CHINA COUNTRY COMMERCIAL GUIDE FY 2004

A Guide to Doing Business in China &
Information on Current Economic Conditions

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Fiscal Year 2004

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1. Executive Summary

China's accession to the WTO, on December 11, 2001, heralds a new era. Accession to the WTO symbolizes China's ongoing integration into the world economy, a transition from central planning to market-based regulatory principles and significant opportunity for American exporters. China's WTO membership is changing the way business is conducted. However, the transition is gradual, and not without bumps in the road.

Meanwhile, China's economy continues to be healthy. Last year the official rate of Gross Domestic Product (GDP) growth was slightly over 8 percent and the number of foreign firms doing business in or with China has grown exponentially. According to Chinese statistics from last year, foreign firms invested over USD 57 billion in China. Chinese statistics suggest that American companies invested approximately USD 4 billion in 2002, including the continued expansion of American companies already operating in China.

Despite the high level of interest, China remains a medium-sized market, albeit one with vast potential. Last year, China's GDP was USD1.24 trillion. This is about the size of the economy of Italy. Spread over a population of 1.3 billion, this does not represent a large amount of disposable income for the people of China. Last year, rural per capita GDP was USD 298.66 and urban per capita GDP was USD 906.89.

Since 1990, U.S. exports to China have grown almost 12 percent annually. Since joining the WTO, American exports have accelerated substantially, growing 15 percent in 2002 and 36.6 percent in the first quarter of 2003. China is America's sixth largest export market, after Germany. In 2002, China consumed 3.3 percent of total U.S. exports.

In 2002, exports from China to the rest of the world were up 22 percent and imports rose 21 percent. China recorded a multilateral trade surplus with the world equal to about 3 percent of China's GDP. In the Q1 of 2003, however, China recorded a multilateral trade deficit of approximately USD 1 billion, due to rapid expansion of imports.

The growth of imports in many key sectors, such as energy, chemicals, machinery, telecommunications, medical equipment, construction, services and franchising suggests that China will remain an interesting and viable market for some time to come. With China's accession to the WTO, the number of sectors with market potential accessible to American companies will expand dramatically.

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

1. China often lacks predictability in its business environment. Predictability can be provided by a transparent and consistent body of laws and regulations. China lacks both. Its current legal and regulatory system can be opaque, inconsistent, and often arbitrary.

2. China has a government that tends to be mercantilist. China has made significant progress toward a market-oriented economy, but parts of its bureaucracy still tend to protect local firms and state-owned firms from imports, while encouraging exports. WTO accession will certainly help in this area as well.
3. China has the remnants of a planned economy. In many sectors of the Chinese business community, the understanding of free enterprise and competition is incomplete. The Chinese economy is often prone to over-investment and over-production, for reasons not related to supply and demand.
4. Foreign businesses have tended to under-estimate the challenges of establishing operations in China. Encouraged by a government eager for foreign capital and technology, and entranced by the prospect of 1.3 billion consumers, thousands of foreign firms have charged into the Chinese market. These companies often do not fully investigate the market situation, don't perform the necessary risk assessment, and fail to get counsel. Without the necessary preparation, these companies often stumble into bad business deals, resulting in trade complaints and lost investments.

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

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

2. Economic Trends and Outlook

A. Major Trends and Outlook

China's economy grew faster than expected in the first quarter of 2003, with gross domestic product (GDP) rising nearly ten percent in real terms according to official figures. The outbreak of the Severe Acute Respiratory Syndrome (SARS) virus and its negative economic effects, particularly on service industries, however, led to forecasts that annual growth would remain in the 7-8 percent range seen over the past six years. Price deflation and growing unemployment remained key economic concerns, exacerbated by the SARS outbreak. Nevertheless, most observers believed that China's GDP growth for 2003 would still exceed the government's target rate of seven percent. According to Chinese government statistics, China's gross domestic product in 2002 officially achieved real growth of 8.0 percent, above the government's declared target of 7 percent, one of the best results since the 1997-98 Asian Financial Crisis. (It must be stressed, though, that many Chinese economic statistics, particularly those announced by provincial and local governments, are seriously flawed. For example, all of China's provinces reported GDP growth rates higher than the national rate of 8.0 percent in 2002.)

Many analysts credit China for achieving a "soft landing" for its economy during the mid-1990s, bringing about stable growth with low inflation after earlier bouts of inflationary excess. Stringent monetary policies, however, caused consumer price levels to decline in 1998 and 1999. Although government-mandated service price increases kept China's consumer price index (CPI) marginally positive in 2000 and 2001, the CPI declined again in 2002, falling 0.8 percent from the 2002 level. Retail prices, which have declined every year since 1997, fell 1.3 percent. Some economists worry that China may not be able to create the high levels of investment and consumption, particularly from the private sector, needed to resolve the structural problems that beset the nation's economy.

