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

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Chapter 1: Doing Business In China

Market Overview Return to top

- China's exceptional economic growth continues as the country further integrates with the global economy. U.S. companies are benefiting, as evidenced by rapid and sustained increases in U.S. exports to China. Over the past several years, increases of U.S. exports to China averaged well over 20 percent. In 2006, the increase of U.S. exports to China topped 30 percent, helping to make China the fastest growing foreign market for U.S. goods. China-U.S. total trade exceeds USD 260 billion, placing China as our second biggest trading partner behind Canada. Although U.S. imports of Chinese goods greatly exceeds U.S. exports to China, China is our fourth largest export market. U.S. exports to China passed USD 50 billion in 2006.

- China's robust economy, once again, hit a ten percent growth rate in 2006, according to China's National Bureau of Statistics. Inflation, although still relatively modest, is a chief concern among policy makers given the strain of such strong growth. Year-end forecasts see inflation ticking up only moderately higher than 2005. China's manufacturing base helped the country hit record trade surplus levels in 2006. Foreign investment is strong with China remaining as one of the largest receivers of foreign capital. The nation's rate of consumer consumption jumped by an estimated 14 percent last year. China's economic miracle is tempered by a number of looming threats, namely a rapidly aging population and perilously deteriorating environment.

- Despite these remarkable changes, China is still a developing country, albeit one with vast potential. Spread over a population of 1.3 billion, China's colossal economy does not represent a large amount of disposable income for each person. Per capita income in China is around USD 1,700. Yet, surprisingly, China stands as the world's third largest market for luxury goods behind Japan and the United States. The income distribution within the country is highly uneven with urban centers, such as Beijing, enjoying a per capita income of more than double the nation's average. Some calculate those with per capita income over USD 8,000 to be more than 200 million. That said, China' per capita income figures are poised to change dramatically. Over the next several years, many economists predict a surge in the number of people achieving middle class status.

- In Chapter 4, we highlight the best prospect sectors for U.S. companies to export to China.

Market Challenges

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American companies continue to have mixed experiences in China. Many have been extremely profitable, while others have struggled or failed. To be a success in China, American companies must thoroughly investigate the market, take heed of product standards, pre-qualify potential business partners and craft contracts that assure payment and minimize misunderstandings between the parties. The problems of doing business in China can be grouped in four large categories:

- China often lacks predictability in its business environment. A transparent and consistent body of laws and regulations would make the Chinese market more predictable. However, China's current legal and regulatory system can be opaque, inconsistent, and often arbitrary. Implementation of the law is inconsistent. Lack of effective Chinese government protection of intellectual property rights is a particularly damaging issue for many American companies, both those that operate in China and those that do not, have had their products stolen by Chinese companies.

- China has a government that practices mercantalistic style policies. China has made significant progress toward a market-oriented economy, but parts of its bureaucracy still protect local firms, especially state-owned firms, from imports, while encouraging exports. WTO accession will mitigate these tendencies over time – but progress is only gradual.

- China retains much of the apparatus of a planned economy. A five-year program sets economic goals, strategies, and targets. The State and the Communist Party directly manage the only legal labor union. In many sectors of the Chinese business community, the understanding of free enterprise and competition is incomplete. Certain industrial sectors are prone to over-investment. Excessive investment leads to over production, bad debt and declining prices in affected industries.

- Foreign businesses tend to under-estimate the challenges of market entry in China. Encouraged by a government eager for foreign capital and technology, and entranced by the prospect of 1.3 billion consumers, thousands of foreign firms have charged into the Chinese market. These companies often do not sufficiently investigate the market situation - common pitfalls involve carefully reviewing product standards and conformity assessments, such as China's Compulsory Certification (CCC); fully understanding legal issues, like protecting intellectual property rights; and properly vetting local business partners.

It is important to understand that while continued reform is absolutely essential for China to achieve the economic growth it requires and to fully participate in the world trading community, in many areas, the necessary changes have not yet taken place. Companies must deal with the current environment in a realistic manner. Risk must be clearly evaluated. If a company determines that the risk is too great, it should seek other markets.

Market Opportunities

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

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

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- The U.S. Embassy and the U.S. Department of Commerce welcome contact with American companies to initiate or expand exports into the China market. Two of the primary objectives of U.S. policy with regard to China are (a) growing the American economy by increasing exports thereby reducing the bilateral trade imbalance and (b) ensuring that the Chinese government fully complies with its commitments to the WTO in order to expand our companies' ability to compete on a more level playing field.

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

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

- Agents are commonly used in China by U.S. companies to initially create these relationships. Localized agents possess the knowledge and contacts to better promote U.S. products and break down institutional, language, and cultural barriers. The U.S. Commercial Service Beijing offers a wide array of services to assist U.S. companies with U.S. exports in finding Chinese partners. U.S. companies are strongly encouraged to carefully choose potential Chinese partners and take the time to understand their distributors, customers, suppliers, and advisors. For more information on CS programs please see: www.buyusa.gov/china

- China is a very large country with multiple economic sub-regions. In 2005, the Department of Commerce established fourteen "American Trade Centers," field offices in coordination with the China Council for the Promotion of International Trade (CCPIT). These offices cover the important regional markets in China.

They are designed to assist American exporters to identify possible agents, buyers, importers or distributors in these markets through the normal DOC services at standard DOC prices. For more information on CS programs please see: www.buyusa.gov/china.

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Chapter 2: Political and Economic Environment

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

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

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

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Chapter 3: Selling U.S. Products and Services

Using an Agent or Distributor Return to top

Since WTO implementation, China has worked towards liberalizing its distribution system to provide full distribution rights for U.S. firms. As it now stands, U.S. companies are no longer required to use domestic import-export agents and distributors for their imported products. The implementation of distribution has greatly improved, reflecting the solution of licensing issues, while the continuing emergence of the foreign-invested enterprise (FIE) and foreign-invested commercial enterprise (FICE) model as a viable trading and distribution platform for foreign companies has also made the situation better (for more information on China's commitments to the WTO, please refer to the U.S. Embassy website at: www.usembassy-china.org.cn).

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

1. Trading Companies

China's current regulations are designed to allow manufacturing-focused foreign invested enterprises (FIEs) to become export trading companies that may purchase and export any products or technologies free from quotas, license control or government monopoly. FIEs are able to establish trading companies and to obtain trading rights before the phase-in of distribution rights. Chinese companies that are registered and have RMB 1 million in capitalization can obtain an import/export license.

In late 2005, the Ministry of Commerce (MOFCOM) issued additional documents that fully clarified the application procedures for investors to establish new foreign-invested commercial enterprises (FICEs), for existing FICEs to open new distribution and trading businesses, and for existing FIEs to expand their business scopes. The documents give provincial-level agencies the authority to review and approve applications. Currently, approval for new foreign enterprises occurs at the provincial level, and not the national level.

In March of 2006, MOFCOM issued a notice on " Entrusting Local Authorities with the Examination and Approval of Commercial Enterprises with Foreign Investment." While this decision to delegate approval authority to provincial-level authorities for most distribution rights applications has sped up the application process, technical challenges still remain. Existing foreign-invested manufacturers that have expanded their business scopes are limited to distributing goods that they produce. Uncertainty over what constitutes "similar goods" has created difficulties for some companies seeking to exercise their distribution rights. In addition, existing manufacturers that have expanded their business scope to include distribution must ensure that half of their revenue stems from their buy-sell activity.

2. Distribution

A US exporting company that hopes to successfully enter China must gain both trading and distribution rights. Distribution covers: 1) commission agent services, 2) wholesale services, and 3) retailing. New laws and regulations released by MOFCOM at the end of 2006 allow foreign companies to establish wholly-owned distribution entities for chemical fertilizers, processed oil and crude oil, as well as other imported and domestically produced products. Limits exist on products including books and periodicals, pharmaceutical products and pesticides. Foreign companies may choose one of two ways to acquire trading and distribution rights: they can set up a new, stand-alone FICE or apply to expand the business scope of an existing FIE.

Given the complexities of the Chinese market, foreign companies should also consider using a domestic Chinese agent for both importing into China and marketing within China. With careful selection, training, and constant contact, a U.S. exporter can obtain good market representation from a Chinese trading company, many of which are authorized to deal in a wide range of products. Some of the larger companies have offices in the U.S. and other countries around the world, as well as a network of offices and affiliates in China. However, given transportation and communication difficulties as well as regional peculiarities, most of these trading companies cannot provide diversified coverage throughout China.

3. Local agents

China is witnessing an explosion in local sales agents who handle internal distribution and marketing. Most of these firms do not have import/export authorization. They are the next layer down the distribution chain, buying foreign products and importing them through entities that have an import/export license by paying a commission. They may be representative offices of Hong Kong or other foreign trading companies, or domestic Chinese firms with regional or partial national networks.

Given China's size and diversity, as well as the lack of agents with wide-reaching capabilities, it may make sense to engage several agents to cover different areas, and to be cautious when granting exclusive territories. China could be viewed as five major regions: the South (Guangzhou), the East (Shanghai), the Central/North (Beijing-Tianjin), West China and the Northeast.

The U.S. Commercial Service (USCS) assists new-to-market firms. For companies not able to travel to China, our International Partner Search (IPS) will locate, screen, and assess potential qualified overseas sales representatives, agents, distributors, joint venture partners, licensees, franchisees or strategic partners for your products or services. The IPS program locates up to six potential agents or distributors, screened from a large pool of candidate firms. Normal turnaround time is around 30 calendar days after each post receives USD 500 for each product line and the company's product literature. A report is developed from on-the-spot research by U.S. Embassy/Consulate staff and provides the contacts needed to launch marketing efforts in China. A visit to China can be supported by our Gold Key Service (GKS), whereby we arrange appointments with prospective agents and distributors, and key government officials responsible for an industry (USD 685 per location). Regional IPS and GKS services are available from USCS offices in Beijing, Shanghai, Guangzhou, Shenyang, and Chengdu or through any of our 14 American Trade Center/International Partner Network Offices in other major cities throughout China. For more information about these offices, see http://www.buyusa.gov/china/en/ipn.html

The USCS also offers BuyUSA.com as a user-supported "B2B" web site. Companies seeking foreign partners may list their firm's information, and foreign buyers are enlisted worldwide.

Establishing an Office

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

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

Establishing a representative office gives a company increased control over it staff. The cost of supporting a modest representative office ranges from USD 100,000 to USD 500,000 per year, depending on its size and staffing requirements. The largest expenses are office rent and expatriate packages.

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

By the end of 2006, China has removed restrictions on entry in nearly all sectors, including banking, insurance, accounting and law firms. However, barriers in the service sector still remain, such as limited access for foreign films and ownership caps that require partnerships with Chinese companies. While representative offices are given a registration certificate, branch offices obtain an actual operating or business license and can engage in profit-making activities.

2. Establishing a Chinese Subsidiary

A locally-incorporated equity or cooperative joint venture with one or more Chinese partner, or a wholly-owned foreign enterprise (WOFE, pronounced "woofy"), may be the final step in developing markets for a company's products. In-country production avoids import restrictions (including relatively high tariffs) and provides U.S. firms with greater control over both intellectual property and marketing. As a result, WOFEs in China have gained popularity among U.S. firms.

The role of the Chinese partner in the success or failure of a joint venture cannot be over-emphasized. A good Chinese partner will have the connections to help cut through red tape and obstructive bureaucrats; a bad partner, on the other hand, can make even the most promising venture fail. Common investor complaints concern conflicts of interest (e.g., the partner setting up competing businesses), bureaucracy and violations of confidentiality. The protection of intellectual property, no matter the form of cooperation, is one of the most pressing matters for U.S. firms doing business in China. American companies should bear in mind that joint ventures are time-consuming and resource demanding, and will involve constant and prudent monitoring of critical areas such as finance, personnel and basic operations to be successful.

Franchising Return to top

Many foreign companies are beginning to establish multiple retail outlets under a variety of creative arrangements, including some of which for all practical purposes function like franchises. Virtually all of the foreign companies who franchise in China either manage the operations themselves with Chinese partners (typically establishing a different partner in each major city) or sell to a master franchisee, which then leases out and oversees several franchise areas within the territory. In December 2004, the China Ministry of Commerce published the Measures for the Administration of Commercial Franchise Operations, which took effect on February 1, 2005. These measures apply to all foreign and domestic franchise relationships in China and include additional regulations for foreign enterprises. FIEs can apply to set up franchise operations in China. However, the requirement that a company own and operate two units for 12 months prior to franchising presents significant challenges for new foreign entrants.

The promulgation of a more comprehensive legal framework is a laudable improvement in the infrastructure of China’s franchise industry. It is expected that the State Council will issue new franchise laws or regulations in 2007. This formal legislation is currently pending before the State Council. The 2005 Measures will likely co-exist (with a lower level of authority) with whatever is produced by the State Council.

Direct Marketing

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Direct selling is a type of business model involving the recruitment of direct marketing sales agents or promoters and the selling of products to end-consumers outside fixed business locations or outlets.

As part of China's WTO commitment, the Chinese government agreed to allow market access for "wholesale or retail trade services away from a fixed location" by December 11, 2004. Nine months after this commitment date, on September 2, 2005, China issued two long awaited regulations governing the sector. These new regulations are quite restrictive, however. Multi-level marketing (MLM) organizations are characterized as illegal pyramids, compensation is capped at 30% based on personal sales, and language exists that requires the construction of fixed location "service centers" in each area where sales occur. Significant barriers exist for new entrants, as evidenced by a three-year foreign experience rule, and a required RMB 20-100 million bond deposit. Since the passage of this legislation, however, several major international companies have had success in overcoming these barriers. So while it is possible for American companies to engage in direct marketing in China, navigating government restrictions can be challenging.

Joint Ventures/Licensing

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Joint ventures, although a useful way to limit investment and quickly access the market, entail considerable risk (loss of control of investment, theft of intellectual property, conflicts of interest, etc.) As such, most U.S. investment in China is in 100 percent U.S.-owned companies, not JVs with Chinese partners. This trend has developed steadily with China's market openings, and nearly 75% of new investment is now in wholly foreign-owned entities (WOFEs).

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

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

Selling to the Government

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In the past, China's government procurement practices had often been inconsistent with open and competitive bidding, and for the most part were non-transparent. While tenders for projects funded by international organizations were openly announced, most government procurement was by invitation only. However, the situation has changed in recent years. Competition is usually by competitive bid rather than by direct negotiation. In July 2006, the China Ministry of Finance issued a series of notices on the Assessment of the Government Procurement, which will make the process more transparent.

Direct sales to the Chinese military are a possibility. However, restrictions on this type of business exist both in the United States and in China. U.S. manufacturers should contact the Department of Commerce's Bureau of Industry and Security and the U.S. State Department Office of Defense Trade Controls for guidance before selling goods or technology to the Chinese military.

Distribution and Sales Channels

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In recent years China has worked toward liberalizing its distribution system to provide full trading and distribution rights for U.S. firms. Nearly full liberalization of this sector was achieved in 2006. New laws removed earlier restrictions on size requirements for trading and distribution firms, thus paving the way for competition from small businesses. Currently, the only inhibiting factor in the process is that foreign companies need to apply for approval from the local Foreign Economic Relations and Trade Commission (MOFTEC) before they can register with the local AICs (Administration of Industry and Commerce).

There are different sales channels available to foreign companies selling in China, including trading companies, distributors, and local agents. Trading companies with import/export rights take care of customs formalities, distributors build sales channels and handle stock and inventory, and local agents retail products to consumers. However, an increasing number of U.S. companies are working to control this distribution channel as much as possible, and local and international trading and distribution companies are consolidating to provide more of these services under one roof.

1. Trading Companies

Foreign invested commercial enterprises (FICEs) can now obtain import and export licenses in China, both within and outside of the Free Trade Zones (FTZs). As a result, both Chinese and foreign owned trading companies are competing to assist international firms with importing and exporting their products. Remaining restrictions in this sector are mainly product specific (e.g., books, newspapers, pharmaceuticals, etc.), and the bulk of imported goods must pass through Chinese customs inspections. The efficiency of these inspections has increased drastically in recent years.

2. Distribution

Distribution covers: 1) commission agent services, 2) wholesale services, and 3) retail services. As discussed above (see Using an Agent or Distributor), the current laws and regulations allow foreign companies to establish wholly foreign owned distribution entities for imported and domestically produced products. Restrictions on ownership in this sector are limited to products sold (e.g., books, newspapers, pharmaceuticals, pesticides, salt and tobacco) and the scope of the distributing entity (e.g., large chain stores with more than 30 outlets selling a range of products).

Due to market complexities, however, many foreign companies distribute their products through their sole distributors or regional distributors. The foreign companies provide technical and sometimes financial support, while the distributors establish outlets, second tier distribution operations and branches to reach the local end users.

3. Local agents

Local agents are essentially trading companies that buy imported products from entities that have an import/export license or from those higher in the distribution chain.

Selling Factors/Techniques

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1. Relationships

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

It is important for exporters, importers, and investors to establish and maintain close relationships with their Chinese counterparts and relevant government agencies. It is equally important that American exporters encourage strong personal relationships between their Chinese agents or distributors and the buyers and end-users. A web of strong personal relationships can often help ensure expedited governmental procedures and the smoother development of business in China.

2. Localization

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

3. Logistics

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

Electronic Commerce

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The Chinese Government has adopted an open attitude towards the advent of e-commerce in China. Both Chinese and international businesses have been active in investing and establishing online sales channels. By June 30, 2006, the number of Internet users in China reached 123 million, second only to the U.S. Investment in e-commerce business is risky, however, due to the absence of clearly defined regulatory powers over the industry and a lack of an effective Chinese certificate authentication system.

While e-commerce in China has great potential, three major impediments still remain:
1) China is still a cash-based society and use of credit cards is still limited;
2) Local distribution channels are not well developed for the delivery of items purchased over the Internet
3) Limited awareness of the need for appropriate Internet security software products

But several Chinese Internet companies have been very successful in adapting to the local market, developing an effective cash-on-delivery e-commerce model in the major cities. In addition, the Chinese government is making strides in enhancing Internet security. Starting in April 2005, the Law on Electronic Signatures took effect and enhanced the safety of online transactions. In October 2005, the People's Bank of China issued "e-payment instructions". These regulations will contribute to the standardization of China's e-commerce environment.

Trade Promotion and Advertising

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1. Advertising

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

Advertising in China is regulated by the Advertising Law of the People's Republic of China, passed in 1994. This law outlines content prohibitions and advertisers' responsibilities. Advertising should "be good for the physical and mental health of the people" as well as "conform to social, public and professional ethics and safeguard the dignity and interests of the state." Specific rules include a prohibition on the use of national symbols and government images, and prohibit advertisements that are obscene, superstitious, discriminatory and/or dangerous to social stability. The full text of the law may be found on http://www.chinagate.com.cn/english/434.htm. The advertising industry in China is heavily regulated, and the government still exercises ultimate control over content. The Advertising Law is not completely transparent; therefore, interpretation and enforcement may be arbitrary and varied, and legislation usually favors consumer protection over business promotion.

The State Administration for Industry and Commerce (SAIC) is the primary regulatory organization for the advertising sector, but many other organizations such as the Ministry of Culture and the State Administration of Radio, Film and Television, play an active role in controlling print or television content.

China's retail boom and increasing competition among retailers is causing China's advertising industry to grow even faster than the economy as a whole. According to Nielsen Media Research, in the first quarter of 2006 advertising expenditure in mainland China totaled RMB 82.6 billion, an increase of 25% compared to the same period in 2005. In accordance with China's WTO commitments, wholly foreign-owned enterprises in advertising services were allowed under the Management Rules on Foreign-Invested Advertising Companies, issued by the SAIC and the Ministry of Commerce (MOFCOM) in March 2004 and effective on December 10, 2005. All of the major international advertising firms are present in China.

Television advertising accounts for by far the largest single portion of the Chinese advertising market, constituting 83% of all advertising spending in the first quarter of 2006. China's regular television viewing population is 95 percent of China's 1.3 billion people. Major articles sold on television include toiletries, foodstuffs, pharmaceuticals, liquor, home electronics and real estate. Television stations in the larger markets (Beijing, Guangzhou, Shanghai) require advertisers to book and pay for specific spots two to ten months in advance. TV advertising turnover for 2004 was about UD$4.6 billion. Newspapers and periodicals are also major advertising channels. Mobile phone advertising is growing rapidly. The prospect of 3G technology coming to China in 2007 increases the chances that mobile phone advertising spending will continue to rise.

The online advertisement industry is currently one of the fastest growing advertising channels and the market scale is expected to reach RMB 8.2 billion in 2006. Web portals are the main medium for online advertisement. Sina and Sohu together occupied 55% of the total online advertising market in 2005.

As of mid-2006, the top five industries in terms of advertising expenditure were toiletries, pharmaceuticals, business and services, foodstuffs, and beverages. Tightening administrative control in 2006 hampered the growth of expenditure in the pharmaceuticals industry. According to Nielsen Media Research, international credit cards, including Visa and Mastercard, as well as local credit card companies such as JCB have been one of the highlights in the advertising market since late 2005. JCB advertising expenditure in March of 2006 alone was 35 times as much as its total advertisement expenditure in 2005.

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

2. Trade Shows and Missions

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

Pricing

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Most Chinese consumers are sensitive to price and will usually choose the less expensive product unless they can be swayed by better after-sales service or significantly better product quality. However, the younger Chinese consumer is very brand conscious, and brand advertising is commonly used to effectively increase the perceived value of a product. For certain larger purchases, attractive export-import financing that lowers the effective price is offered by Japanese, European and other foreign companies, and may make some U.S. products less competitive.

Several factors may affect your export pricing strategy in China:

1. Tariffs

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

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

A comprehensive guide to Chinese customs regulations is the China Customs Regulations 2007, compiled by the General Administration of Customs (China Customs). This guide contains tariff schedules and national customs rules and regulations. As of November 2006, there have been tariff cuts on 58 product categories, including key equipment and spare parts, high-tech, energy-saving products, natural resource products, fertilizer products, and others. Duties on these and other categories have been reduced to 0% to 3%. Exporters should check with China Customs to take advantage of these tariff reductions.

Until July 2004, China Customs used eight-digit codes exclusively in its harmonized tariff system, as opposed to the more detailed ten-digit codes. Without detailed codes, Customs officers had wide discretion to general categories for imports. In 2004, the Ministry of Commerce announced the use of ten-digit codes for certain items including chemicals, internal combustion engines, pumps and automobiles. The adjusted codes took effect on July 1, 2004. The World Customs Organization's (WCO) Harmonized System (HS) 2007 for tariff nomenclature took effect on January 1, 2007. China is an active member of the WCO.

China is actively pursuing a Free Trade Agreement (FTA) between itself and the Association of Southeast Asian Nations (ASEAN) called the ASEAN-China FTA (ACFTA). The first phase of tariff reductions took effect on July 1, 2005, and the second phase on January 1, 2007. As part of this second phase, the range of products that qualify for tariff reductions was significantly expanded.

2. Customs Valuation

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

3. Taxes

The gap between the tax law enacted by the State Administration of Tax (SAT) on the national level and its interpretation on the local level, the illegal tax benefits granted by local authorities to boost local growth, and the existence of undocumented precedents and practice not consistent with Western norms all make China's tax system very complicated to Western businesses.

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

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

VAT rebates of up to 17 percent (a full rebate) are available for processed exports. Exporters sometimes complain that it takes months to obtain the rebates and amounts are often miscalculated. The specific rate is determined by the category of product, and the VAT rebate mechanism is often used to encourage exports in such sectors as IT and biomedical products (full 17% rebate) and discourage exports in sectors such as steel, cement and textiles (5% to 13% rebate) and coal and natural gas (no rebate). Also, rebates are limited by local budgets, and coastal provincial authorities often use up rebate funds well before the end of the year. The applicable rebate method varies and is a function of the establishment date of the enterprise. Although the VAT rebates have been used to unfairly support domestic Chinese industry by discriminating against foreign products, the U.S. has been successful in some cases in resolving such issues through the dispute settlement mechanism of the WTO.

China's opening to foreign banks in December 2006 revealed the complexity and immaturity of China's tax system. The State Administration for Tax (SAT), the China

Banking Regulatory Commission, various local tax authorities and other government bodies were presented with the problem of clarifying guidelines for foreign banks and a slew of tax burden issues.

Companies operating in China are required to pay an income tax, which is calculated differently according to their ownership structure (e.g., domestic vs. foreign). The intention to phase out this two-tier tax system has been announced, but an effective date is uncertain. Domestic enterprises have long resented rebates and other tax benefits enjoyed by foreign-invested firms. The move toward national treatment will mean the gradual elimination of special tax breaks enjoyed by many foreign investors. However, in some cases Chinese authorities have promised to grandfather existing foreign investments with current tax incentive deals.

Sales Service/Customer Support

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Until recently, foreign companies were not explicitly permitted to provide after-sales service and customer support for their foreign-made products sold in China. However, along with the 2004 relaxation of controls in the services sector in general, wholly owned service companies and FIEs have been able to start providing sales service and aftersales customer support inside China. Detailed regulations have not yet been issued, despite pressure from the U.S. government and trade associations.

Customer rights and sales service standards are fairly new concepts in China. The China Consumers' Association (CCA) was established in 1984 and the Law of the People's Republic of China on Protecting Consumers' Rights and Interests was adopted in 1993 "to protect the legitimate rights and interests of consumers." The CCA along with local branches, consumer advocacy groups and industry bodies regulate and supervise sales service and customer support standards. The CCA provides consumer information and consultation services, supervises and inspects commodities and services, mediates consumer complaints, and acts as a consumer advocacy body.

China's rapidly expanding retail market, the proliferation of fakes and counterfeit products, and a lack of adherence to consumer standards have resulted in more legislation and the development of new regulatory and supervisory bodies. However, there is some question as to whether they are effectively enforcing standards. The vice chairman of the CCA identified "many problems that violate the rights and interests of consumers such as neglect of consumers' suggestions, food safety risks, and misleading advertising." In late 2006 CCA, in cooperation with local bodies, launched a nation-wide investigation of misleading advertising and publicity, price manipulation, consumer traps, false promises and other consumer issues, particularly in the airline, tourism, medical and business service industries.

Heightened consumer awareness to such problems has given U.S. companies with strong international brands an advantage in the Chinese market, as American products and services are generally considered to have superior sales and customer support standards. However, increasing production of counterfeit merchandise, coupled with growth in infringement of intellectual property rights, has sometimes frustrated foreign firms in their attempts to leverage brand value among Chinese consumers.

Protecting Your Intellectual Property Return to top

As China liberalizes its trade regime and continues to further open its markets under its WTO commitments, new products and industries are increasingly present. In addition, an increasingly large number of Chinese individuals and small companies are involved in manufacturing and international trade. While this has many positive effects for the Chinese economy, one ancillary effect of the growing trade and market liberalization has been the simultaneous growth in infringement of intellectual property rights. The rule of law, including the application and enforcement of IPR, is also key to promoting healthy economic growth and attracting further investment in China.

In spite of apparent progress towards improving its intellectual property legal and regulatory regime, China continues to be a very challenging environment for IPR protection and enforcement. Criminal penalties are seldom applied, while administrative sanctions are typically non-transparent and so weak as to lack deterrent effect. Civil sanctions tend also to be of limited effect. Trademark and copyright violations are blatant and widespread. Chinese companies are increasingly found squatting on the trademarks, company names, and design patents of well-established companies, even companies with household names. Within China, significant regional differences exist, with some areas showing higher levels of protection of IPR, while others apparently affording local counterfeiters and pirates a degree of safe harbor. While Chinese officials are increasing enforcement efforts, violations continue to outpace enforcement. Lack of coordination among various government agencies also continues to hamper many enforcement efforts.

Several general principles are important for effective management of IP rights in China. First, it is important to have an overall strategy to protect IPR. Second, IPR is protected differently in China than in the U.S. Third, rights must be registered and enforced *in* China. Fourth, China conducts considerable enforcement of IPR, much of it ineffective; businesses need to develop cost-effective means of enforcing their rights within the existing system. Fifth, while the U.S. Government is willing to assist, there is little it can do if the rights holders have not taken these fundamental steps necessary to securing and enforcing their IPR in a timely fashion.

1. China's IPR Commitments

As part of its Protocol on Accession to the WTO, China has committed to full compliance with the WTO Agreement on Trade-Related Aspects of Intellectual Property (TRIPS), as well as other TRIPS-related commitments. During the lead-up to WTO accession as well as during the year following, China adopted revised patent, trademark and copyright laws, as well as implementing regulations, in addition to numerous other ministerial or local rules and regulations, including rules on semiconductor layout design and software protection. The Supreme People's Court has also issued many judicial interpretations, while the Supreme People's Procuratorate, the Ministry of Public Security and lower courts have issued interpretations to improve criminal enforcement. Since WTO accession, China passed implementing regulations including measures on pharmaceutical data exclusivity (TRIPS 39.3), a new Chinese Trademark Office ministerial regulation on well-known marks, new Customs Regulations for **Protection of Intellectual Property Measures for Protection of Intellectual Property**, a new Administrative Regulation on Copyright on the Internet, Regulations on Collective

Administration of copyright, and other rules. Although some progress has been made the Chinese Government has yet to implement effective enforcement measures to deter widespread infringements of intellectual property rights.

Apart from China's WTO commitments, China has signed a number of international and bilateral agreements regarding IPR. China is a member of the World Intellectual Property Organization (WIPO) Convention, the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the Madrid Protocol, the Universal Copyright Convention, and the Geneva Phonogram Convention and the Patent Cooperation Treaty. During 2002, the WIPO Copyright Treaty and WIPO Performance and Phonograms Treaty (the "Internet Treaties") came into effect worldwide. The treaties help define global standards needed to keep pace with distribution of copyright over global networks. With over one hundred and thirty million users of the Internet in China. It is critical that China aggressively enforce copyright over the internet. In December 2006, the Standing Committee of the National People's Congress approved to accede to the two WIPO Internet Treaties; formal accession is expected early in 2007.

In 1992, China signed an IPR Memorandum of Understanding (MOU) with the United States, pursuant to which China improved its laws governing IPR protection and joined the Berne Copyright and Geneva Phonograms Conventions. The March 1995 extension of the IPR MOU sets out a plan for enforcing IPR, and grants market access to certain products. The two countries also have cooperative programs on technology and criminal justice, and continue to discuss IPR issues in bilateral as well as multilateral fora. More recently, China has also committed to take additional steps to protect IPR in the context of the annual meetings of the Joint Commission on Commerce and Trade and in the context of other bilateral initiatives.

2. IPR Climate

Industry associations representing computer software, entertainment, and consumer goods industries report high levels of piracy and counterfeiting of all types of products. The Business Software Alliance estimates that up to 90 percent of certain types of business software used in China is pirated.

Many consumer goods companies report that, on average, 20 percent of their products in the Chinese market are counterfeited. Chinese companies experience similar, or even greater, problems with piracy and counterfeits in their home markets. These problems are compounded by widespread squatting on the rights of others' trademarks, company names, domain names, or design patents, theft by employees of trade secrets, exports of infringing products, and other challenges. Further, Chinese-origin infringing goods are also found throughout the world.

Inadequate enforcement of IPR laws and regulations, through either judicial or administrative means, remains a serious problem. Enforcement of IPR regulations is uneven and is sometimes impeded by local interests. Administrative penalties for IPR violations have little deterrent effect. Chinese law does not sufficiently criminalize the import and export of IPR-infringing goods or the unauthorized uploading of copyrighted materials without profit motivation.

Limited market access for products such as foreign movies and entertainment software as well as restriction in investment in distribution channels provide additional incentives for smugglers and counterfeiters. Authorities have also conducted tens of thousands of raids at both the manufacturing and the retail level, resulting in the confiscation of counterfeit or smuggled products. Nonetheless, large markets continue to openly sell pirated and counterfeit products despite repeated U.S. Government requests to shut down and prosecute vendors selling infringing goods, with many such markets located in prominent areas of major Chinese cities or at border crossings, such as the Silk Market in Beijing or at the border with Hong Kong.

3. IPR Enforcement Strategies

Any U.S. company or individual encountering or anticipating encountering problems arising from IPR protection in China should consider an appropriate strategy to minimize the risks and actual losses it faces. Some assistance can be found at the “IPR Toolkit” hosted at the website of the U.S. Embassy in Beijing. http://www.usembassy-china.org.cn/ipr/. Combating IPR violations in China is a long-term, multi-faceted undertaking that is also linked to general rule of law developments in Chinese society. Different industries have typically pursued different strategies based on a variety of factors: the pervasive nature of the IPR violation, the sophistication of the pirate or counterfeiter, difficulties in delivering the legitimate product through legitimate channels, the nature of the right being infringed and the effect of the violation on public health, safety or business interests, the familiarity of Chinese administrative or judicial organs with the type of violation, and budget and marketing constraints. The United States looks forward to a day when China engages in fair, robust and deterrent IPR enforcement within China as the first course of action for aggrieved rights holders. However, in certain instances, U.S. companies may also be able to obtain some measure of relief for export-oriented infringement activities by bringing litigation or seeking Customs enforcement outside of China, in order to protect foreign markets outside of China..

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

Chinese authorities are attempting to address the need for increased education on IPR matters by establishing IPR law centers at many universities, notably Beijing University, Tsinghua University and People's University among others. Chinese IPR professionals are also studying in foreign countries, frequently with the assistance of international organizations. During the past years, the United States and other foreign governments, as well as private organizations, have also conducted numerous national and local training efforts focused on China's WTO obligations, including civil, criminal and administrative and Customs enforcement.

4. IPR Enforcement System

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

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

China's revised IPR laws now generally provide for referral for criminal prosecution when criminal IPR violations are uncovered by administrative agencies. Such measures had become increasingly important in order to bring down high piracy and counterfeiting rates and to deter organized crime which has become involved in various forms of IPR piracy and counterfeiting. However, thresholds for criminal prosecution are high, police and prosecutors lack familiarity with IPR criminal matters, and the relationship between criminal and administrative actions, including handling of recidivists and preserving evidence, is still developing. China has published various procedural rules for improving the transfer of administrative cases to criminal prosecution, which have not yet resulted in significant overall increases in cases.

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

In 2006, China developed a national network of 50 IPR Complaint Centers (with a "12312" hotline for every area code) and coordinating website (www.ipr.gov.cn). The site includes some English language content and even allows for the online filing of IPR complaints. China has also established special IPR courts, as part of its civil litigation panels, in all provinces, major cities, and at the Supreme People's Court. China lacks specialized criminal IPR prosecutors, such as the U.S. Computer Crimes and Intellectual Property Section of the Department of Justice. In late 2005, a specialized criminal intellectual property office was established within the national Ministry of Public Security, which may become a model nationwide for local police investigations in intellectual property matters.. As part of its TRIPS obligations, China also provides for rights of appeal of final decisions by SIPO and the Chinese Trademark Office regarding the validity of a patent or trademark. The Supreme People's Procuratorate, which is similar to our Attorney General, operates independently and as a co-equal branch of government with the courts and executive branch (State Council). Many Chinese judges, prosecutors and police lack adequate legal training and the effectiveness of criminal procedures are thereby undermined. The Supreme People's Court has issued interpretations of Chinese laws addressing many of China's international IPR obligations, including Internet related copyright and domain name disputes. The Supreme People's Court also has issued certain interpretations to implement China's TRIPS obligations to provide preliminary injunctive relief for various IPR matters.

5. Patents

In 1998, China reorganized its patent office as the State Intellectual Property Office in an effort to improve IPR coordination and enforcement. At that time, there was hope that SIPO would eventually preside over consolidated IPR functions, including the Trademark Office and National Copyright Administration. However, this streamlining has never occurred. SIPO was however actively involved in 2006 in coordinating the drafting of a National IPR Strategy as part of China's own efforts to boost its IPR protection and enforcement.

Since China's Patent Law was first enacted in 1984, domestic and foreign patent applications have increased steadily. A new patent law is currently under consideration for adoption as early as 2008. Patent protection was extended in January 1993 to pharmaceutical and chemical products, as well as processes; the period of protection was lengthened to 20 years. The amendments also provide the patent-holder the right to exclude others from importing infringing products and expand the scope of patent infringement to include unauthorized sale or importation of products manufactured with the use of patented processes. China does not yet provide a similar scope of protection to certain biotechnology and business method patents as in the United States. Under proposed revisions to the patent law, American companies may also need to insure that they obtain any necessary consent in exploiting and disclosing Chinese genetic resources.

China acceded to the Patent Cooperation Treaty on January 1, 1994, and will perform international patent searches and preliminary examinations of patent applications.

