) 6270-2462

DID YOU KNOW?

Chinese Embassy and Consulates in the U.S.

www.china-embassy.org

Washington, D.C. (Embassy)
2300 Connecticut Ave. NW
Washington, DC 20008
Tel: (202) 328-2500
Fax: (202) 588-0032
Visa Office Website:
www.china-embassy.org/Visa/Visa.htm

New York
520 12th Avenue
New York, NY 10036
Tel: (212) 868-7752
Fax: (212) 502-0245
Website: www.nyconsulate.prchina.org

San Francisco
1450 Laguna St.
San Francisco, CA 94115
Tel: (415) 674-2900
Fax: (415) 563-0494
Website: www.chinaconsulatesf.org

Chicago
100 West Erie St.
Chicago, IL 60610
Tel: (312) 803-0098
Fax: (312) 803-0122

Houston
3417 Montrose Blvd.
Houston, TX 77006
Tel: (713) 524-4311
Fax: (713) 524-7656
Website: www.chinahouston.org

Los Angeles
443 Shatto Place
Los Angeles, CA 90020
Tel: (213) 807-8088
Fax: (213) 380-1961
Website: www.chinaconsulatela.org

Sea Land Service (china)
Tel: (86-10) 6590-0056/0978
Fax: (86-10) 6590-0923/0143

Sino Santa Fe International Service, Co.
Tel: (86-10) 6514-1188
Fax: (86-10) 6514-8080

Trans China International (TCI)
Tel: (86-20) 8666-3388 ext 1552
Fax: (86-20) 8667-8944
Email: General.Can@Asian-Tigers-China.com

Transoceanic Shipping Company, Inc.
Tel: (86-10) 6465-1080
Fax: (86-10) 6465-1081
E-mail: tsc_bei@eastnet.com.cn
Website: www.transoceanic.com

UPS Parcel Delivery Service, Ltd.
Tel: (86-10) 6593-3962~3965
Fax: (86-10) 6593-3966

UTS Asian Express
Tel: (86-20) 8659-0616
Email: guangzhou@aemovers.com.hk

World Shipping America, Inc.
Tel: (86-10) 6461-5736/29/39
Fax: (86-10) 6461-5732/36
Email: shipping@95777.com

DID YOU KNOW?

National Chinese Holidays 2002/2003

- | | |
|--------------------------------------|-----------------|
| • National Day | October 1-3 |
| • New Year's Day | January 1, 2003 |
| • Spring Festival / Chinese New Year | February 1-3 |
| • International Working Women's Day | March 8 |
| • International Labor Day | May 1-3 |

Chinese Government Offices will be closed

Useful Websites

U.S. Government Resources

U.S. Embassy in China
www.usembassy-china.org.cn
U.S. Commercial Service
www.usatrade.gov
U.S. Department of Commerce
www.doc.gov
U.S. Department of State
www.state.gov
U.S. Ex-Im Bank
www.exim.gov
U.S. National Trade Data Bank (NTDB)
www.stat-usa.gov
U.S. Trade Representative (USTR)
www.ustr.gov
Trade and Development Agency
www.TDA.gov
BuyUSA.com international e-marketplace
www.buyUSA.com

U.S. Business Organizations in China

American Chamber of Commerce (Beijing)
www.amcham-china.org.cn
American Chamber of Commerce (Shanghai)
www.amcham-shanghai.org
U.S.-China Business Council
www.uschina.org
U.S. Information Technology Office
www.usito.org

Chinese Government Resources

Beijing Foreign Economic and Trade Commission (PRC)
www.tbjc.gov.cn
China Council for the Promotion of International Trade
www.ccpit.org
China Economic Information
www.cei.gov.cn
China Embassy Washington
www.china-embassy.org
Ministry of Foreign Affairs
www.fmprc.gov.cn
Ministry of Foreign Trade and Economic

Cooperation (PRC)
www.moftec.gov.cn
Ministry of Information Industries (PRC)
www.mii.gov.cn
Bureau of Statistics
www.chinastatistics.com
State Administration of Internal Trade-China Chain Store and Franchise Association
www.cdfa.org.cn
State Economic and Trade Commission
www.setc.gov.cn
Beijing Municipal Foreign Economic Relations
www.tradepoint.com.cn
Official e-Media for Governmental and Public Sector Tendering Notices of the P.R.C.
www.chinabidding.com.cn

General China Resources

China Big Yellow Pages
www.chinabig.com
China Business Net Pages
www.business-china.com
China Business World
www.cbw.com
China Daily
www.chinadaily.net
China Internet Corporation
www.china.com
China Online
www.chinaonline.com
China Vista
www.chinavista.com/business/home.html
China Yahoo
cn.yahoo.com/
Hong Kong Trade and Development Council
www.tdc.org.hk
Surf China Engine
www.surfchina.com

Other

Asian Development Bank (ADB)
www.adb.org
World Trade Organization (WTO)
www.wto.org