China has effectively pegged the exchange rate for its currency (the renminbi or RMB) at RMB 8.3 to USD 1.00 since 1997. The Chinese currency, however, floats against other currencies in line with changes in the value of the U.S. dollar. With the fall in interest rates overseas, particularly the United States, and continued strong performance in the current account, China maintained a good position in its balance of payments. The country's foreign currency reserves totaled nearly USD 300 billion at the end of 2002 and continued to show strong growth in the first half of 2003. Although some foreign observers believe the RMB is undervalued vis-a-vis the U.S. dollar, the Chinese authorities have clearly indicated their belief that preserving stability in the exchange rate with the dollar serves China's interests. Nonetheless, the authorities acknowledge that China will eventually need to move toward a more market-based exchange rate mechanism and have committed themselves to doing so, albeit with no definite timeframe for the change.

The central government acknowledges that unemployment and income inequality are growing problems. In 2002, the average annual per capita disposable income of urban residents was equivalent to USD 928 while rural per capita income averaged about USD 298. Only seven of China's provincial-level jurisdictions reported per-capita rural income levels in 2002 above USD 365 per year (i.e., the World Bank's USD 1 per day standard for absolute poverty).

China's chronic and growing labor surplus is not reflected in the government's announced unemployment rate for 2002 of 4.0 percent. According to estimates made by China's Ministry of Labor and Social Security, urban job seekers in 2003 are likely to exceed available openings by about 14 million, or 5.6 percent of the total urban workforce. These estimates, moreover, do not account for the approximately 150 million surplus rural workers who make up the "floating population" that migrates between agriculture and urban jobs. The outbreak of the SARS virus, which disproportionately affected the commercial and service sectors, will inevitably exacerbate employment pressures in 2003. For example, data for 2002 show that wholesale and retail commerce, catering, and services, all of which suffered serious losses of business due to the SARS outbreak in April and May 2003, contributed over 16 percent to total urban employment.

B. Principal Growth Sectors

Industry, defined as manufacturing, mining, and energy production, continued to dominate the Chinese economy in 2002, contributing about 45 percent to total GDP. Although demand for consumer goods remains relatively weak, government-backed spending on basic infrastructure, technical upgrades to leading enterprises, and real estate development has led to substantial growth in the output of steel, construction materials, and manufacturing equipment. Total industrial value-added rose 12.6 percent in 2002 and maintained strong growth into the first half of 2003. The full "secondary sector" of GDP, which includes construction as well as industry, grew 9.9 percent in 2002, to make up over half of total gross domestic product. In contrast, China's entire services sector produced slightly less than 34 percent of GDP and increased 7.3 percent in 2002, while agriculture, which continues to employ half of China's 740 million strong labor force, only contributed 14.5 percent and grew a meager 2.9 percent year-on-year.

Retail sales of consumer goods were slightly under RMB 4.1 trillion in 2002, an increase of 8.8 percent over the 2001 total. Nevertheless, this rate of increase represents a slowdown of over a percentage point from the growth rate recorded a year early. In addition, the SARS outbreak had a dramatic impact on retail sales growth in the first half of 2003. Retail sales of consumer items only increased 4.3 percent in May 2003, the lowest rate of growth recorded in over a decade.

C. Government Role in the Economy

Although China's private sector has grown tremendously since economic reforms began in 1979, state-owned or state-controlled entities continue to play the leading role in the Chinese economy. For example, traditional state-owned enterprises and corporations with majority of shares held by the state accounted for just under 42 percent of gross industrial output for the year. In addition, the Chinese Communist Party maintains its authority to oversee economic policies as well as managerial appointments in all financial institutions and major industrial enterprises. Although the authorities' long-term plan is to sell all or part of the government share in most state-owned enterprises and financial institutions to the public, ultimate control over managers of these assets will remain in the hands of the Party. Leading officials and bureaucratic institutions also maintain substantial authority to approve or deny investment decisions by enterprises and individuals.

Although direct price controls on most commodities have been eliminated, prices for thirteen broad categories of items, including electric power, transportation, telecommunications, and some services, remain subject to varying degrees of government "guidance." Petroleum prices have generally been allowed to fluctuate in accord with the international market. The government sets all interest rates and fees at financial institutions, distorting the cost of capital and preventing banks and other institutions from using interest rates as a way to adjust for risk.

D. Infrastructure Investment

Infrastructure investment is a key element of China's economic growth potential, with major infusions scheduled for the road, railway, port, telecommunications, oil and gas, and coal sectors. Improvements to the rural electrical grid are also underway. Since 1998, the Chinese Government has issued about RMB 790 billion in special bonds to fund infrastructure projects aimed at stimulating the domestic economy. This has kept growth in overall investment in double-digits. Total fixed asset investment grew 16.1 percent in 2002. Infrastructure investment, which rose 16.4 percent in 2002, accounted for about 40 percent of the total. State planners have set a target for total increase in fixed asset investment of 12 percent for 2003. Through May 2003, however, fixed asset investment by state-owned and "other" entities (the latter being mostly mixed public-private and foreign invested enterprises) increased nearly 32 percent year-on-year, with infrastructure investment growing 28.7 percent.