Under the Patent Law, foreign parties without a business presence in China must utilize the services of a registered Chinese agent to submit the patent application. Foreign attorneys or the Chinese agent may do initial preparation of the application. In early 2003, in a positive development, China amended its legislation to further harmonize with international practice regarding examination of Patent Cooperation Treaty applications. Also in mid-2003, China issued new rules regarding compulsory licensing of patents according to certain defined circumstances and procedures. In late 2005, SIPO also issued a rule regarding compulsory licensing of pharmaceutical products to prevent or cure infectious diseases during public health crises. . This is an apparent attempt to implement the consensus reached in the WTO on access to medicines and public health. There have not, however, been any reported instances of compulsory licensing of patents to date.

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

Some Chinese scholars and officials have also begun to advocate that patent protection can be a "technical barrier to trade", a "monopolistic" or "unfair activity", or that foreign companies should be forced to license their patents as part of a national standards setting process. The U.S. Government is closely monitoring legislative and policy developments in this area.

China's patent law does not currently afford "patent term restoration" to extend the patent term due to delays in marketing approval for patented pharmaceutical products Additionally in 2002, China passed Articles 11 and 12 of the Drug Registration Regulations that included "patent linkage" provisions which, in theory, would require the State Drug and Food Administration to verify that patents are not violated before granting marketing approval. However, problems of transparency and interagency coordination have prevented the establishment of an effective system of patent linkage. It is hoped that China will formally adopt measures to improve the environment for pharmaceutical research and development. Additional challenges that innovative pharmaceutical companies face include: widespread counterfeiting, widespread availability of certain bulk active ingredients, patent challenges, and delays and restrictions in market access for their products.

6. Copyrights

In March 1992, China established bilateral copyright relations with the United States and in October 1992, acceded to both the Berne Convention and the Universal Copyright Convention. China also joined the Geneva Phonogram Convention in April 1993. Following accession to the Berne Convention, China explicitly recognized computer software as a literary work and extended protection to computer programs for 50 years without mandatory registration requirements for foreign rights holders. In addition to amendments to China's Copyright Law, China's Supreme People's Court has taken steps to address digital and Internet-based copyright issues. In December 2006, the Standing Committee of the National People's Congress approved to accede to the two WIPO Internet Treaties; formal accession is expected early in 2007. Internet piracy has become an increasingly widespread phenomenon, particularly as Internet penetration spreads in China. Industry groups report that piracy on University campuses is widespread, including textbook piracy and Internet piracy. In late 2006 there were some significant new efforts underway in this area that may help address these problems. The United States has also asked for increased ministerial coordination, as well as legislative changes, in copyright enforcement.

Insufficient market access for foreign films, books, and music has led to a large black market for these goods. China does not allow publishing rights for foreign music and book firms, and furthermore may require compulsory licensing of certain books used to implement national education plans. Delays may occur in content review for entertainment software, which must be reviewed by two ministries for both Internet-based content and physical (CD) content. China maintains a ceiling on the number of foreign films allowed to enter the country. In 2003, China authorized a new company, Huaxia, to distribute foreign films, creating a duopoly in place of the China Film Group's earlier monopoly. However, these two companies are still subject to the same ceiling of 20 revenue sharing foreign films per year and do not come close to fulfilling the market's demands, causing consumers to turn to pirated DVDs or VCDs in order to watch films that are not otherwise legally available.

7. Trademarks

China's Trademark Office is the most active trademark office in the world. China's trademark regime generally comports with international standards, with the principal exception being China's historical lack of equal recognition accorded to foreign well-known trademarks. In 2003, China revised its ministerial regulations for well-known marks. The new regulations require companies alleging infringement to prove that their marks are well-known within China based on sales, marketing, and advertising figures. Foreign marks have now begun to be designated as well-known, and should be accorded the enhanced enforcement available to well-known domestic marks. In addition to the administrative registration process, China's civil courts have also recognized trademarks as well-known in the context of civil litigation. Another key challenge is the long delays in trademark prosecutions due to the rapid growth in filings. U.S. companies are advised to file early.

In October 1989, China joined the Madrid Protocol for reciprocal trademark registration to member countries. The United States has also recently acceded to the Madrid Protocol. China has a "first-to-register" system, leaving registration of popular foreign marks potentially vulnerable to third parties. Foreigners seeking to distribute their products in China should consider registering their foreign mark and/or logo, any Chinese language translations or transliterations, as well as appropriate Internet domains. Foreign companies have frequently found that <u>Chinese</u> "squatters" have registered trademarks or brand names for products the foreign companies own or had previously registered in Hong Kong or Taiwan but neglected to register in Mainland China. The Chinese trademark office has on occasion cancelled marks held by Chinese agents of U.S. distributors who without authorization registered such marks in their own name. Registration of company names is handled by the Enterprise Name Registration Division of the State Administration for Industry and Commerce.

Under China's trademark law, foreign companies without a presence in China must utilize the services of registered Chinese trademark agents or Chinese law firms to submit the trademark application. Foreign attorneys or the Chinese agent may prepare the application. China's trademark law is currently under revision with a new law likely to be promulgated in 2008.

8. Trade Secrets

Trade secret protection is widely pursued by Chinese and foreign companies in China. The Law To Counter Unfair Competition (1993), which is under consideration for revision in 2008, protects commercial secrets, which are defined as information which can bring economic and practical benefits to the authorized users and which are protected by taking appropriate security measures by a business operator. Commercial secrets include operational and technical information not available to the general public.
Sanctions under the law include civil remedies such as damages, administrative sanctions such as fines, and criminal penalties for "serious violations." China is further obligated to protect trade secrets under the TRIPS Agreement. Various rules by the Ministry of Labor and Social Security and other ministries on a national or local level also provide for enforcement of non-compete provisions with employees based on their access to business secret information. In order for such non-compete provisions to be effective, reasonable compensation must be provided to the employee. Further changes to these requirements may occur as a result of proposed changes to China's Labor Laws.

China is required by the TRIPS Agreement to provide protection for certain non-disclosed clinical data used in securing regulatory approvals. The Ministry of Agriculture has adopted implementing rules for this TRIPS obligation. In 2002, China also passed Article 35 of the Implementing Regulations of the Drug Registration Law to provide implementing regulations for data exclusivity. It remains unclear, however, whether China's regulations on data exclusivity provides sufficient protection against reliance on innovator data in applications for marketing approval submitted by generic drug producers.

9. Semiconductor Layout Designs

China adopted regulations for the protection of semiconductor layout designs as part of its WTO accession. Registration is handled by SIPO. Administrative and civil enforcement measures exist for semiconductor layout designs.

10. Regulation of Technology Licensing

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

11. IPR Protection at Trade Fairs

"Protection Measures for Intellectual Property Rights during Exhibitions" were promulgated on January 1, 2006 by the Ministry of Commerce, State Administration for Industry and Commerce (SAIC, Trademarks), State Bureau of Copyright (NCAC) and the State Intellectual Property Office (SIPO, Patents). These guidelines, which are not mandatory, recommend that trade fairs lasting at least three days set up IPR Complaint Centers supported by personnel from local bureaus that handle trademarks, copyrights and patents. If the organizer does *not* set up an IPR Complaint Center, it is supposed to help complaining rights holders get in touch with the local IPR authorities to register their complaints, which are handled through administrative procedures and sanctions.

The guidelines, which seek to remove IPR infringing goods from displays through cooperation between local IPR authorities and trade fair organizers, operate on a "three strikes and you're out" principle. Feedback from complaining U.S. rights holders to date suggests that some local IPR authorities have not "gotten the message" on the new initiative, since some have refused to get involved even after being contacted by trade fair organizers. Where IPR Complaint Centers have been set up, documentary requirements for right holders to establish their rights seem inconsistent and overly burdensome. And even when U.S. rights holders have documented their rights to the satisfaction of the IPR Complaint Centers, alleged infringers are merely "punished" with a warning to remove the offending products from their displays (3 strikes); in some cases, rights holders discover the infringers replace offending products once they think "the heat is off."

At the beginning of 2007, the Department of Commerce launched a Departmental Initiative to Protect IPR at Trade Fairs Sponsored or Support by the Department. The initiative seeks to insure a basic level of IPR protection at any trade fair on which the Department of Commerce and/or the U.S. Commercial Service sponsors or provides substantial support. It includes a requirement for all U.S. exhibitors to attest that they have not knowingly infringed IPR, an attestation which will eventually be required by all trade fairs which seek Department support. The initiative requires the organizers of U.S. Pavilions and the U.S. Commercial Service to communicate to U.S. exhibitors the IPR protection policies of the each trade fair as well as to help U.S. exhibitors secure legal representation during the fair to enforce their rights. The initiative was officially launched in China in February, with a tasking to benchmark the IPR protection policies and procedures of the trade fair organizers who mount the over three dozen trade fairs which DOC and CS/China support each year. CS and PTO will review these policies and procedures, monitor effectiveness during trade fairs, cooperate with China's Ministry of Commerce and IPR authorities to improve the effectiveness of IPR protection, and will use the leverage of official USDOC/CS support as an incentive to improve IPR protection at individual trade fairs.

12. IPR Resources

A great deal of information on protecting IPR is freely available to U.S. rights holders: To set up a free, one-on-one consultation with a U.S. Government expert, call: 1-866-999-HALT or register at www.StopFakes.gov. Register online for a free one-hour consultation with a private attorney at: http://www/abanet.org/intlaw/china. Please also find our U.S. Embassy Beijing IPR toolkit: http://www.usembassy-china.org.cn/ipr/. A wealth of information on handling IPR problems is available at www.stopfakes.gov, which is linked to the USPTO website for registering trademarks and patents (both in the U.S. as well as in foreign countries), the U.S. Customs & Border Protection Website to record registered trademarks and copyrighted works (to assist customs in blocking imports of IPR-infringing products) and allows you to register for Webinars on protecting IPR.

Due Diligence

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Undertaking a due diligence investigation prior to engaging in a trade or investment transaction can minimize the risk of encountering commercial disputes. The primary causes of commercial disputes between Chinese and American companies concern breach of contractual payment obligations, irregularities in accounting practices, financial mismanagement, undisclosed debt, and the struggle for control within joint ventures. These problems can be minimized by investigating the financial standing and reputation of local companies before signing contracts with them. Both U.S. and Chinese firms with offices in China conduct due diligence investigations. The former include Dun & Bradstreet, Kroll Associates, PriceWaterhouseCoopers and Pinkerton Consulting Services. The fees charged by these companies may be considered a useful investment to ensure that the local customer or partner is financially sound and reliable. In addition, the USCS in China assists American companies to evaluate potential business partners.

Local Professional Services

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The system for regulation of foreign commercial activity in China is difficult to navigate and is not fully transparent. Companies new to the market are strongly encouraged to retain professional services to structure commercial transactions. Establishing a wholly foreign owned subsidiary, joint venture, or representative office requires compliance with complex contract approval requirements, business registration requirements, taxation regulations and statutes, and labor regulations. Many U.S. banks, accountants, attorneys, and consultants have established offices in China and are familiar with Chinese requirements. Some Chinese professional service providers also have substantial experience serving foreign clients.

1. Accountants

Chinese law requires representative offices and foreign-invested enterprises to engage the services of accountants registered in China to prepare official submission of annual financial statements and other specified financial documents. Therefore, only Chinese accountants and joint venture accounting firms may provide these services. All of the major U.S. accounting firms (KPMG Peat Marwick, PWC, Deloitte Touche Tohmatsu, and Ernst & Young) have established offices in China and provide services including audit, tax and advisory services, the preparation of investment feasibility studies, and setting up accounting systems that are in compliance with Chinese law.

2. Attorneys

Prior to 1992, most foreign law firms were registered as consulting firms. Since that time, over one hundred U.S. and international law firms have received approval to register in China as foreign law firms, and currently operate in China. Foreign law firms registered in China are restricted to advising clients on legal matters pertaining to the jurisdiction where they are licensed and general international business practices. Although a foreign lawyer may not offer a legal opinion, clients can obtain assistance with structuring transactions, drafting contracts and resolving disputes. Only attorneys licensed in China may appear in court and provide legal advice on Chinese legal matters. Recently, China has removed restrictions on the number of offices that may be opened by a particular law firm and a growing number of international firms now have offices in both Shanghai and Beijing. Chinese lawyers are allowed to work at foreign law firms, but they may not practice law as licensed Chinese attorneys. Foreign lawyers are not permitted to qualify to practice law in China and are not allowed to form joint ventures with Chinese lawyers. The legal services that a foreign law office can provide are limited to: 1) providing consulting services to its clients with regard to the home legal affairs for which it is licensed and international conventions and practices; 2) providing legal services to its clients or Chinese law firms with regard to legal affairs in the country/region for which it is licensed; 3) entrusting Chinese law firms with regard to China legal affairs on behalf of its foreign clients; 4) establishing long-term contractual relationships with Chinese law firms with regard to legal clientage; and 5) providing information with regard to the impact of Chinese legislation.

3. Management Consultants

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

4. Advertising

Almost 100,000 advertising firms exist in China, of which perhaps 400 are foreign invested enterprises. In accordance with China's WTO commitments, wholly foreign-owned enterprises in advertising services were permitted to operate in China as of December 10, 2005. Many major international advertising firms have established a presence in China. Companies new to the market can gain valuable advice from top-notch advertising firms on how to craft an effective advertising strategy that is responsive to Chinese consumer preferences and cultural differences. Advertising is strictly regulated in China, and penalties for violation of the law through misleading advertisements, unauthorized use of national symbols, or other prohibited forms of advertising are subject to fines of RMB 100,000 (USD 12,500).

The U.S. Commercial Service maintains lists of U.S. law, accounting and consulting firms with offices in China, as well as lists of Chinese firms with whom the Commercial

Office or its customers have had favorable dealings. Local professional services can be found at http://www.buyusa.gov/china/en/bsp.html.

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Web Resources

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

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

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

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

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

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

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

China Central Television Station
www.cctv.com

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

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

Commercial Sectors

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

The United States Department of Agriculture, through the Foreign Agricultural Service (FAS), operates five offices in the People's Republic of China for the purpose of expanding exports of U.S. agriculture, fishery, and forestry product exports. U.S. agricultural, fishery, and forestry exports to China are at the highest level in history and forecast at $7.8 billion in 2007. China is now the fourth largest U.S. overseas market. Given China's rising incomes and demand for raw materials and finished foodstuffs, FAS forecasts its imports will continue growing well into the future.

Given the changing regulatory environment in China since its accession to the WTO in 2001, U.S. exporters are advised to carefully check the import regulations. Individuals and enterprises interested in exporting U.S. agricultural, fishery, and forestry commodities to China and Chinese importers interested in sourcing American agricultural, fishery, and forestry commodities should begin by contacting the overseas FAS offices and the USDA Cooperator organizations listed below. In addition to contacting these offices, exporters of U.S. commodities should review the main FAS website (http://www.fas.usda.gov) or the newly opened FAS Beijing website (http://www.usdachina.org). The website features general information for all exporters, including information on opportunities to showcase agricultural products in China at trade shows and other promotional venues, FAS sponsored promotional efforts, how to determine export readiness, export financing and assistance, and a directory of contacts both in the United States and abroad who registered as either suppliers or buyers of agricultural, fishery, and forestry goods.

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

AMERICAN EMBASSY
AGRICULTURAL AFFAIRS OFFICE
AgBeijing@usda.gov
U.S. Embassy – FAS
3 Xiu Shui Bei Jie, Beijing, 100600
Tel: (86-10) 65321953
Fax: (86-10) 65322962

AGRICULTURAL TRADE OFFICE BEIJING
ATOBeijing@usda.gov
Kerry Center South Tower, 24th Floor, Suite #2425
No.1 Guanghua Lu, Beijing, 100020
Tel: (86-10) 85296418
Fax: (86-10) 85296692

AGRICULTURAL TRADE OFFICE GUANGZHOU
ATOGuangzhou@usda.gov
China Hotel Office Tower 14/F
Guangzhou, China 510015
Tel: (86-20) 86677553
Fax: (86-20) 86663388

AGRICULTURAL TRADE OFFICE SHANGHAI
ATOShanghai@usda.gov
Shanghai Center, Suite 331
1376 Nanjing West Road, Shanghai, 200040
Tel: (86-21) 62798622
Fax: (86-21) 62798336

AGRICULTURAL TRADE OFFICE CHENGDU
ATOChengdu@usda.gov
Chengdu Consulate
Ling Shi Guan Lu
Chengdu, China 610041

ANIMAL AND PLANT HEALTH INSPECTION SERVICE
Theresa.Boyle@aphis.usda.gov
Room 618, St. Regis Office Building
21 Jianguomenwai Ave., Beijing, 100020
Tel: (86-10) 6532-3212
Fax: (86-10) 6532-5813

U.S. MARKET DEVELOPMENT COOPERATOR ORGANIZATIONS REPRESENTED IN CHINA

ALASKA SEAFOOD MARKETING INSTITUTE
CALIFORNIA PRUNE BOARD
MID-AMERICAN INTERNATIONAL
AGRI-TRADE COUNCIL/FOOD EXPORT USA
SOUTHERN UNITED STATES TRADE ASSOCIATION
SUNKIST GROWERS
WESTERN UNITED STATES AGRI-TRADE ASSOCIATION

Shanghai

Mr. Robin Wang
SHANGHAI SHENG MING INDUSTRIAL CO. LTD.
29G, Shanghai Pufa Tower
588 South Pudong Road, Pudong, Shanghai 200120
Tel: (86-21)6888 9835/ 68889836
Fax: (86-21)58775839
Shengming@sh163.net

Beijing

May Feng
Room 7-405, Building 3, Yard-2
Xiang Lu Ying Dong Xiang
Xuan Wu Men Wai Avenue, Beijing 100052
Tel: (86) 10-8319-1625
Fax:(86) 10-8319-1635

Guangzhou

Queenie He
P.O. Box 505, LouXi, Panyu
Guangzhou 511431
Tel: (86) 20-8458-6900
Fax: (86) 20-3998-5544

ALMOND BOARD OF CALIFORNIA
CALIFORNIA CHERRY ADVISORY BOARD
US DAIRY EXPORT COUNCIL
US POTATO BOARD

Shanghai

Mr. Daniel Chan
PR Consultants Ltd.
Room 436, Shanghai Center
1376 Nanjing Xi Lu, Shanghai 200040
Tel: (86-21)62798668
Fax: (86-21)62798669
Prc@prcon.com

Beijing

Mr. Jessie Wang
Room 1406, No. 2 Building, No. 4 Yard
Xi Bian Men Street, Beijing, 100600
Tel: (86-10) 6802-7505
Fax: (86-10) 6802-7505
jessiew@prcon.com

Chengdu

Ms. Tracy Chang
Flat 9-A-12-70 Ruisheng Garden
36 Fang Cao Street, Chengdu 610041
Tel: (86-28) 85133491
Fax: (86-28) 85133491

tracyc@prcon.com

Guangzhou

Ms. Fiona Chen
Tel/Fax: (86) 20-3452-3281
fionac@prcon.com

AMERICAN FOREST & PAPER ASSOCIATION (AF&PA)

Beijing

605 CITIC Building
No. 19 Jian Guo Men Wai Ave, Beijing 100004
Tel: (86)10-8526-3150
Fax:(86)10-8526-3151
Cell phone: 1371-811-5752
Jessie_shi@afandpa-china.org

Shanghai

Mr. Xu Fang
Rm.305, Bldg.A, Far East Int'l Plaza, 299 Xianxia Road
Shanghai 200051
Tel: (86)21-6270-2222x320
Fax: (86)21-6270-5555
xu_fang@afandpa-china.org

AMERICAN HARDWOOD EXPORT COUNCIL
Mr. John Chan
Rm.3703, Bldg, 1st, Great Grandway Center,
No. 1 Hong Qiao Rd., Shanghai 200040
Tel: (86) 21- 6270-2222x316
Fax: (86) 21-6270-5555

AMERICAN LEGEND COOPERATIVE
CALIFORNIA WINE INSTITUTE
NATIONAL ASSOC. OF STATE DEPARTMENTS OF AGRICULTURE
PET FOOD INSTITUTE

Shanghai

Ms. Barbara Lee
LEE'S MARKET MAKERS Inc.
Room A, 3rd Floor
No. 886, Tianbao Road, Shanghai 200086
Tel: (86-21) 65156497 / 55570142

Fax: (86-21) 65156498
Leesmarket@sh163.net

Beijing

Ms. Apple Zhang
Room 510, No. 18 YI, West Third Ring Middle Road
Haidian District, Beijing 100036
Tel: (86) 10-6395-6979
Fax:(86) 10-6395-3795

AMERICAN SOYBEAN ASSOCIATION (ASA)

Beijing

Mr. Philip Laney, Country Director
Room 902, China World Tower 2
No.1 Jianguomenwai Avenue, Beijing 100004
Tel: (86) 10-6505-1830
Fax:(86) 10-6505-2201
beisoya@asachina.org

Shanghai

Ms. Claudia Chong
Room 1802, SITC
2201Yannan Road (W)
Shanghai 200336
Tel: (86-21)62191661
Fax: (86-21)62195590
claudiachong@asachina.org

AMERICAN WOOL COUNCIL
Ms. Kitty Gu
156 Tongji Xincun, Suite 401
Shanghai 200081
Tel/Fax: (86-21)65023824
Kittygu@guomai.sh.cn

CALIFORNIA PISTACHIO COMMISSION
CALIFORNIA TABLE GRAPE COMMISSION
CALIFORNIA TREE FRUIT AGREEMENT
FLORIDA DEPARTMENT OF CITRUS
RAISIN ADMINISTRATIVE COMMITTEE

Shanghai

Mr. Louis Ng

Louis Ng & Associates Ltd.
Room 1305, Guo Li Building
No. 1465 Beijing Rd. (West), Shanghai 200040
Tel: (86-21)62473840 or 62473841
62473840 or 62473841
Fax: (86-21)62473448
lnash@sh163.net

Beijing

Ms. Marjorie Jiang
Tel: 13387875796
E-mail: lnadl@hotmail.com

Dalian

Ms. Marjorie Jiang
Tel: (86) 1338-787-5796
E-mail: lnadl@hotmail.com

Guangzhou

Mr. Louis Ng
Louis Ng & Associates Ltd
Room 720, Bai Yun Hotel,
367 Huanshi Dong Road,
Guangzhou, 510060
Tel: (8620) 83333998 ext 720
Fax: (8620) 83333998 ext 790
Admin@Lnahk.com.hk

COTTON COUNCIL INTERNATIONAL
Mr. Haiying Yuan
902, China Resources Building
No.8 Jianguomen Beidajie
Dongcheng District
Beijing 100005
Tel: (86-10) 8519-1588
Fax:(86-10) 6518-1088
6518-1088
Haiying.yuan@edelman.com

COTTON INCORPORATED
Mr. Wang Jiarong
Unit 2309 & 2310, Plaza 66
1266 Nan Jing Road(W),
Shanghai 200040
Tel: (86-21)62881666
Fax: (86-21)62883666
Jwang@cottoninc.com

NATIONAL CONFECTIONERS ASSOCIATION
Mr. Michael Reilly
Global Goods and Services Inc.
Suite I, 25th Floor, 720 Pudong Ave
Pudong, Shanghai China 200120
Tel: (86-21)50366608
Fax: (86-21)50366238
Email: mreilly@ggs-inc.com

NATIONAL RENDERERS ASSOCIATION, INC.
Mr. Wang Zheng
2-20 C, Tian Cheng Bldg., 96 Longkouxi Rd.,
Tianhe, Guangzhou, 510635
Tel: (86-20) 85268086
Fax:(86-20) 87597710

GINSENG BOARD OF WISCONSIN
Ms. Mabel Zhuang
Rm. 1905, Wenxin Mansion, No.755 Weihai Road
Shanghai, China 200041
Tel: (86)-21-6521-6751 or 5292-1234 ext. 610011
Fax: (86)-21-5292-0766
zhuangmxq@163.com

USA POULTRY & EGG EXPORT COUNCIL

Beijing

Mr. Richard Hu
Room 419, Building A, Heqiao Mansion
No. 8A Guanghua Road, Chaoyang District, Beijing 100026
Tel: (86) 10-6581-1255
Fax:(86) 10-6581-2922
bjoffice@usapeec.org.cn

Shanghai

Mr. Carl Shi
1809-1810 Overseas Chinese Mansion
129 Yannan Road (W), Shanghai 200040
Tel: (86) 21-6249-2625
Fax: (86) 21-6249-1653
shoffice@usapeec.org.cn

U.S. DRY PEA AND LENTIL COUNCIL
Ms. Lucy Dai
TRACTUS
No.1800 Zhongshan West Road,

22nd Floor (A), Shanghai 200235
Tel: (86) 21-6440-0990-2 (Three Lines)
Fax: (86) 21-6440-3173
Email: lucy@tractus-asia.com

U.S. DRY FRUIT & NUTS PROGRAM

WUSATA HEALTHY FOOD PROGRAM
Ms. Constance Mo
Constance Mo & Associates
23B Yong Ming Mansion,
Xi Zang South Road, Shanghai 200011
Tel: (86-21) 63677408
Fax: (86-21) 63677409
mochina@vip.sina.com

U.S. GRAINS COUNCIL (USGC)
Mr. Todd M. Meyer, Country Director
Room 901, China World Tower 2
No. 1 Jianguomenwai Avenue, Beijing 100004
Tel: (86) 10-6505-1314
Fax:(86) 10-6505-0236
grainsbj@grains.org.cn

U.S. MEAT EXPORT FEDERATION

Beijing Representative Office

Mr. Donald Song
song.donald@hotmail.com
Tel: (86) 13161271500

Shanghai Representative Office

Mr. Peter Zhuo
Room 1010, Central Plaza
No. 227 Huangpi Bei Lu, Huangpu District
Shanghai 200003
Tel: (86)21-6249-4640
Fax: (86)21-6375-8041
info@usmef.org
Shanghai@usmef.org

Guangzhou Consultant

Mr. Steve Mo
Room A, 19th Floor, Junhui Building,
No.7 Tiyu Road West, Tianhe District
Guangzhou, 510620, China
Tel: (86) 20-3889-1812

Fax:(86) 20-3889-1920
canton@usmef.org

Shenyang Contractor

Ms. Louisa Liu
Room 4-4-2, No.100 Yan He Street
Huanggu District, Shenyang 110036
Tel: (86) 24-8674-2533
Fax:(86) 24-8674-5331
shenyang@usmef.org

U.S. NORTHWEST CHERRY GROWERS
Mr. Victor Wang
Room 304, Block 1, Fortuan Carden, 23 Shuiyin St.
Guangzhou, 510075
Tel: (86) 20-8760-1455
Fax:(86) 20-8761-1395
victorwongsh@163.net

U.S. WHEAT ASSOCIATES (USWA)
Mr. Zhao Andy , Country Director
Room 903, China World Tower 2
No. 1 Jianguomenwai Avenue, Beijing 100004
Tel: (86) 10-6505-1278
Fax:(86) 10-6505-5138
infobeijing@uswheat.org

WASHINGTON APPLE COMMISSION

Shanghai

Ms. Li Yan
Rm. 2301, Block 4, No. 588 Jiaozhou Road
Shanghai 200040
Tel: (86) 21-5228-0659
Fax: (86) 21-5228-2891
Liyan1_@163.com

Guangzhou

Mr. Victor Wang
Room 304, Block 1, Fortuan Carden, 23 Shuiyin St.
Guangzhou, 510075
Tel: (86) 20-8760-1455
Fax:(86) 20-8761-1395
victorwongsh@163.net

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

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

Agricultural Trade Offices also report on specific city markets in their regions. For more information, contact ATO Beijing for Northern provinces, ATO Shanghai for eastern and western provinces, and ATO Guangzhou or ATO Chengdu for southern provinces.

Poultry and Poultry Products Annual Report (GAIN report CH6075)

On August 17, 2006, China suspended broiler imports from Pennsylvania due to a case of low pathogenic avian influenza (LPAI) on July 12. China's broiler production in 2007 is forecast to increase 2 percent to 105 MMT, a slow pace of growth due to the impact of HPAI in China. Post forecasts China's broiler imports in 2007 to increase 16 percent to 430,000 MT due to popularity of select cuts and the slow growth in domestic supplies. However, a tightening-up of the import application process, effective on September 1, 2006, may impact broiler imports. Post forecasts China's poultry product exports in 2007 to increase 4 percent to 365,000 MT. YTD 2006, China's main export markets are Japan, Hong Kong and South Korea. The U.S. opened its market to China's cooked poultry from approved sources in March 2006.

Livestock and Livestock Products Annual Report (GAIN report CH6074)

On June 30, 2006, China unilaterally announced lifting the import ban on U.S. boneless beef from cattle 30 months of age or younger, then released a list of inspection and quarantine requirements on U.S. beef exported to China. Because these announcements are not based on a bilateral protocol, beef trade cannot be resumed without additional technical discussions. China's beef production in 2007 is forecast to increase 6 percent to 7.9 MMT due to strong demand. Beef imports are forecast to increase 33 percent to 4,000 MT during 2007, and could be an additional 3,000 MT in the first year if China resumes imports of U.S. beef. Pork production during 2007 is forecast to increase 6 percent to 55.8 MMT driven by consumers' shift away from poultry due to the highly pathogenic avian influenza in China. Pork imports in 2007 are forecast to fall 6 percent to 340,000 MT due to abundant supplies, while exports are forecast to increase slightly.

Sugar Annual Report (GAIN report CH6016)

The MY06/07 sugar output is forecast at 11.1 MMT (raw value), up 15 percent from the estimate for MY 05/06. Responding to higher sugar prices, cane and beet acreage are forecast to increase by 7 percent over MY05/06. The MY05/06 sugar import estimate is revised to 1.4 MMT from FAS Beijing’s previous estimate of 1.3 MMT. The wholesale sugar price rose by 50 percent year on year in the beginning of MY05/06 due to an expected reduction in sugar output. The persistent drought in the major cane-growing region was the main reason for a 2 percent reduction in sugar production in MY05/06. To curb the price from rising further, the government released 200,000 MT of sugar from state reserves in January 2006 and is planning to release another 400,000 MT of sugar in April. Due to high prices for natural sugar, more starch-based sweetener is being used by the food and beverage sectors as a replacement for sugar. The consumption of natural sugar in MY05/06 is estimated to be lower than the previous year.

Grain and Feed Annual Report (GAIN report CH6010)

China's total grains output rose in MY05/06 over the previous year as a result of good weather and increased acreage. Increased acreage was in response to higher market prices since the fall of 2003 and from government support programs (e.g., price supports, export incentives, direct payment and tax incentives). Corn production for MY05/06 is estimated at 134 million metric tons (MMT), up 3 percent from the previous year. Corn production in MY06/07 is forecast at 132 MMT and China is forecast to import 1 MMT in MY06/07, driven by growth in the livestock sector and expanded ethanol production. Wheat production in MY05/06 is estimated to be 97 MMT, up 5 percent, and rice output for MY05/06 is estimated at 182 MMT, up 1.5 percent.

Pet Food Market Overview (GAIN report CH6091)

The commercial pet food market in China is expected to skyrocket by 60 percent by 2010 as a new culture of pet ownership sweeps middle and upper income Chinese families. With dog food leading the way, premium categories are the most attractive segments for U.S. pet food exporters. Positive consumer perception, slowly developing brand loyalty, and lack of domestic competition make this nascent market a fast-growing, but already highly competitive niche for imports.

Presidential Order 57 Supports Farmer Cooperatives in China (GAIN report CH6113)

China has experienced a profound economic and social transformation as it moves to a market-oriented economy since the 1978 reform; however, the huge agricultural sector continues to lag behind. In recent years, the Chinese government has taken measures to support the development of economic cooperation among farmers. On October 31, 2006, the 10th National People's Congress of the People's Republic of China adopted a law on farmer cooperatives. FAS Beijing believes that in the short run, farmers stand to benefit from cooperatives as their coalition can improve prices and market leverage for small-scale farmers. However, insufficient rural financing for loans from the state banking sector will continue to impede rural development and limit farmer incomes. The GAIN report contains an unofficial translation of Order 57.

Bio-Fuels: An Alternative Future for Agriculture (GAIN report CH6049)

Ethanol production in 2005 was approximately 920,000 MT, with a production capacity of 1,020,000. Biodiesel production totaled between 100,000 and 200,000 MT. China's current biofuel development policies are to increase ethanol production to nearly 4 million MT by 2010 and meet 15 percent of China's transportation energy needs by 2020. The ability of China to meet these objectives depends on competing uses of inputs, including corn, wheat, rice, sugar, cassava, sweet sorghum and oilseeds, and outputs, including sweetener, and alcohol.

Cotton Annual Report (GAIN report CH6021)

China's cotton imports for MY06/07 are forecast to surge to 4.1 MMT (18.8 million bales) and production is forecast at 6.05 MMT (27.8 million bales). The United States is expected to remain the main source of cotton imports, although market share is expected to decline for MY05/06. The high imports are driven by both increased exports of and domestic demand for textile and apparel products. Stocks continue to be very tight.

Oilseeds Annual Report: Part 1 of 2 (GAIN report CH6006)

Despite the outbreak of avian influenza and several other diseases in 2005, China's oilseed demand remained strong and normal growth is projected in the year ahead. Post forecasts MY06/07 soybean imports at 28.5 MMT and the preliminary estimate for MY05/06 to finish at 26.8 MMT. China's domestic production of all oilseeds in MY05/06, including soybeans, rapeseed, cottonseed, and peanuts, are estimated at 56.2 MMT, down by 1.5 MMT over the year before, mainly because of small crops for rapeseed and cottonseed. The total domestic oilseeds for MY06/07 is forecast at 56.7 MMT, slightly higher than the year before. Large multinational crushers accelerated their mergers and acquisitions of small to medium sized local crushers. The large crushers in the coastal regions will continue to rely on imported soybeans.

First U.S. Feed Corn in a Decade Lands in China (GAIN report CH6025)

On May 16, 2006, for the first time in a decade, 100 metric tons of U.S. feed corn arrived at the Huangpu port, near Guangzhou. The four containers cleared quarantine inspection by the China General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ). Quarantine inspection normally takes less than a week, but because of new regulations, including testing for biotech events, it can take closer to two weeks. AQSIQ issued the permit to import biotech corn on May 12 and expedited approval, which usually takes 20 working days.

Frozen Potato Products Annual Report (GAIN report CH6115)

Table potato production and consumption is down, but processed potato products enjoy excellent market expansion opportunities, driven by western-style and fast food outlet expansion and increased consumption of snacks and other prepared foods. Media reports of the health risks associated with fried potato products hurt MY 05/06 FFF and potato based snack food consumption. Consumption is forecast to rebound 10 percent to 86,000 tons in MY06/07, however. Despite 68 million metric tons of potato production, potatoes for processing are in short supply.

Conditions for Imported U.S. Bovine Semen/Embryos in China (GAIN report CH6022)

China banned imports of U.S. beef and products in December 2003. Following intensive negotiations by USDA and a visit to the United States by a Chinese technical team, China agreed to re-open the market during 2005. In January 2006, China published the export conditions and a list of the approved U.S. bovine semen/embryo facilities. This report provides detailed requirements.

Dairy and Dairy Products Annual Report (GAIN report CH6100)

China's long-term dairy policies will encourage increased milk production through better cow genetics, providing excellent market opportunities for exported U.S. bovine genetic materials. Chinese experts are even predicting that China will become the world's third-largest dairy producer by 2020. China's cow milk production in 2007 is forecast to increase 16 percent to 38.1 MMT, non-fat dry milk powder production is forecast to remain flat at 55,000 MT and whole fat dry milk powder production is forecast to increase 12 percent to 1.2 MMT respectively. Domestic production continues to lag booming demand, and China's non-fat dry and whole fat milk powder imports in 2007 are forecast to increase 23 percent to 80,000 MT and 18 percent to 100,000 MT respectively. Hong Kong and Macau absorb most of China's limited dairy product exports.

Solid Wood Annual (GAIN report CH6052)

After several years of rapid growth, China's log imports in 2007 are forecast to level off because Russia, the largest exporter of logs to China, has been imposing and will continue to impose measures designed to limit its log exports. Imported U.S. logs are expected to increase slightly because China's first fumigation facility capable of accepting large diameter logs from Alaska began operation in August 2005. China's total lumber imports in 2007 are forecast to increase five percent. However, softwood and temperate hardwood lumber imports are expected to increase 20 percent to fill the market gap created by Russia's log export restrictions. Tropical hardwood lumber imports are forecast to decrease 16 percent because of the world's tight supply. China's logs and lumber production in 2007 are expected to increase six and ten percent respectively because China increased its logging quota to 248 million cubic meters in the 11th Five – Year Plan (2006-2010).