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

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

Infrastructure development in the telecommunications sector remains strong and China now boasts the largest wireline and wireless networks in the world. The Chinese Government’s policies have contributed to this growth. They have made telecom and IT development a national priority and enacted preferential policy initiatives to promote telecommunications modernization throughout the country. In addition, technological advances have contributed to network expansion by making better equipment available at lower prices. In 2002, telecommunications fixed asset investment decreased sharply by over 20 percent due to fierce competition and restructuring in the industry, but showed some recovery in 2003 with significant spending on network expansion by the telecom providers. In the first five months of 2003, this investment totaled RMB 57.2 billion, an increase of 41.9 percent compared with the same time period from 2002.

3. Political Environment

Although there has been considerable reform of China's economic model - from a centrally planned economy to a market-oriented one - the same is far less true of the PRC's (People’s Republic of China) political system. The Chinese Communist Party (CCP) still dominates the entire political apparatus, and its leaders make all major policy decisions. Party members hold most senior government positions at all levels of administration. Ultimate authority rests with the 24 members of the CCP Politburo and, in particular, its nine-member Standing Committee. Ministries and lower-level counterparts implement policy on a day-to-day basis, and China's parliament, the

National People's Congress (NPC), reviews and approves legislation and nominees for government offices. Many provincial governments - especially those in fast-growing coastal regions - actively adapt central government policy decisions to suit local needs. Senior leaders generally agree on the need for further economic reform, but stability remains the paramount concern, and differences exist within the leadership over the content, pace, and goals of both economic and political reform.

The November 2002 16th Communist Party Congress began the transition of power from former Party General Secretary Jiang Zemin to new Party General Secretary Hu Jintao. This transition was finalized in March 2003 during the first annual session of the Tenth NPC, which named Hu Jintao President of the People's Republic of China. Jiang Zemin remains Chair of the CPC Central Military Commission. The NPC also named Wen Jiabao Premier of the State Council. His portfolio includes economic issues. He is expected to continue economic reforms begun by his predecessor, Zhu Rongji.

China faces a growing disconnect between the demands of its reforming economy and society and a political system that is largely ill-suited to meet their needs. The growing disparity between urban and rural incomes, income gaps between the wealthy coastal regions and the poor interior, a large "floating population" of itinerant workers, mounting unemployment created as State-Owned Enterprises restructure and downsize, and official corruption are the chief potential threats to stability. So far, none has prompted the kind of mass protest movement that erupted in Beijing in the spring of 1989, although a number of localized large-scale labor protests occurred in 2002. The central authorities prefer to minimize tensions through the implementation of pragmatic policies. They also recognize that moves to reduce personal and economic freedoms would harm China's long-term interests. Nonetheless, the national leadership would respond forcefully if confronted with what it regarded as another serious threat to its monopoly on political power, as it did after approximately 10,000 members of the Falun Gong spiritual movement appeared outside the leadership compound in Beijing in April 1999. As evidenced by harsh sentences handed down to labor activists and Internet dissidents in May and June 2003, the new leadership appears to be placing a strong emphasis on stability and perceived threats to power.

Political relations with the U.S. temporarily deteriorated following the accidental bombing of the Chinese Embassy in Belgrade, Yugoslavia, in May 1999 and again following the collision of a U.S. EP-3 reconnaissance aircraft and a Chinese fighter in international airspace in April 2001. Bilateral relations have gradually recovered from both incidents. China came out firmly in support of the United States following the September 11 terrorist attacks. Relations further improved with the October 2001 and February 2002 visits by President Bush to China and the October 2002 visit of then President Jiang Zemin to the United States. Differences, however, remain between the U.S. and Chinese governments on some political issues, such as nonproliferation and human rights, and these will continue to color the relationship.

4. Marketing U.S. Products and Services

A. Distribution and Sales

Before China's accession to the WTO, China prohibited foreign companies from distributing imported products or providing repair and maintenance services. Since

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

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

Trading Companies: One of the legal changes as a result of WTO was the release in July of 2001 of the Expanding Import and Export Management Rights of Foreign Invested Enterprises (FIEs) rule. Prior to WTO accession, FIEs always had the rights to import materials needed for production and export the products they produced. The rule was designed to allow manufacturing FIEs to become export trading companies, purchasing and exporting any products free from quotas, license control and government monopoly. This is the first step towards implementing China's commitment to liberalize trading rights. FIEs in foreign trade zones are now allowed to establish offices outside the zones, which will enable FIEs to establish distribution networks across the country before the phase-in of the distribution rights. China's WTO implementing documents state that 3 years after China's WTO accession, all Chinese companies that have RMB 1 million in capitalization and are registered, can obtain an import/export license.
The law was to cover the establishment of FIE service suppliers (distribution companies) on December 11, 2002, but then only through joint ventures in which an FIE has a minority stake. However, this did not happen. The Chinese government maintains that as FIEs can set up wholesaling and retailing companies that they meet their requirements. It is unclear at this time whether FIEs will be able to distribute products they do not manufacture in China or whether the foreign invested would need to establish a minority foreign-owned distributor.