Fresh Deciduous Fruit Annual Report (GAIN report CH6078)

China's apple production is forecast at 24.48 MMT in MY 2006, up 20 percent from the previous year. Favorable weather and a high year in the production cycle are expected to boost production to a record high. CAJ production is forecast at 710,000 MT in MY 2006, up 31 percent from the previous year, as a result of an expected fresh apple bumper harvest. The MY 2006 pear production is forecast at 12.45 MMT, up 10 percent from the previous year, due to significant increases in major producing provinces like Hebei, Shandong and Liaoning. Table grape production is forecast at 6,020,000 MT in MY 2006, up 4 percent from the previous year as a result of improved yields.

Citrus Fruit Annual Report (GAIN report CH6102)

China's citrus production is forecast at more than 16 MMT in MY 2006, up 10 percent from 14.5 MMT in MY 2005, due to new bearings and favorable weather conditions in major producing provinces. Orange production for fresh consumption and processing is expected to increase dramatically in the next 5-10 years as new plantings become mature. Exports to neighboring countries continue to grow fast as the quantity and quality of domestically grown citrus improves. Orange imports are also expected to increase, especially during the off-season, due to consumption growth for high quality fruit. .

Planting Seed Trade Situation (GAIN report CH6104)

China continues to be one of the world's largest seed producers and is self-sufficient in planting seeds for its main crops, including grain, major oilseeds and cotton. Seed production and marketing remains fragmented, but the trend for restructuring the sector is accelerating. In MY06/07, U.S. grass/forage seed exports are expected to continue growing and reach $25 million in 2007 due to the strong demand in the landscaping industry. Sunflower planting seeds will likely reach $12 million due to a favorable dollar currency. Opportunities exist for U.S. companies, despite some restrictive policies related to seed investment and trade.

Tree Nuts Annual Report (GAIN report CH6067)
Walnut production is forecast at 425,000 MT in MY 2006, up nearly 4 percent from the previous year, as a result of an anticipated bumper harvest in Yunnan and new plantations. Walnut acreage is forecast at 1.38 million hectares, up 15 percent from last year. Walnut production in China is expected to grow at a moderate rate in the near future, however the pace is expected to accelerate in five to ten years when new plantings start bearing fruit. Consumption for nuts is also growing moderately, especially for walnuts. Almond and walnut imports are likely to rise.

AgroChemicals

Overview

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Unit: (Million USD)

	2004	2005	2006
Total Market Size	10,952	12,587	13,236
Total Local Production	11,016	11,676	12,376
Total Exports	2,390	2,327	2,373
Total Imports	2,326	3,238	3,233
Total Imports from U.S.	502	487	481

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

China's agricultural chemical market has been the subject of great attention. China is one of the biggest agro-chemical consumers and a large agro-chemical importer. Agro-chemical exports to China ranked as the top destination for U.S. fertilizer exports until 2003. In 2005, China imported $445 million in fertilizers and $36.94 million in pesticides from the U.S., accounting for 14.60% and 20.29% of total imported fertilizers and pesticides respectively. U.S. DAP (Diammonium Phosphate) has a strong position in the China fertilizer market. In 2005, China imported $441.31 million of DAP from the U.S., accounting for 40.03% of total DAP imports. China's goal is to rely less on fertilizer imports in the future, but domestic output cannot meet the total market demand, forcing China to import high-concentration and compound fertilizers. The import of such fertilizer is still controlled by a quota management system.

China's accession to the WTO provides benefits to U.S. fertilizer exporters. On accession, tariffs dropped 6% from the 11% import duty rate. On October 10, 2006, China's Ministry of Commerce (MOFCOM) released the 2007 fertilizer import tariff rate quotas (TRQs). The total 2007 TRQs will be 3.3 million tons of urea imports, 6.9 million tons of diammonium phosphate (DAP) and 3.45 million tons of NPK compound fertilizers. Of the TRQs, 2.97 million tons of urea, 4.49 million tons of DAP and 2.24 million tons of NPK are for state trading while non-state trading TRQs will be 330,000 tons of urea, 2.41 million tons of DAP and 1.21 million tons of NPK. The import volumes within the quota are levied an import duty of 4%, while imports exceeding the quota are levied a duty of 50%.

In addition, based on the WTO commitment, from December 11, 2006, China started to allow foreign companies to gain the right to retail and distribute fertilizers. China's fertilizer circulation field will face fierce competition. Fertilizer exporters should apply to MOFCOM for a license to be authorized to retail and distribute fertilizer in China.

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

Best Products/Services

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Fertilizer

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

- Nitrogen fertilizer
- Phosphate fertilizer
- Potash fertilizer

Pesticides

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

- Herbicides
- Environmentally safe insecticides
- Biopesticides
- New technologically advanced pesticides
- Because the Chinese government now emphasizes environmentally sound technologies, pesticides will have to meet new requirements.

Opportunities

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Fertilizer

8th China International Agrochemical & Crop Protection Exhibition
Date: March 21-23, 2007
Venue: Shanghai Everbright Convention and Exhibition Center, Shanghai, China

Profile: Chemical Pesticides, Crop Protection Products and Technology, Chemical Fertilizer and Farming Bio-engineering and Bio-engineering Technology
Frequency: Annual
Organizers: CCPIT Sub-council of Chemical Industry
Co-organizer: - China National Agricultural Means of Production Circulation Association
- China Pesticide Industry Association
- China Nitrogen Fertilizer Industry Association
- China Phosphate Fertilizer Industry Association
- China Humic Acid Industry Association

Supporters: - China Petroleum and Chemical Industry Association
- China National Agriculture Means of Production Group Corporation
- Institute of Plant Protection of CAAS
- Institute of Agricultural Resources and Regional Planning of CAAS
- Institute of Environnment & Sustainable Development in Agriculture of CAAS

Contact: Mr. Sun Heying, In-bound Exhibition Department
CCPIT Sub-council of Chemical Industry
Tel: 86-10-6427-2719
Fax: 86-10-6422-5384
Email: sunheying@agrochemshow.com
Internet: www.agrochemshow.com

Pesticides

The Ministry of Agriculture and National Development and Reform Commission set strict regulations on importing newer, higher-tech pesticide products. Pesticide products that have not been used before in China must be registered with the Ministry of Agriculture and tested at designated agricultural research and development centers. Proper certification of each pesticide usually takes 2-3 years. Imports or exports of pesticides without the Certificates of Pesticide Import and Export Registration (CPIER) are banned, according to the Ministry of Agriculture.

In recent years, the Pesticides Inspection Institute under the Ministry of Agriculture put forward detailed measures for pesticides. It emphasized both quality and safety issues so as to: 1) enforce registration administration and promote pesticides structural adjustment; 2) enforce supervision and standardize the pesticides market; 3) strengthen supervision and control of pesticide residue and improve the safety of agro-products. These measures implied more strict control on imported pesticides. U.S. exporters should keep a close eye on related new laws, regulations, and measures.

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CS Beijing Contacts

David Gossack – Commercial Attaché
Tel: (86-10) 8529-6655x807
Fax: (86-10) 8529-6558/9
Email: david.gossack@mail.doc.gov

Yue Cao – Commercial Specialist
Tel: (86-10) 8529-6655x808
Fax: (86-10) 8529-6558/9
Email: yue.cao@mail.doc.gov

Web Sites

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

China Agricultural Means of Production Net
www.ampcn.com

China Chemical Information Net
www.chinachemnet.com.cn

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

International Fertilizer Association (IFA)
www.fertilizer.org

The Fertilizer Institute (TFI)
www.tfi.org

Air Traffic Management Equipment Market

Overview

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China's ATM Equipment Market Information (USD Millions)

	2004	2005	2006 (as of Nov.)
Total Market Size	N/A	N/A	N/A
Total Local Production	N/A	N/A	N/A
Total Exports	105	722	1,257
Total Imports	194	389	487
Imports from the U.S.	33	37	50

Source of Data: World Trade Atlas
Note: Figures compiled using China HS Classification Codes 852691, 852610, 85299050, and 85291010

China is a fast-growing market for air traffic control equipment. A total of $17 billion in airport construction and expansion will be spent in the next five years. Over the past decade, the General Administration of Civil Aviation of China (CAAC) has spent approximately $1 billion on air traffic management (ATM) infrastructure improvements. The majority of this equipment will be imported, as locally manufactured ATM equipment is not yet able to match foreign quality.

The CAAC Air Traffic Management Bureau's (ATMB) goal over the next ten years is to improve facilities in the east and mid-west of the country, with plans for a comprehensive data network, new automation-center systems, ground-air voice/data communications, and new radar systems. China also plans to introduce ground-to-air communications and automatic dependent surveillance services for international and polar routes in the west.

Best Prospects/Services

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In their efforts to upgrade current ATM facilities in China, ATMB is focusing on the following sectors that should serve as excellent opportunities for American companies with experience and expertise in airborne and ground support equipment:

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

Opportunities

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

In recent years China's air traffic volume has increased between 8-10% annually and the CAAC expects it to grow 11% per year over the next ten years. In 2005, there were 2.3 million total flights, an increase of 55% over a five-year period. At present, landings and take-offs from airports along the Beijing-Guangzhou route account for over 76% of domestic flights. In the future, the country will also face increasing air traffic congestion in central and western China.

To handle this increase, China has invested extensively in its ATM system over the last few years, installing 31 primary radars, 52 secondary radars, more than 1,000 Very High Frequency (VHF) communications systems, over 160 Omnidirectional Range and Distance Measurement Systems (VOR/DMEs), and more than 140 Instrument Landing Systems (ILS). Expansion of airport infrastructure will continue with 49 airports slated for construction and another 71 to be upgraded by 2010. It is estimated that the number of airports with scheduled flights will be 260 by 2015. To manage this growth, CAAC has already begun reorganizing the current airspace structure, reducing the total number of area control centers from 27 to five by 2010. In reorganizing the current structure, CAAC will construct two new regional control centers, while upgrading the remaining three in Beijing, Shanghai, and Guangzhou, which now handle over 70% of China's air traffic. The existing ATC system for the Beijing-Guangzhou route has already been upgraded and preparation work has started on the Beijing-Shanghai and Shanghai-Guangzhou routes to implement radar control procedures.

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

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1. Major Trade Shows:

ABACE 2007 (The Asian Business Aviation Conference & Exhibition)
Dates: February 6 – 7, 2007, Hong Kong
Venue: Asia World-Expo, Hong Kong
Tel: (202) 783-9000
Fax: (202) 862-5552
E-mail: info@abace.aero
Address: 1200 Eighteenth Street NW, Suite 400, Washington, DC 20036-2527
Website: www.abace.aero

Shanghai Air Show 2007
2nd Shanghai International Aerospace Technology and Equipment Exhibition
Dates: July 5 – 7, 2007
Venue: Shanghai Exhibition Center, Shanghai, China
Organizer: Shanghai Guangshun Exhibition Service Co., Ltd.
Contact: Shang Chao
Tel: (86-21) 6222-9115
Fax: (86-21) 6222-9112
E-mail: creon.cn@gmail.com; creon-cn@hotmail.com;
Address: Room 1303, #5, Lane 65, Jin Sha Jiang Road, Shanghai, P.R.C. 2000062
Website: www.ate-expo.com

Asian Aerospace
Dates: September 3 – 6, 2007
Venue: AsiaWorld-Expo, Hong Kong
Organizer: Reed Exhibtions, Aerospace & Defense Group
Contacts: Clive Richardson, Senior Vice President or Annie Ma, Vice President
Tel: (852) 2824-0330
Fax: (852) 2824-0246
Email: clive.richardson@reedexpo.com.hk; annie.ma@reedexpo.com.hk;
Address: Unit 3011, 30/F; The Centre; 99 Queen's Road Central; Hong Kong
Website: http://www.asianaerospace.com/

Airport and Air Traffic Control Expo China 2007
Dates: September 2007 (TBC)
Venue: China International Exhibition Center, Beijing
Organizer: China Promotion Ltd.
Tel: (852) 2511-7427
Fax: (852) 2511-9692
E-mail: cp@cpexhibition.com
Website: http://www.cpexhibition.com/aviation/

Air Show China 2008
Date: TBC (est. late October)
Venue: Zhuhai International Exhibition Center, Zhuhai, China
Organizer: Zhuhai Airshow Co., Ltd.
Contact: Michelle Lee, Eric Cheung (from Air Show China 2006)
Tel: (86-756) 337-5291 or 336-9235
Fax: (86-756) 337-6415
E-mail: zharshow@pub.zhuhai.gd.cn
Address: No. 1, 2 Jiuzhou Lane, Xiangzhou District, Zhuhai City 519015, P.R.C.
Website: www.airshow.com.cn

2. Key Chinese Government Contacts:

General Administration of Civil Aviation of China (CAAC)
Tel: (86-10) 6403-0868
Fax: (86-10) 6403-0868
CAAC Air Traffic Management Bureau (ATMB)
Tel: (86-10) 6731-8866 x 2252
Fax: (86-10) 6731-8519
China Aviation Supplies I/E Corporation
Tel: (86-10) 6568-7858
Fax: (86-10) 6568-6902

3. U.S. Commercial Service Contact Information in China:

Beijing Office:
Tel: (86-10) 8529-6655
Fax: (86-10) 8529-6558/9
Mr. Val Huston
Val.Huston@mail.doc.gov

Shanghai Office:
Tel: (86-21) 6279-7930
Fax: (86-21) 6279-7639
Mr. Yu-Chien Chen
Yuchien.Chen@mail.doc.gov

Guangzhou Office:
Tel: (86-20) 8667-4011
Fax: (86-20) 8666-6409

Ms. Lena Yang
Lena.Yang@mail.doc.gov

Chengdu Office:
Tel: (86-28) 8558-3992
Fax: (86-28) 8558-3991
Ms. Shiyang Cui
Cui.Shiyang@mail.doc.gov

Shenyang Office:
Tel: (86-24) 2322-1198x8142
Fax: (86-24) 2322-2206
Ms. Liu Yang
Yang.Liu@mail.doc.gov

Safety and Security Market

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China's safety and security market demand is growing rapidly. The market has expanded from its traditional base in the financial, insurance, custom, police, airport and IT sectors to the construction, transportation, and education fields. In 2003, the Chinese safety and security equipment market was USD7 billion. Industry experts estimate that by 2020 China's safety and security market will reach USD30 billion. From September 11, 2001 through 2004, the Chinese government has invested USD130 million to cope with anti-terrorism security issues, many involving air travel.

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

Best Prospects/Services

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

- Inspection control systems: This has been a high-growth area in recent years and remains very competitive. Panasonic, Samsung, Sony, JVC, and Sanyo occupy a majority of the market share in China's high-grade inspection control market.
- Entrance guard communication systems: China's domestic enterprises occupy the majority share in the entrance guard systems sector, and foreign enterprises, such as US companies BII and HID, UK company TDSI, and Israeli company DDS, occupy the majority share of the communication systems market.

- Warning systems: There is major demand for intelligent airport systems. Foreign companies dominate the market for high-grade products, leading the trend towards integrated safety and security systems.
- Detection Equipment: As China's domestic manufacturers lack capacity to produce enough equipment, foreign products in this field are in high demand.
- Fire Protection Equipment: Domestic competition in this sector is strong. All imported equipment must first obtain safety certification from the China Fire Bureau.

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In the next five years, China will invest USD150 million in security infrastructure for new and existing airports.

Beijing's new airport is currently under construction, with investment of USD30 million for security equipment alone. Fire protection equipment, X-ray scanners, metal detectors, portable detectors, and other equipment are needed. Most bids for this security equipment will open this year.

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1. Major Trade Shows

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

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

2. U.S. Commercial Service Contact Information in China

Beijing Office:
Tel: (86-10)8529-6655
Fax: (86-10)8529-6558/9
Zhao Peining

Shanghai Office:
Tel: (86-21)6279-7930
Fax: (86-21)6279-7639
Kevin Chambers
Lynn Jiao

Guangzhou Office:

Tel: (86-20)8667-4011
Fax: (86-20)8666-6409
Cathy Wang

Automotive Components Market

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China's Automotive Components Market Information (USD Millions)

	2004	2005	2006 (as of November)
Total Market Size	55,700	73,400	88,600
Total Local Production	48,600	65,800	89,100 (est.)
Total Exports	6,710	9,400	14,119
Total Imports	8,850	8,443	10,058
Imports from the U.S.	501	459	639

Notes:
1) Statistics collected from National Bureau of Statistics and World Trade Atlas.
2) 2006 figures are projected based on 2006, 3rd Quarter data.
3) Automotive Component figures based on five categories: engine parts, chassis parts, automotive body, electrical systems, and general parts.

Best Prospects/Services Return to top

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

Opportunities Return to top

China's goal to develop its automotive industry into a key industry of the national economy by 2010 is quickly coming to fruition. It is now the 3rd largest automotive market in the world, trailing only the United States and Europe. China now has 6,322 automotive enterprises, which are scattered in five sectors: motor vehicle manufacturing, vehicle refitting, motorcycle production, auto engine production, and auto parts manufacturing. This includes approximately 100 OEMs, with 40 producing passenger vehicles, and over 4000 auto parts/accessories companies. All tiers of the industry are being driven by the booming sales of the OEM sector. Nearly 80% of the revenue for the auto parts and accessories market is through new vehicle sales.

In 2006, seven million new motor vehicles in China are expected to be sold, according to statistics from Automotive Resources Asia Ltd.. As of November 2006, China had already produced 6.6 million vehicles, a 27.92% rise over 2005's figures. The total output value of the automotive sector for Q3 2006 was $143 billion dollars.

China's fulfillment of WTO requirements has helped drive new vehicle sales. As of July 1, 2006, China fulfilled its WTO requirements by lowering import tariffs for auto parts and accessories to 10% and import tariffs for new automobiles to 25%. The reduction of tariffs on automotive parts and China's agreement to eliminate local content requirements after WTO entry have placed domestic automotive parts manufacturers in direct competition with their international counterparts.

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

Many U.S. firms have already begun exporting to this quickly growing market. U.S. automotive component firms enjoy a good reputation for quality and many U.S. firms are already well known to Chinese end-users. Domestic OEM firms encourage U.S. suppliers to establish plants in China or work more closely with local firms to upgrade product quality. As more parts are sourced locally, the total cost of production decreases, as there is no import tariff on locally made products.

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

Shanghai and its surrounding provinces (Zhejiang, Jiangsu, and Anhui) are the centers for component manufacturing, representing around 44% of national production. Shanghai is home to Shanghai General Motors, Delphi, Visteon, and other notable American automotive companies and, as such, provides a good starting point for U.S. automotive component exporters to begin to explore the Chinese market. Other major automotive centers in China include Guangzhou (South China), Chongqing (West China), and Changchun (North China).

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1. Major Shows/Exhibitions:

4th China Automotive Roundtable, Shanghai
February 7-8, 2007
http://www.economistconferences.com/asia.html

The 4th Guangzhou International Automobile Air-conditioning & Cold Chain Technology Exhibition China
March 13-15, 2007
The Liuhua Complex of Chinese Export Commodities Fair, Guangzhou
http://www.84t.cn/kt/en/index.htm

Bus World Asia
March 13-15, 2007
Shanghai New International Expo Center
http://www.vnuea.com/busworld/

Auto Shanghai 2007, The 12th Shanghai Int'l Automobile Industry Exhibition
April 22-28,2007
Shanghai New International Expo Center
http://www.autoshanghai.com.cn/

The 61st China Automobile Parts Fair
April 23-25, 2007
Nanjing International Conference Exhibition Center
http://www.qipeihui.com/english/index.php

Auto Parts & Manufacturing Shanghai 2007
September 26-28, 2007
Shanghai International Exhibition Centre
http://www.adsale.com.hk/aes/en/shows/smain1.asp?eid=3637&order=130

2. U.S. Commercial Service Contact Information in China:

Beijing:
Tel: (86-10) 8529-6655
Fax: (86-10) 8529-6558/9
Mr. Val Huston
Val.Huston@mail.doc.gov
Ms. Merry Cao
Shujuan.Cao@mail.doc.gov

Shanghai:
Tel: (86-21) 6279-7930
Fax: (86-21) 6279-7639
Mr. Yu-Chien Chen
Yuchien.Chen@mail.doc.gov

Guangzhou:
Tel: (86-20) 8667-4011
Fax: (86-20) 8666-6409
Ms. Ying Liu
Ying.Liu@mail.doc.gov

Chengdu:
Tel: (86-28) 8558-3992

Fax: (86-28) 8558-9221
Ms. Ling Chen
Ling.Chen@mail.doc.gov

Shenyang:
Tel: (86-24) 2322-1198x8142
Fax: (86-24) 2322-2206
Ms. Yang Liu
Yang.Liu@mail.doc.gov

Coal Mining Equipment

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	2004	2005	2006 (estimated)
Total Market Size	3174.2	2943.4	3310.6
Total Local Production	2808.3	2657.2	3038.5
Total Exports	258.2	304.3	403.1
Total Imports	624.1	590.5	675.2
Imports from the U.S.	97.3	153.9	95.6

Coal is the most dominant energy source in China, making up about 70% of total primary energy consumption in the country. China's coal-producing area exceeds 550,000 square kilometers. It has potential coal reserves of around 5.57 trillion tons. China is the world's largest coal producer, accounting for nearly 28% of the world's annual production. In 2005, China's coal production reached 2.19 billion tons, an 8% increase. The percentages of central government-managed coal mines, provincial government-managed coalmines, and township coalmines are 48%, 14% and 38% respectively. With the significant ease of power shortages in 2006, China's under supply of coal no longer exists, and the pressure of over supply is increasing. Coal production will surpass 2.4 billion tons in 2006. According to the latest report compiled by the State Information Center, the growth of coal production and sales is set to drop in 2006, and the growth of coal production capacity will exceed that of demand.

Generally speaking, China's domestic coal mining equipment occupies a dominant (90%) position in China market. With the rapid development of coal mining technology in China, several Chinese companies have been able to manufacture high-tech mining equipment, such as super-power electric haulage shearers, hydraulic support systems, and armored face conveyers. Nevertheless, China's major coal mining equipment is generally 10 to 15 years behind that of other countries with respect to mining efficiency, equipment quality, environmental protection of mines, and safety. U.S. coal mining equipment manufacturers and coal mine investors face long-term opportunities in China's coal industry, particularly with China's large coal firms.

Best Prospects/Services

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

Coal mine safety remains a critical issue at Chinese coal mines. Accidents in 2005 killed over 6,000 coal workers. In 2006, China saw 4,236 deaths in the first 11 months, the lowest number in the past three years. The Chinese government is trying to close 4,861 small coal mines (below 30,000 tons of production capacity) without sufficient protection on coal mine safe production 2006-2007. Only 35% of China's more than 25,000 coal mines have safety equipment. According to the State Administration of Coal Mine Safety Supervision, China will invest USD 6 billion over the next few years for safety equipment in its large, state-owned coalmines. Of this investment, the central government will contribute $605 million and coal companies will cover the rest. This investment will create significant opportunities for foreign companies to export safety equipment to China. Best prospects include: coal mining safety equipment, security equipment, gas control systems, and fire monitoring and control equipment.

Opportunities

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Due to the nationwide shortage of electricity, China will continue heavy investment in coal production for many years to come. Experts predict China will need to invest over $151 billion in coal infrastructure by 2020. The investment will cover the following areas:

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

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

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

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

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

U.S. Pavilion at China Coal & Mining Expo 2007
http://www.chinaminingcoal.com

U.S. Commercial Services Contact Information in China
Beijing Office:
Tel: (86-10)8529-6655
Fax: (86-10)8529-6558/9
David Murphy
Mei Baochun

Shanghai Office:

Tel: (86-21)6279-7930
Fax: (86-21)6279-7639
Eric Hsu
Stellar Chu

Guangzhou Office:
Tel: (86-20)8667-4011
Fax: (86-20)8666-6409
Lena Yang

Chengdu Office:
Tel: (86-28)8558-3992
Fax: (86-28)8558-3991
Cui Shiyang
Chen Ling

Construction Equipment Market

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	2004	2005	2006 (Estimated)
Total Market Size	USD 10.6 billion	USD 16 billion	USD 17.9 billion
Total Local Production	USD 4.3 billion	USD 13 billion	USD 13.9 billion
Total Exports	USD 99 million	USD 2.9 billion	USD 4.5 billion
Total Imports	USD 6.4 billion	USD 3.0 billion	USD 4.0 billion
Imports from the U.S.	USD 25 million	USD 369 million	USD 405 million

(Source: China Customs statistics for construction equipment.)

The Chinese construction equipment market presents many opportunities and challenges to American companies seeking to increase their sales in China. In 2006, the total exports exceeded the total imports for the first time. Many American companies (e.g. Caterpillar, John Deere, and Terex) have successfully entered the Chinese market but are increasingly producing locally. They have become the key players in China's construction equipment industry. Second, the Chinese government is supporting local companies in the international market. Recently, some of U.S. companies trying to acquire shares in state-owned companies have encountered delays in obtaining the approval from the Ministry of Commerce. Meanwhile, U.S. companies are facing fierce competition from Korean, Japanese, German, and domestic manufacturers.

According to the 11th Five-Year Plan, the government will significantly investment in the construction of railways, highways and airports etc. Also, the local government has made large investments in local transportation such as subways and tunnels to support the 2008 Olympics and 2010 World Expo. All these projects will provide great opportunities for the construction equipment industry.

The best opportunities for U.S. exports of construction equipment include the following: concrete machines, excavators, shovel loaders, lifts, self-propelled bulldozers, angle dozers, graders, levelers, scrapers, mechanical shovels, tramping machines, and road rollers.

Opportunities
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Railway Project

According to the 11th Five-Year Plan, the total investment in railway construction will reach USD 160 billion in the next five years. Such a large-scale project with high standards to be completed in a relatively short time will create demands for mechanical equipment. The following equipment appears to be in highest demand: rotary drilling rigs, excavators, concrete pump trucks, loaders, cranes, etc. Due to changes in tariff exemptions that are expected to come into force March 1, 2007, some products mentioned may incur higher tariffs when imported to China.

Highway Project

According to the National Highway Plan, the highway construction, known as “7918” Net, which will consist of 7 highways starting from the capital, 9 highways from north to south, 18 highways from west to east. The total will reach 85,000km. Currently 34% of the plan is finished, 19% is under construction and still 47% yet to begin. The annual average investment will reach USD 18 billion by 2010. Together with the railway project, thisl creates further demand for construction equipment.

South–North Water Diversion Project

The vast South–North Water Diversion Project started in 2002. The purpose is to divert water from the Yangtze River in the south to China’s north, where water is in critical need for agricultural and industrial applications. The project consists of three south-to-north canals, and will cost USD59 billion; when completed in 2010 it will pump about 13 trillion gallons of water to the north every year. The middle route of the three canals is the most complicated and will provide the most market opportunities for American construction equipment manufacturers that offer advanced technology. Different types of equipment are needed for the project, including scrapers, excavators, vibratory rollers, dump trucks, truck cranes, etc.

2008 Olympics, Beijing

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

Public Transportation:

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

Airport:

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

World Expo 2010, Shanghai

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

Public transportation:

- 270 kilometers of metro lines
- 400 kilometers of road improvement
- One under-river tunnel
- 6300km^2 parking space

- Country pavilions in the Expo Park

Airport:
- Two runways
- One new terminal

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

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

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

Major Shows

- **The 9th Beijing International Construction Machinery Exhibition & Seminar(9th BICES)**
  October 16-19 2007
  Beijing Jiuhua International Convention & Exhibition Centre
  Organizer: China Construction Machinery Association
  China Construction Machinery Co., Ltd.
  CCPIT-Machinery Sub-Council
  Tel: 86-10- 6857-5008, 6852-3884
  Fax: 86-10- 6851-3987
  http://www.e-bices.org/en/index.asp

- **CONEXPO® Asia 2007 (CONEXPO Asia Construction Machinery Exposition)**
  December 4 – 7,2007
  Chinese Export Commodities Fair (CECF) Pazhou Complex in Guangzhou
  Organizor: Association of Equipment Manufacturers (AEM)
  China Chamber of Commerce for Import and Export of Machinery and Electronic Products (CCCME)
  phone +1-800-867-6060, +1-414-272-0943, fax +1-414-272-2672
  email: info@conexpoasia.com
  http://conexpoasia.aem.org/EN/index.asp

U.S. Commercial Services Contact Information in China

Beijing Office:
Tel: (86-10)8529-6655
Fax: (86-10)8529-6558/9
Wei Jing

Shanghai Office:
Tel: (86-21)6279-7930
Fax: (86-21)6279-7639
Wennie Wang

Guangzhou Office:
Tel: (86-20)8667-4011
Fax: (86-20)8666-6409
Cathy Wang

Chengdu Office:
Tel: (86-28)8558-3992
Fax: (86-28)8558-3991
Misha Cao

Shenyang Office:
Tel: (86-24)2322-1198x8142
Fax: (86-24)2322-2206
Liu Yang

Banking Services

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With the full opening of the banking sector to foreign banks on December 11, 2006, there are ample export opportunities for the development of foreign commercial banks in Chinese market, though major Chinese commercial banks will continue to dominate the retail banking market. Domestic commercial banks have undergone effective reforms in restructuring. A dynamic process of interaction and integration is already underway between domestic and foreign banks as noted by the strategic investments made by foreign banks. In short, cooperation and competition will co-exist between Chinese banks and foreign banks.

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- Private banking services and wealth management which target high end and middle end customers:

Nearly 30 Chinese banks currently offer RMB-denominated wealth management services, with a total investment value of 130 billion yuan (USD16.46 billion). Most foreign banks consider providing RMB-denominated private banking services and wealth management service as two of their best business prospects in China.

- Credit Cards:

Foreign-funded banks can issue RMB-denominated credit cards after they become locally incorporated banks. All foreign-funded and Chinese banks are required to have good risk management and control systems and IT support systems in place to hedge risks in the issuance of credit cards in China.

The People's Bank of China, the central bank, will be responsible for the operation and management of the payment system. Further details regarding the issuance of credit cards by foreign banks in China will be clarified in the credit card management regulations which will be issued soon.

- SME Financing Market:

According to an official report, the products manufactured or services offered by China's 40 million small and medium sized enterprises (SME) comprise more than 59 percent of China's GDP in 2005. These enterprises constitute more than 99.6 percent of the total number of companies in China. Additionally, SMEs accounted for 70 percent of the nation's import and export trade volume. Some Chinese banks, especially city commercial banks, consider SMEs as their target clients. More and more foreign banks in China are beginning to realize the great opportunities available through offering financing to SMEs.

- QFII custodian & QDII:

In 2003, a qualified foreign institutional investors (QFII) scheme was introduced to allow foreign institutional investors, such as UBS, Deutsche Bank and Citigroup Global and others to engage in the securities sector on the Chinese mainland. At present there are 50 approved QFII entities. Industry sources estimate that more overseas capital will enter China's stock market through QFII.

At the same time, a total of 17 foreign and Chinese banks have been approved to invest clients' assets overseas under the qualified domestic institutional investor (QDII) program. So far, they have launched nine QDII products, with sales of 2.3 billion Yuan (USD291 million) in RMB-denominated transactions and USD87 million in US dollar-based transactions.

- *Derivatives Trading Market:*
Foreign banks may take the lead in the derivatives trading market, because Chinese banks are less experienced in this field.

- Corporate Financial Advisory Services and Alternative Asset Management:
Currently, Chinese commercial banks are not allowed to provide investment banking services to corporations. However, other financial service institutions such as the China International Capital Corporation Limited (CICC) are permitted to offer this service. Therefore, foreign banks that can offer both commercial banking and investment banking services will be competitive.

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1. Retail banking sector:

China's high net worth individuals (who have assets larger than USD1 million to invest) are an important segment. Their combined total wealth is estimated to be second only to Japan in Asia. With more wealth, Chinese citizens now pay attention to personal finance or wealth management products.

In addition, with the increase in the number of individuals purchasing houses, cars and consuming other products, banks that offer better mortgages, auto loans, credit card products and other services will have competitive advantages.

2. Corporate banking sector:

Since large private and state-owned enterprises can now obtain financing from the capital market, they become less dependent upon the bank's loans. SMEs are becoming valuable clients to both the Chinese and foreign banks. At present, only 30 percent of SMEs financing demands can be satisfied because they normally find it difficult to obtain any type of credit from the large banks. Most second-tier joint stock banks and city commercial banks have already made the SMEs their target clients. Standard Chartered, CitiBank and HSBC have all started SME financing activities. In comparison with Chinese banks, foreign banks have more experience in market segmentation, better credit and risk control, good access to the international market and more simplified procedures for credit approvals, all of which serve to attract Chinese enterprises as clients.

Resources

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Key Websites:

People's Bank of China (PBC)
www.pbc.gov.cn

China Banking Regulatory Commission (CBRC)
www.cbrc.gov.cn

Bank of China Limited
www.bank-of-china.com

Industrial and Commercial Bank of China
www.icbc.com.cn

China Construction Bank Limited
www.ccb.cn

Agricultural Bank of China
www.abchina.com/

Bank of Communications
www.bankcomm.com

China Merchants Bank
www.cmbchina.com/

China Everbright Bank
www.cebbank.com/

CITIC Bank
www.ecitic.com/citicib/

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

Standard Chartered Bank, China
www.standardchartered.com.cn

HSBC, China
www.hsbc.com.cn

CitiBank, China
www.citibank.com.cn

U.S. Commercial Service Contact Information in China

Beijing Office:
Tel: (86-10)8529-6655
Fax: (86-10)8529-6558/9
Richard Craig
Peng Aiqun

Shanghai Office:
Tel: (86-21)6279-7930
Fax: (86-21)6279-7639
Francis Peters
Meredith Ludlow

Guangzhou Office:
Tel: (86-20)8667-4011
Fax: (86-20)8666-6409
Eileen Bai

Chengdu Office:
Tel: (86-28)8558-3992
Fax: (86-28)8558-3991
Eric Wolff
Roger Tang

Education and Training

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As China continues to integrate into the global economy, Chinese enterprises need to recruit graduates with internationally recognized standards of education and maintain professional training for their employees to stay competitive. Since the United States' educational system has a solid reputation in China, U.S. colleges, universities, and other deliverers of training services are in a strong position to fulfill China's training needs. Short-term training programs or workshops in specialized fields or business education are particularly sought after. U.S. educational organizations can also sell teaching materials and equipment, convey the latest methodologies and case studies, lend or exchange faculty, and provide educational consulting services.

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According to some market surveys, Chinese consumers revealed that they would spend 10 percent of their savings on education, meaning that the education market from a consumer perspective is worth at least 80 billion U.S. dollars. In cities with populations of 10 million or more, at least five percent of families could and would pay for education costing more than 14,500 U.S. dollars. The Chinese government also plans to increase spending on education dramatically, from its current budget allocation of 2.5 percent of gross domestic product to 4 percent, to meet China's education needs for the new century. The national education budget allocation reached 50.8 billion U.S. dollars in the year 2004. More and more middle-class Chinese are borrowing to send their only child abroad to receive an international degree that would give them an advantage in China's increasingly competitive marketplace. Chinese professionals are also attending vocational classes and using e-learning to upgrade their skills to increase their earning power.

The Chinese government has made it a national priority since 1999 to increase the number of students in the university system. In 2005, there were 23 million students studying at colleges and universities. The National university entrance rate reached 21%. China's 1,552 colleges and universities enrolled 15 million students for bachelor degrees, and over 900,000 students for master degrees. The country's 475 adult higher learning institutions, for those who did not enter college, enrolled more than 1.4 million students to teach skills in the agricultural, industrial, educational, medical, health, financial, and public security sectors. According to China's Ministry of Education, more will be done within the next few years to develop vocational and adult education programs, serve regional economic and social development, and promote on-the-job and re-employment training programs.

American universities are very active in promoting American education in China. As of April 2004, the Ministry of Education has approved 137 joint programs with foreign institutions. The United States is the destination of choice for Chinese who want to enroll in an MBA program. However, high costs, long absences from home, and visa concerns make it comparatively more difficult to study in the U.S. Presently, the U.S. leads the market in providing joint venture MBA and EMBA programs in China, but competition from European, Canadian, and Australian organizations is increasing.

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

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

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

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Education Events Approved by China's Ministry of Education

Event Information:

1.China International Education Exhibition (CIEET) Tour 2007

Sponsored by Chinese Service Center for Scholarly Exchange (CSCSE)

Beijing	March 3-4
Chongqing	March 6-7
Shanghai	March 10-11
Nanjing	March 13-14
Guangzhou	March 17-18

Website: www.cscse.edu.cn

Address: No. 15 Xueyuan Road, Haidian District, Beijing, China 100083

Tel: (8610) 8230-1019， 8230-1006

Fax: (8610) 8230-1166

Email: wjjin@cscse.edu.cn chancy@cscse.edu.cn

2. 2007 China Education Expo

Sponsored by China Education Association for International Exchange (CCIEE)

Beijing October 20-21

Shanghai October 27-28

Guangzhou November3-4

Website: http://www.chinaeducationexpo.com/

Address: 4th Floor, Xinlong Office Building, No.33-A Erlong Road, Beijing, China 100032

Tel: (8610)6606-6076; 6603-3016

Fax: (8610)6606-6870

Email: zhourong@cciee.com.cn zhaopeng@cciee.com.cn

FCS China Education Team:

Beijing Office:
Tel: (86-10)8529-6655
Fax: (86-10)8529-6558/9
David Gossack
Maggie Qiu

Shanghai Office:
Tel: (86-21)6279-7930
Fax: (86-21)6279-7639
Yu-Chien Chen

Guangzhou Office:
Tel: (86-20)8667-4011
Fax: (86-20)8666-6409
Robert Murphy
Eileen Bai

Chengdu Office:
Tel: (86-28)8558-3992
Fax: (86-28)8558-3991
Misha Cao

Shenyang Office:
Tel: (86-24)2322-1198
Fax: (86-24)2322-2206
Soching Tsai
Liu Yang

Franchising

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

Challenges to U.S. franchise firms include a weak regulatory system and a lack of qualified Chinese franchisee candidates. In addition, new legislation from the Ministry of Commerce require new franchise firms to first own and operate two company-owned stores for one year within China.

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The Chinese franchising market is dominated by traditional franchise operations like food and beverage (F&B) and retail outlets. Nearly 40% of all franchisers in China are engaged in such industries. U.S. franchisers have established a particularly strong foothold in the (F&B) market. By the end of 2006, KFC had established about 1,500 outlets in China. McDonald's has established over 700 outlets nationally.

While it is still too early to say whether the F&B related franchise market has become saturated in China, franchising opportunities abound in non-F&B industries. The best prospects in this form of franchising include car rental and services, education, training, real estate, dry cleaning, and executive search.

Opportunities

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

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

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

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Major Shows/Exhibitions

CCFA Franchise Expo, Shanghai
www.ccfa.org.cn/english/index.jsp
August 28-30, 2007

Resources

International Franchise Association
1501 K Street NW, Suite 350
Washington, D.C.
(202) 662-0767
www.franchise.org

China Chain Store and Franchise Association
Tel: (86-10) 5191-6856
Fax: (86-10) 5191-6863
Website: **http://www.ccfa.org.cn**

Ministry of Commerce (MOFCOM)
Tel: (86-10) 6519-7327/7301
Fax: (86-10) 6519-7322
Website: http://www.mofcom.gov.cn

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

CS Contacts

Beijing Office:
Tel: (86-10)8529-6655
Fax: (86-10)8529-6558/9
Frank Joseph
Shen Yan

Shanghai Office:
Tel: (86-21)6279-7930
Fax: (86-21)6279-7639
Tara Qu

Guangzhou Office:
Tel: (86-20)8667-4011

Fax: (86-20)8666-6409
Cathy Wang

Chengdu Office:
Tel: (86-28)8558-3992
Fax: (86-28)8558-3991

Semiconductor Industry

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In 2006, China's semiconductor industry experienced strong growth as a result of continued demand for integrated circuits by the rapidly growing electronics manufacturing industry. The implementation of a series of preferential policies and the active participation of leading international players also contributed to this growth. According to the China Semiconductor Industry Association (CSIA), China has now become the world's second largest market for semiconductors. In 2006, China's semiconductor industry became a $62 billion market and now accounts for 25.2% of the world's total.

China's continued development of its electronics manufacturing industry has led to the global semiconductor manufacturing industry gradually shifting to China. In 2006, technology levels and technology transfer has increased greatly. At the same time, the structure of the industry has also changed from primarily packaging to increased wafer production, design and development centers, and supporting industries. According to an industry official, most of the investments are now for manufacturing of 300 mm wafers.

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Despite the rapid development, China's semiconductor industry is still in its initial stage of development. Due to the weak infrastructure and unevenness of the supporting industry, China still imports about 85% of integrated circuits, most equipment needed to package, test and manufacture the integrated circuits, as well as the development tools for the design of the integrated circuits. This will not change in the immediate future. U.S. manufactured chips and equipment, as well as software tools and services will continue to have good prospect in the China market.

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

Semiconductors

China's Local IC Manufacturing Output Volume and Sales Values

Year	2001	2002	2003	2004	2005	2006 (Jan – September)*
Output Volume (100 million pieces	63.6	96.3	134	211	266	274
Sales Value (Billion USD)	2.28	3.25	4.25	6.56	8.97	9.37
Volume Growth Rate	8.2%	51.4%	39.1%	57.5%	26.1%	45.8%*
Value Growth Rate	1.2%	42.5%	30.8%	55.2%	36.7%	49.2%*

Source: China Semiconductor Industry Association
Note: 2006 volume and value figures are for January – September. The growth rates are compared with the same period of the previous year.

Semiconductor related products HS code 8541 Million USD

	2002	2003	2004	2005
Total exports	1,664	2,142	3,269	4,249
Total imports	5,350	6,721	9,767	11,250
Imports from the U.S.	640	365	283	298

Source: World Trade Atlas

Changes in Number of IC Production Lines

Production Line	2005			2006		
12"	1	MOS	1	2	MOS	2
8"	9	MOS	9	10	MOS	10
6"	8	MOS	6	12	MOS	9
		Diodes	2		Diodes	2
		MOS Diodes			MOS Diodes	1
5"	8	MOS	4	9	MOS	5
		Diodes	4		Diodes	4
4"	14	MOS	2	14	MOS	3
		Diodes	7		Diodes	7
		MOS Diodes	5		MOS Diodes	4
Total	40	MOS	22	47	MOS	29
		Diodes	13		Diodes	13
		MOS Diodes	5		MOS Diodes	5

Source: China Electronics News Daily, December 12, 2006

China's IC Manufacturing Lines

Company	Location	Technology	Production Line
SMIC	Beijing	MOS	12"
Hynix ST	Wuxi	MOS	12"
Huahong NEC	Shanghai	MOS	8"
SMIC	Tianjin	MOS	8"
SMIC	Shanghai	MOS	8"
Hejian	Suzhou	MOS	8"
Advanced Semiconductor	Shanghai	MOS	8"
Grace Semiconductor	Shanghai	MOS	8"
TSMC	Shanghai	MOS	8"
Hynix-ST	Wuxi	MOS	8"
Capital Steel – NEC	Beijing	MOS	6"
Shanghua	Beijing	MOS	6"
Advanced Semiconductor	Shanghai	MOS	6"
Beiling	Shanghai	MOS	6"
Xinjin	Shanghai	Diodes	6"
Nanke	Zhuhai	MOS	6"
Founder	Shenzhen	MOS	6"
Zhongwei	Ningbo	MOS	6"
Jingxin	Wuxi	Diodes	6"
Huarun Shanghua	Wuxi	MOS	6"
Shilan	Hangzhou	MOS	6"
Fushun	Fuzhou	MOS, Diodes	6"

Source: China Electronics News Daily December 12, 2006

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Major trade shows in the semiconductor industry in 2007:

Exhibition	Date	Location	Website
International IC China 07	March 5 –6, 2007	Shenzhen	http://www.english.china.iicexpo.com/
International IC China 07	March 8 – 9, 2007	Beijing	http://www.english.china.iicexpo.com/
International IC China 07	March 13 – 14, 2007	Shanghai	http://www.english.china.iicexpo.com/
SEMICON China	March 21-23, 2007	Shanghai	www.semi.org
IC China 07	August 28 - 30, 2007	Shenzhen	http://www.ic-china.org

Major government and industry associations:

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

China Semiconductor Industry Association (CSIA)
27 Wanshou Road, Beijing 100846 China
Tel: (86 10) 6820-8589
http://www.csia.net.cn/

United States Information Technology Office (USITO)
7 East Mid Third Ring Road, Suite 516 Fortune Plaza, Beijing 100020 China
Tel: (86 10) 6530 9368; 6530 9369; 6530 9370
Fax: (8610) 6530-9367
http://www.usito.org/

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

USFCS Offices in China

Beijing
Darrel Ching
Xianmin Xi
1 Guanghua Lu, Beijing Kerry Center, North Tower, 31st Floor
Beijing 100020 China
Tel: (86 10) 8529-6655
Fax: (86 10) 8529-6558/9
Email: Beijing.Office.Box@mail.doc.gov

Chengdu
Liping Lin
4 Lingshiguan Lu, Renmin Nanlu Section 4
Chengdu, Sichuan Province 610041 China
Tel: (86 28) 8558-3992/9642
Fax: (86 28) 8558-9221/3520
Email: Chengdu.Office.Box@mail.doc.gov

Guangzhou
Sophie Xiao
Liu Hua Road
14/F China Hotel Office Tower, Room 1461
Guangzhou, Guangdong Province 510015 China
Tel: (86 20) 8667-4011
Fax: (86 20) 8666-6409
Email: Guangzhou.Office.Box@mail.doc.gov

Shanghai
Lisa Tang
1376 Nanjing West Road
Shanghai Center, Suite 631
Shanghai 200040 China
Tel: (86 21) 6279-7630
Fax: (86 21) 6279-7639
Email: Shanghai.Office.Box@mail.doc.gov

Shenyang
Liu Yang
52 Shi Si Wei Road, Heping District
Shenyang, Liaoning Province 110003 China
Tel: (86 24) 2322-1198
Fax: (86 24) 2322-2206
Email: Beijing.Office.Box@mail.doc.gov

Hong Kong
Fanny Chau
26 Garden Road
Commercial Service American Consulate General,
Central, Hong Kong (SAR)
Tel: (852) 2521-1467
Fax: (852) 2845-9800
Email: Hong.Kong.Office.Box@mail.doc.gov

Taiwan
Shirley Wang
American Institute in Taiwan
Suite 3207, Commercial Section
333 Keelung Road Section 1
Taipei, Taiwan
Tel: (886 2) 2720-1550
Fax: (886 2) 2757-7162
Email: Taipei.Office.Box@mail.doc.gov

Machinery

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US machinery exports have experienced healthy growth over the past four years rising nearly US $3 billion in value since 2000 to reach more than US $ 7.2 billion in 2004. One of the main drivers for increased demand for US machinery products is the expansion of China's manufacturing capacity and increased competition among Chinese manufacturers. The automotive industry accounts for over half of China's machine tool industry and has been driving growth on this sector for the past four years.

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

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

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U.S. Associations

Association of Manufacturing Technology (AMT)
www.amtonline.org
www.amtchina.org

Chinese Association

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

Trade Shows

The 5th China International Equipment and Manufacturing Exposition (CIEME 2006)
August 29- September 2, 2006
Shenyang, China

www.zxexpo.com /www.cieme.org

10th China International Machine Tool Show
China International Exhibition Center (Beijing)
April 2007
www.cimtshow.com

CS Contact:

Commercial Service Beijing:
Tel: (86-10)8529-6655
Fax: (86-10)8529-6558/9
Ms. Peining Zhao
peining.zhao@mail.doc.gov

Commercial Service Shanghai:
Tel: (86-21)6279-7930
Fax: (86-21)6279-7639

Commercial Service Guangzhou:
Tel: (86-20)8667-4011
Fax: (86-20)8666-6409
Ms. Eileen Bai
eileen.bai@mail.doc.gov

Commercial Sevice Chengdu:
Tel: (86-28)8558-3992
Fax: (86-28)8558-9221
Ms. Chen Ling
ling.chen@mail.doc.gov

Commercial Service Shenyang:
Tel: (86-24)2322-1198x8142
Fax: (86-24)2322-2206
Ms. Liu Yang
Yang.liu@mail.doc.gov

Marine Industries

Overview

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	2004	2005	2006(Estimated)
Total Market Size	USD 58.0 billion	USD 77.2 billion	USD 79.5 billion
Total Local Production*	USD 60.0 billion	USD 81.4 billion	USD 86.4 billion
Total Exports**	USD 3.1 billion	USD 4.7 billion	USD 7.4 billion
Total Imports **	USD 1.1 billion	USD 0.5 billion	USD 0.5 billion
Imports from the U.S. **	USD 45.2 million	USD 15.0 million	USD 5.3 million

Source of data: * News Service Centers of Ministry of Commerce of People's Republic of China
**China Customs (HS code: 89 Ships and boats and floating structures.)

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

China has seen rapid development of its marine industry over past few years. China has more than 3 million square kilometers of sea areas, with more than 1,400 harbors and 210,000 cargo ships. According to the "National Marine Economy Development Program" issued by the state council, the value of increase of sea-related industries constituted approximately 4% of GDP by 2005; and the aggregate marine industries will gradually become one of the pillar industries of China's economy.

According to China Customs statistics , China's total ship import and export values reached USD5.2 billion in 2005, of which ship import accounted for USD0.5 billion. Trade volume would rise to a historic high of USD 7.9billion in 2006. However, oceanic pollution and the industry's structural imbalances continue to present challenges for the development of the marine industry.

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

Shipbuilding

Since 1999, the output of China's shipbuilding industry has been ranked number three in the world. According to the statistics from the China Association of the National Shipbuilding Industry (CANSI), China's shipbuilding output exceeded 12 million deadweight tonnage (DWT) in 2005, accounting for 18 percent of world's total. The output is expected to reach a historical high of 14 million DWT in 2006. Chinese shipyards filled about 20 percent of global orders for ships measured by cargo capacity. Shanghai Waigaoqiao Shipbuilding Co, the country's top shipbuilder, churned out 3.11 million DWT of ships in 2006, making it the world's eighth-largest shipyard.

According to the government's National Medium and Long-Term Plan of the Shipbuilding Industry, issued in August 2006, China's shipbuilding industry is expected to hit capacity of 17million DWT by 2010 and would become the No. 1 shipbuilding power in the world by 2015.

The central government's 11th five-year plan (2005 to 2010) pointed out that the key to strengthening the shipping industry lies in design capability, marine equipment supply, large-scale shipbuilding construction, and optimizing the three main ship types: bulk-carriers, oil tankers, and container vessels. Emphasis will be put on hi-tech ships, new ship designs and ocean engineering equipment, which have additional added value.

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

Pleasure Boats

With the rapid growth of the economy, China's recreational marine market is forecast to expand sharply in the coming years. Based on the confidence that pleasure boats will become a part of life style in the country's expanding wealthy and the middle-class, provincial governments, property developers and boat builders are all investing heavily in this industry. Business experts estimated that the market would pick up speed after 2005, and the overall market size would reach USD10billion over the next decade, which presents significant opportunities for the exports of U.S. pleasure boats, accessories, marina planning and construction materials.

Port and Sea-Transportation

China is allocating a massive amount of money to the port and waterway construction to meet the significant growth of freight volume. Since 2004, China has stepped up the infrastructure construction of ports. China's port throughput is increasing at exponential rates, reflecting a booming foreign trade. According to the Ministry of Communications (MOC), freight turnover at major coastal ports rose 19% in 2005 to 2.9 billion tons. Container traffic at Chinese ports also increased 23% to 75.6 million Twenty-foot Equivalent Units (TEUs). Double-digit growth continued in 2006 and was projected to expand to 130m TEUs by 2010. The cargo turnover of Shanghai port exceeded 500 million tons in 2006, making it the world's busiest port for the second consecutive year. Eight ports in mainland China, namely Shanghai, Shenzhen, Qingdao, Tianjin, Guangzhou, Xiamen, Ningbo and Dalian, are included among the 30 top container harbors in the world.

To facilitate global trade, most ports in China are putting emphasis on expanding the capacity and upgrading the port facilities as well as the modernization of operations. The products and technologies in high demand are Vessel Traffic Management Information System, laser-docking systems, terminal tractors, dredging equipments and security equipment for the ports and vessels to abide by the International Ship and Port Security Code (ISPS).

Shipbuilding bases

According to the shipbuilding industry report issued by the state council, China is embarking on major efforts to increase shipbuilding capacity. The country plans to build three major shipbuilding bases in the Bohai Rim, East China Sea and South China Sea. The China State Shipbuilding Corporation (CSSC), the country's leading shipyard began construction on the Changxing Shipbuilding Base on the Shanghai coast in 2003. When completed in 2015, the Changxing base will be the largest shipyard in the world with annual shipbuilding capacity reaching eight million tons. Additionally, CSSC plans to build China's largest yacht building base in the Fengxian district of Shanghai.

Marina development

Although there are presently only a handful of marinas in China, dozens more are under construction or in planning. Many luxury residences in major cities incorporate waterways and boating facilities in their developments.

The Shanghai municipal government is in the process of announcing plans for the city's yachting industry development over the next two decades. The success of Shanghai's bid to host the 2010 World Expo will push the boat industry to develop more rapidly. The Shanghai Government has decided to build marinas and cruising shipping centers along the downtown river as part of the efforts to remake Shanghai into a world-class city.

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

Deepwater Port

China is building more deep-water berths to handle the larger fifth and sixth generation container vessels. The largest project is the construction of Yangshan deep-water port, approximately 20 miles offshore from Shanghai and linked to the mainland by a 32.5-kilometre causeway bridge. The first phase was completed and put into operation at the end of 2005, including 5 new berths and a capacity of 2 million TEUs per year. A second phase opened in December 2006, adding four berths on a 1.4-kilometer waterfront with a designed handling capacity of 2.1 million TEUs annually. The original plan is to complete 50 berths by 2020, which will cost over USD10billion. The master plan also includes a logistics park and new harbor city on the mainland.

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Major shows

China International Boat Show 2007
(Incorporating: China Fast Ferry & Commercial Craft Show)
DATE: 5--8 April 2007
VENUE: Shanghai Exhibition Centre

Organizer: Shanghai CMPsinoexpo International Exhibition Co., Ltd.
Tel: +86 21 64371178

Fax: +86 21 64370982
E-mail: helenagao@cmpsinoexpo.com or Angelahe@cmpsinoexpo.com
Web Site: http://www.cmpsinoexpo.com/boat/

Marintec China 2007- the all China Maritime Conference & Exhibition

DATE: November 27-30, 2007
VENUE: Shanghai New International Expo. Center, Pudong, Shanghai, China
Organizer: CMP Aisa, Ltd.
Tel: (852) 2585 6124
Fax: (852) 2827 7831
Email: AmyLai@cmpasia.com
Website: www.marintecchina.com

Key websites

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

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

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

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

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

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

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

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

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

11. Chinese Port
   http://www.chineseport.cn/

Oil and Gas Industries

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Unit: Million metric tons

Crude Oil / Natural Gas	2004	2005	2006	2007 (Estimated)
Total Market Size	291.27 / 40.98	299.57 / 49.95	307.28 / 53.10	175 / 66.38
Total Local Production	174.06 / 40.98	180.84 / 49.95	168.42 / 53.10	175 / 66.38
Total Exports	5.49 / 0	8.07 / 0	6.34 / 0	
Total Imports	122.70 / 0	126.80 / 0	145.20 / 0	
Imports from the U.S.	Limited Exports to China			

Sources of Data: China Customs. The above figures are mainly from China Customs, but represent unofficial estimates for Oil and Gas equipment, technology, and services for oil and gas exploration, production, and transmission projects. Total exports refer to most of the low-end equipment and products. No accurate figures are available.

China now ranks No.2 in world energy consumption (behind the United States, ahead of Japan). Economists predict that by 2020, China's GDP will be USD 4 trillion and the consumption of China's oil and gas will be about 5 billion barrel of equivalence (BOE). The Chinese government continues to push through reform and industry restructuring measures in order to encourage the necessary investment needed to meet energy demand growth. This trend of high demand growth is also dominant in the natural gas sector.

Natural gas is the fastest growing fuel in China's energy mix. Natural gas consumption in China is expected to rise to over 10% by 2020 in light of increasing LNG imports as well as domestic discoveries. From 2006 to 2020, China's natural gas infrastructure construction will involve a CNY 220 billion investment. The Chinese government is continuing its efforts to create a more transparent gas environment to encourage investment by creating a gas law and appropriate downstream gas regulations.

On the oil side, China became a net importer of crude oil in 1996. Imports are expected to rise from 1.7 million barrels/day in 2001 to 4.2 million barrels/day in 2010, and to 9.8 mb/d in 2030. China continues to focus on the development of domestic oil resources throughout the country. Increased oil exploration and development activity are moving west and will be focused on the Tarim, Junggar, and Tu-Ha Basins. At the same time, currently producing oil fields have been on the decline for over a decade. As a result, the domestic supply of oil will be insufficient in meeting demand forecasts. Thus, there will be an increased reliance on imported oil in the future, especially on sources of crude oil from the Middle East.

China's liberalized finished oil products retail market is expected to bring deregulated prices and lower entry barriers to its domestic players. Three months into the official opening of the wholesale market, the top question is how to win the gas station wars and outpace the greater downstream competition in China?

U.S. companies are taking in providing advanced technologies in upstream and downstream oil and gas construction and development. Many Chinese end-users have favorable opinions of American products and are eager to do business with American companies. China's booming natural gas industry will spur the demand for single space related products, equipment and engineering services. “American” equipment has a reputation for technological excellence and quality. Innovation, automation, and precision make U.S. equipment and technology superior to that of its competitors.

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

Equipment:

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

Equipment for Infrastructure Construction

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

Other Related Equipment

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

Related Materials

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

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

Opportunities Return to top

As major consumption countries, China and the U.S. face the risk of supply shortage and sharing substantial expenses to import oil. Since a steady oil supply is needed to maintain rapid and sustainable economic growth, U.S. and China should strengthen cooperation in the following fields:

Exploration & Production:	complicated onshore blocks; deep-water offshore blocks; gas fields: in marine deposit area of China and the third countries
LNG projects:	LNG liquefaction, LNG transportation, LNG-receiving terminal construction

Theoretical & technological research on the oil and gas industries

Exploration and development of high sulfur content gas fields: complex conditions in northeast Sichuan pose severe challenges to technology, specialty management and HSE. In the northeast Sichuan Basin, the matching technologies for their exploring and developing high sulfur gas pools are incomplete. China needs technology and service in the following areas:

- Predication technique for steep-structure carbonate oolite-beach reservoirs
- Drilling techniques for high sulfur gas pools
- Anti-corrosion technique
- Technique in preventing sulfur deposits
- Downhole sampling technique
- Sewage re-injection techniques
- Experience in developing and constructing high sulfur gas fields and purification plants
- On-site production and operation experience with gas fields and purification plant
- Organization and management experience with the production of high sulfur gas fields
- Insufficient specifications and codes concerning development of high sulfur gas fields
- High HSE requirements

U.S. can take the lead in establishing a strategic oil reserve system involving member and non-member countries of IEA to optimize and sharing of oil reserve and maintain world economic stability.

Resources

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Major Shows

CIPPE 2007
The China International Petroleum & Petrochemical Technology and Equipment Exhibition
Date: April 3-5, 2007
Venue: Beijing Exhibition Center, China

CIPPE: organized by Zhenwei Exhibition Service Company, is an annual trade show. CIPPE is China's largest trade show in the Oil & Gas and Petrochemical industry sectors. Reportedly, over 430 exhibitors participated in CIPPE 2006, of which half were foreign firms. At CIPPE 2006, The U.S. Embassy Commercial Section arranged a U.S. pavilion of 36 standard booths (9 square meters for a standard booth). Four U.S. exhibitors from our U.S. pavilion also made use of the CIPPE's seminar sessions and delivered technical presentations to interested audiences.

CIPPE 2007 again promises to be a great opportunity for American firms to showcase their products & services in this sector. The U.S. Pavilion will offer prospective U.S. exhibitors the following services: streamlined booth arrangements, market entry counseling, and logistics liaison with Chinese organizers, etc. For general information about this trade show and the U.S. Pavilion, please refer to the following contact information:

Contact: Ms. Cindy-Ling Wang (for the U.S. pavilion)
T: 86 10-85296655 ext.851
F: 86 10-85296558
Email: ling.wang@mail.doc.gov
Website: http://www.buyusa.gov/china/en/cippe2006.html or http://www.cippe.com.cn

China Petroleum & Gas Summit 2007
Date: March 22-23, 2007
Venue: Shangri-La hotel Beijing, China
Contact: IBG Company Limited
Add: UnitB, 7/F, Zhao Feng Universe Building, No.1800, West Zhong Shan Road, Shanghai
T: 86-21-64401600
F: 86-21-51062045
Email: blake.tsao@ibgintl.com

CIGTE
The 8th China International Gas Technology and Equipment Exhibition
Date: April 4-6, 2007
Venue: Beijing Agricultural Exhibition Center
Contact: Mr. Wang Hong Guo
Tel: 86 10-85861238
Fax: 86 10- 85866179-21
Mobile: 13910617799
Email: qifal1238@126.com

The 2nd China Offshore Oil&Natural Gas International Summit 2007
Date: April 2-3, 2007
Venue: Hotel New Otani Chang Fu Gong
Contact: Mr Zhao, Mr Gu
Tel: (86-21) 52360030
Fax: (86-21) 52360029
E-mail:luke.Shang@globaleaders.com / Alex.gu@globaleader.com

China Offshore Oil&gas Exhibition 2007
Date: March 15-17, 2007
Venue: Tianjin Binhai International Exhibition Center
Contact: China Promotion Ltd.
T: 86-10-87730641
F: 86-10-87730640
Email:cpbj@cpbjlf.com
Website: www.cpexhibition.com

Shanghai International Petroleum & Petrochemical and Natural Gas Exhibition
Date: March 15-17, 2007
Venue: Shanghai Everbright Exhibition Center
Contact: Shanghai Pudong International Exhibition Company
T: 86-20-50812626
F: 86-21-50582115
Email :postmaster@ep.sh.cn
Website: www.sippe.com.cn

The 6th China(Dalian) International Oil Processing & Chemical Industry Exhibiton 2007
Date: May 23-25, 2007
Venue: Dalian Xinghai Convention & Exhibition Center
Contact: Zhang Hong Ling
T: 86-411-82644428
F: 86-411-82645808
Email: zhanghongling.8@126.com
Website: zhanghongling.8@126.com

The 4th Xinjiang International Petrolem & Petrochemical and Chemical Products Exhibition
Date: June 6-8, 2007
Venue: Xinjiang International Trader Center
Contact: Wangping
T: 86-01-64465648, 64465654
F: 86-01-64465648
Email: xinjiangwp@126.cc

Key Websites:

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

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

CS China Contacts:

Beijing Office:
Tel: (86-10)8529-6655
Fax: (86-10)8529-6558/9
David Murphy
Wang Ling

Shanghai Office:
Tel: (86-21)6279-7930
Fax: (86-21)6279-7639
Eric Hsu
Stellar Chu

Guangzhou Office:
Tel: (86-20)8667-4011
Fax: (86-20)8666-6409
Lena Yang

Chengdu Office:
Tel: (86-28)8558-3992
Fax: (86-28)8558-3991
Cui Shiyang

Shenyang Office:
Tel: (86-24)2322-1198x8142
Fax: (86-24)2322-2206
Liu Yang

Power Generation

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	2004	2005	2006 (estimated)
Total Market Size *	12,000	18,750	21,057

Total Local Production	14,213	16,913	18,384
Total Exports **	6,272	7,632	9,951
Total Imports **	4,059	4,633	5,954
Imports from the U.S. **	270	234	269

(Millions of US dollars)
Sources: * from China Electric Equipment and Instrument Net
** from customs statistics for electric power supply machinery

The total power generation capacity of China surpassed 622GW in 2006, an increase of 100GW from 2005, enhancing China's position as the second-largest power generator and the fastest-growing power generation market in the world. According to the International Energy Agency, China will invest a total of nearly USD2 trillion in electricity generation, transmission, and distribution over the next 30 years to meet rapidly growing electricity demand. Half of that investment will be in power generation, while the other half will go to transmission and distribution. Currently, thermal energy comprises most (77.82%) of China's generating capacity, while hydropower provides 20.67% and nuclear power less than 1.6% of total capacity. With the limited supply of fossil fuels for power generation, the Chinese government is encouraging alternative forms of power supply, such as hydropower, wind power, solar power, etc. China unveiled an energy plan as part of its 11th five-year plan. The plan, which is named as the "alternative oil strategy", aims at increasing the country's renewable energy supply to 15% of the country's energy needs by 2020.

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The most competitive products and services for U.S. companies will be in advanced thermal power generation (including large-capacity gas turbines, super critical and ultra super critical large capacity coal-fired power generation equipment, clean coal technology, and combine cycle technology), alternative power supplies (including wind, solar, and nuclear), power dispatching systems, telecommunications equipment for the power industry, management software, and ultra high voltage transmission equipment and management systems. Safety equipment also has strong market potential for U.S. companies.

Opportunities Return to top

By 2020, China plans to build 30 nuclear generators of one million-kW and above, bringing the country's total nuclear capacity to 40GW. In December 2006, U.S. technology was selected for 4 new reactors planned to be built in Zhejiang and Shandong provinces in 2007 and 2008.

There is also strong demand for the following products:

- 900 MW and above thermal power generating equipment, gas turbines
- 700 MW and above hydro power turbines, large-capacity pump storage units, advanced nuclear power station equipment, clean-coal technology power generating equipment
- 300 MW and above cogeneration and trigeneration units

- 600 MW and above air cooling power generation units
- Combine cycle units
- 300 MW and above circulating fluidized-bed boilers and Integrated Gasification Combined Cycle (IGCC) units
- 750 kv and above transmission lines equipment
- 1.3MW capacity and above wind turbines, thermal power plant flue gas desulphurization equipment, power industry automation equipment, power grid safety supervision and control software and equipment, and middle and high voltage capacitors.

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

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

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

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

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

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

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

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

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

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

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

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

U.S. Commercial Services Contact Information in China

Beijing Office:
Tel: (86-10)8529-6655
Fax: (86-10)8529-6558/9
David Murphy
Mei Baochun

Shanghai Office:
Tel: (86-21)6279-7930
Fax: (86-21)6279-7639
Eric Hsu
Janet Zhu

Guangzhou Office:
Tel: (86-20)8667-4011
Fax: (86-20)8666-6409
Lena Yang

Chengdu Office:
Tel: (86-28)8558-3992
Fax: (86-28)8558-3991
Cui Shiyang

Upcoming Exhibition

The U.S. Commercial Service will organize a U.S. Pavilion at the 6th International Exhibition on Electrical Power Equipment and Technology (EP Shanghai) from June 5 to June 7 in Shanghai. Since we only have limited booths available, we welcome and encourage interested U.S. companies to contact us as soon as possible. For more information about this event, please visit the following website:
http://www.2456.com/eng/showsinfo/info/info1.asp?eid=3662&order=136

Software

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China's Software Market (2002-2006) Million USD

	2002	2003	2004	2005	2006 (estimated)
Total Market Size	6,547	9,072	16,935	22,000	22,854
Total Local Production	6,875	10,000	18,625	25, 750	26,125
Total Exports	1,200	2,000	2,800	3,590	4,595
Total Imports	872	1,072	1,110	1,214	1,324
Imports from the U.S.	201	248	237	268	280

Sources: World Trade Atlas, China Software Industry Association (CSIA), the Ministry of Information Industry (MII).
Notes: 1) Total exports also include embedded software and software outsourcing.

2) The above table is calculated based on HS codes 852410, 85243, 852432, 852439, 852451,852452, 852453, 852440, 852460, 85249,852499. Software downloaded from the Internet is not included.

China's software industry, with the support of government incentive programs, is in a period of steady growth after more than 10 years of slow development. According to the Ministry of Information Industry (MII), sales revenue generated from software products in 2006 reached USD26 billion and accounted for 58% of China's total software industry. IT services and system integration reached USD15.8 billion and accounted for about 42% of the total. In 2005, China's software exports reached USD3.6 billion including USD920 million generated from software outsourcing. However, Chinese produced software only accounted for 5.9% of the global software market. Foreign software products from North America, Europe and Japan still dominate the Chinese market and will continue to have strong sales potential, especially in the high-end software market.

According to MII, China's domestically developed operating systems account for 25% of provincial level government procurement while packaged office application software account for 60% and security software 97%.

China views the development of the software industry as one of its top priorities. The Chinese government continues to invest billions of dollars each year in the software industry and offers incentives such as a tax reduction to software developers. As a result, the number of software companies with an annual sales volume of over USD120 million increased from 27 in 2001 to 176 in 2005. The Chinese government also encourages software companies to obtain Capacity Maturity Model (CMM) and ISO 9000 certifications. Currently, 41 Chinese software developers have received both certifications, 441 have passed CMM/Capacity Maturity Model Integration (CMMI) 2-5 evaluations, and 1,800 have received qualified system integrator certificates from MII.

According to China's " 11^{th} Five-Year Plan for the Software and Information Service Industry (2006-2010)", MII expects China's software industry to grow by 30% each year and reach USD125 billion by 2010. Software exports are projected to grow by 28% and reach USD12.5 billion. China also plans to have 10-15 software developers with an annual sales volume of over USD12 billion and 40-50 with an annual sales volume of USD6 billion. In 2007, China expects its software and system integration industry to grow by 21% and reach USD72.5 billion.

Opportunities

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The finance, telecommunications, banking, education, medical, construction, media, transportation, and traditional manufacturing sectors will present opportunities not only for domestic software vendors but also for U.S. companies. Software vendors will also have good opportunities in China's mobile business sector.

Application software and customized software such as ERP, CRM, service-oriented architecture (SOA), middleware and open-source software will have good prospects in the China market. High-end products such as database management systems, systems management software, networking security software, and manufacturing industry application software are the fastest growing areas for foreign firms selling into the China market.

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Int’l Soft China 2007
www.csia.org.cn

China International Software and Information Service Fair
www.cisis.com.cn

USFCS Offices in China

Beijing
Darrel Ching
Michael Wang
1 Guanghua Lu, Beijing Kerry Center, North Tower, 31st Floor
Beijing 100020 China
Tel: (86 10) 8529-6655
Fax: (86 10) 8529-6558/9
Email: Beijing.Office.Box@mail.doc.gov

Chengdu
Liping Lin
4 Lingshiguan Lu, Renmin Nanlu Section 4
Chengdu, Sichuan Province 610041 China
Tel: (86 28) 8558-3992/9642
Fax: (86 28) 8558-9221/3520
Email: Chengdu.Office.Box@mail.doc.gov

Guangzhou
Kent Guo
Sophie Xiao
Liu Hua Road
14/F China Hotel Office Tower, Room 1461
Guangzhou, Guangdong Province 510015 China
Tel: (86 20) 8667-4011
Fax: (86 20) 8666-6409
Email: Guangzhou.Office.Box@mail.doc.gov

Shanghai
Francis Peters
Jane Shen
1376 Nanjing West Road
Shanghai Center, Suite 631
Shanghai 200040 China
Tel: (86 21) 6279-7630
Fax: (86 21) 6279-7639
Email: Shanghai.Office.Box@mail.doc.gov

Shenyang
Liu Yang

52 Shi Si Wei Road, Heping District
Shenyang, Liaoning Province 110003 China
Tel: (86 24) 2322-1198
Fax: (86 24) 2322-2206
Email: Beijing.Office.Box@mail.doc.gov

Travel and Tourism Market

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China is quickly becoming one of the hottest outbound tourism markets in the world. Although still in its infancy, the China market is being actively courted by tourism destinations across the world that seek to attract China's projected 100 million international travelers by 2020.

The United States is increasingly becoming an attractive and feasible destination for Chinese travelers, standing as the 8th most popular destination for Chinese travelers and the top destination for Chinese travelers outside of Asia. Although Chinese outbound tourism to the United States has been traditionally thought to be hindered by insurmountable policy and security obstacles, a great deal of progress has been made in visa and tourism policy over the past few years. This, in addition to increased promotion and interest in the United States has led to increased opportunities and potential for U.S. companies in this dynamic, developing tourism market.

Best Prospects/Services Return to top

Due to the overall vibrancy of the U.S.-China trade relationship and the nature of Approved Destination Status (ADS), which officially regulates group tours overseas, most Chinese groups travel on mixed business and tourist itineraries. This has led to significant growth opportunities in business travel and the Meetings, Incentives, Conventions, and Exhibition (MICE) segment as many tour groups anchor their (tourism) travel itineraries with visits to U.S. exhibitions, conferences, and companies.