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

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

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

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

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

The U.S. Commercial Service (USCS) assists new-to-market firms. The International Partner Search (IPS) will locate, screen, and assess potential qualified overseas sales representatives, agents, distributors, joint venture partners, licensees, franchisees or strategic partners for your products or services. The IPS program locates up to six potential agents or distributors, screened from a large pool of candidate firms. Normal turnaround time is around 30 calendar days after each post receives USD 450 for each product line and the company's product literature. A report is developed from on-the-spot research by U.S. Embassy staff and provides the contacts needed to launch marketing efforts in China. As a next step, a visit to China can be supported by our Gold Key Service (GKS), which is designed to set-up appointments with prospective agents and distributors, and key government officials responsible for an industry (USD 600 per location). IPS clients can upgrade their existing IPS to meet one-on-one with those identified companies (i.e, GKS) for USD 150 if done within 6 months upon completion of the IPS. Regional IPSs and GKSs are available from the USCS offices in Beijing, Shanghai, Guangzhou, Shenyang, and Chengdu, but nation-wide searches are not available.

For those firms unable to travel and seeking potential partners, USCS continues to offer BuyUSA.com as a user-supported "B2B" web site. Companies seeking foreign partners may list their firm's information, and foreign buyers are enlisted worldwide

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

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

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

Establishing a Chinese Subsidiary: A locally-incorporated equity or cooperative joint venture with one or more Chinese partners, or a wholly foreign-owned enterprise (WFOE, often pronounced "woofy"), may be the final step in developing markets for a company's products. In-country production avoids import restrictions - including relatively high tariffs - and provides U.S. firms with greater control over both intellectual property and marketing. The establishment of a WFOE in China has gained in popularity among U.S. firms as a result of an easing of restrictions, directly attributed to China's accession to the WTO.

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

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

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

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

Direct selling: Major U.S. direct selling companies entered the China market in the early- to mid-1990's, when China's legal and regulatory framework for this industry was not very clear. Direct selling was quickly modeled after by domestic Chinese companies, some of whom abused this legitimate format of doing business and operated scams to cheat consumers and evade taxes. In early 1998, the Chinese Government started implementing a series of strict controls over this industry, culminating in the re-licensing of all direct selling companies. Although a few major U.S direct selling companies were re-issued business licenses, restrictions are severe and requirements many, resulting in difficult a business environment.

E-Commerce: The Chinese Government has adopted an open attitude towards the advent of electronic commerce in China. Interest among both Chinese and international businesses focuses on investing and on establishing vertical integration and sales channels on-line. Investment is risky, however, due to the lack of clearly defined regulatory powers over the industry, an effective Chinese certificate authentication system, secure and reliable on-line settlement system, and an efficient physical delivery system. Many U.S. IT sector companies have been actively engaged in jointly developing these systems in China, and WTO accession will increase the speed of these developments. E-commerce in China has great potential, but first must overcome three major impediments: 1) China is still a cash-based society and use of credit cards is not widely adopted; 2) channels of distribution in China are not well developed for the delivery of items purchased over the Internet; and 3) Internet security.

There are several Chinese Internet companies that have been very successful in a cash-on-delivery e-commerce model in the major cities. The recent SARS epidemic proved that China is ready to adopt greater e-commerce technology.

B. Selling Factors/Techniques

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

Foreign Currency: In general, Chinese companies are not permitted to retain foreign exchange. In business deals with Chinese companies, U.S. companies have been asked to keep a portion of the Chinese companies’ hard currency earnings in foreign bank accounts to avoid reporting and turning it over to the foreign exchange control authorities. As part of an effort to clamp down on corruption and tighten foreign exchange control, the Chinese Government is coming down hard on such practices. In September 1997, China issued a new rule allowing some Chinese enterprises that meet a certain criteria to establish a foreign currency account in a designated bank, thus retaining a limited amount of foreign currency earnings. In November 2001, the State Administration of Foreign Exchange adjusted the administration policy of Chinese enterprises’ foreign currency accounts and further lowered the criteria for establishing such foreign currency accounts.

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

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

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

C. Advertising and Trade Promotion

Advertising: Advertising is an effective way to create product awareness among potential consumers in China. Channels for mass advertising include publications, radio, television, billboard displays, Internet, and sports sponsorship.

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

Television advertising takes up the largest single portion of the Chinese advertising market. China's regular television viewing population is 84 percent of China's 1.3 billion people. Major articles sold on television include toiletries, foodstuffs, pharmaceuticals, liquor, and home electronics. Television stations in big markets (Beijing, Guangzhou, Shanghai) require advertisers to book and pay for specific spots two to ten months in advance.

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

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

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

Trade Shows and Missions: Hundreds of exhibitions are now held annually in China. Most are sponsored or co-sponsored by government agencies, professional societies, or the China Council for the Promotion of International Trade (CCPIT). Shows are also organized by U.S., Hong Kong and state trade departments, and other professional show organizers. Show participation costs are sometimes high and may only reach a local audience, so companies are advised to scrutinize shows. A list of trade shows that are screened by the U.S. Department of Commerce appears in Chapter 13 of this report.