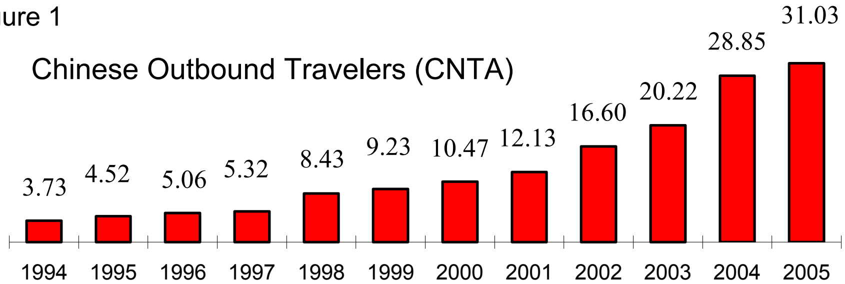
Travel agencies have expressed their intentions to double or triple tour group numbers in the next two years, particularly in the MICE segment. In recent years, large-scale incentive travel has become a common tool for rewarding Chinese employees. Such trips have included trips for up to 7,000 employees to Thailand on package tours. A cruise operator stated that a direct-marketing company is considering rewarding its China salespeople with incentive cruises that will include between 16,000 and 18,000 people.

Opportunities Return to top

According to estimates by the World Travel Organization (WTO) and China's National Tourism Administration (CNTA), China is expected to contribute a projected 100 million international travelers to the international tourism market by 2020. Global outbound tourism saw an increase of 43% in the number of Chinese outbound tourists to 31 million in 2005. (Figure 1) This number is expected to rise quickly as the Chinese government continues to ease government regulations, disposable incomes of China's class continue to rise in major cities, and Chinese travelers seek to travel outside Asia to United States and other long-haul destinations.

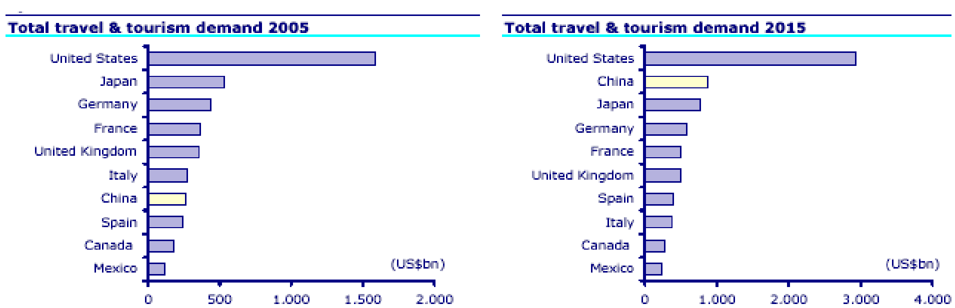
[1]Figure 1

Chinese Outbound Travelers (CNTA)



According to the World Travel and Tourism Council, which aggregates all tourism spending for each country including a huge array of tourism-related activity, in the next decade, Chinese travel expenditure is expected to be the second-fastest growing in the world at close to twice the global average. (Figure 2)

Figure 2: China (Projected) Travel Expenditures 2005 to 2015
(World Tourism Council)



Government Regulation: Approved Destination Status (ADS)

Approved destination status (ADS) refers to countries, which have been approved by the PRC government for designated PRC travel companies to organize group tours to. As of April 1, 2006, China granted ADS status to 124 countries and regions and implemented the program in 81 countries.

Contrary to popular misconceptions, although the United States and China currently have no formal ADS agreement, the U.S. has long welcomed Chinese tourists to the United States. Traditionally, ADS has been considered a significant barrier to entry for the U.S. tourism industry because officially, according to Chinese law, Chinese tour operators are not authorized to advertise or organize tour groups to countries without ADS status. However, since there are no restrictions on travel not classified as "group travel" or group travel not officially categorized as "tourism," Chinese tour agents have been able to find a wide variety of alternatives to ADS restrictions in the interim. In addition, there have been significant improvements in visa processing and bilateral tourism cooperation that will continue to promote and facilitate more Chinese travelers to the United States.

In terms of visas, the U.S. Embassy and consulates and China have been issuing an increasing number of B1/B2 (business or tourism) visas to Chinese travelers in the past few years. In the fiscal year ending Sept. 30, 2005, the U.S. issued 292,248 non-immigrant visas in the People's Republic of China. 77% of those visas were B1, B2, or B1/B2 visas (business or tourism). The U.S. Department of State also extended the standard B1/B2 visa validity for PRC citizens to a multiple-entry, 12-month visa in January 2005.

In December 2004, the United States Department of Commerce and China National Tourism Administration established a Travel and Tourism Subgroup under the Joint Commission on Commerce and Trade (JCCT) to promote cooperation on travel and tourism. The Subgroup met in April 2006 to develop bilateral tourism polices and a work plans for 2006-2007. For the first time, the subject of ADS and policies to facilitate the travel Chinese travelers to the United States was discussed in the meeting. In the upcoming months, the U.S. Department of Commerce, the Chinese National Tourism Administration, and appropriate agencies from both countries will continue discussions and negotiations on these matters.

Opportunities for U.S. Companies

Despite the United States' lack of an ADS agreement with China, it in fact continues to be one of the top outbound markets from China in terms of total arrivals. In 2005, according to the China National Tourism Administration, the United States was the eighth outbound market in China with 532,000 Chinese traveling to the United States as a first stop. The United States was the only long haul market in the top ten Chinese travel destinations. It is interesting to note that despite the lack of an ADS agreement, the United States still receives significantly more travelers than other long-haul destinations like Australia, the European Union, and other ADS countries.

According to the U.S. Office of Travel and Tourism Industries, China was the United States' 12th largest and fastest growing market in 2005 with a 33% growth in arrivals since 2004.

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1. Major Trade Shows:

China International Travel Mart (CITM) http://www.citm.com.cn

2. Key Chinese Government Contacts:

China National Tourism Administration: http://www.cnta.com/lyen/index.asp

3. U.S. Commercial Service Contact Information in China:

Travel and Tourism Website for promotion opportunities and policy updates: http://www.buyusa.gov/china/en/tourism.html.

Beijing Office:	Shanghai Office:
Ms. Jennifer Lee Jennifer.Lee@mail.doc.gov	Mr. Kevin Chambers and Ms. Lynn Jiao Kevin.Chambers@mail.doc.gov, Lynn.Jiao@mail.doc.gov

Telecommunications Market

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China's Telecom Market — Million USD

	2004	2005	2006(estimated)
Total Market Size	18574	44288	41,560
Total Local Production	59,087	76,650	92,723
Total Exports	45,121	62,842	88,920
Total Imports	24,608	29,480	37,757
Imports from the U.S.	1,320	1,275	1,516

Sources: China Customs, World Trade Atlas, China's Ministry of Information Industry.
Note: Import and export volumes are calculated based on HS codes 8517, 8525, 8527, 8529, 8535, 8536, 8544

China's telecom carriers, China Telecom, China Netcom, China Mobile, China Unicom, China Tietong and China Satellite invested some USD28.7 billion in telecom infrastructure in 2006. As a result of this investment, Chinese telecom carriers added 86.2 million additional new subscribers (19.6 fixed line users and 66.6 mobile phone users) to bring the total number of telephone users in China to 830 million. Fixed line telephone penetration rate reached 28.3% and mobile communications penetration rate reached 35.2%. China also achieved tremendous growth in Internet users. According to China's Ministry of Information Industry (MII), China is the home to132 million Internet users, with 52 million broadband users.

In 2007, MII projects that Chinese telecom carriers will invest USD25 billion to capture 70 million fixed line telephone subscribers and mobile phone users. The number of telephone users in China could reach 900 million by the end of 2007. By the end of 2007, MII expects the fixed line penetration rate to reach 29% and mobile communications to reach 39.4%.

Although the Chinese government has committed to offer 3G (3rd generation mobile communication) services during the 2008 Beijing Olympic Games, deployment of 3G networks has been delayed. Chinese telecom carriers have focused on expanding their trial networks of TD-SCDMA, a 3G standard developed by China. It is believed that China may issue 3G licenses in the second half of 2007 and Chinese telecom carriers are likely to begin by rolling out 3G networks in the cities of Beijing, Shanghai, Qingdao, Tianjin, Qinhuangdao, Shenyang, as well as Hong Kong.

Opportunities

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Mobile Communications
Mobile communications remains the most profitable business in China's telecommunications service sector, accounting for 45% of the total revenue generated by the industry. China's two mobile operators, China Mobile and China Unicom, will continue to expand their mobile networks in 2007 to increase network coverage and be able to offer new services to their customers. Base stations, switches, and network optimization solutions will be needed for this expansion.

China's six basic telecom carriers are lobbying hard to receive the 3G licenses. Although it is still unclear how many licenses will be issued, the deployment of 3G networks in 2007 will create sales opportunities for both Chinese and multinational telecom vendors and application solution providers.

Value-added Services
Both Chinese fixed line and mobile telecom operators are changing their development strategies. They are moving from infrastructure builders to service providers. They are focusing on not only building the infrastructure but also developing new services, especially value-added services, in order to generate additional revenue and remain competitive in the market. They are increasingly open to partnerships with other service or solution providers. For more information, please refer to our report titled "Telecommunications Service Market in China" at http://www.buyusainfo.net/docs/x_8516024.pdf.

IP and Broadband
IP and broadband are the top priorities for China's fixed line telecom operators. China Telecom, China Netcom and China TieTong will increase their investment in IP and broadband infrastructure in 2007. Intelligent optical networks, multi-service platforms and fiber to the home (FTTH) will be the development trend for broadband networks. As China's broadband market grows, China will need more wire line Internet access products such as ADSL, LAN and Ethernet, as well as Wi-Fi and WiMax for wireless Internet access.

IPTV and mobile TV are two pioneer applications in the convergence of China's telecom industry. China Netcom launched IPTV in Harbin on May 17, 2006 and now has more than 100,000 subscribers. Shanghai Telecom launched IPTV in Shanghai on September 1, 2006 and has 60,000 subscribers. China Mobile and China Unicom partnered with China's Central Television (CCTV) and launched mobile TV on December 11, 2006. The further growth of China's IPTV and mobile TV markets in 2007 will offer U.S. technology companies additional export opportunities.

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Trade Show

PT/Expo Comm China 2007
October 23-27, 2007
China International Exhibition Center
http://buyusa.gov/china/en/ptexpocomm2007.html

USFCS Offices in China

Beijing
Darrel Ching
Michael Wang
1 Guanghua Lu, Beijing Kerry Center, North Tower, 31st Floor
Beijing 100020 China
Tel: (86 10) 8529-6655
Fax: (86 10) 8529-6558/9
Email: Beijing.Office.Box@mail.doc.gov

Chengdu
Liping Lin
4 Lingshiguan Lu, Renmin Nanlu Section 4
Chengdu, Sichuan Province 610041 China
Tel: (86 28) 8558-3992/9642
Fax: (86 28) 8558-9221/3520
Email: Chengdu.Office.Box@mail.doc.gov

Guangzhou
Kent Guo
Sophie Xiao
Liu Hua Road
14/F China Hotel Office Tower, Room 1461
Guangzhou, Guangdong Province 510015 China
Tel: (86 20) 8667-4011
Fax: (86 20) 8666-6409
Email: Guangzhou.Office.Box@mail.doc.gov

Shanghai
Francis Peters
Jane Shen
1376 Nanjing West Road
Shanghai Center, Suite 631
Shanghai 200040 China
Tel: (86 21) 6279-7630
Fax: (86 21) 6279-7639
Email: Shanghai.Office.Box@mail.doc.gov

Shenyang
Liu Yang
52 Shi Si Wei Road, Heping District
Shenyang, Liaoning Province 110003 China
Tel: (86 24) 2322-1198
Fax: (86 24) 2322-2206
Email: Beijing.Office.Box@mail.doc.gov

Water and Wastewater Treatment

Overview [Return to top]

	2002	2003	2004	2005	2006
Total Market Size	14,085	16,840	19,377	22,313	22,839
Total Local Production	10,224	11,800	13,565	15,600	17,940
Total Exports	360	523	585	643	707
Total Imports	4,221	5,563	6,397	7,356	5,606
Imports from the U.S.	422	556	639	735	560

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

Best Products/Services [Return to top]

At present, China is encountering a severe water shortage, due to both a large population and water pollution created by rapid economic development with minimal regard for environmental impacts. In recent years, China has seen a significant improvement in its water and wastewater infrastructure, but there is still an annual water shortage of 30 - 40 billion cubic meters. Among the 669 cities in China, nearly 400 cities suffer from inadequate water supply, among which 110 cities including Beijing, Shanghai and Dalian, suffer from severe water shortage. In the wastewater treatment sector, the official municipal wastewater treatment rate was only 52% as of early 2006. According to a report released by the Chinese Ministry of Construction, as of early 2006, there are still 278 cities in China which do not have any wastewater treatment facilities. Statistics released in early 2006 by the State Environmental Protection Administration showed that total COD discharge in 2005 was 14.13 million tons, failing to meet the target set in China's Tenth five year plan at 11.3 million tons. Another failed target was the number of pollution control projects on key water bodies. As of early 2006, only 65% of the planned projects were completed.

In view of the serious situation, the Chinese government has taken various measures to tackle the problem. China's water market reform has undoubtedly created many opportunities for foreign enterprises. Significant amounts of new water infrastructures have been, are being and will be built, and the operation and maintenance of all existing and newly built municipal water and wastewater treatment plants have been or will be transferred to authorized enterprises. Many forms of Private Public Partnership (P3) are now accepted by the Chinese Government providing technology and equipment supply, and long-term investment opportunities for foreign enterprises. Water tariff and wastewater treatment fees are rising to a rational level and the public water infrastructure has been opened to foreign and non-state owned capital financing. China's water market is extraordinarily active.

Aggressive new plans have been unveiled. In early 2006, the Ministry of Construction required that by 2010, the municipal wastewater treatment rate should not be lower than 70%, and all cities and counties should establish or plan to establish centralized wastewater treatment facilities. Water remains one of the major focuses of the "11th Five-Year Plan (2006-2010)" environmental protection plan. Pollution control of the "Three Rivers (Huai, Hai and Liao River) and Three Lakes (Tai, Chao, Dianchi Lake)" will be strengthened, and control of sewage discharge to main rivers and lakes will be stricter. While stepping up efforts to increase and improve municipal wastewater treatment facilities, China will begin to levy sewage treatment fees throughout the country in the coming five years. The new Five-Year Plan urges that total volume of main pollutants including COD be decreased by 10% by 2010. Responding to the severe water shortage in the country, China requires that water usage per industrial added value be decreased by 30% by 2010. In October 2006, the National Development and Reform Commission announced that in the coming five years, China will quicken the pace of sea water utilization including allowing desalinized water to enter the urban water supply pipelines to alleviate the national water shortage.

On the financing side, China is expected to invest 1.3 trillion RMB into environmental protection, accounting for 1.4-1.5% of the country's GDP.

It is anticipated that the following technology and associated technology transfer needs and product demand will provide the most opportunities:

- Biological denitrification and phosphorus removal technologies,
- Membrane separation and manufacturing technologies and equipment,
- Manufacturing technology of anaerobic biological reactor,
- High concentration organic wastewater treatment technology and equipment,
- Series-standard water and wastewater treatment equipment family with high efficiency
- Water saving technologies and equipment,
- Water treatment agents,
- Water and wastewater treatment facility operation and management service,
- Monitoring instrument,
- Natural water body rehabilitation technology, and
- Sea water desalinization

Opportunities Return to top

South-to-North Water Diversion Project
The construction of the South-to-North Water Diversion Project will create a large water supply and wastewater treatment market. In the water destination areas, including Beijing, Tianjin, Hebei, Henan, Shandong and Jiangsu, the construction or expansion of water plants and piping systems will offer market opportunities worth USD6.09 and 5.92 billion respectively. In addition, water pollution control will be a major part of the Eastern Route project. USD1.93 billion is the planned investment for the construction of municipal wastewater treatment plants. These projects are located in Jiangsu, Shandong, Hebei, Tianjin, Anhui and Henan Provinces.

Three Gorges Watershed Area
The Three Gorges Area is located in Yichang, Hubei Province. To maintain water quality at a good level, wastewater treatment projects will be implemented in Hubei, Sichuan, Guizhou, Yunnan Provinces and Chongqing Municipality. From 2006 to 2010, 146 projects with a total budget of USD0.93 billion will be carried out. According to a recent report dated December 30, 2005, China plans to build 20 more sewage disposal plants in the Three Gorges Reservoir area in central Hubei Province on the Yangtze River to further improve water quality in the reservoir. These projects will be built in

Zigui, Xingshan, Badong, Yuan'an, Enshi and Lichuan counties in the reservoir area. Meanwhile, the province will build 20 garbage-processing plants in the next five years with an additional daily handling capacity of 1,000 tons.

Beijing 2008 Olympic Games
Beijing, as the host city of 2008 Olympic Games, also has ambitious plans to develop its wastewater treatment infrastructure from now to 2008. According to the Beijing City Planning Department, nine wastewater treatment plants, 1000 km long wastewater main pipelines, nine wastewater reclamation and reuse facilities, and four sludge digesting facilities will be completed. The total investment will be USD 1.45 billion.

Some updated bidding projects can be found at:
www.chinabidding.com.cn

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Major shows:

The 10th China International Environmental Protection Exhibition and Conference CIEPEC 2007 -(U.S. Foreign Commercial Service Beijing will set up a U.S. pavilion)
Date: June 21-24, 2007
Venue: China International Convention Center, Beijing
Embassy contact: Wang Yi Commercial Specialist
Email: yi.wang@mail.doc.gov
Tel: 86-10-85296655 x 837
Fax: 86-10-85296559
Organizer contact: Mr. Su Fan, Ms. Yang Yan, Ms. Zhang Yeling
Tel: 86-10-51555020, 51555021
Fax: 86-10-51555028
Email: ciepec@163.net, yang@chinaenvironment.org
Web: www.chinaenvironment.org

Water, Wastewater & Water Treatment China 2007
(U.S. Foreign Commercial Service Guangzhou will set up a U.S. pavilion)
Date: March 7-10, 2007
Venue: China Export Commodities Fair Pazhou Complex, Guangzhou
Embassy contact: Diana Liu Commercial Specialist
Tel: (86-20) 8667-4011
Fax: (86-20) 8666-6409
E-mail: diana.liu@mail.doc.gov
Organizer contact:
Tel: 86-20-86674121、26080422、26081698、83335853
Fax: 86-20-86663416-02、86680925-02
Email: project2@fairwindow.com
Web: Http://www.waterchina-gz.com

The 2nd China International Water Expo
Date: Oct 24-26, 2006
Venue: Shenzen Convention & Exhibition Center
Fuhua San Lu, Fu Tian District, Shenzhen, China
Contact: Ms. Olivia Ho
Tel: (852) 2827-6766
Fax: (852) 2827-6870

Email: Olivia@coastal.com.hk
Web: http://www.coastal.com.hk, http://www.water-exhibition.com

- **Useful website:**

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

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

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

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

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

http://www.tda.gov
U.S. Trade Development Agency

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

FCS China Environmental Team:
For information on market opportunities in North and Inland China, contact
Beijing Office:
Tel: (86-10)8529-6655
Fax: (86-10)8529-6558/9
David Gossack: david.gossack@mail.doc.gov
Wang Yi: yi.wang@mail.doc.gov

For information on market opportunities in East China, contact
Shanghai Office:
Tel: (86-21)6279-7930
Fax: (86-21)6279-7639
Eric Hsu: eric.hsu@mail.doc.gov
Stellar Chu: stellar.chu@mail.doc.gov

For information on market opportunities in the Peal River Delta region, contact
Guangzhou Office:
Tel: (86-20)8667-4011
Fax: (86-20)8666-6409
Diana Liu: Diana.liu@mail.doc.gov

For information on market opportunities in Southwest China, contact
Chengdu Office:
Tel: (86-28)8558-3992

Fax: (86-28)8558-3991
Chen Ling: ling.chen@mail.doc.gov

For information on market opportunities in Northeast China, contact
Shenyang Office:
Tel: (86-24)2322-1198 Ext.8142
Fax: (86-24)2322-2206
Liu Yang: yang.liu@mail.doc.gov

For information on market opportunities in Hong Kong, contact
Hong Kong:
Tel: (852)2521-1467
Fax: (852)2845-9800
Olevia Yim: Olevia.yim@mail.doc.gov

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Best Prospect: Medical Equipment Return to top

China is now the world's third largest market for medical equipment, according to published market data, and continues to grow at a tremendous pace. Another industry source stated that China's medical equipment market topped $6 billion in 2005. China's medical device market was estimated between USD6.85 and 7.5 billion in 2006, and is forecasted to reach as high as USD8 billion through the end of 2007. The growth of medical equipment sales was reported at 14% -15% annually. More specifically, sales of high-end medical equipment, much of which is imported, have been increasing by 20%. Clinical laboratory equipment and reagent sales are growing at about 15-20% per annum. According to incomplete figures from the World Trade Atlas, China's imports of medical equipment accounted for over USD4.6 billion in 2005 and were on track to eclipse USD4.8 through December 2006.

Through the end of 2006, seven of the ten best selling producers of medical equipment in China were reportedly joint ventures and foreign-invested firms. Moreover, the leading fifty foreign and domestic firms in this industry in China account for over fifty percent of total sales and profits. Currently, Chinese end users view U.S. products as superior in format, quality and the most technologically advanced. China's hospitals particularly welcome medical equipment and products with high-technology content. At the same time, domestic medical device companies are consolidating, upgrading quality, and beginning to compete in medium-level technology niches. According to the domestic industry medical device association, there are more than 11,800 member manufacturers, 60 percent of which are privately owned companies. The number of producers is growing annually by 13.4 percent. Some foreign firms with operations in China also have become members. The top three supplier countries through 2006 in ten major product categories include the United States, which sold $1.6 billion in all of 2005 and nearly $1.5 billion worth of equipment during January to November 2006. German exports topped $831 million in 2005, and were nearing an estimated $825 million in imports for all of 2006, respectively. Third, Japanese suppliers accounted for $771 million in exports in 2005 and were projected to top $804 million for all of 2006. Positive indicators fueling imports and increased domestic production include the desire to utilize a wider array of advanced technologies in China's 175,000 domestic hospitals & clinics. Currently about 15 percent of the medical devices in use were made in the 1970s, according to statistics compiled by China's medical devices industry association (CAMDI).

China's Imports of Medical Devices 2005-2006 in million dollars

(HS9018/19/20/21/22, 902720/30/50/80/382200)

Year	2005	Share	Through Nov. 2006	Share
world	4634		4360	
U.S.	1586	34%	1490	34%
Germany	831	17.93%	757	17.40%
Japan	771	16.64%	737	16.90%

Source: World Trade Atlas

Best selling prospects, according to the number of registrations of new Class II and Class III products with SFDA in 2005 include (but are not limited to):

•Therapeutic Products:
Tri-dimensional Ultrasonic focused therapeutic system, body rotary Gamma knife, simulator, linear accelerator
• Medical Diagnostic Products: Black & white and colored supersonic diagnostic unit, sleeping monitor, digital X-ray system, MRI, CT, DR
• Operating & Emergency Appliances:
Anaesthesis ventilation systems• Components: High frequency and voltage generators

Although the long-term outlook for American suppliers is good, the problem of redundancy in the product registration testing process, the uncertainty of the regulatory environment (the tendering process in different regions and pricing control issues), and the government's efforts to address concerns over accessibility and affordability of healthcare will continue to have an impact upon the profit expectations for U.S. companies doing business in China.

Resources

China Medical Equipment Fair (CMEF Dalian)

The China Medical Equipment Fair (CMEF) was first introduced in 1979 and has become the largest event of its kind in China. The most recent Fair in Zhengzhou during Oct. 31-November 3, 2006, featured over 1,787 exhibitors from 20 countries. Leading foreign exhibitors include GE Healthcare, Siemens, J&J, Medtronics, Toshiba, Hitachi, Kodak, Fuji, Drager, Aloka, etc. CMEF attracts a large attendance of medical device distributors from across the country. A recent survey conducted by the show organizer indicated that as high as 53% of the more than 48,500 domestic attendees were distributors or agents. This semi-annual Fair series provides opportunities for U.S. exhibitors to identify, screen, and evaluate prospective distributors. For general information about this trade show, please contact yang.liu@mail.doc.gov or visit our web showcase for the US Pavilion at the certified trade fair at www.buyusa.gov/china/en/cmef2007.html.

CMEF 2007 Spring
Date: April 10-13, 2007
Venue: Dalian World Expo Center (Dalian Xinghai Square)
Contact: Mr. Wei Wei

Phone: 8610-6510-2751

Fax: 86-10-6517-1476

E-mail: wei.wei@reedsinopharm.com
Website: http://www.reed-sinopharm.com (direct them to the exact page for cmef 2007 – not the main page)

MEDTEC China

Canon Communications LLC based in Los Angeles, U.S, will organize a MedTec China event in Shanghai in 2007 that will be certified by the US Department of Commerce. At the show, local manufacturers will have access to hundreds of leading medical OEM suppliers from around the globe providing a vast array of equipment, materials, and services. In addition to a major exhibition, MEDTEC China will also feature a conference with presentations by CAMDI, the State Food & Drug Administration (SFDA), and other government organizations. For general information about this trade show and to reserve space, visit the organizer's website at http://www.cancom.com/tradeshows.php, or
, contact Lynn.Jiao@mail.doc.gov in Shanghai.

Date:August 28-30, 2007
Venue: Intex Center, Shanghai
Contact: Kevin O'Keefe
Phone: 1 310 445 4200
E-mail: kevinokeefe@cancom.com

CHINA MED
In 2006, the organizer reported that 451 exhibitors, including 163 foreign companies participated. National pavilions were organized by Germany, Spain, Japan and the Republic of Korea. For general information about this trade show and to reserve space, visit the organizer's website.

Date: April 22-24, 2007
Venue: China International Exhibition Center
Contact: Flora Wang, Messe Dusseldorf
Phone: 86-10-6510-2751
Fax: 86-10-6517-1476
E-mail:chinamed@mdc.com.cn; flora@mdc.com.cn
Website: http://www.chinamed.net.cn/

U.S. Commercial Service Contact Information in China

Beijing Office:
Tel: (86-10)8529-6655
Fax: (86-10)8529-6558/9
Richard Craig
Sun Shuyu

Shanghai Office:
Tel: (86-21)6279-7930
Fax: (86-21)6279-7639
Kevin Chambers
Lynn Jiao

Guangzhou Office:
Tel: (86-20)8667-4011
Fax: (86-20)8666-6409
Li Shuquan

Chengdu Office:
Tel: (86-28)8558-3992
Fax: (86-28)8558-3991
Misha Cao

Shenyang Office:
Tel: (86-24)2322-1198x8142
Fax: (86-24)2322-2206
Liu Yang

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Chapter 5: Trade Regulations and Standards

Import Tariffs

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China's December 11, 2001 WTO accession represented a major step forward in the United States' ongoing effort to open China's market to U.S. goods and services and in China's efforts to join the world economy. China's final package of commitments codifies the bilateral concessions China made to the United States in the Market Access Agreement of November 15, 1999. China's accession to the WTO resulted in continued high economic growth and an acceleration in China's domestic reform process and further opened its market to U.S. goods and services.

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

Import Tariffs

A comprehensive guide to China's customs regulations is *The Customs Clearance Handbook* (2005), compiled by the General Administration of Customs (China Customs).

This guide contains the tariff schedule and national customs rules and regulations. This guide can be purchased at bookshops in China, or ordered from following:

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

1. Tariff Rates

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

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

2. Customs Valuation

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

3. Tariff classification

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

4. Taxes

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

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

VAT rebates up to 17 percent (a full rebate) are available for certain exports. In 2006, the Chinese government issued new regulations regarding the VAT export tax rebate for certain products, decreasing the rebate or eliminating the rebate for some products and increasing the rebate for others. In addition, the Chinese government issued regulations pertaining to the processing trade in certain products, with a focus to lessen processing trade in industries whose production is deemed environmentally harmful. Exporters complain that it takes months to obtain the rebates and amounts are often miscalculated. Also, rebates are limited by the local budgets, and coastal provincial authorities often run out of funds for rebates well before the end of the year. The applicable rebate method varies and is a function of the establishment date of the enterprise.

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

Although China currently has a two-tiered income tax system for domestic and foreign enterprises, the Chinese government is considering a plan to equalize the income tax rate for all enterprises, regardless of whether they are foreign or domestically owned. In 2007, the Chinese government will most likely discuss this issue. Domestic enterprises have long resented income tax holidays, rebates and other tax benefits enjoyed by foreign-invested firms. The move towards national treatment will mean the gradual elimination of special tax breaks enjoyed by many foreign investors. However, in some cases Chinese authorities may grandfather existing foreign investments with current tax incentive deals for at least a certain period of time.

Trade Barriers

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The Chinese Government has recognized for years that economic reform and market opening are essential components of sustainable and balanced economic growth. In recent years, the Chinese Government undertook a massive effort to revise its laws and regulations in a manner consistent with WTO rules. At the Central Government level, China has already revised or repealed hundreds of laws and regulations in its effort to meet its WTO obligations. However, while China has an increasingly open and competitive economy, substantial barriers have yet to be dismantled. Import barriers, an opaque and inconsistent legal system, and limitations on market access combine to make it difficult for foreign firms to operate in China. Business interests must be realistic about the impact of WTO accession. It has brought and will continue to bring enormous changes – both economically and socially – but WTO entry will not remove all commercial problems and the implementation process will take time. At the same time, China has employed its tariff reductions for 2005 on schedule.

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

1. Tariffs

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

2. Import Quotas

WTO rules bar quotas and other quantitative restrictions. China has been gradually eliminating them and will continue to do so over a multi-year phase-in period. The bilateral agreement with the United States required China to eliminate existing quotas for the top U.S. priority products upon accession and phase out remaining quotas, generally by two years but no later than five years after accession. Beginning on January 1, 2005, China fully eliminated import quotas except for those for the agricultural sector.

3. Tariff-Rate Quotas (TRQs)

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

4. Import Licensing

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

Products subject to import quotas or TRQs also require import licenses, including some wool, grains, oilseeds and oilseed products and cotton. China has also added license requirements to some products in an effort to combat smuggling; for example, China requires licenses for meat traders. The Ministry of Commerce (MOFCOM) administers the licensing system, but has given primary authority for approval and import of some agricultural items to the General Administration of the PRC for Quality Supervision, Inspection, and Quarantine (AQSIQ). Import licenses are not always easy to obtain, and importers frequently report long delays.

5. Export Licenses

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

6. Transparency

As a WTO member, China has committed to publishing for comment all measures that could affect trade in goods, services, TRIPS or the control of foreign exchange, and to providing a translated copy of new laws, regulations, and other measures to the WTO Secretariat in Geneva no later than 90 days after promulgation. In terms of China's legislative process, Chinese law currently only dictates that laws and regulations be published through certain channels. While agencies are increasingly seeking comments on draft rules, they tend to do so through restricted channels such as industry associations and expert panels. In practice this means that certain stakeholder groups and the general public continue to have difficulty participating in the drafting process. Finally, comment periods continue to fall short of two weeks, ranging from a few days to ten days.

Another persisting problem once the laws are published is “internal-only rules.” These are rules pertaining to a set of laws that are promulgated only within the government ministry to which no outsider has access. Often companies only discover restrictions applying to their sector when they contact the ministry during business operations when a certain set of laws have gone into effect.

An encouraging trend is that MOFCOM has improved the publication of laws and regulations. China Foreign Trade and Economic Cooperation Gazette, published by MOFCOM, is the designated single portal for publishing trade-related laws and regulations. Within the last year, more laws and regulations from other ministries have been published in the MOFCOM Gazette, signaling better coordination and more effort. However, despite these improvements, China’s performance on this commitment continues to be inconsistent. The Gazette has limited power to reflect all would-be published laws or regulations from all levels of government departments. Many government ministries fail to follow the State Council March 2006 guidelines to publish their final policies in the Gazette, and still only publish the texts of related laws and regulations on their websites, and MOFCOM has no administrative powers to enforce uniform publication. In addition, MOFCOM’s Gazette continues to publish very few draft rules for comments.

To obtain official government information, we still need to switch between some official websites http://gov.people.com.cn/GB/46737/index.html.

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

MOFCOM Enquiry Center
Mr. Mu Zhonghe
Department of WTO Affairs

Tel: 86-10-6519-7341
Fax: 86-10-6519-7340
Email: muzhonghe@mofcom.gov.cn

7. Legal Framework

Laws and regulations in China tend to be far more general than in most OECD countries, thus usually requiring more specific implementing rules and measures. This gives Chinese courts and officials more discretion to apply the laws flexibly, which results in inconsistencies. Companies sometimes have difficulty determining precisely whether or not their activities contravene a particular regulation. Agencies at all levels of government above sizeable cities and cities directly under provincial administration have rulemaking authority, resulting in regulations that are frequently contradictory despite China's commitment to ensure that these measures conform with its WTO obligations. Finally, while there seems to be no shortage of rules and regulations, there are few procedures in place to appeal regulatory decisions.

8. Trading Rights

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

9. Distribution Rights

In general, foreign firms had only been allowed to distribute products that they manufacture in China. Foreign firms were forced to engage local agents to distribute imported goods. As part of its WTO Accession Agreement, China agreed to phase out distribution restrictions for most products within three years of accession. In 2004, China did publish regulations, which extend commercial distribution rights to minority, majority and wholly-owned foreign and domestic companies and individuals, as it committed to do when it joined the WTO. However, it remains to be seen how China will implement this commitment. China has promulgated regulations on direct sales distribution. In addition, China continues to implement regulations that equate multi-level compensation with illegal pyramid schemes and thus restrict common business practices of many direct sales companies.

10. Import Substitution Policies

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

11. Standards and Testing

For many products China requires strict conformity assessment licenses, quality and safety licenses, sanitary and phytosanitary testing, and labeling verifications. In an attempt to eliminate some double testing and multiple fees for imports, in 2001 China merged its domestic and quarantine testing agencies into one new organization – the State General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ). AQSIQ has issued regulations establishing a new compulsory product certification system that applies to 158 product categories. Under this system, which was implemented on August 1, 2003, there is one quality certification, called the "China Compulsory Certification," or CCC Mark, issued to both Chinese and imported products. Despite these changes, however, at the local level quarantine and domestic testing agencies and procedures remain separate. Importers complain that it is often difficult to ascertain what inspection and/or certification requirements apply to a particular import, as products requiring the CCC Mark are often defined in terms of sub-categories of the HS code, making it difficult for importers and China Customs to determine which products require this certification. In addition, the United States and other countries have complained that safety and inspection procedures applied to imports are more rigorous and expensive than those applied to domestic products.

12. Anti-Competitive Practices

China continues to struggle with economic inefficiencies and investment disincentives created by local protectionism, predatory pricing, preservation of industry-wide monopolies, and monopolistic practices designed to protect the state-owned sector. In certain areas, industrial conglomerates operating as monopolies or near monopolies (such as China Telecom) have been authorized to fix prices, allocate contracts, and in other ways restrict competition among domestic and foreign suppliers. Regional protectionism by provincial or local authorities often blocks efficient distribution of goods and services inside China. Such practices may restrict market access for certain imported products, raise production costs, and restrict market opportunities for foreign-invested enterprises in China. To address competition issues, an antitrust law has been drafted and reviewed by the State Council; it has now been passed on to the National People's Congress, which has announced hat it intends to promulgate the law by during 2006.

13. Trade Remedy Regime

Since its accession to the WTO in December 2001, China has become one of the most frequent users of antidumping in the world, having launched 113 new investigations, 18 of which have involved U.S. exports. There are currently 16 antidumping duty orders on U.S. products: newsprint, dichloromethane; polyvinyl chloride, TDI, phenol, ethanolamine, chloroform, optical fiber, chloroprene rubber, hydrazine hydrate, dimethyl cyclosiloxane, furan phenol, ECH, polyurethane, catechol, and wear resistant overlay.

Cases are most often brought by state-owned enterprises finding it difficult to compete as tariff and other barriers are removed, and most frequently target chemical products, followed by paper products, optical fiber, agricultural products and pharmaceutical products. Foreign companies involved in Chinese investigations complain that the process lacks transparency, the analysis of the health of the domestic industry is flawed, and Chinese investigators rely excessively on data provided by the Chinese petitioners. In addition to antidumping, China also conducted its first-ever safeguard investigation against steel products in 2002, but the resulting measures were widely regarded as having had adverse effects and were revoked at the end of 2003. Continued competitive pressure on China抯 state-owned enterprises suggests, however, that China will continue to be a frequent user of trade remedies for the foreseeable future.

14. Services barriers

China's service sector has been one of the most heavily regulated parts of the national economy - and one of the most protected. The service sector liberalizations included in China's WTO accession agreement have improved foreign access to this sector, including increased foreign participation in financial, insurance, telecommunications, distribution and professional services, after sales service and repair businesses. However, many of the regulations implementing these commitments have imposed excessively high capital requirements and geographical and other limitations on expansion that seem intended to effectively limit market access. The services market, though currently underdeveloped due to historical attitudes and policies, has significant growth potential in both the short and long terms. As China fulfills its WTO commitments, sectors to watch include banking, architectural, engineering, and urban planning services. A word of caution, however: in some sectors, such as construction, regulatory and other barriers to access have actually increased since China's WTO accession in 2001.

Import Requirements and Documentation

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Normally, the Chinese importer (agent, distributor, joint-venture partner, or FIE) will gather the documents necessary for importing goods and provide them to Chinese Customs agents. Necessary documents vary by product but can include standard documents such as a bill of lading, invoice, shipping list, customs declaration, insurance policy, and sales contract as well as more specialized documents such as an import quota certificate for general commodities (where applicable), import license (where applicable), inspection certificate issued by the General Administration of the PRC for Quality Supervision, Inspection, and Quarantine (AQSIQ) or its local bureau (where applicable), and other safety and/or quality licenses.

U.S. Export Controls

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The United States imposes export controls to protect national security interests and participates in various multilateral arms control regimes to prevent the proliferation of weapons of mass destruction. The Bureau of Industry and Security (BIS) administers U.S. laws, regulations and policies governing the export and reexport of sensitive dual-use controlled commodities and technologies. "Dual-use" refers to items or technologies that have both civilian commercial and military applications. BIS implements U.S. export controls on "dual use" and commercial items. Additional information on export controls and BIS, including the Export Administration Regulations (EAR), can be found on the internet at www.bis.doc.gov.

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

A license requirement is imposed on the export and reexport of certain commodities and technologies controlled for dual-use purposes to end-users in China. In some cases, an end-use check, which can take the form of either a Pre-License Check (PLC) or Post-Shipment Verification (PSV), is also required. During the 2004 Joint Commission on Commerce and Trade (JCCT), BIS signed an Exchange of Letters on End-Use Visit Understanding (EUVU) with the Chinese Ministry of Commerce. This Exchange of Letters establishes procedures for arranging end-use visits in China and for these visits to be conducted jointly by MOFCOM and the BIS Export Control Officer. The EUVU requires U.S. exporters to obtain an end-user certificate from MOFCOM as part of the license application process. Information on end-user certificates can be obtained from MOFCOM, Department of Mechanic, Electronic and High Technology Industries, Export Control Division I. Implementation of the EUVU helps ensure that the intended recipients of U.S. exports of controlled dual-use items are using these commodities for their intended purposes and facilitates licensing determinations. A bilateral High-Technology and Strategic Trade Working Group was established by BIS and MOFCOM through an Exchange of Letters at the 2006 JCCT to further deepen cooperation on implementing the EUVU, administering export controls and expanding civilian high technology trade.

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

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

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

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

Certain High Performance Computers are subject to license requirements when exported and reexported to China. On April 24, 2006, BIS published a Final Rule changing the formula for calculating computer performance from a Composite Theoretical Performance (CTP) expressed in Millions of Theoretical Operations Per Second (MTOPS) to Adjusted Peak Performance (APP) measured in Weighted TerraFLOPS (WT). This change recognizes the enormous and rapid advances in computer and semiconductor manufacturing technologies that have taken place and lifts controls on common microprocessors. Additionally, this new computer metric, WT, is based on double precision floating-point (DP FP) computational ability and focuses on controls on special order, high end computers of greatest national security significance such as those with vector systems and proprietary cluster systems. Additional information on the APP can be found at http://a257.g.akamaitech.net/7/257/2422/01jan20061800/edocket.access.gpo.gov/2006/06-3647.htm. Additionally, the National Defense Authorization Act (NDAA) requires BIS to conduct Post-Shipment Verification end-use checks on High Performance Computers shipped to certain countries including China. Additional information on regulations applying specifically to the export of High Performance Computers to end-users in China can also be found on the BIS website.

Exporters are urged to check lists identifying specific end-users (persons, companies and entities) that are under U.S. government sanctions or for whom export licenses may be required. Information on these lists, which include the Entity List, Unverified List, Denied Persons List, Specially Designated Nationals List and Debarred List, is available on the BIS website at www.bis.doc.gov . In some cases exports and reexports to parties named on these lists may be prohibited and U.S. exporters who engage in transactions with listed parties may themselves become subject to administrative and criminal penalties.

The "Unverified List" names companies for whom BIS have been unable to conduct Pre-License Checks or Post-Shipment Verifications. The list notifies U.S. exporters that involvement of a listed person or company as party to a proposed transaction constitutes a "red flag" as described in the guidance set forth in Supplement No. 3 to 15 CFR part 732 of the EAR. Under that guidance, the "red flag" requires heightened scrutiny by the exporter before proceeding with a transaction in which a listed person or company is party. The Unverified List can be viewed on the BIS website at www.bis.doc.gov .

Additionally, the U.S. Department of State also imposes sanctions relating to proliferation of weapons of mass destruction and arms control. On June 28, 2005, President Bush signed Executive Order 13382, which amended E.O. 12938 by providing sanctions against entities that finance and support proliferation activities. On December

23, 2005, the Federal Register published the names of seven Chinese entities that have been sanctioned under this Executive Order. Chinese entities have also been sanctioned pursuant to the Iran Nonproliferation Act of 2000 (P.L. 106-178), Iran-Iraq Arms Nonproliferation Act of 1992, and Executive Order 12938, as amended (E.O. 13094, E.O. 13882). Additional information on these sanctions can be found on the State Department website at www.state.gov/t/np or through the Bureau of International Security and Nonproliferation (ISN).

Other agencies also regulate more specialized items, for example; the U.S. Department of State administers U.S. export control regulations covering defense items and services that appear on the U.S. Munitions List, including satellites and related technologies. Information on U.S. Department of State export licensing procedures, the International Traffic in Arms Regulations (ITAR) under the Arms Export Control Act (AECA) and the U.S. Munitions List can be found at www.pmdtc.org or at tel: (202) 647-1817. The point of contact of U.S. Department of State licensing issues at the U.S. Embassy Beijing is the Economic Section, tel: (86)(10) 6532-3831 or fax: (86)(10) 6532-6422.

Temporary Entry

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1. Trade Shows & Exhibitions

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

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

2. Temporary Entry

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

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

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

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

3. Passenger Baggage

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

4. Advertising Materials and Trade Samples

Samples and advertising materials are exempt from customs duty and Value-Added Tax (VAT) if the item's value does not exceed RMB 200. Samples and advertising materials concerning certain electronic products, however, are subject to customs duty and VAT regardless of value.

5. Representative Offices' Personal Effects and Vehicles

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

6. Processing Materials and Parts

Raw materials, components, spare parts, auxiliary materials, and packaging materials imported by FIEs for the production of goods which will be exported are exempt from customs duty and VAT. The materials and components must be processed into products and exported within one year from the date of importation. In special circumstances, an FIE can apply to extend the date of export to a total time no longer than two years from the date of importation. Bonded warehouses may be established within the FIE and are subject to supervision by Customs.

7. Warehouses

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

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

Labeling and Marking Requirements Return to top

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

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

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

Prohibited and Restricted Imports Return to top

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

In addition, rules went into effect in June 1999, which further restrict or prohibit the importation of certain commodities related to the processing trade. Jointly issued by the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and the State Economic and Trade Commission (MOFTEC and parts of SETC were restructured in 2003 to form MOFCOM), the "Catalogue of Commodities Which are Restricted or Prohibited from Importing for Use in the Processing Trade" is designed to shift the direction of china's processing trade toward handling commodities with higher technological content and greater value-added potential.

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

On November 1, 1999, China's State General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ), the General Administration of Customs, and MOFTEC jointly issued a circular announcing new requirements for wood packaging materials used to ship goods to China from the United States and Japan. The new requirements apply to all shipments departing from the US or Japan beginning January 1, 2000, and target the elimination of pinewood nematodes, softwood pests that can destroy trees. Some 25-30 percent of US exports to China could be affected. The new requirements also call for a certification from Animal and Plant Quarantine Service (APHIS) that conifer softwood packaging has been heat-treated, or a label that the shipment contains non-conifer wood packaging, or non-wood packaging.

Customs Regulations and Contact Information

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

Standards

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Overview

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

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

Standards in China fall into at least one of four broad categories: National Standards, Industry Standards, Local or regional Standards, and Enterprise Standards for individual companies. National Standards can be either mandatory (technical regulations) or voluntary and take precedence over all other types of standards.

In general, exporters to China should be aware of three broad regulatory requirements in the standards and testing area. First, AQSIQ maintains more than 21thousand national standards, of which about 14 per cent, are mandatory. These mandatory standards are known as Guojia Biaozhun or GB standards, and are generally related to safety or quality, and are required of both domestic and imported products. It is also important to note that laws and regulations can reference voluntary standards, thereby making the voluntary standard, in effect, mandatory. Second, for products in more than 158 product categories (e.g. certain electrical products, information technology products, consumer appliances, fire safety equipment and auto parts), China's CNCA requires that a safety and quality certification mark, the China Compulsory Certification (CCC) mark, be obtained by a manufacturer before selling in or importing to China. Third, numerous government agencies in China mandate industry-specific standards or testing requirements for products under their jurisdiction, in addition to the GB standards and CCC Mark described above.

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

SAC has overall management responsibility for standards development in China and supervise the standards development work of hundreds of Technical Committees that develop GB standards. These Technical Committees are comprised of members from government agencies, private industry associations, companies (including in some cases, and with varying voting rights, foreign companies), and academia.

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

Conformity Assessment Return to top

The primary government agency responsible for supervision of China's conformity assessment policies, including its primary safety and quality mark, the CCC mark, is the

China National Certification and Accreditation Administration (CNCA). CNCA also supervises the work of the China National Accreditation Board for Laboratories (CNAL), which accredits laboratories and inspection bodies.

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

Product Certification Return to top

The China Compulsory Certification (CCC) mark is China's national safety and quality mark. The mark is required for products in more than 158 categories, ranging from electrical fuses to toaster ovens to automobile parts to information technology equipment. About 20 percent of U.S. exports to China are on the product list. If an exporter's product is on the CCC mark list, it cannot enter China until CCC registration has been obtained, and the mark physically applied to individual products as an imprint or label. Similarly, domestic products cannot be sold in China without obtaining registration and applying the mark on individual products. The CCC mark system is administered by CNCA.

Obtaining the CCC Mark involves an application process to authorized Chinese certification bodies. The application process can take several months, and can cost upward from $4,500 in fees. The process includes sending testing samples to a Chinese laboratory and testing in those labs to ensure the products meet safety and/or electrical standards. A factory inspection of the applicant's factories, to determine whether the product line matches the samples tested in China, is also required. Finally, Chinese testing authorities approve the design and application of the CCC logo on the applicant's products. Some companies, especially those with a presence in China and with a dedicated certification/standards staff, are able to manage the application process in-house. Other exporters can tap the expertise of standards consultants based both in the U.S. and in China who can provide application management services and handle all aspects of the application process.

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

Though the CCC mark is China's most widely required product certification mark, other product certification requirements exist. These include requirements for boilers and pressure vessels, under a product certification regime administered by the Special

Equipment Licensing Office of AQSIQ. Another product certification scheme is required for certain measurement equipment, known as Certificate of Pattern Approval, also administered by AQSIQ.

Accreditation Return to top

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

Publication of Technical Regulations Return to top

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

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

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

Labeling and Marking Return to top

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

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

Trade Agreements

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In December 2001, China became a member of the World Trade Organization after more than 14 years of negotiations, making China party to the Technical Barriers to Trade (TBT) Agreement, Sanitary and Phytosanitary (SPS) Agreement, Trade Related Intellectual Property (TRIPs) Agreement, and other multilateral agreements. China did not sign on to the plurilateral Government Procurement Agreement. The text of China's Accession Protocol as well as the Report of the Working Party on the Accession of China is available in printed form through the WTO. The Protocol on the Accession of the People's Republic of China, along with relavent attachment, and the Report of the Working Party on the Accession of China, signed by China and other WTO members, have become part of the Marrakesh Agreement that established the World Trade Organization, binding China and other WTO members to the obligations spelled out in the agreements mentioned above. Any trade agreement signed by China and (an)other country/ies, should be in accordance with the rights and obligations enumerated in the above documents.

In addition to the World Trade Organization, China has also entered into numerous bilateral trade agreements, and recently was negotiating Free Trade Agreements with several countries including Australia.

Web Resources

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Ministry of Foreign Affairs
www.fmprc.gov.cn

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

Ministry of Education
www.moe.edu.cn

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

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

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

Ministry of Justice
www.legalinfo.gov.cn

Ministry of Finance
www.mof.gov.cn

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

Ministry of Construction
www.cin.gov.cn

Ministry of Communications
www.moc.gov.cn

Ministry of Information Industry
www.mii.gov.cn

Ministry of Agriculture
www.agri.gov.cn

Ministry of Water Resources
www.mwr.gov.cn

Ministry of Culture
www.ccnt.gov.cn

Ministry of Commerce
www.mofcom.gov.cn

Ministry of Health
www.moh.gov.cn

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

Customs General Administration
www.customs.gov.cn

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

State Intellectual Property Office
www.cpo.cn.net

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

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

Certification Accreditation Administration
www.cnca.gov.cn

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

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

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Chapter 6: Investment Climate

Openness to Foreign Investment

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The volume of foreign direct investment in China dropped slightly in 2006. According to Ministry of Commerce statistics, foreign direct investment fell about four percent in 2006 to $69.5 billion. American investment in China dropped at a greater rate, as it has since 2002. The decline likely reflects a shift in American investment to developed countries. China was the world's third largest foreign direct investment destination, after the United States and the United Kingdom. Outbound investment from China increased substantially from a small base. Chinese investment abroad will grow significantly in future years, as China encourages leading domestic firms to acquire key technologies and brands abroad.

Investors continued to face a lack of transparency, inconsistently enforced laws and regulations, weak IPR protection, corruption, industrial policies protecting local firms, and an unreliable legal system incapable of guaranteeing the sanctity of contracts. Despite these challenges, China remained an attractive market in which to invest. The American Chamber of Commerce reports that American firms' operations in China are more profitable than they are in the United States. Nonetheless, China would attract more U.S. direct investment by reducing government intervention in companies' investment decisions.

In 2006, China began to revise its policies toward foreign investment, which had stood out as among the more liberal regimes in developing countries. While reiterating its openness, China's leadership stated that China would now more actively seek to target investment in higher value-added sectors, including high technology research and development, advanced manufacturing, energy efficiency, and modern agriculture and services, rather than basic manufacturing. China would also seek to spread the benefits of foreign investment beyond China's comparatively wealthy coastal areas by encouraging multinationals to establish regional headquarters and operations in Central, Western, and Northeast China.

Foreign governments and enterprises have noted that China appears to be accelerating the implementation of barriers to investment by foreign entities, which seem to be designed to shield inefficient or monopolistic enterprises from competition. The United States Government agrees with this assessment and has raised its concerns about this trend, both bilaterally and at the WTO, and will continue to monitor developments closely in 2007.

Investment Requirements

Although China has revised many laws and regulations to conform to WTO investment requirements, in practice, Chinese industrial planners "encourage" investments that meet economic development goals. U.S. companies are concerned that "encouragement" may amount, in many cases, to requirements, which are prohibited, particularly in light of the high degree of discretion provided to the Chinese officials who review investment applications. For example, according to U.S. firms, some Chinese officials still consider export performance and local content when deciding whether to recommend approval of a Chinese bank loan, which is often essential to a project's success.

Investment Guidelines

China defines its foreign investment objectives primarily through its Foreign Investment Catalogue, which is revised every few years and supplemented by directives from various government agencies. Revisions to the catalogue and contradictions between it and other pronouncements have confused investors and added to the perception that the investment guidelines do not provide a stable basis for business planning. Uncertainty as to which industries are being promoted as investment targets and how long such designations will be valid undermines confidence in the stability and predictability of the investment climate. Of note, in December 2006, China opened the *renminbi* market to foreign banks, subject to the requirement that banks incorporate, in China, local subsidiaries of their overseas parents.

Foreign Investment Catalogue

The most recent investment catalogue took effect January 1, 2005. Investment in unlisted sectors is considered "permitted." China "encourages" investment in sectors where it believes it benefits from foreign assistance or technology. Investment is "restricted" in sectors that do not meet "the needs of China's national economic development." There, foreign firms wishing to invest must form a joint venture with a Chinese company, restricting their equity to a minority share.

China "prohibits" foreign investment in a limited number of sectors that it views as key to its national security, such as news agencies, radio and TV transmission networks, film production, publication and importation of press and audio-visual products, compulsory basic education, mining and processing certain minerals, processing green and "special" tea using Chinese traditional crafts, and preparing Chinese traditional medicine. U.S. investors have expressed concern about China's prohibition of investment in the production and development of genetically modified plant seeds.

Since 2004, provincial governments have enjoyed expanded authority to directly approve many foreign investment projects. Currently, in "encouraged" and "permitted" sectors, only proposed investments valued above $500 million require National Development and Reform Commission (NDRC) review and State Council approval. Projects in "restricted" sectors valued above $50 million require central government review and approval.

In targeted sectors, like high-technology industries, China uses a variety of incentives to encourage investment, such as duty-free import of capital equipment and VAT rebates on inputs. Foreign investors in targeted regions and special economic zones and in certain industries, such as machinery or construction, also benefit from reduced income taxes. However, in December 2006, the National People's Congress began considering a measure to eliminate the tax advantages enjoyed by foreign investors. This measure, if adopted, would fix corporate tax rates for both foreign and domestic firms at 25 percent, following a transitional adjustment period.

New Administrative Measures to Restrict Investment

In 2006, Chinese regulators announced several measures that limit foreigners' ability to participate in the domestic market. For example, the State Council's June 2006 *Opinions on the Revitalization of the Industrial Machinery Manufacturing Industries*, calls for China to expand the market share of domestic companies in 16 equipment manufacturing fields. Policy supports include preferential import duties on parts needed for research and development, encouraging domestic procurement of major technical equipment, a dedicated capital market financing fund for domestic firms, and a strict review of imports. The measure suggests China will implement controls on foreign investments in the sector, including requiring approval when foreign entities seek majority ownership or control of leading domestic firms.

In August, the Ministry of Commerce (MOFCOM) and five other government agencies issued revised rules for foreign mergers and acquisitions that established a legal basis for an "economic security review" that can block deals. Under the new rules, foreign acquisitions that would result in "actual control" of a domestic enterprise in a "key industry" with "potential impact on national economic security" or altering control of a "prominent Chinese old brand" must be reported to MOFCOM for approval and certification that the target has been accurately valued. Chinese officials claim these regulations are equivalent to the U.S. interagency Committee on Foreign Investment in the United States (CFIUS) process, which is actually a more narrowly focused review of the national security implications of foreign acquisitions of U.S. firms. Although the implementing regulations for the M&A review process are not yet complete, foreign investors have reported that they face greater difficulties purchasing controlling stakes in prominent firms and several prominent proposed deals are stalled.

Subsequently, in November, the NDRC released a Five-Year Plan on foreign investment, which promised greater scrutiny over foreign capital utilization. The plan calls for the realization of a "fundamental shift" from "quantity" to "quality" in foreign investment from 2006 to 2010. The focus would change from shoring up domestic capital and foreign exchange shortfalls to introducing advanced technology, management expertise, and talent. There should be more attention to ecology, environment and energy efficiency. The document also demands tighter tax supervision of foreign enterprises. The new policy is intended to restrict foreigners' acquisition of "dragon head" enterprises (i.e., premier Chinese firms), prevent the "emergence or expansion of foreign capital monopolies," protect national economic security, particularly "industry security," and prevent "abuse of intellectual property."

In December 2006, the State Assets Supervision and Administration Commission (SASAC), charged with shepherding China's stakes in state owned enterprises (SOE's), published an expansive list of sectors it deemed critical to the national economy, including "pillar" industries such as equipment manufacturing, automotive, electronic information, construction, iron and steel, non-ferrous metal, chemical, survey and design, and science and technology. SASAC vowed to restrict foreign participation in these sectors by preventing foreign investment in relevant state-owned firms, aiming to keep the companies in the government's hands.

Also in 2006, some measures the government used to cool economic activity specifically targeted foreign investors. For example, China introduced residency requirements for foreigners seeking to buy real estate. Also, China's steel policy requires foreign investors to possess proprietary technology or intellectual property in steel processing. Given that foreign investors are not allowed to have a controlling share in steel and iron enterprises in China, this requirement constitutes a *de facto* technology transfer requirement, in apparent conflict with China's WTO accession agreement obligations. The policy also prescribes the number and size of steel producers in China, their location, the types of products that will and will not be produced, and the technology that will be used.

This high degree of government direction and decision-making regarding the allocation of resources in China's steel industry raises concerns because China committed in its WTO accession agreement to refrain from influencing, directly or indirectly, commercial decisions on the part of state-owned or state-invested enterprises.

Distribution of Foreign Investment

The vast majority of foreign investment is concentrated in China's more prosperous coastal areas, including Guangdong, Jiangsu, Fujian, and Shandong provinces, and Shanghai. Foreign investment in most service sectors lags manufacturing, mainly due to government-imposed restrictions. China is committed to gradually phasing out barriers to service industries. FDI in banking surged in 2006, and is expected to continue rising as foreign banks obtain more licenses to operate and conduct local currency business in more cities. Onerous requirements have limited foreign investment in some newly opened service sectors, like education, culture, arts, radio, film, and television broadcasting. New sectors opening to foreign participation include insurance, architecture, engineering, urban planning and retailing of chemical fertilizer. Telecommunications and professional tax services are set to open in December 2007.

Laws Governing Investment and Business Operations

China's Contract Law encourages contractual compliance by providing legal recourse, although enforcement of judgments continues to be a problem. Most contracts must be registered with the government. Contracts establishing a FIE, governing some technology imports, and relating to infrastructure projects require government approval.

The Government Procurement Law establishes rudimentary criteria to qualify domestic and foreign suppliers and various categories of procurement, as well as broad standards for publicity, notification, bid scheduling, sealed bidding and bid evaluation. Foreign reactions to the law have been mixed. The law clarifies that purchases by SOE's do not constitute government procurement, thereby removing the bulk of commercial value from this procurement system. The legislation mandates domestic procurement unless the goods or services are unavailable at reasonable commercial terms in China.

The Securities Law codifies and strengthens administrative regulations governing the underwriting and trading of corporate shares, as well as the activities of China's stock exchanges in Shanghai and Shenzhen. In practice, few non-SOE's, and no wholly foreign enterprises have sold shares. See Section I for information on investing in China's capital markets.

Additional relevant laws include: the Company Law, Insurance Law, Arbitration Law, Labor Law, and Tax Laws. Regulations and updates on China's investment laws, projects, and conditions can be found on the websites of the Chinese Ministry of Commerce, at http://www.mofcom.gov.cn and http://www.fdi.gov.cn. MOFCOM also publishes a comprehensive summary of foreign investment laws, including the complete Catalogue on Foreign Investment, in a regularly updated 100-page booklet, called "China Investment Guide."

Conversion and Transfer of Foreign Exchange Return to top

China has gradually loosened foreign exchange regulations facing foreign invested firms. While China permits foreign investors liberal access to foreign exchange for current account transactions, like repatriating profits, capital account (financial investment) transactions are tightly restricted. Investors can also purchase foreign-currency denominated Chinese bonds, in lieu of dollar payment. Authorities have begun to liberalize the exchange rate regime and operation of exchange rate markets. At the January 2007 National Financial Work Conference, Premier Wen Jiabao expressed concern about imbalances in China's balance of payments. Recent regulations permitting greater capital outflow and China's encouragement of domestic firms to invest abroad appear to signal a broader effort to encourage greater two-way flows in the capital account.

To open and maintain foreign exchange accounts, foreign-invested enterprises apply to China's State Administration of Foreign Exchange (SAFE). SAFE determines the amount of foreign exchange the firm needs. Deposits above the limit SAFE sets must be converted to local currency. Enterprises authorized to conduct current account transactions can also retain foreign exchange equal to 50 percent of export earnings.

Foreign exchange transactions on China's capital account require a case-by-case review and approvals are tightly regulated. These barriers to capital market access are not addressed in China's WTO accession agreement and Chinese firms face even more onerous restrictions than foreign invested enterprises. Most major firms reinvest their profits in the Chinese market.

The Chinese government registers all commercial foreign debt and limits the foreign firms' accumulated medium and long term debt from abroad to the difference between total investment and registered capital. Foreign firms must also report their foreign exchange balance twice per year.

Expropriation and Compensation

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Chinese law prohibits nationalization of foreign-invested enterprises, including investments from Hong Kong, Taiwan, and Macau, except under "special" circumstances. Officials claim these circumstances include national security and obstacles to large civil engineering projects, but the law does not define the term. Chinese law requires compensation of expropriated foreign investments, but does not describe the calculation. China limits foreigners' access to certain sectors of the economy, as outlined in Section A, but China has not directly expropriated any existing investments since reforms began in 1979. The Department of State believes, however, that several cases may qualify as expropriations under Section 527 of the FY94-95 Foreign Relations Authorization Act.

Dispute Settlement

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Foreign firms have experienced inconsistent results with all of China's dispute settlement mechanisms, none of which are independent of the government, which intervenes in high profile disputes. Corruption may also influence local court decisions and local officials may flaunt the judgments of domestic courts. China's legal system rarely enforces foreign court judgments. Chinese officials typically urge firms to resolve disputes through informal conciliation. If a formal mediation is necessary, Chinese parties and the authorities promote arbitration over litigation. Most foreign investors consider arbitration a last resort, as they generally find it time-consuming and unreliable.

Commercial disputes are heard in economic courts within China's Supreme People's Court and at three levels in the provincial court system. These economic courts have jurisdiction over contract and commercial disputes involving foreign parties; trade, maritime, intellectual property and insurance; and economic crimes, like theft and tax evasion. Foreign lawyers cannot act as attorneys in Chinese courts, but may observe proceedings. China also has an extensive administrative legal system, which adjudicates minor criminal offensives. China uses this system extensively to address intellectual property infringements, with limited results, as describe in **Protection of Property Rights**.

Authorities greatly prefer arbitration in China. Most contracts propose arbitration by the China International Economic and Trade Arbitration Commission (CIETAC). Some foreign parties have obtained favorable rulings from CIETAC, but difficulties in other cases have led other participants and panelists to question CIETAC's procedures and effectiveness. In CIETAC arbitration involving at least one purely foreign entity, a panel with a foreign arbitrator is possible. (Foreign joint ventures are considered Chinese legal persons.) Provinces and municipalities also have their own arbitration institutions. For contracts involving at least one foreign party, offshore arbitration may be adopted.

Contracts stipulating foreign arbitration should name the arbitration body. China is a member of the International Center for the Settlement of Investment Disputes (ICSID) and has ratified the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards, the "New York Convention."

In August 2006, China adopted an Enterprise Bankruptcy Law, which extended the bankruptcy process to private companies, including financial firms, whereas earlier laws covered only state-owned firms. The law stipulates that as of June 1, 2007, all insolvent enterprises will pay creditors first, and use only assets not earmarked as credit guarantees to pay laid-off workers.

Performance Requirements and Incentives

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China has committed to eliminate and cease enforcing export performance, trade and foreign exchange balancing, and local content requirements and contracts in most sectors. China has also committed to only enforce technology transfer rules that do not violate WTO standards on intellectual property and Trade-Related Investment Measures.

In practice, however, local officials and some regulators prefer investments that increase exports, develop industry, and support the local job market. Local authorities also operate with great autonomy from the central government. In addition, foreigners seeking to invest in sectors the government views as key to its economic development or national security face an array of often opaque regulations that limit operations and may impose performance requirements. For example, Chinese regulators have pressured foreign firms in these sectors to disclose or license to competitors intellectual content, sometimes at below market rates. In sectors where foreign investment is restricted, Chinese nationals most own a majority of the enterprise. China introduced several new measures in 2006 restricting investment in these "key" sectors, which are described in detail in **Openness to Foreign Investment**.

China offers investors a complex system of incentives at the national, regional, and local levels. The Special Economic Zones (SEZ's) of Shenzhen, Shantou, Zhuhai, Xiamen and Hainan, 14 coastal cities, hundreds of development zones and designated inland cities all court foreign investors with unique packages of reduced national and local income taxes, land use fees, and import/export duties, as well as priority treatment in obtaining basic infrastructure services. Many locales offer high-level support and services to businesses, including streamlined government approvals. Chinese authorities have also established a number of free ports and bonded zones. China offers preferences for investments in sectors it seeks to develop, including transportation, communications, energy, metallurgy, construction materials, machinery, chemicals, pharmaceuticals, medical equipment, environmental protection, energy conservation, and electronics. Finally, China boasts numerous national science parks, many focused on commercializing research developed in Chinese universities. The parks provide infrastructure, management and funding support for start-ups across a variety of industries, and welcome foreign firms.

In the past, foreign invested enterprises have benefited from preferential tax rates and could obtain a rebate of 40% of taxes paid on income if profits were reinvested in China for five years. Where profits are reinvested in high technology or export-oriented enterprises, foreign investor could receive a full tax rebate. In late 2006, the National

People's Congress began to consider a measure that would do away with tax benefits for foreign firms, standardizing rates at 25%.

These incentives amount to an ad hoc system. Foreign investors often must negotiate directly with authorities as benefits may not be conferred automatically. These packages also often stipulate export, local content, technology transfer, and other requirements. The 54 national-level SEZ's accounted for over 22% of total FDI in 2004. To achieve a unified national trade regime, as required by its WTO accession, China has indicated that it will decrease SEZ investment incentives over time. By late 2005, China had reduced by more than half the number of SEZ's, at the national and sub-national levels, to around 2000.

Chinese visas, legal residency, and work permits are tightly regulated, and may inhibit investors' mobility. Foreign investors working through established law firms typically are able to meet the requirements.

Right to Private Ownership and Establishment Return to top

In China, all commercial enterprises require a license from the government. Disposition of an enterprise is tightly regulated. China's amended Company Law, effective January 1, 2006, did not greatly affect foreign investment rules; rather, it focused on problems prevalent in domestic companies.

Chinese laws clearly define the structures of foreign investments. The most important distinction is the Foreign Invested Enterprise, or FIE. If foreigners own at least 25% of a firm, China considers it an FIE, which qualifies the firm for foreign investment incentives. Enterprises with foreign ownership between 10 and 25% can register as "enterprises with foreign investment below 25%" and do not qualify for incentives aimed at FIE's.

Foreign invested enterprises exist in many forms. The most popular is the Wholly Foreign Owned Enterprise, or WFOE. Under the amended WFOE Law, China may reject an application to establish a WFOE for five reasons: danger to China's national security; violation of China's laws and regulations; detriment to China's sovereignty or public interest; nonconformity with the requirements of the development of China's national economy; and danger of environmental pollution.

In the past, China had encouraged the formation of Equity Joint Ventures, or EJV's, as a means of rescuing poorly performing state-owned industries. This structure has since fallen out of favor as some foreign investors experienced disagreements with local partners about board decisions, capital formation, dividend distributions, and other matters and China loosened restrictions on WFOE's.

Contractual Joint Ventures (CJV's) resemble legal partnerships and often mandate proportional investment, return on capital, governance, and dividend distributions. CJV's have never been as popular as EJV's, in part because of investors' unfamiliarity with the structure. Another type of CJV involves infrastructure projects, in which the foreign investor is allowed an early return on capital in consideration for relinquishing any claim to residual assets upon expiration of the CJV's term.

Foreign-Invested Companies Limited by Shares (FICLS) are shareholdings in which foreign investors hold at least 25% of the equity. In the past, they have been difficult to organize because of demanding regulatory preconditions and required Ministry of Commerce approval. This structure may become more popular as Chinese share companies have established a market presence. In 2006, the National People's Congress passed a Partnership Enterprise Law aiming to encourage venture capital investment and the expansion of professional services firms. The State Council is expected to issue implementing rules governing establishment of foreign partnerships under the new law.

Foreign investors with multiple investments may also be eligible to establish a Foreign Invested Holding Company. Minimum capital requirements normally make this suitable only for corporations with several sizeable investments. Holding companies may manage human resources across their affiliates and provide market research and other services. Foreign firms commonly complain that China's administrative rules governing holding companies prevent consolidation of accounts of subsidiaries for tax purposes, limit joint import businesses, and hamper the performance of true central treasury functions.

Wholly foreign invested Venture Capital Companies may fund high-technology and new technology startups in industries open to foreign investment. Regulations introduced in 2003 lowered capital requirements, allowed firms to manage funds from overseas, and permitted investors to form venture capital firms organizes like limited partnerships. China bars securities firms operating in China from the domestic private equity business and sets limits on foreign private equity firms' corporate structure, share issuance and transfers, and investment exit options. As a result, most foreign venture capital and private equity investments in China are conducted via offshore entities.

China's Company Law also allows FIE's to establish Branch Offices. In practice, only foreign commercial banks and non-life insurance financial firms are permitted to do so. Foreign firms may establish Representative Offices, but these are prohibited from engaging in profit-making activities. Foreign law firms, however, are only allowed to incorporate as representative offices and are exempted from the prohibition.

Protection of Property Rights Return to top

The Chinese legal system mediates acquisition and disposition of property, as outlined in **Dispute Settlement**. Besides the weaknesses of Chinese courts outlined above, there are two significant limits property rights in China – land and intellectual property ownership.

Land and Property Ownership

First, all land in China is owned by the State or state-controlled entities. Individuals and firms, including foreigners, however, can own and transfer long-term leases for land use, subject to many restrictions, as well as structures and personal property. To obtain land-use rights, the land user must sign a land-grant contract with the local land authority and pay a land-grant fee up front. The grantee will enjoy a fixed land-grant term and must use the land for the purpose specified in the land-grant contract. The maximum term of a land grant ranges from 40 years for commercial usage, 50 years for industrial purpose, to 70 years for residential use.

China's Security Law defines debtor and guarantor rights and allows mortgages of property and other tangible assets. Important areas of the law remain unclear – such as how to affect transfer of property under foreclosure. Chinese commercial banks have successfully repossessed vehicles from delinquent borrowers and a December 2005 policy update enabled banks to foreclose on owner-occupied residences. Foreigners can buy non-performing debt through state-owned asset management firms, but bureaucratic hurdles limiting their ability to liquidate assets have dampened investor interest.

Limited Intellectual Property Rights

The United States Trade Representative has determined that China fails to enforce intellectual property rights. Copyrights, inventions, brands, and trade secrets are routinely stolen. As a result, China is on USTR's priority watch list of countries that tolerate intellectual piracy. Failure to protect intellectual property stems from lenient rules, mild penalties (often no more than confiscation of the counterfeit products or nominal fines), and a lack of enforcement, which together do not yet deter the crime.

Industry associations representing software, entertainment, and consumer goods report high levels of piracy. The Business Software Alliance estimates that 90% of business software used in China is pirated. Consumer goods companies report that as much as 20% of their products in Chinese markets are counterfeits. Online copyright violations are egregious.

Some Chinese policy makers' view of intellectual property rights differs from American assumptions. For example, Chinese officials may view an intellectual property holder's refusal to negotiate a license as an abuse of its "monopoly power." Provincial enforcement of intellectual property rights also lags central directives. While China has established special IPR civil courts in all provinces and major cities, local governments and individual officials may be financially dependent upon intellectual property rights violators. In addition, rules on gathering evidence are restrictive and lack of expertise in intellectual property matters can be severe.

Chinese entities increasingly assert what they view as their own intellectual property rights. Fully 90% of patent, trademark and copyright administrative or civil litigation involves only Chinese rights holders. As a consequence, China's Trademark Office is now the most active in the world and China receives more design patent applications than any other country. However, Chinese firms have developed a reputation for using the legal system to abuse the rights of legitimate intellectual property owners, by squatting on well-known trademarks, for example.

U.S. companies contemplating investing or trading in China thus must develop a strategy to protect intellectual property. Techniques include: using different technology; modifying business models; utilizing non-disclosure or non-compete agreements; securing trademarks in Chinese and English; obtaining design patent protection; filing patent or trademark applications in China; recording patents, trademarks, and copyrights at Chinese Customs; using caution in assigning rights to Chinese partners and recording assignments with patent or trademark agencies; and bringing litigation or other actions in the United States or other countries where infringing products may be exported.