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

D. Product Pricing and Customer Service

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

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

E. Sales to the Government

In 1999, the Chinese State Development Planning Commission (SDPC, which was restructured into the current National Development and Reform Commission (NDRC) in early 2003) issued new regulations controlling government procurement. While ostensibly making the system more transparent and open, it also centralizes the procedure much more. In the past, government procurement was conducted through state-owned/controlled companies affiliated with a particular ministry. Since these entities will remain the main end-users of the purchases, their participation in the process will probably continue.

China's government procurement practices have often been inconsistent with open and competitive bidding and, for the most part, non-transparent. It is still unclear at this point how or whether the new regulations will streamline a system that previously was subject to at least one, and usually several approvals from governments at various levels. While tenders for projects funded by international organizations are usually openly announced, most government procurement is by invitation only. Competition is by direct negotiation rather than by competitive bid, but that is supposed to change under the new regulations. Goods and vendors for large projects that are covered in the annual State plan have frequently been designated during the planning process. All information, from solicitation to award, remains secret and is known only to those companies involved or to officials in the planning and industrial ministries.

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

F. Intellectual Property Rights Protection

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

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

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

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

In 1992, China signed an IPR Memorandum of Understanding (MOU) with the United States, pursuant to which China improved its laws governing IPR protection and joined the Berne Copyright and Geneva Phonograms Conventions. The March 1995 extension of the IPR MOU sets out a plan for enforcing IPR, and grants market access to certain products. The two countries also have cooperative programs on technology and criminal justice, and continue to discuss IPR issues in bilateral as well as multilateral forums.

IPR Climate: Large-scale violations of intellectual property rights in China, including counterfeiting and smuggling, often overwhelm under funded or understaffed Chinese enforcement efforts. Industry associations representing computer software, entertainment, and consumer goods industries report high levels of piracy and counterfeiting of all types of products. The Business Software Alliance estimates that more than 90 percent of business software used in China is pirated. Consumer goods companies report that, on average, 20 percent of their products in the Chinese market are counterfeit. Chinese companies experience similar, or even greater, problems with piracy and counterfeits in their home markets.

Inadequate enforcement of IPR laws and regulations, through either judicial or administrative means, remains a serious problem. Enforcement of IPR regulations is uneven and is sometimes impeded by local interests. Administrative penalties for IPR violations, often no more than confiscation of the counterfeit products, are generally insufficient to deter counterfeiters. Chinese law does not currently criminalize the import and export of IPR-infringing goods, and thus lacks sufficient deterrent force to stop this illegal activity.

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

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

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

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

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

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

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

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

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

Since China's Patent Law was first enacted in 1984, domestic and foreign patent applications have increased steadily. Patent protection was extended in January 1993 to pharmaceutical and chemical products, as well as processes; the period of protection was lengthened to 20 years. The amendments also provide the patent-holder the right to exclude others from importing infringing products and expand the scope of patent infringement to include unauthorized sale or importation of products manufactured with the use of patented processes. China does not yet provide a similar scope of protection to certain biotechnology and business method patents as in the United States. American companies may also need to make certain that they obtain any necessary consents in exploiting Chinese genetic resources. China acceded to the Patent Cooperation Treaty on January 1, 1994, and will perform international patent searches and preliminary examinations of patent applications. Under the Patent Law, foreign parties without a business presence in China must utilize the services of a registered Chinese agent to submit the patent application. Initial preparation of the application may be done by foreign attorneys or the Chinese agent. In early 2003, in a positive development, China amended its legislation to further harmonize with international practice regarding examination of Patent Cooperation Treaty applications. Also in mid-2003, China issued new rules regarding compulsory licensing of patents according to certain defined circumstances and procedures. There have, however, been few if any reported instances of compulsory licensing of patents to date.

Copyrights: In March 1992, China established bilateral copyright relations with the United States and in October 1992, acceded to both the Berne Convention and the Universal Copyright Convention. China also joined the Geneva Phonogram Convention in April 1993. Following accession to the Berne Convention, China explicitly recognized computer software as a literary work and extended protection to computer programs for 50 years without mandatory registration requirements for foreign rights holders. In addition to amendments to China's Copyright Law, China's Supreme People's Court has taken steps to address digital and Internet-based copyright issues. China has not acceded to the WIPO Internet Treaties, nor has it formally recognized "temporary copies" over the Internet as implicating Berne Convention reproduction rights. There have been increasing complaints of hacking into U.S. databases or use of stolen passwords from Chinese hosted computers. Internet piracy has become an increasingly widespread phenomenon, particularly as Internet penetration spreads in China. The United States has also asked for increased ministerial coordination, as well as legislative changes, in this area.

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

Trademarks: China's trademark regime generally comports with international standards, with the principal exception being China's historical lack of equal recognition accorded to foreign well-known trademarks. Such recognition may be especially important in light of enhanced enforcement that may be accorded to well-known marks under various rules and regulations regarding criminal enforcement of IPR. In 2003, China revised its ministerial regulations for well-known marks. The new regulations require companies alleging infringement to prove that their marks are well known within China based on sales, marketing, and advertising figures. While there is hope that these standards will finally allow foreign marks to receive treatment at least equal to the historic treatment China has accorded to domestic marks for years, the law went into effect on June 1, 2003 and is yet untested.