Despite these great challenges, China has made efforts to improve intellectual property rights protection. China has updated laws and regulations to comply with the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS), as required by its WTO membership. Industry officials report improved cooperation with enforcement agencies on raids. China has stepped up coordination with foreign enforcement agencies in cases involving international organized crime. China established IPR law centers at Beijing University, Qinqhua University, and People's University, among other institutions, and dispatched Chinese IPR policymakers, enforcement officials, and legal professionals to study other countries' intellectual property enforcement techniques. In 2005, China also required that government-procured computers come pre-loaded with legal software.

China is a member of the World Intellectual Property Organization (WIPO), Paris Convention for the Protection of Industrial Property, Berne Convention for the Protection of Literary and Artistic Works, Madrid Trademark Convention, Universal Copyright Convention, and Geneva Phonograms Convention, among other conventions. China's amended copyright law does not fully comply with the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, although the Chinese government has committed to drafting appropriate regulations and an accession package.

Improving protection of intellectual property rights is the United States government's highest priority in its economic relationship with China. To that end, the American Embassy sponsors an annual roundtable on intellectual property attended by hundreds of U.S. investors, and numerous IPR activities. U.S. agencies help American businesses understand and react to intellectual property challenges in China. For more information, a "toolkit" on IPR is available at http://beijing.usembassy-china.org.cn/ipr.html.

Transparency of Regulatory System

Return to top

China's legal and regulatory system is complex, contradictory, and lacks consistent enforcement. Foreign investors rank inconsistent and arbitrary regulatory enforcement and lack of transparency among the major problems in China's market. The situation tends to be worse outside of coastal regions. No prospective foreign investor should venture into China without professional advice.

China has made some progress in publicizing its regulations. The State Council's Legislative Affairs Office has reiterated instructions to Chinese agencies to publish all foreign trade and investment related laws, regulations, rules, and policy measures in the MOFCOM Gazette, in accordance with China's WTO commitment. China said it would also help WTO members and enterprises understand its rules. However, foreign investors report that Chinese regulators at times rely on unpublished internal guidelines that impact their businesses. Moreover, the MOFCOM Gazette does not capture all policy measures that affect trade and investment.

Some Chinese agencies have begun to solicit comment from the public, including foreign parties, on draft trade and investment related regulations. This process, required by China's WTO accession agreement, is in its early stages. Comment periods can be extremely brief, and the impact of comments on final regulations is not clear, as some rules are published for comment in final form. Some agencies release draft regulations only to certain favored enterprises, usually domestic enterprises, or have allowed enterprises to read but not retain drafts. Comments do not become part of a public record.

Efficient Capital Markets and Portfolio Investment Return to top

China's domestic financial market is heavily regulated and underdeveloped. State-owned banks dominate the commercial credit market by providing low-rate loans to state-owned firms. Foreign firms that need working capital, in foreign exchange or local currency, may obtain short-term loans from China's state-owned commercial banks. However, priority is given to investments that bring in advanced technology or produce goods for export. Foreign-invested firms, like domestic firms, must register all foreign loans with the State Administration for Foreign Exchange (SAFE). Along with the People's Bank of China, SAFE regulates the flow of foreign exchange into and out of China.

In December 2006, China opened the *renminbi* market to foreign banks, subject to many requirements, which may ease foreign firms' access to credit in the future. China has also encouraged foreign banks to take minority stakes in domestic lenders, which may, over time, lead China's banks to make more market-driven lending decisions.

Alternative credit instruments are often unavailable. In theory, foreign enterprises can raise capital on China's stock and bond markets, but the approval process is onerous.

Foreign portfolio investment is restricted. Most portfolio investment occurs on foreign exchanges, where investors buy and sell shares in Chinese firms, primarily in New York (N-shares) and Hong Kong (H-shares). China has begun to open its domestic equity markets to investments from foreign firms. Foreign securities firms can also apply for Qualified Foreign Institutional Investor (QFII) status, which permits limited access to the *renminbi*-denominated A-share market. As of December 2006, China had granted QFII status to 48 foreign firms. These firms had received investment quotas totaling over $9 billion of the current $10 billion overall cap.

China's four large state-owned commercial banks account for approximately half the domestic banking system's US$5.3 trillion in assets, as of 3Q2006. Official estimates of non-performing loans (NPL's) are near 8% in 2006, not counting the NPL's China removed from the books of state lenders via government owned asset management corporations. Including asset management corporations, China's financial sector NPL's is near 13%. Using internationally accounting standards, the amount may be twice as large. Despite its problems, the domestic banking system does not face an immediate crisis. Because foreign investors rely little on domestic credit markets, they would be less susceptible than domestic Chinese firms to any future domestic credit crunch.

Chinese firms do not typically employ the cross-shareholding arrangements commonly recognized in the West by their Japanese and Korean names, *keiretsu* and *chaebol*, which can prevent foreign investors from acquiring domestic firms. China does not allow hostile takeovers. In 2006, China adopted a new process to review foreign firms' proposed mergers and acquisitions, as described in Section A, which has significantly stalled the flow of deals involving foreign firms acquiring Chinese targets

Political Violence Return to top

Violent but unconnected protests in provincial areas increased in 2006. Protesters tend to target local officials and powerful business interests rather than the central government. Such "mass incidents" commonly involve rural residents protesting inadequate compensation for confiscated property. Other riots, however, were sparked by specific events such as traffic accidents related perceived to reflect abuse of power by local officials, or by pollution incidents. Some foreigners involved in business disputes have been threatened, held hostage, or attacked. For information on safety and security in China, please consult the State Department's Consular Information Sheet on China at http://travel.state.gov.

Corruption Return to top

In 2006, China raised the profile of its anti-corruption drive by sacking high ranking officials, including Shanghai Municipal Communist Party chief, who concurrently had been a member of the Party's Politburo. The National Audit Office continued to inspect accounts of state-owned enterprises and government entities. China ratified the UN Anti-Corruption Convention in 2005 and participates in APEC and OECD anti-corruption initiatives, but has not signed the OECD Convention on Combating Bribery.

Corruption remains endemic. Surveys show that it limits U.S. firms' investment. Banking, finance, government procurement, and construction are most affected.
Anti-corruption efforts are hampered by the lack of independent investigative bodies and courts. Senior officials and family members are suspected of using connections to avoid investigation or prosecution for alleged misdeeds.

Three government bodies and one Communist Party organ are responsible for combating corruption. The Supreme People's Procuratorate and the Ministry of Public Security investigate criminal violations of anti-corruption laws, while the Ministry of Supervision and the Communist Party Party Discipline Inspection Committee enforce ethics guidelines and party discipline. Corrupt officials are first investigated by the Discipline Inspection Committee, which gathers evidence outside of the judicial process and strips the official of Party membership before handing the case over to the judicial system. Anti-corruption drives have not targeted foreign firms.

In China, giving or accepting bribes is a serious crime. Offering a bribe merits five years' punishment. For serious circumstances or "heavy losses" to state interests, the punishment can range up to 10 years. "Especially serious" circumstances lead to imprisonment from 10 years to life. Accepting a bribe of greater than RMB100,000 is punishable by 10 years to life in prison or death in especially serious circumstances; accepting a RMB 50,000 to 100,000 bribe is punishable by 5 years to life; RMB 5,000 to 50,000 gets 1 to 7 years; less than RMB 5,000 is punishable by up to 2 years.

It is not a crime under Chinese law to bribe a foreign official. While a bribe denoted as such could not be deducted from taxes as a business expenses, practically speaking, a Chinese firm could mis-categorize a bribe and deduct it from revenues.

The United States provides anti-corruption training to officials from the Ministries of Public Security and Supervision and the Supreme People's Procuratorate. Domestic scholars cooperate with foreign non-government organizations, like Transparency International, which is itself exploring opportunities to work with the government to reduce corruption.

Bilateral Investment Agreements Return to top

China has bilateral investment agreements with 108 countries, more than any other developing economy, according to UNCTAD, China's bilateral investment partners include Japan, the United Kingdom, Germany, France, Italy, Spain, the Belgium-Luxembourg Economic Union, Austria, and Thailand. These agreements cover expropriation, arbitration, most-favored-nation treatment, and repatriation of investment proceeds.

The United States and China signed an agreement on investment guaranties, which entered into force in 1980. In December 2006, The United States and China committed to explore the possibility of a bilateral investment agreement. China has also signed treaties to avoid double taxation with the United States and dozens of other economies.

OPIC and Other Investment Insurance Programs Return to top

The United States suspended OPIC programs in China after the Tiananmen Incident in June 1989. OPIC honors outstanding political risk insurance contracts. The Multilateral Investment Guarantee Agency (MIGA), an organization affiliated with the World Bank, provides political risk insurance for investors in China. Some foreign commercial insurance companies also offer political risk insurance, as does the People's Insurance Company of China (PICC). Political risk insurers have experienced a decline in business in China.

Labor Return to top

Human resources constraints top American Chamber of Commerce companies' list of operating challenges in China. Skilled managers and technical personnel are in high demand with employers often citing difficulty in locating appropriate skilled talent. Experienced managers at foreign firms typically command salaries far greater than their counterparts in Chinese enterprises. While talented and motivated university graduates are abundant, many firms find they must invest heavily in remedial training. At the same time, many Chinese workers move rapidly from job to job within the growing foreign-invested and private sectors.

Foreign firms are generally free to find and hire employees, although representative offices must hire local employees through a labor services agency. Foreign companies may offer local workers market-rate salary, hourly pay, or piecework wages, so long as the rate exceeds designated minimums. In addition, wages are typically supplemented by subsidized services, like medical care and housing, which China's tax laws encourage. Mandatory health, workplace injury and maternity insurance also inflate labor costs. Enterprises that merge with state-owned firms may also be required to provide dormitory housing. Other firms pay into a housing fund that amounts to as much as 10% of payroll. Local governments require contributions to pension and unemployment insurance funds that can also amount to 20% of an enterprise's wage bill. (Employees also contribute 3-8% of salary.) Regulations on non-wage compensation differ by locality. Chinese law limits, and requires premium compensation for, overtime work.

China's strict labor contract law prevents firms from easily releasing staff. Regulations vary widely according to location, type, and size of enterprise. Terminating a worker for cause may require prior consultation with the local labor bureau and labor union. In general, it is easier to release workers in southern China than in the northeast, and in smaller enterprises than in larger ones. Foreign firms generally do not encounter problems releasing workers at the end of a short-term contract. However, enterprises that hire workers from state-owned enterprises usually find it difficult to terminate employment. Large-scale layoffs from long-established state-owned firms have created tensions and prompted demonstrations. In some cases, limited violence has occurred.

China's Labor Law allows collective contracts that specify wage levels, hours, working conditions, insurance and welfare. Most contract consultations do not rise to the level of negotiations, in part because local Communist Party committees, rather than workers, control the selection of union leaders.

It is illegal in China to oppose efforts to establish officially sanctioned unions. The Communist Party controls the country's sole recognized workers' organization, the All-China Federation of Trade Unions (ACFTU). Independent trade unions are illegal. Enterprises with ACFTU unions must contribute 2% of their wage bill to the union. Since mid-2006, the ACFTU has engaged in a centralized campaign to organize chapters in foreign firms, with a target of organizing unions in 70% of FIE's by the end of 2007. Foreign firms also often host worker organizations that perform union functions, like organizing social and charitable activities.

China has not ratified core International Labor Organization conventions on freedom of association and collective bargaining, but has ratified conventions prohibiting child labor and employment discrimination. Apart from banning independent unions, Chinese labor laws meet international labor standards, and the Chinese Government is in the process of preparing legislation to improve workers rights protection. However, enforcement of existing labor regulations is poor. Some FIE's have faced negative publicity arising from labor disputes related to domestic partners or suppliers.

Foreign-Trade Zones/Free Ports Return to top

China's principal duty-free import/export zones are in Dalian, Guangzhou, Shanghai, Tianjin, and Hainan. Besides these official duty-free zones, numerous free trade and economic development zones and "open cities" offer similar privileges and benefits to foreign investors. In 2006, China also actively promoted economic development outside its relatively wealthy coastal area by encouraging multinationals to establish regional headquarters and operations in Central, Western, and Northeast China. Some analysts speculate that China will eventually grant full trading and distribution rights nationwide.

China's General Administration of Customs claims to successfully control duty-free imports into the zones, but the lack of physical barriers between the duty free zones and surrounding areas makes it difficult to control the outbound flow of untaxed items. More information on investment incentives available in SEZ's is provided in **Performance Requirements and Incentives**.

Investment Trends and Statistics Return to top

The top five sources of FDI in China are: Hong Kong, the Virgin Islands, Japan, South Korea, and the United States. Germany is the largest EU investor and ranks eighth (Singapore is sixth. Taiwan is seventh). U.S. FDI is increasingly concentrated in developed countries, reflecting a focus on high-tech and financial services and a move away from basic manufacturing and extractive. U.S. FDI to China has fallen in line with this trend.

While China's processing trade exports to the United States are booming, U.S. retailers often buy goods from enterprises whose source of investment is not American, thus de-linking this trend from U.S. FDI statistics. Also, it is important to note that Chinese data on foreign direct investment does not include much of the high-dollar value minority equity stakes that American financial services firms have taken in major Chinese lenders. Finally, American-invested enterprises continue to grow by reinvesting locally generated profits in China, but China does not classify this as new investment.

Notes on Statistics

Most of the data below is provided by the Ministry of Commerce. Statistics on utilized investment are based on FIE's required reports of committed capital. Cumulative values are totals of the data collected each year, are not adjusted for inflation, and do not account for divestment. More sophisticated data on investment in China is not now available. Yearly figures do not sum exactly to total due to rounding.

Of note, many mainland companies utilize "roundtrip" investment via subsidiaries in the Special Administrative Regions (SAR's) of Hong Kong and Macau in order to obtain incentives available only to foreign investors. Analysts have estimated that mainland Chinese funds flowing through Hong Kong may account for 10-30% of Hong Kong's total realized FDI in China. Hong Kong and Macau statistics are further skewed because many Taiwan firms invest through them to avoid scrutiny from Taiwan authorities. Indeed, some observers estimate accumulated stock of FDI inflows from Taiwan is actually two to three times the amount formally recorded. The past few years also witnessed an upsurge in investment from tax-havens, like the British Virgin Islands and Cayman Islands. Anecdotal information suggests these funds originate from companies in OECD economies, Taiwan, and even China itself. Some researchers estimate that as much as one-third of nominally "foreign" investment in China is really of Chinese origin.

Table 1 -- Utilized Foreign Direct Investment in China from All Sources (1979-2006) (In $ Millions)

Year	Utilized FDI
1979-84	3,060
1985	1,658
1986	2,244
1987	2,314
1988	3,194
1989	3,392
1990	3,487
1991	4,366
1992	11,008
1993	27,515
1994	33,767
1995	37,521

1996	41,726
1997	45,257
1998	45,463
1999	40,319
2000	40,714
2001	46,878
2002	52,743
2003	53,505
2004	60,630
2005	60,325 (72,410)
2006	63,020 (69,470)
Total	684,106

Source: Ministry of Commerce

Table 2 -- U.S. Utilized Foreign Direct Investment in China (1979-2006) (In $ millions)

Year	Utilized FDI
1979-84	274
1985	357
1986	326
1987	263
1988	236
1989	284
1990	456
1991	323
1992	511
1993	2,063
1994	2,491
1995	3,083
1996	3,443
1997	3,239
1998	3,898
1999	4,216
2000	4,384
2001	4,433
2002	5,424
2003	4,199
2004	3,941
2005	3,061
2006	2,865
Total	53,955

Source: Ministry of Commerce

Table 3 -- China's Utilized and Cumulative Foreign Direct Investment (in non-financial sectors) by Selected Source Economy as of 2006 (In $ millions)

	Utilized FDI	Cumulative FDI
Hong Kong	20,233	279,765
Virgin Islands	11,248	57,165

Japan	4,598	57,974
Korea	3,895	34,998
United States	2,865	53,955
Singapore	2,260	30,003
Taiwan	2,136	43,892
Cayman Islands	2,095	10,755
Germany	1,979	13,418
Western Samoa	1,538	7,323
Total (All Sources)	63,000	685,426

Source: Ministry of Commerce
Note: The total amount from the top ten sources accounts for 83.86% of total non-financial sector FDI.

Table 4 -- China's Utilized Foreign Direct Investment by Sector, in 2005 (In $ millions)

	2005 Realized FDI amount	Change from 2004(%)
Agriculture, Forestry, Animal Husbandry & Fisheries	718	-36%
Mining	355	-34%
Manufacturing	42,453	-1.3%
Production, Distribution of Electricity	1,394	23 %
Construction	490	-37%
Transport, Warehousing,	1,812	42%
Information Transmission, Computer Service and Software	1,015	11%
Wholesaling and Retail	1,039	40%
Hotels and Restaurants*	560	-33%
Banking and Insurance	12,301	4,781%
Real Estate Management	5,418	-9%
Leasing and Business Service*	3,745	33%
Scientific Research and Polytechnic Services	340	16%
Water conservation, environment and public facility management	139	-39%
Social Services*	260	65%
Health Care, Social Security, and Welfare*	39	-55%
Education*	18	-53%
Culture, Sports and Entertainment*	305	-32%
Public management and social organizations	4	100%

Source: China Commerce Year Book-2006

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

	2006	(%)Change	% of 2006 National Figures
FIE-Generated Industrial Value Added	188,885	18.8%	27.8%
FIE-Generated Exports	563,835	67%	58.2%
FIE-Generated Imports	472,616	22.5%	59.7%
FIE-Generated Tax Revenues	66,357	28.5	20.8
2004 FDI inflows/GDP	-	-	3.6
2004 FDI stock/GDP	-	-	33.2
2004 FDI share of total fixed investment	-	-	7.2

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

Table 6 -- Chinese FDI Outward Flows and Stock, 2000-2006 (In $ billions)

Year	Outflow	Outward Stock
2000	0.92	27.77
2001	6.89	34.65
2002	2.52	37.17
2003	-0.15	37.03
2004	1.81	38.83
2005	11.31	46.31
2006	--- (16.13)	---- (73.3)

Source: UNCTAD and MOFCOM
Note: Figures in parenthesis are published by the International Business Daily, MOFCOM's official newspaper.

Major U.S. Investments in China:

This following is a snapshot of U.S. investment in China as reported by firms and the media. Some companies declined to provide information about their investment plans. A rough estimate of total investment is noted in parentheses, where available.

Motorola ($3.6 billion) – Motorola is the largest foreign investor in China's electronics industry with more than 9,000 employees in China. Motorola's investment includes $500 million in R&D. In 2006, Motorola announced several new venture capital investments in China.

General Motors (over $2 billion) – GM plans to invest up to $5 billion in China through 2007. Current investments include a $1 billion stake in Shanghai GM, $472 million in Shanghai GM Dong Yue Automotive Powertrain, $282 million in Shanghai GM (Shenyang) Norsom Motors, $257 million in Shanghai GM Dong Yue Motors,

$54 million in Pan Asia Technical Automotive Center, and $10 million in SAIC-GM-Wuling joint venture operations.

Wal-Mart ($2 billion) – In 2006, Wal-Mart agreed to acquire local hypermarket chain Trustmart for $1 billion. As of December 2006, Wal-Mart operated 71 stores in 34 cities under its Supercenter, SAM'S CLUB and Neighborhood Market brands. Wal-Mart employs more than 36,000 associates in China.

General Electric ($2 billion) -- GE has established 50 JV and WOFE entities, including medical equipment, plastics, lighting, power generation, silicones, special materials, industrial equipment, aircraft engines and leasing, capital services, transportation systems, and a research and development center in Shanghai. In 2006, GE Real Estate made its first investment in China, totaling $20 million.

Kodak ($1.5 billion) -- Kodak has sensitizing facilities and facilities to manufacture digital cameras, medical and commercial imaging equipment, and photochemicals.

DaimlerChrysler (over $1.4 billion) All DC business units are present, including Mercedes-Benz Car Group, Chrysler Group, its Commercial Vehicle Division and DC Financial Services.

Coca-Cola ($1.25 billion) -- Coca-Cola operates 35 bottling plants throughout China and one of the largest sales and distribution systems in China with over 700 sales centers, 30,000 distributors, and 1.3 million retailers.

ExxonMobil ($1 billion) – The bulk of Exxon Mobil's investment is in production-sharing contracts for upstream oil exploration, as well as chemical and lubricant blending plants. In 2002, ExxonMobil signed an agreement for potential participation in the West-East gas pipeline project. ExxonMobil sold its interest in SinoPec in 2005.

Ford ($1 billion) – Ford is close to completing a $1 billion expansion in China, which includes stakes in: Changan Ford Mazda Automobile, with plants in Chongqing and Nanjing producing Mazda and Volvo brand vehicles, Changan Ford Mazda Engine in Nanjing, a stake in the publicly listed Jiangling Motors Co., and Ford Automotive Financial Co., in Shanghai. In November 2006, Ford announced it would invest $28 million in a research and engineering center.

Anheuser Busch ($700 million) – As of December 2006, Anheuser-Busch's investments in China included a 27 percent stake in Tsingtao Brewery, China's largest beermaker; ownership of Harbin Brewery Group Ltd., the country's fifth-largest brewer; and a 97 percent equity interest in the Budweiser Wuhan International Brewing Co. Ltd. joint venture, which produces Budweiser brand beer.

DuPont ($700 million) – DuPont has seven wholly-owned manufacturing facilities and fifteen joint ventures in China. Its facilities manufacture a wide range of products including nylon, polyester, fibers and nonwoven fabrics. In December 2006, DuPont announced the formation of a joint venture with Dunhuang Seed Co., one of China's largest seed production companies, to market new hybrid corn products.

Intel ($500 million) – Includes a $500 million assembly/testing facility in Pudong and a $450 million chip testing plant in Chengdu. In 2006, Intel Capital invested in several technology firms. January 2007 press reports said Intel planned to invest $2 billion in a major plant to make leading edge chips in China.

Alcoa ($471 million) – In 2006, Alcoa invested $95 million in a joint venture with Shanxi Yuncheng Engraving Group to produce aluminum brazing sheets at a plant outside Shanghai. Alcoa will be managing partner in the venture, holding a 70% interest.

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

IBM ($420 million) -- Includes a $300 million organic chip packaging base in Shanghai and $18 million in Beijing Jinchangke International Electronics Co., with Great Wall Computer Shareholding Corp. In 2006, IBM announced it would participate in a $180 million investment fund in China.

Cummins ($154 million) – Cummins has established factories and R&D centers producing nine engine families, turbochargers, filters, exhaust systems, alternators, and gensets. Cummins also located its East Asia regional headquarters in Beijing, managing Cummins operations in mainland China, Taiwan, Hong Kong, Macao and Mongolia. Cummins plans to invest $300 million in China through 2010.

Microsoft – Microsoft has announced it intends to invest $100 million a year on R&D in China. Press reports in February 2007 indicated Microsoft would establish a $20 million R&D center in Shanghai for its online MSN service.

Source: U.S. Embassy Beijing.

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Chapter 7: Trade and Project Financing

How Do I Get Paid (Methods of Payment)

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

1. Letters of credit

Although the Bank of China dominates China's trade-finance business, most Chinese commercial banks (e.g., China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of Communications, China Merchants Bank, and CITIC Bank, to name a few) have the authority to issue letters of credit for imports. Foreign banks with branch or representative offices in China can also issue letters of credit.

China, as a member of the International Chamber of Commerce since 1995, is subject to the Unified Customs and Practice (UCP) 500 code regarding international trade payments. However, in local Chinese practice, terms and conditions are generally negotiable and set on a transaction-by-transaction basis in the form of a "silent" confirmation whereby ‘A notifying bank appends its confirmation to a transaction without being instructed to do so by the opening bank’(source: http://www.ubs.com/1/e/about/bterms/content_s.html).

2. Documentary Collections

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

3. Other methods

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

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

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

How Does the Banking System Operate

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A. Banking System

In accordance with China's WTO obligations, the banking sector opened on schedule to foreign banks on December 11, 2006. On the same date, "The Regulations of the PRC on Administration of Foreign-funded Banks" promulgated by the State Council went into effect. The new Regulations signify the Chinese government's resolve to further promote opening of the banking sector, while strengthening the supervision of banks' prudential considerations and risk-focus. Through these regulations, China seeks to ensure the sustainable and healthy development of the banking industry. Major Chinese commercial banks will continue to dominate the market for retail banking services for the foreseeable future. However, domestic commercial banks have undergone significant restructuring through effective reforms and many have accepted foreign banks as strategic investors. In short, cooperation and competition will co-exist between Chinese banks and foreign banks.

1. Regulators: People's Bank of China and China Banking Regulatory Commission

The People's Bank of China (PBOC), China's central bank, formulates and implements monetary policy. The State Council, however, maintains oversight of the PBOC and continues to make all final decisions on China's major financial and monetary policy issues. According to the 1995 Central Bank Law, the PBOC has full autonomy in applying the monetary instruments, including setting interest rate for commercial banks and trading in government bonds. It maintains the banking sector's payment, clearing and settlement systems, and manages official foreign exchange and gold reserves. The PBOC also oversees the State Administration of Foreign Exchange (SAFE) in the setting of foreign exchange policies. An additional reform implemented to improve the efficiency of bank supervision and allow the PBOC to further focus on the macro economy and currency policy was the April 28, 2003, launch of the China Banking Regulatory Commission (CBRC). The CBRC took over the supervisory role from the PBOC. According to the official announcement the CBRC posted on its website, the CBRC is responsible for 'the regulation and supervision of banks, asset management companies, trust and investment companies as well as other deposit-taking financial institutions. Its mission is to maintain a safe and sound banking system in China.'

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

In 1995, the government introduced the Commercial Bank Law to standardize the operations of China's commercial banking institutions. At present, four major state-owned banks, the Industrial and Commercial Bank of China (ICBC), the Bank of China (BOC), the China Construction Bank (CCB), and the Agricultural Bank of China (ABC), dominate the banking system and together account for well over half of all loans and deposits in China's banks.

The Industrial & Commercial Bank of China (ICBC) is the largest bank in China in terms of total assets as well as the number of employees and customers. The ICBC differentiates itself from the other state-owned commercial banks by being second in the foreign exchange business and first in RMB-clearing business. It previously was the major supplier of funds to China's urban areas and the manufacturing sector. In April 2005, the State Council injected USD 15 billion (RMB 124 billion) through Central SAFE Investment Ltd., which let ICBC's core capital stand at RMB 248 billion. On October 25, 2005, the ICBC was renamed the Industrial and Commercial Bank of China Limited, which marks the stock system reform of China's largest commercial bank. On January 27, 2006, ICBC entered into strategic investment and cooperation agreements with Goldman Sachs Group, Allianz Group and American Express Limited. They invested a combined total of USD 3.782 billion. On October 27th 2006, the ICBC issued its IPOs simultaneously in the Shanghai and in Hong Kong stock exchanges and successfully raised USD 21.9 billion from the equity market. This is the world's largest IPO to date and qualified ICBC as one of the largest listed banks in the world.

The Bank of China (BOC) specializes in foreign-exchange transactions and trade finance. At the end of 2003, China's State Council instructed China SAFE Investments Limited to inject capital totaling USD22.5 billion into the BOC. The bank was subsequently reformed as a shareholding commercial bank and renamed the Bank of China Limited in August 2004. Through October 2005, the BOC had successively entered into strategic investment agreements with the Royal Bank of Scotland Group (RBS), Temasek Holdings Limited (Temasek), UBS and the Asian Development Bank (ADB). On June 1, 2006, the BOC was successfully listed on the Hong Kong Stock Exchange, and issued 76 billion public float shares. On July 5, 2006, the BOC was listed on the Shanghai Stock Exchange, and issued 177 billion public float shares.

The China Construction Bank (CCB) specializes in medium to long-term credit for long-term specialized projects, such as infrastructure projects and urban housing development. At the end of 2003, China's State Council instructed China SAFE Investments Limited to inject capital totaling USD22.5 billion into CCB, which was subsequently reformed as a shareholding commercial bank in 2004. In June 2005, the Bank of America signed a strategic cooperation agreement with CCB to purchase nine percent of CCB's shares. This was done through a USD2.5 billion pre-IPO purchase of existing shares from CCB's largest shareholder – China SAFE Investments Ltd. The Bank of America will also have an option to purchase additional shares in the future to increase its ownership in CCB to as much as 19.9 percent. In July 2005, Temasek became CCB's second strategic foreign investor following the Bank of America. On October 27, 2005, the CCB was listed on the Hong Kong Stock Exchange. This was a precedent-setting achievement for a Chinese state-owned commercial bank in the international market. On Dec. 29 2006, the CCB announced that it completed the acquisition of 100 percent share of Bank of America (Asia), at the price of HK$ 9.71 billion, representing 1.32 times Bank of America Asia's net assets as at 31 December 2006. After this purchase, Bank of America (Asia) will change its name to China Construction Bank (Asia) Limited, and will complete all changes of logo and names at its outlets and in its certificates and documents.

The Agriculture Bank of China (ABC) is the fourth largest bank in China. It specializes in providing financing to China's agricultural sector and offers wholesale and retail banking services to farmers, township and village enterprises (TVEs) and other rural institutions. As instructed by the government, the ABC will experience a similar stock system reform procedure in the near future.

3. Policy Banks

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

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

4. Second Tier Joint-Stock Commercial Banks

The 2nd-Tier joint-stock commercial banks include the Bank of Communication, CITIC Bank, China Everbright Bank, Hua Xia Bank, China Minsheng Bank, Guangdong Development Bank, Shenzhen Development Bank, China Merchants Bank, Shanghai Pudong Development Bank, Industrial Bank, Evergrowing Bank, Zheshang Bank and the Bohai Bank (which was newly established in early 2006).

2nd – Tier Joint-Stock Commercial Banks	**Foreign Investor(s)**	**Share Percentage**
Guangdong Development Bank	Citi Group IBM Credit	20% 4.74%
Bank of Communications	HSBC	19.9%
Shanghai Pudong Development Bank	CitiBank	5% (optional acquisition will be 24.9%)
Shenzhen Development Bank	New Bridge Capital	17.89%
China Minsheng Bank	Asia Finance Co. Limited	4.55%
Bohai Bank	Standard Chartered	19.9%
Huaxia Bank	Deutsche Bank Sal Oppenheim	9.9% 4.1%
Industrial Bank	Hang Seng Bank IFC Singapore Government - Direct Investment	15.98% 4% 5%

5. City Commercial Banks

There are altogether 117 city commercial banks in China, including the Bank of Shanghai, Bank of Beijing, Tianjin City Commercial Bank, Shenzhen City Commercial Bank, Guangzhou City Commercial Bank, Jinan City Commercial Bank, Hangzhou City Commercial Bank, Nangjing City Commercial Bank, Ningbo City Commercial Bank, Wuxi City Commercial Bank, Wuhan City Commercial Bank and Xian City Commercial Bank etc. The Banks of Beijing and Shanghai are the largest city commercial banks. Each have investment agreements with foreign strategic investors. The Xian City Commercial Bank, Jinan City Commercial Bank, Hangzhou City Commercial Bank, Tianjin City Commercial Bank and Nanjing City Commercial Bank also have investments from foreign partners. Please refer to the table below.

Chinese City Commercial Banks	**Foreign Investors**	**Share Percentage (%)**
Bank of Shanghai	HSBC IFC HSBC	8% 7% 3%
Bank of Beijing	ING Group IFC	19.9% 5%
Tianjin City Commercial Bank	ANZ	20%
Xian City Commercial Bank	Bank of Nova Scotia IFC	2.5% (will increase to 12.4%) 2.5% (will increase to 12.5%)
Jinan City Commercial Bank	Australia's Commonwealth Bank	11% (optional acquisition to 20%)
Nanjing City Commercial Bank	BNP Paribas	19.2%
Hangzhou City Commercial Bank	Australia's Commonwealth Bank; ADB	19.9% 5%

City commercial banks' assets only represent 5 percent of the nation's banking assets, and in most cities, city commercial banks can't compete with the 'Big Four' in terms of retail deposits. Therefore, the city commercial banks focus on servicing local small and medium-sized enterprises (SMEs).

Asset quality remains a problem in most city commercial banks, since many evolved from the city credit cooperatives, which historically had bad assets. However, the best of the city commercial banks, such as the Bank of Beijing and the Bank of Shanghai, can match the 'Big Four' Banks and the second tier shareholding commercial banks in terms of profitability and asset quality.

With the help of their foreign strategic investors, some major city commercial banks have began to do business across the regions. For example, the Bank of Beijing and the Bank of Shanghai have set up their branches in Tianjin and Ningbo, respectively.

6. Rural Credit Cooperatives/ Rural Commercial Banks/Rural Cooperative Banks

In June 2003, rural credit cooperatives (RCCs) started their reform program. As of the end of 2004, there were more than 38,000 rural credit cooperatives in China. The restructured RCCs are classified into three types, namely rural commercial banks, rural cooperative banks and credit unions. At present, there are 12 rural commercial banks (such as the Beijing Rural Commercial Bank and the Shanghai Rural Commercial Bank), 34 rural cooperative banks (including the Tianjin Cooperative Bank), 172 county-level credit unions and 17 provincial credit unions.

Ever since the CBRC released its control over foreign investment in the credit rural commercial or cooperative banks in July 2006, foreign banks have started to invest in these institutions because they consider them an effective and cheap way to penetrate China's rural financing market. On July 11, 2006, Dutch Rabo Bank and IMF invested in the Hangzhou United Rural Cooperative Bank and acquired 10 percent and 5 percent shares, respectively. On November 21, 2006, ANZ invested more than USD 252 million into Shanghai Rural Commercial Bank and acquired its 19.9 percent shares.

B. Banking System Reform

Currently, the 'Big Four' banks occupy a dominant share in China's banking industry, accounting for 52 percent of total banking assets. Therefore, the banking industry reform has been centered on them. Progress has been made in recent years to transform the 'Big Four' banks from the wholly state-owned banks into modern financial corporate entities with good corporate governance, sound operations, well-defined business strategies, strong financial conditions and competitiveness in international markets. Among the 'Big Four', the Agricultural Bank of China is the only one that still must undergo restructuring. By comparison, the ICBC, CCB and BOC all have completed restructuring, reached strategic investment agreement with their foreign partners, and got listed on the stock market. Furthermore, the CBRC announced on May 17, 2006, that it would require the 'Big Four' banks to keep their bad debt ratios below 5 percent in the wake of their restructuring efforts. They are also required to maintain their capital adequacy at a minimum of 8 percent.

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

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

As interest rate liberalization progressed, the PBOC has liberalized, simplified or abandoned 119 categories of interest rates initially under control since 1996. At present, 29 categories of interest rates remain subject to PBOC control. On January 4, 2007, Shanghai Interbank Offered Rate (Shibor), a new interest rate indicator, formally went into operation. The mechanism will give the central bank real-time market information on interbank interest rates, and may become a new benchmark for the money market. China's current benchmark interest rate is a controlled rate, based on the deposit and loan interest rates of financial institutions. Shibor, as a market-determined interest rate mechanism, injects real-time market information into China's monetary control policy.

Foreign-Exchange Controls

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The PBOC and SAFE regulate the flow of foreign exchange in and out of the country, and set exchange rates through a "managed float" system. The PBC authorized the SAFE to regulate the inter-bank foreign exchange spot and forward markets.

On July 1, 1996, China began to allow all FIEs in China to buy and sell foreign currency and exchange RMB in authorized banks for trade and services, debt payment and profit repatriation. The PBOC lifted limits on exchanging and remitting currency for non-trade purposes and raised the ceilings for the amount of foreign exchange for private use. In June 2002, SAFE authorized FIEs to draw on foreign exchange in their capital fund accounts for transaction settlements without prior SAFE approval. SAFE has also authorized designated Chinese commercial banks to change domestic currency needed by Chinese citizens for educational or travel expenses within specified limits, thus streamlining access to foreign currency for many individuals.

On January 5, 2007, SAFE issued the "Implementing Rules for Measures on the Administration of Foreign Exchange of Individuals". These rules raised the annual quota of forex purchases allowed by Chinese individuals residing in China (domestic individuals) from the previous USD 20,000 to USD 50,000. Before, there was no annual quota on forex sales for individuals. According to the SAFE, setting an annual forex limit for buying and selling for domestic individuals is conducive to curbing illegal capital flow into China through personal channels.