In October 1989, China joined the Madrid Protocol for reciprocal trademark registration to member countries. The United States has also recently acceded to the Madrid Protocol. China has a "first-to-register" system, leaving registration of popular foreign marks potentially vulnerable to third parties. Foreigners seeking to distribute their products in China should consider registering their foreign mark and/or logo, any Chinese language translations, as well as appropriate Internet domains. The Chinese trademark office has on occasion cancelled marks held by Chinese agents of U.S. distributors who without authorization registered such marks in their own name. Registration of company names is handled by a separate division of SAIC.

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

Trade Secrets: Trade secret protection is widely pursued by Chinese and foreign companies in China, with a relatively large volume of trade secret litigation being handled by Chinese courts. The Law To Counter Unfair Competition (1993) defines unfair competition to include conduct that infringes the "lawful rights" of another "business operator," including acts that violate "commercial secrets" rights. Commercial secrets are defined as information which can bring economic benefits to the authorized users, and which is protected by taking appropriate security measures, including technical and operational information not available to the public. Sanctions under the law include civil remedies such as damages, administrative sanctions such as fines, and criminal penalties for "serious violations." A law specifically addressing protection of business secrets was under consideration for several years in China but has not been enacted. China is further obligated to protect trade secrets under the TRIPS Agreement. Various rules by the Ministry of Labor and Social Security and other ministries on a national or local level also provide for enforcement of non-compete provisions with employees based on their access to business secret information. In order for such non-compete provisions to be effective, reasonable compensation must be provided to the employee. China is also 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. 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 Food and Drug Administration to verify that patents are not violated before granting registrations and clinical trial permissions. However, the process for drug registration and clinical trial approval continues to lack transparency.

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

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

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

G. Local Professional Services

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

Accountants: Chinese law requires representative offices and foreign-invested enterprises to engage the services of accountants registered in China to prepare official submission of annual financial statements and other specified financial documents. Therefore, only Chinese accountants and joint venture accounting firms may provide these services. All the Big Five accounting firms (KPMG Peat Marwick, Pricewaterhouse Coopers, Deloitte Touche Tohmatsu, Ernst & Young, and Arthur Andersen) have established offices in China and provide services ranging from providing advice on taxation matters and preparation of investment feasibility studies, to setting up accounting systems that are in compliance with Chinese law.

Attorneys: During the past ten years, over 100 U.S. and international law firms have received approval to register in China as a foreign law firm. Prior to 1992, most foreign law firms were registered as consulting firms. More than one hundred foreign law firms currently operate in China, of which nearly thirty are based primarily in the United States. Foreign law firms registered in China are restricted to advising clients on legal matters pertaining to the jurisdiction where they are licensed and general international business practices. Although a foreign lawyer may not offer a legal opinion, clients can obtain assistance with structuring transactions, drafting contracts, and resolving disputes. Only attorneys licensed in China may appear in court and provide legal advice on Chinese legal matters. During the past year, China has removed restrictions on the number of offices that may be opened by a particular law firm. Chinese lawyers are allowed to work at foreign law firms, but they may not practice law as licensed Chinese attorneys. Foreign lawyers are not permitted to qualify to practice law in China and are not allowed to form a joint venture with Chinese lawyers

Management Consultants: Foreign companies new to the Chinese market typically engage the services of local consultants to develop market entry strategies, conduct due diligence investigations, and identify potential investment partners, sales agents and customers. More than 100,000 companies are active in the Chinese consulting industry, of which approximately 65 percent are foreign firms. Licensed and unlicensed firms compete in the market, and the regulatory environment for this services sector is unclear.

Advertising: Approximately 89,000 advertising firms exist in China, of which more than 385 are foreign invested enterprises. Foreign advertising firms are limited to a 49 percent maximum equity stake. Many major international advertising firms have established a presence in China. Companies new to market can gain valuable advice from top-notch advertising firms on how to effectively craft an effective advertising strategy that is responsive to Chinese consumer preferences and cultural differences. Advertising is strictly regulated in China, and penalties for violation of the law through misleading advertisements, unauthorized use of national symbols, or other prohibited forms of advertising are subject to fines of 100,000 RMB (USD 12,500).

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

H. Due Diligence

Undertaking a due diligence investigation prior to engaging in a trade or investment transaction can minimize risk of encountering commercial disputes. The primary causes of commercial disputes between Chinese and American companies concern breach of contractual payment obligations, irregularities in accounting practices, financial mismanagement, undisclosed debt, and struggle for control within joint ventures. These problems can be minimized by investigating the financial standing and reputation of local companies before signing contracts with them. Both U.S. and Chinese firms with offices in China conduct due diligence investigations; the former include Dun & Bradstreet, Kroll Associates, PricewaterhouseCoopers and Pinkerton Consulting Services. The fees charged by these companies may be considered a useful investment to ensure that the local customer or partner is financially sound and reliable. The U.S. Commercial Service's International Company Profile (ICP) service is now offered in China.

5. Leading Sectors for U.S. Exports and Investment

A. Best Prospects for Non-Agricultural Goods and Services

1. Information Technology (IT)

China is home to one of the largest and fastest growing IT markets in the world. According to statistics released by the Ministry of Information Industry (MII), the 2002 total sales value for electronics and information technology products was USD 169.5 billion, an increase of 17.8 percent over the previous year. China imported approximately USD 74 billion worth of IT products in 2002. The total market size is estimated to be USD 215 billion.

According to both government and private sector sources, the demand for information technology products is expected to maintain a high growth level due to rapid economic development in China and high demand driven by favorable national policy and growing consuming power.

The Chinese Government is now pursuing a national development strategy of "using informatization to drive industrialization and using industrialization to promote informatization". Current national development policies give top priority to development of IT industry and encourage wide application of IT in all economic and social fields. According to MII, in 2002, the domestic electronics and IT industry output was USD 206.98 billion, up 20.9 percent over last year, which is almost 3 times the growth rate of China's GDP of the same period.

As China continues to develop as a center for manufacturing and as foreign investment, the strength of local companies and the affluence of the local consumers all continue to increase, information products and services ranging from business applications to digital consumer products will drastically increase in the next five to ten years. Major drivers of growth include: China's e-government initiative, e-commerce development, China's "two pillars of the economy initiative (i.e., the development of national software and integrated circuit (IC) industries), as well as China's need to enhance its competitiveness across all industrial sectors due to the rapid pace of globalization as a result of its access to WTO. The 2008 Olympic Games will also provide a strong impetus for growth in demand of IT products and services in the next five years. Beijing is estimated to spend close to USD 3.6 billion on IT infrastructure and systems to meet needs of the Olympic Games.

As a concrete measure to implement its strategy of using informatization to drive industrialization, the Chinese Government initiated an ambitious e-government program in 2001. According to the China Center of Information Industry Development (CCID), a local consulting firm, the Chinese Government has thus far spent a total of USD 4.2 billion on e-government projects. In the next two to three years, the compound growth rate of government spending on IT will be 25.7 percent. Over USD 12.1 billion will be spent on e-government over the next five years.

Since the bursting of investment bubbles in dot-com ventures, China's Internet business market seems to have recovered its vigor for growth. The three major portals, Sina.com, Sohu.com and Netease.com all claimed to have made profits since the second half of 2002. With short messaging service (SMS), on-line advertisement, on-line gaming and on-line trade, these major portals are finding their way to sustainable and profitable business models. The progress made by these portals are encouraging factors to e-commerce development, which will create huge demand for IT products, from hardware to software, from system software to innovative applications, and services.

Driven by huge demand and facilitated by favorable investment policies, China's IC industry returned to a fast track of growth in 2002. The growth in China's IC market seems to have caught the world's attention. According to CCID, China's 2002 IC market size reached USD 21.54 billion, accounting for 15.3 percent of the world market. That said, currently, 85 percent of China's domestic IC demand is met by imports.

Although China is now playing a significant role in electronics and information products manufacturing (total production volume is believed to have surpassed that of Japan to become the world's second largest producer), it still lacks core technologies for almost all the products it produces. For instance, China is the No. 1 producer of mobile handsets, but core chips needed to produce the phones must be imported. The same is true for other products including DVDs, high-end color TVs, computers, monitors, etc. Although the government has promulgated policies to encourage the development of ICs and software, China's heavy reliance on imports for high-end chips, parts and components for most of the electronics and information products is not expected to significantly change for as long as a decade. With leading technologies in almost all fields of information technology, U.S. companies have a great advantage in meeting the increasing market demand for high valued-added chips, devices, and components.

Other best prospects include production lines and equipment for the manufacturing of electronics and information technology products, including semiconductors, as more and more world manufacturing capacity is moving to the country where demand for highly sophisticated modern manufacturing lines almost solely relies on imports from developed countries. For instance, China is currently not capable of producing critical semiconductor equipment for processing of 0.18-micron chips. In this area, China is two generations behind latest world technological levels. Demand for equipment and instruments for processing, packaging and testing of chips will also be met only by imports. Moreover, software tools and intellectual property cores for the designing of chips appear to provide good sales opportunities for U.S. companies.

Consumer electronics is another area of high growth. According to CCID, China's 2002 sales of digital cameras, mobile storage devices (flash memory), MP3 players, and digital video cameras increased over 100 percent from 2001. PDAs are also an area with deep potential for growth. U.S. companies have a big role to play in supplying the operating system, core chips or production expertise for these products.

However, the key to succeeding in any of the above “best prospects” markets is to localize your products. Although there is great demand, U.S. suppliers are not the only source. European and Asian competitors (e.g., Japan, Taiwan and Korea) are also trying to meet the demand. It is imperative that U.S. companies understand the market and the specific needs/demands of Chinese customers in order to take full advantage of the market.

Although U.S. companies still dominate many of the high-end hardware market in China’s fast growing computer market such as high-end servers, printers, routers and network equipment, their dominance is severely challenged by fledgling local players such as Lenovo (the new brand name for Legend Corp.). CCID’s 2002 statistics show signs of a maturing market with emphasis of demand shifting toward software and IT services. U.S. companies such as IBM, HP and software giants Microsoft, Oracle, Sybase, BEA and etc., keep dominance on China’s system software, platform software, applications and IT consulting services market.