For anti-money laundering purposes, the rules state that if an individual withdraws over USD 10,000 or the equivalent from a bank in one day, he/she must notify a local SAFE branch in advance and provide identification and a reason for the forex withdrawal. If an individual deposits over USD 5,000 or the equivalent in one day, he/she must show to the bank his/her identification and other required documentation.

In April, 2006, the PBOC made the following announcement regarding the partial adjustment of foreign exchange management policies to facilitate trade and investment:

1. In the case that enterprises open, change, or close, foreign exchange accounts used for current account transactions, the administration mode is changed from being based on prior approval to direct processing of the applications by banks in accordance with foreign exchange management requirements and business practices while at the same time filing with the State Administration of Foreign Exchange (SAFE). In addition, the foreign exchange account limits for current account transactions are increased, and enterprises are allowed to purchase foreign exchange in advance to support authentic trade payments.

2. Documents required for sale and purchase of foreign exchange in service trade are simplified with the examination and approval procedures relaxed.

3. Procedures related to sales of foreign exchange to resident individuals are further trimmed and the indicative limits on purchase of foreign exchange are increased up to a yearly quota. Within such a quota, individuals can purchase foreign exchange from banks by presenting their identity documents and declaring the usage of foreign exchange; banks can sell foreign exchange exceeding the quota to individuals after verifying relevant documents to satisfy their real needs.

4. Expanding domestic banks' overseas foreign exchange investment services on behalf of their clients: Qualified banks are allowed to collect RMB funds of domestic institutions and individuals and convert into foreign exchange under a specified limit to invest in overseas fixed income products.

5. Qualified securities brokers such as fund management companies are allowed to collect self-owned foreign exchange of domestic institutions and individuals and use the funds for overseas portfolio investment including buying stocks.

6. Further expanding overseas securities investment by the insurance institutions: Qualified insurance institutions are allowed to purchase foreign exchange for the purpose of investing in overseas fixed-income products and money market instruments. The amount of foreign exchange purchases is subject to a limit proportional to the total asset of an insurance institution.

The PBOC will, together with relevant authorities, organize and implement the above policy measures respectively. In the meantime, the PBOC will closely track and analyze the development of the balance of payments, timely adjust related polices, avoid risks so as to safeguard national economic and financial stability.

Foreign Banks in China Return to top

In accordance with China's WTO obligations, the banking sector opened on schedule to foreign banks on December 11, 2006, which means that the previous geographic and client restriction has been lifted from that day for the foreign banks to conduct RMB-denominated financial products to all types of Chinese clients. On the same date, "The Regulations of the PRC on Administration of Foreign-funded Banks" promulgated by the State Council went into effect. Although foreign banks gained access to the local currency-based retail banking business on December 11, 2006, and no longer face geographic and client restrictions on operations, they still must adhere to China's strict regulatory requirements to conduct retail business.

To become a locally incorporated bank in China, a foreign bank has to commit at least RMB 1 billion in registered capital and meet other conditions. That, along with the cost of operating a branch network, is expected to discourage many foreign banks from setting up local operations. Most are expected to continue to operate through ventures with Chinese partners. Furthermore, there are limits to the percentage or level of combined (25 percent) by multiple financial institutions or sole foreign ownership (20 percent) of any Chinese bank.

According to the CBRC's official data, as of November 2006, there were 25 foreign financial institutions holding shares in 20 large, medium and small sized commercial banks in China. The first foreign invested bank was established in Shenzhen in 1981 and there are now 283 foreign banks operating in China. According the CBRC's official data, by the end of September 2006, 73 foreign banks from 22 different countries and regions established 191 branches and 61 sub-branches in 24 Chinese cities, including Shanghai, Beijing and Shenzhen etc. Additionally, 183 foreign banks from 41 countries and regions established 242 representative offices also in 24 cities. Certain other lesser entities are not specified in the above total.

The total local and foreign currency assets of the foreign-funded banks amounted to USD105.1 billion, accounting for 1.9 per cent of total banking assets in China. Deposits amounted to USD33.4 billion, and combined loans totaled USD54.9 billion.

Although foreign banks have less than two percent share of the total market, they are well positioned with a presence in China's largest coastal cities. Over the past five years, leading players such as HSBC, Citigroup, Standard Chartered and Bank of America Corporation have invested more than USD 20 billion to acquire shares in Chinese banks. On average, their NPLs are lower than 3 percent and they also have better corporate governance. In terms of business development, they can offer stronger financial products, including credit cards.

Foreign Banks' Name	Origin of Country	Branch	Sub – Branch	Representative Office	Total Outlets
HSBC	U.K.	13	13	1	27
Bank of East Asia	Hong Kong, China	11	10	6	27
Standard Chartered	U.K.	10	6	4	20
Citibank	U.S.	6	9	1	16
Hang Seng Bank	Hong Kong, China	7	7	1	15
Sumitomo Mitsui Bank	Japan	5		4	9
BNP Paribas	France	4		2	7

(Source: Moody's Investor Service, as at October 2006)

Trade and Project Financing

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

1. Export Credits

The U.S. Export-Import Bank, an independent agency of the U.S. government, seeks to increase the competitive position of U.S.-based exporters in overseas markets by supporting the financing of U.S. export sales. All of Ex-Im Bank's financial products are available for Chinese buyers of U.S goods and services for the short, medium and long term. Generally speaking, Ex-Im Bank guarantees the repayment of loans or makes loans to international purchasers of U.S. goods and services. Ex-Im Bank also extends export credit insurance to overseas buyers and protects U.S. exporters against the risks of non-payment for political or commercial reasons. A reasonable assurance of repayment on every transaction financed must be provided.

Ex-Im Bank has signed a Framework Agreement (Agreement) with the Ministry of Finance (MoF), Government of China. According to this Agreement the MoF will undertake to provide sovereign guarantee for imports from the U.S, for Chinese government projects. In the past Ex-Im Bank has worked with the Bank of China, China Construction Bank, the Industrial and Commercial Bank of China, the Agricultural Bank of China and the Bank of Communications. For private sector borrowers, Ex-Im Bank will accept financial statements audited according to acceptable accounting practices with auditor's notes and statements that adequately disclose financial conditions and afford a reasonable basis for reliance on the information provided. The terms and conditions of standard export financing are governed by the OECD Arrangement on export credits. For Ex-Im Bank direct loans, lending rates (commercial interest reference rates or CIRR) are set monthly and are based on a spread above U.S. Treasuries.

The U.S. Ex-Im Bank is also open for limited-recourse, project-finance in China. Such a project is one in which anticipated cash flows can cover debt service repayment to lenders and payment of dividends to shareholders, and is without government guarantees. Loans under this program will be available to companies operating investment projects that require imports from the U.S. One such project, an ethylene cracker plant, was recently approved for financing by Ex-Im Bank. Project financing is also available from the various multilateral financial institutions as described in item number three below.

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

For more information concerning Ex-Im Bank programs and application procedures contact Talaat Rahman, Regional Director for Middle East and Asia at Talaat.Rahman@exim.gov or 202-565-3911 (telephone) or 202-565-3961 (fax) Exposure fee calculations and applications can be found on-line at www.exim.gov.

2. Direct grants

U.S. Trade & Development Agency fund feasibility studies, orientation visits, specialized training grants, business workshops and technical assistance worldwide. TDA is active in more than 60 countries and, after a 12-year break, reopened its programs in China in 2001. In order to be eligible for assistance, projects must have a procurement process open to U.S. firms, represent an opportunity for sales of U.S. goods and services and be a development priority of the country where the project is located. Contact Mr. Geoff Jackson, Regional Director for Asia/Pacific, at TDA's Arlington, VA office. Tel: (703) 875-4357, Fax: (703) 875-4009. In China, contact the TDA Representative, Ms. Wan Xiaolei, at the U.S. Commercial Service, U.S. Embassy Beijing at Tel: (86-10) 8529-6655, x839, Fax: (86-10) 8529-6558.

3. Multilateral Agencies

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

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

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

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

In 2002, the PRC, was the ADB’s third largest lending and technical assistance borrower (15.3 percent or USD 868 million). The ADB’s cumulative public sector lending to the PRC reached USD 12.04 billion at the end of December 2002. Between 1988 and 2002, the ADB approved about USD 233 million in loans and equity investments for private sector projects in China.

Once a project is initially approved by the ADB and the Chinese Government, it is included in a monthly publication called "ADB Business Opportunities" which is available by subscription from the Publications Unit, Information Office, ADB, P.O. Box 789, Manila, Philippines, Fax: (632) 632-5122 or 632-5841. The Commerce Department has established a Multilateral Development Bank Operations Office (Fax: (202) 273-0927), which publishes information to assist companies in winning such contracts. The ADB Resident Mission in China is located in Beijing. Contact Toru Shibuichi, Resident Representative at Tel: (86-10) 6642-6601, Fax: (86-10) 6642-6606. Website: www.adb.org.

Web Resources

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

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

OPIC: www.opic.gov

Trade and Development Agency: www.tda.gov

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

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

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Chapter 8: Business Travel

Business Customs

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Colors and Clothing

Colors

In Chinese culture there are three central colors: red, black and white. Red, being the color of blood, symbolizes the positive aspects of life such as happiness, wealth, fame etc. Red is always associated with good luck. Black, being the color of faces is associated with dirt, sin, evil, disasters, sadness, cruelty and suffering among other negative things. Black signifies bad fortune and must not be worn during festivals, wedding celebrations etc. or used in-home decoration. Black symbolizes a lack of civilization and backwardness. However, traditions associated with this color are quickly fading, and among the younger generations black can be frequently seen as a clothing color.

White symbolizes the mother's milk and is intermediate between red and black, balancing the two colors. It signifies moderation, purity, honesty and life, but is also used at funerals, as it is believed it can harmonize all elements. It can be used in all rituals and ceremonies, as it is essentially neutral. Other colors are classified according to their relative darkness and lightness and associated significance thereof.

Clothing

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

Speech and Greeting conventions

Many western visitors to China have had a rude shock: Chinese conversations in public tend to be loud and highly audible- to western ears the conversationalists appear to be arguing.

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

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

The traditional Chinese 'handshake' consists of interlocking the fingers of the hands and waving them up and down several times. This is today rarely used (except during festivals, weddings and birthdays of the elderly), and the western style handshake is ubiquitous among all but the very old or traditional. When greeting, a slight bow often accompanies the handshake, with the bow being deeper the more respect is being proffered to the person, for example an elderly person or someone of high social status.

The Chinese tend not to greet those close to them with greetings that may bear a negative slant such as 'you're looking sad' or 'you're looking tired': this is deemed improper. In formal contexts, or when addressing an elder or person with high status it is considered highly inappropriate and rude to address the person by their given name. They should be addressed according to their designation, for example 'Mr Tang, Doctor Liu, Chairman Lee' etc.

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

Miscellaneous customs and beliefs

Numbers

Numbers play a role second only to food in Chinese custom and culture. It is believed that numbers can determine a person's fate- for example in the naming of a child. Certain numbers are considered lucky, and others unlucky. The luckiest number in Chinese culture is eight, as the Chinese for eight sounds like the word for 'lucky'. Four, conversely is a very unlucky number as in Chinese it sounds like the word for death. Thus Chinese adhering to the customs try to avoid the number four in, for example, car
(Source: Network Center of MOFCOM)

Travel Advisory

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

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

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

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

Visa Requirements

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Entry/Exit Requirements

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

Visas are required to transit China. Persons transiting China on the way to and from Mongolia or North Korea or who plan to re-enter from the Hong Kong or Macau Special Administrative Regions should be sure to obtain visas allowing multiple entries. Permits are required to visit Tibet as well as many remote areas not normally open to foreigners.
For information about landing visa requirements and other entry requirements and restricted areas, travelers may consult the Embassy of the People's Republic of China (PRC) at 2300 Connecticut Avenue N.W., Washington, D.C. 20008, or telephone (1-202) 328-2500, 2501 or 2502. For a list of services and frequently asked visa questions and answers, travelers can view the Chinese Embassy's web sites at http://www.china-embassy.org/ . The Chinese Embassy's visa section may be reached by e-mail at chnvisa@bellatlantic.net . There are Chinese Consulates General in Chicago, Houston,

Los Angeles, New York, and San Francisco. Americans traveling in Asia have been able to obtain visas to enter China from the Chinese visa office in Hong Kong and the Embassy of the People's Republic of China in Seoul, South Korea.

Americans who overstay or otherwise violate the terms of their Chinese visas will be subject to a maximum fine of 5,000 RMB (approximately $600) and departure delays and may be subject to detention. Travelers should note that international flights departing China are routinely overbooked, making reconfirmation of departure reservations and early airport check-in essential.

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

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

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

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

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

Telecommunications Return to top

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

Local/Domestic Calls

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

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

Phone Cards

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

U.S. Long Distance Access Numbers

(From all cities in China)

AT & T –10811
MCI –10812
SPRINT – 10813

China IDD Code – 86

City Codes

Beijing 10
Shanghai 21

Hong Kong IDD Code –852

Telephone Operators

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

Other Numbers

Emergency (Chinese) 119
Police (Chinese) 110
Public Security Bureau (English Assistance) 6525-2729

Cellular Phones

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

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

Cell Phone Dialing Instructions

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

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

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

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

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

Transportation

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Taxis

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

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

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

Airlines

Cathay/Dragon Air	6518-2533
CAAC	6601-7755
Domestic/reconfirm	6601-3336
International/reconfirm	6601-6667

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

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

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

Language Return to top

The Pinyin System of Romanization

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

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

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

Complex initial sounds:

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

Final Sounds:

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

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

Basic Chinese Words/Phrases

Hello	ni hao	你好
Goodbye	zài jiàn	再见
Please	qing	请
Thank you	xiè xiè	谢谢
You're welcome	bù k è q ì	不客气
Excuse me	d u ì b ù q ì	对不起
Have	y o u	有
Do not have	méi y ou	没有
No problem	méi w è n t í	没问题
It doesn't matter	méi g uā n x ì	没关系
Want	yào	要
Do not Want	bù y à o / b ù y òng	不要/不用
Yes	shì	是
No	bù s h ì	不是
Correct/Yes	duì	对
Incorrect/Wrong/No	bù d uì	不对
Chopsticks	kuà i z ì	筷子
Toilet	cè suo	厕所
Toilet paper	wè i shē n g z h i	卫生纸
How are you?	Ni hao ma?	你好吗
Have you eaten? (greeting)	c h ī fàn le ma ?	吃饭了吗
Do you understand?	dong ma ?	懂吗
I don't understand	bù dong	不懂

Phrases for Shoppping

How much does it cost?	duō shao qián	多少钱？
Too expensive!	tài guì l e	太贵了！
A little cheaper please	pián yi dian ba	便宜点吧

Please write the price on a piece of paper and show it to me.
请把价钱写在一张纸上给我看。

Directions

Please take me to the: 送我到：
American Embassy (Beijing) 国大使
Airport (Beijing) (北京)机

Can you please help me find...? 你能帮我找到...？

Can you please help me get a taxi? 你帮我叫辆出租车好吗？

I am from the United States 我从美国来。

Excuse me, where is q i n g w è n , n a l i y o u
请问哪里有

Other

Please help me q in g b ā n g m á n g 请帮忙

Who?	s h é i	谁
What?	s h é n me	什么
When?	s h é n m e s h í h o u	什么时候
Where?	n ar	哪儿
Why?	w è i s h é n me	为什么
How?	z ě n m e	怎么

Health

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Medical Facilities

Western-style medical facilities with international staffs are available in Beijing, Shanghai, Guangzhou and a few other large cities. Many other hospitals in major Chinese cities have so-called VIP wards (gaogan bingfang). These feature reasonably up-to-date medical technology and physicians who are both knowledgeable and skilled. Most VIP wards also provide medical services to foreigners and have English-speaking doctors and nurses. Most hospitals in China will not accept medical insurance from the United States, with the exception of the following hospitals, which are on the BlueCross BlueShield's worldwide network providers - overseas network hospitals' list

(http://www.fepblue.org/wasite/wabenefits/wa-benefitsoverseas04.html): Hong Kong Adventist Hospital, Beijing United Family Hospital, Beijing Friendship Hospital, International Medical Center in Beijing, and Peking Union Medical Center. Travelers will be asked to post a deposit prior to admission to cover the expected cost of treatment. Hospitals in major cities may accept credit cards for payment. Even in the VIP/Foreigner wards of major hospitals, however, American patients have frequently encountered difficulty due to cultural and regulatory differences. Physicians and hospitals have sometimes refused to supply American patients with complete copies of their Chinese hospital medical records, including laboratory test results, scans, and x-rays. All Americans traveling to China are strongly encouraged to buy foreign medical care and medical evacuation insurance prior to arrival. Travelers who want a list of modern medical facilities in China can access that information at the Embassy's website.

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

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

Medical Insurance

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

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

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

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

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

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

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

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

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

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

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

Other Health Information

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

Local Time, Business Hours, and Holidays

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Time

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

12 noon in Beijing is the following time around the world:

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

* Please note that China DOES NOT observe day light savings

Business Hours

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

2007 Holiday Schedule

Below is a list of American and Chinese Holidays in 2007:
January 1, (Mon) New Year's Day
January 15, (Mon) Martin Luther King, Jr's Birthday
February 19, 20, 21, (Mon, Tues, Wed) Lunar New Year
February 19, (Mon) Washington's Birthday
May 1, 2, 3, (Tues, Wed, Thurs) International Labor Day
May 28, (Mon) Memorial Day
July 4, (Wed) Independence Day
September 3, (Mon) Labor Day
October 1, 2, 3, (Mon, Tue, Wed) Chinese National Day
October 8, (Mon) Columbus Day
November 12, (Mon) Veterans' Day
November 22, (Thurs) Thanksgiving Day
December 25, (Tues) Christmas Day

Temporary Entry of Materials and Personal Belongings Return to top

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

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

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

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

Shipping

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

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

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Chapter 9: Contacts, Market Research, and Trade Events

Contacts

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A. State Commissions

State Commission of Science, Technology, and Industry for National Defense
A8 Fucheng Lu, Haidian District, Beijing 100037, China
Beijing 2940 Post Box
Minister: Zhang Yunchuan
Main Line: (86-10) 6851-6733
International Affairs: (86-10) 8858-1475
Fax: (86-10) 8858-1514
Website: www.costind.gov.cn

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

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

B. Chinese Ministries

Ministry of Agriculture
11 Nongzhanguan Nanli, Chaoyang District, Beijing 100026, China
Minister: Sun Zheng Cai
Main Line: (86-10) 6419-3366
International Affairs: (86-10) 6419-2440
Fax: (86-10) 6419-2466
Website: www.agri.gov.cn

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

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

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

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

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

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

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

Ministry of Health
1 Xizhimenwai Nanlu, Xicheng District, Beijing 100044, China
Minister: Gao Qiang

Main Line: (86-10) 6879-2114
International Affairs: (86-10) 6879-2292
Fax: (86-10) 6879-2290
Website: www.moh.gov.cn

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

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

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

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

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

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

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

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

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

C. Bureaus and Administrations Directly Under the State Council

Government Offices Administration of the State Council
22 Xi'anmen Dajie, Beijing 100017, China
Director: Jiao Huancheng
Tel: (86-10) 6603-6447
Fax: (86-10) 6309-6382
Website: www.ggj.gov.cn

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

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

National Tourism Administration

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

State Administration for Industry and Commerce
8 Sanlihe Donglu, Xicheng District, Beijing 100820, China
Director: Shou Bohua
Main Line: (86-10) 6803-2233
International Affairs: (86-10) 6803-2233 ext. 1508
Fax: (86-10) 6802-3447
Website: www.saic.gov.cn

State Administration for Religious Affairs
No.44, Hou Hai Bei Yan, Xi Cheng District, Beijing 100009, China
Director: Ye Xiaowen
Tel: (86-10) 6409-5114
Fax: (86-10) 6409-5000
Website: www.sara.gov.cn

State Administration of Radio, Film, and Television
2 Fuxingmenwai Dajie, Beijing 100866, China
Minister: Wang Taihua
Main Line: (86-10) 8609-3114
International Affairs: (86-10) 8609-2141
Fax: (86-10) 6801-0174
Website: www.sarft.gov.cn

State General Administration for Quality Supervision and Inspection and Quarantine
No.9 Ma Dian Bridge East, Hai Dian District, Beijing 100088, China
Director: Li Changjiang
Main Line: (86-10) 8226-0114
International Affairs: (86-10) 8226-2176
Fax: (86-10) 8226-0552
Website: www.aqsiq.gov.cn

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

State Food and Drug Administration
Jia 38 Beilishilu, Xicheng District, Beijing 100810, China
Director: Shao Mingli
Main Line: (86-10) 6831-3344
International Affairs: (86-10) 6831-1986

Fax: (86-10) 6833-7662
Website: www.sda.gov.cn

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

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

State Intellectual Property Office
6 Xituchenglu, Jimenqiao, Haidian District, Beijing 100088, China
Director: Tian Lipu
Main Line: (86-10) 6208-3114
International Affairs: (86-10) 6208-3268
Fax: (86-10) 6201-9615
Website: www.sipo.gov.cn
General Administration of Press and Publication
85 Dongsi Nandajie, Dongcheng District, Beijing 100703, China
Director: Long Xinmin
Main Line: (86-10) 6512-4433
International Affairs: (86-10) 6523-1141
Fax: (86-10) 6512-7875
Website: www.ncac.gov.cn

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

National Bureau of Statistics
75 Yuetannanjie, Xi Cheng District , Beijing 100826, China
Director: Xie Fuzhan
Main Line: (86-10) 6857-3311
International Affairs: (86-10) 6857-6355
Fax: (86-10) 6857-6354
Website: www.stats.gov.cn

D. Offices Under the State Council

General Office of the State Council
Zhongnanhai, Beijing 100017, China
Secretary General: Hua Jian Min
Tel: (86-10) 6309-6898
Fax: (86-10) 6309-3102
www. gov.cn

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

Information Office Information Centre Legislative Affairs Office State Council PRC
225 Chaoyangmenwai, Dongcheng District, Beijing 100010, China
Director: Zhao Qizheng
Tel: (86-10) 8652-1199
Fax: (86-10) 6559-2364

Legislative Affairs Office
9 Wenjinjie, Beijing 100017, China
Director: Cao Kang Tai
Tel: (86-10) 6309-7599
Website: www.chinalaw.gov.cn

Office of Overseas Chinese Affairs of State Council
35 Fuwaidajie, Beijing 100037, China
Director: Chen Yujie
Tel: (86-10) 6832-7530
Fax: (86-10) 6832-7538
Website: www.gqb.gov.cn

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

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

E. Institutions

China Meteorological Administration

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

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

Chinese Academy of Engineering
3 Fuxinglu, Beijing 100038
President: Xu Kuang Di
Tel: (86-10) 6857 0320
Website: www.cae.cn

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

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

Development Research Center of state council
225 Chaoyangmennei Avenue, Dongcheng District, Beijing 100010
Director: Wang Mengkui
Tel: (86-10) 6523-0008
Website: www.drc.gov.cn

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

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

F. Bureaus Supervised by Commissions and Ministries

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

State Administration of Traditional Chinese Medicine
Building 13, Bajiazhuang Dongli, Chaoyang District, Beijing 100026
Director: Ms. She Jing
Tel: (86-10) 6506-3322
Website: www.satcm.gov.cn

State Administration of Cultural Heritage
10 Chao Yang Men Bei Da Jie, Dongcheng District, Beijing 100020, China
Director: Shan Ji Xiang
Website: www.sach.gov.cn
Tel: (86-10) 5988 1572

State Administration of Foreign Experts Affairs
No.1 Zhong guan cun south street, Haidian District, Beijing 100873, China
Director: Ji Yunshi
Tel: (86-10) 6894-8899
Website: www.safea.gov.cn

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

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

China National Light Industry Council
Yi 22 Fuwaidajie, Beijing 100833, China
Chairman: Chen Shineng
Tel: (86-10) 6839-6228
Fax: (86-10) 6839-6351

China Iron and Steel Association
46 Dongsi Xidajie, Dongcheng District, Beijing 100711, China
Director: Xie Qi Hua
Tel: (86-10) 6513-3322
Website: www.chinaisa.org.cn

State Oceanic Administration
1 Fuxingmenwai Dajie, Beijing 100860, China
Director: Sun Zhi-Hui

Tel: (86-10) 6803-2211
Website: www.soa.gov.cn

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

State Postal Bureau
131 Xuan Wu Men Xi Da Jie District, Beijing 100808, China
Director: Liu An Dong
Tel: (86-10) 6606-9955
Fax: (86-10) 6641-9711
Website: www.chinapost.gov.cn

China National Textile Industry Council
12 Dongchang'anjie, Beijing 100742, China
Director: Du Yuzhou
Tel: (86-10) 8522-9207/9205/9217
Fax:(86-10) 8522-9283
Website: www.cntac.org.cn

State Tobacco Monopoly Bureau
No2 Building, 26 West Xuanwumen Avenue, Xuanwu District, Beijing 100053, China
Chief Commissioner: Jiang ChenKang
Tel: (86-10) 6360-5852/5782
Fax: (86-10) 6360-5036
Website: www.tobacco.gov.cn

G. Associations & Corporations

All-China Federation of Industry and Commerce
93 Beiheyan Dajie, Beijing 100006
Chairman: Huang Meng Fu
Tel: (86-10) 6513-6677
Website: www.acfic.org.cn

China Chamber of International Commerce (co-located with CCPIT, see below)
1 Fuxingmenwai Street
Beijing 100860
Tel: (86-10) 8807 5000
Fax: (86-10) 6801 1370

China Council for the Promotion of International Trade(CCPIT)
1 Fuxingmenwai Street, Beijing 100860
President: Wan Ji Fei
Tel: (86-10) 8807 5000
Fax:(86-10) 6801 1370
Website: www.ccpit.org

China Huaneng Group
40 Xue Yuan Nan Lu, Haidian District Beijing 100082, China
President: Li Xiaopeng
Tel: (86-10) 8807 5000
Fax: (86-10) 6801 1370
Website: www.chng.com.cn

China International Trust and Investment Corporation
Capital Mansion, 6 Xinyuan Nanlu, Chaoyangqu, Beijing 100004 China
President: Kong Dan
Tel: (86-10) 6466-0088
Website: www.citic.com

China Nonferrous Metals Industry Association
Yi 12 Fuxing Lu, Haidian District, Beijing 100814, China
President: Kang Yi
Tel: (86-10) 6397-1859 / 6397 1618
Website: www.chinaia.org.cn

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

China National Petroleum Corp.
6 Liupukang, Xicheng District, Beijing 100724, China
President: Jiang Jiemin
Tel: (86-10) 6209-4114
Website: www.cnpc.com.cn

China National Tobacco Corporation
#26 B. Xuwumenwai, Xi Da Jie, Xuanwu District, Beijing, 100053
President: Jiang Cheng Kang
Tel: (86-10) 6360-5678
Fax: (86-10) 6360-5681

China North Industries Corp.
Guang An Men Nan Da Jie Jia 12, Beijing 100053, China
President: Mr. Zhang Guo-Qing
Tel: (86-10) 6352-9988
Fax: (86-10) 6354-0398
Website: www.norinco.com.cn

China Petro-Chemical Corporation
6 Hui Xin Dong Jie Jia, Beijing 100029
President: Wang Tian-Pu
Tel: (86-10) 6499-9936

Fax:(86-10) 6421-8356
Website: www.sinopec.com.cn

China State Construction Engineering Corporation
15 Sanlihe Rd., Xicheng District, Beijing 100037, China
President: Sun Wenjie
Tel: (86-10) 8808-2958
Fax: (86-10) 8808-2789
Website: www.cscec.com.cn

China State Shipbuilding Corporation
5 Yuetanbeijie, Xicheng District, Beijing 100861, China
President: Li Changyin
Tel: (86-10) 6803-8833 6803-9205 6803-3947
Fax: (86-10)6803-9205/ 6803-1579
Website: www.csic.com.cn

Everbright Industrial Corp.
6 Fu Xing Men Wai Street, Everbright Building, Beijing 100045, China
President: Wang Minquan
Tel: (86-10) 6856-1226/1206
Fax: (86-10) 6856-1121
Website: www.ebchina.com

People's Insurance Company of China
#69 Xuan Wu Men Dong He Yan Jie, Beijing 100052, China
President: Tang Yunxiang
Tel: (86-10) 6315-2033 / 6303-5376
Fax: (86-10) 6315-2033 / 6303-3589
Website: www.piccnet.com.cn

H. American Chambers of Commerce/Trade Associations

American Association for Manufacturing Technology
Rm. 2507 Silver Tower
2 Dongsanhuan North Road
Chaoyang District
Beijing 100027
Tel: (86-10) 6410-7374, 6410-7375/76
Fax: (86-10) 6410-7334

American Chamber of Commerce in Beijing
James Zimmerman, Chairman
Michael Barbalas, President
Suite 1903 China Resources Building
8 Jianguomenbei Avenue
Beijing 100005
Tel: (86-10) 8519-1920
Fax: (86-10) 8519-1910
Website: www.amcham-china.org.cn

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

Construction Industry Manufacturers Association (CIMA)
No. 6 Southern Capital Gymnasium Road
Room 458, Office Tower New Century Hotel
Beijing 100044
Tel: (86-10) 6849-2403
Fax: (86-10) 6849-2404
Website: www.cm-1.com

U.S.-China Business Council
Robert Poole, Director of China Operations
CITIC Building, Room 1001
Beijing 100004
Tel: (86-10) 6592-0727
Fax: (86-10) 6512-5854,
Website: www.uschina.org

U.S. Grains Council
Todd Meyer, Director
China World Tower 2, Room 901
Beijing 100004
Tel: (86-10) 6505-1314, 6505-1302
Fax: (86-10) 6505-0236
Website: www.grains.org
U.S. Wheat Associates
Zhao Shipu, Director
China World Tower2, Room 903
Beijing 100004
Tel: (86-10) 6505-1278, 6505-3866
Fax: (86-10) 6505-5138
Website: www.uswheat.org

United States Information Technology Office (USITO)
Greg Shea, Managing Director
Room 516, Beijing Fortune plaza office Tower, No.7 Dongsanhuan Zhong Lu
Chaoyang District, Beijing 100020, China
Tel: (86-10) 6530-9368/69/70
Fax: (86-10) 6530-9367
Website: www.usito.org

I. U.S. Embassy Contacts

U.S. Embassy Beijing
No. 3 Xiu Shui Beijie
Beijing, China 100600

Tel: (86-10) 6532-3831
Website: www:beijing.usembassy-china.org.cn

Mailing Address from U.S.:
U.S. Embassy Beijing
Department of State
Washington, D.C. 20521-7300

Ambassador's Office
Clark T Randt, Jr.
Tel: (86-10) 6532-3831, x 6400
Fax: (86-10) 6532-6422

Economic Section
Minister-Counselor for Economic Affairs: Robert Luke
Tel: (86-10) 6532-3831 x 6999
Fax: (86-10) 6532-6422

U.S. Commercial Service
Minister-Counselor for Commercial Affairs: Barry Friedman
Tel: (86-10) 8529-6655 x801
Fax: (86-10) 8529-6558
Deputy : Bill Brekke
Tel: (86-10) 8529-6655 x802
Fax: (86-10) 8529-6558

Foreign Agricultural Service
Agricultural Affairs Office
Minister-Counselor for Agricultural Affairs: Maurice House
Tel: (86-10) 6532-1953
Fax: (86-10) 6532-2962

Beijing Agricultural Trade Office
Director: Laverne Brabant
Tel: (86-10) 8529-6418
Fax: (86-10) 8529-6692

Guangzhou Agricultural Trade Office
Director: Joanie Dong
Tel: (86-20) 8667-7553
Fax: (86-20) 8666-0703

Shanghai Agricultural Trade Office
Director: Wayne Batwin
Tel: (86-21) 6279-8622
Fax: (86-21) 6279-8336

Animal and Plant Health Inspection Service
Director Gary Greene
Tel: (86-10) 6532-3212
Fax: (86-10) 6532-5813

American Consulate General Chengdu
No. 4 Lingshiguan Road, Section 4
Renmin Nanlu, Chengdu China 610041
Consul General: James Boughner
Tel: (86-28) 8555-3119
Fax:(86-28) 8558-3520
Principal Commercial Officer: Eric Wolf
Tel: (86-28) 8558-3992
Fax: (86-28) 8558-9221

American Consulate General Guangzhou
No. 1 South Shamian Street, Guangzhou China 510133
Consul General: Robert Goldberg
Tel: (86-20) 8121-8000
Fax: (86-20) 8121-6296
Principal Commercial Officer: Robert Murphy
Tel: (86-20) 8667-4011
Fax: (86-20) 8666-6409

American Consulate General, Shanghai
1469 Huaihai Zhong Lu, Shanghai China 200031
Consul General: Kenneth Jarrett
Tel: (86-21) 6433-6880
Fax: (86-21) 6433-4122
Principal Commercial Officer: David Gossack
Tel: (86-21) 6279-7630
Fax: (86-21) 6279-7639

American Consulate General Shenyang
No. 52, 14th Wei Road, Heping District
Shenyang China 110003
Consul General: Steve Wickman
Tel: (86-24) 2322-1198
Fax: (86-24) 2322 2374
Principal Commercial Officer: Yause Pai
Tel: (86-24) 2322-1198
Fax: (86-24) 2322-2206

J. Washington-based USG China Contacts

U.S. Department of Commerce
International Trade Administration
Office of China Economic Area
Room 1229
14th & Constitution Avenue
Washington, D.C. 20230
Tel: (202) 482-3583
Fax: (202) 482-1576

Multilateral Development Bank Office

Tel: (202) 482-3399
Fax: (202) 482-5179

The China Business Information Center (CBIC)
U.S. Department of Commerce
Tel: 800-USA-TRADE
www.export.gov/china

U.S. Department of State
Office of China and Mongolia
Bureau of East Asia & Pacific Affairs
Room 4318, 2201 C Street, N.W.
Washington, D.C. 20520
Tel: (202) 647-6796
Fax: (202) 647-6820
Office of Business Affairs
Tel: (202) 746-1625
Fax: (202)647-3953

U.S. Department of Agriculture
International Trade Policy
Asia American Division
Foreign Agricultural Service
Stop 1023
14th and Independence SW
Washington, D.C. 20250-1023
Tel: (202) 720-1289
Fax: (202) 690-1093
Email: deatonl@fas.usda.gov

AgExport Services Division
Foreign Agricultural Service
Ag Box 1052
14th and Independence SW
Washington, D.C. 20250-1052
Tel: (202) 720-6343
Fax: (202) 690-4374
Trade Assistance & Promotion Office
Tel: (202) 720-7420

Office of U.S. Trade Representative
China Desk
600 17th Street, NW
Washington, DC 20506
Tel: (202) 395-5050
Fax: (202) 395-3911

U.S. Ex-Im Bank
Business Development Office
Washington, D.C.
Tel: 202-565-3900

Fax: 202-565-3723
Website: www.exim.gov

K. U.S.-Based Multipliers

U.S.-China Business Council
John Frisbie, President
1818 N Street, N.W., Suite 500
Washington, D.C. 20036-5559
Tel: (202) 429-0340
Fax: (202) 775-2476
Webiste: www.uschina.org

Market Research

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Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

Trade Events

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Please click on the link below for information on all worldwide upcoming trade events.

http://www.export.gov/tradeevents.html

Please click on the link below for information on upcoming trade events in China.

http://www.buyusa.gov/china/en/chinashows.html

The U.S. Department of Commerce, Foreign Commercial Service will construct U.S. Pavilions at key trade shows throughout China to promote American goods and services.

Developed in coordination with major Chinese exhibition companies, the U.S. Pavilions provide a unique opportunity for American companies to be involved in key international exhibitions around China.

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Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

In China the Commercial Service connects you with local, on-the-ground contacts in China, wile giving you the support of over 100 U.S. Department of Commerce staff in China and over 100 Export Assistance Centers throughout the Unites States.

Through a partnership between the U.S. Commercial Service and China's national trade promotion organization, the China Council for the Promotion of International Trade, the U.S. Commercial Service put a network of China trade experts at your fingertips, while assuring you the quality service American businesses have come to expect from the U.S. Commercial Service worldwide.

Operating in 19 cities across China our specialists can help you find an agent, or expand your geographical range and market reach. These cities include: Beijing, Shanghai, Guangzhou, Chengdu, Shengyang, Harbin, Dalian, Tianjin, Qingdao, Xian, Wuhan, Nanjing, Ningbo, Hangzhou, Chongqing, Kunming, Xiamen, Shenzhen, and Zhuhai.

For more information on the services the U.S. Commercial Service offers U.S. businesses, please click on the link below.

http://www.buyusa.gov/china/en/programs.html

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