Information Technology Market

	2001 (actual)	2002 (actual)	2003 (estimated)
Total Market Size	178,052	215,045.6	258,054.7
Total Local Production	178,028	215,496.4	258,595.6
Total Exports	5,449.1	7,844.7	9,413.6
Total Imports	5.473.1	7,393.9	8,872.7
Imports from U.S.	705.9	642.2	706.4

*The above figures are calculated in USD millions and represent unofficial estimates. Trade numbers are based on Chinese customs figures for the HTS codes: 8470-8473, 8517- 8534, 8540-8542
**Local production figures are sourced from MII.
***The MII figures for export in 2002 were USD 92.1 billion, and USD 65.2 for 2001; Domestic sales figures were USD 162.79 billion for 2002 and USD 143.88 for 2001.

2. Telecommunications Equipment

China’s telecommunications industry continued the momentum of rapid growth in 2002 despite the downturn in the industry worldwide. As of the end of May 2003, the total absolute number of telephone users in China reached 462 million, among which, 232 million are landlines subscribers and 230 million are cell phone users. However, the lower penetration rates of fixed line at 17.5 percent and mobile at 16.2 percent clearly offer more room for further growth. In the past five years since 1997, China’s telecommunications industry has registered an average annual growth rate of 20 percent

In 2002, Chinese telecommunications carriers invested USD 25.4 billion in telecom infrastructure compared to USD 29 billion in 2001. As a result, these carriers were able to recruit 95.45 million new telephone subscribers in the year. Their aggregated revenue reached USD 55.36 billion. Among which, China Telecom has a share of 32.5 percent, China Netcom 16.6 percent, China Mobile 37.4 percent, China Unicom 12.1 percent and others (China Railcom and ChinaSat) 1.4 percent.

China’s Ministry of Information Industry (MII), the most important government regulator in the telecommunications industry, projected that Chinese telecommunications carriers would invest USD 25.5 billion in 2003 to recruit 33 million fixed line telephone subscribers and 52 million cellular phone users. MII expects the fixed line penetration rate to reach 19.4 percent by the end of year and cellular penetration rate to reach 20.1 percent.

The Chinese Government is expected to grant third generation (3G) licenses to four Chinese telecom operators in the first half of 2004. Besides China Mobile and China Unicom, which are the two incumbent mobile communication service providers, fixed line operators, China Telecom and China Netcom, are also likely to obtain such licenses.

A competitive market environment is taking shape in China's telecommunications sector. In 2004, China's six licensed basic telecom operators--China Telecom, China Netcom, China Mobile, China Unicom, China Railcom and ChinaSat—are expected to expand and optimize their networks in order to meet the growing need for telecommunications services. Moreover, they are expected to compete against each other as well as potential competitors from multinational companies that are planning to explore business opportunities in this lucrative market.

It is important to recognize that, while the Chinese Government appears committed to foster a more competitive telecommunications service environment, this commitment does not necessarily mean that equipment vendors with the best technology and/or lowest prices will succeed in the Chinese marketplace.

China's telecommunications equipment market is characterized by intense competition, and a multitude of complex, multi-layered, political and economic factors that must be carefully and appropriately evaluated in order to achieve success.

MII is the principal regulatory agency for China's telecommunications industry. MII is subject to oversight by the State Council. MII was created in March 1998 by merging the Ministry of Posts and Telecommunications with the Ministry of Electronics Industry (MEI). Other influential government agencies in China's telecommunications industry include the State Council Informatization Office (SCITO) and the National Planning and Reform Commission (NDRC). SCITO was set up in August 2001 as an inter-agency coordinating body to oversee China's regulatory and commercial developments in the information technology and telecommunications sectors and implement the central government's policies and measures that drive information technologies. NDRC is the approver of important and large projects.

In March 2003, former Party Secretary of Hebei Province, Wang Xudong, replaced Wu Jichuan as Minister of MII. In May, Minister Wang was also appointed to be the Director of SCITO, replacing Zeng Peiyan, who was promoted to serve as a State Councilor. Having Wang as head of both MII and SCITO is a sign that the Chinese Government is moving to integrate its policies and strategies on telecommunications and information industries.

China does not yet have a Telecommunications Act in place. However, MII has promulgated Telecommunications Regulations as well as Regulations on Foreign Investment in Telecommunications Industry based on its WTO commitments.

MII requires that most telecom equipment, including terminal devices such as cellular phones, fixed line phones and fax machines and network products like switches and base station equipment, be tested and certified. There are two kinds of certificates: 1)

Type of Approval (TA) for radio products; and 2) telecom equipment Network Access License (NAL) for all other products. MII's Radio Regulatory Department is authorized to conduct the testing of radio products and issue TA certificates, while MII's Telecom Administration Bureau issues telecom equipment network access licenses.

In addition, certain telecom products may also need to obtain a CCC Mark (China Product Compulsory Certification Mark) from China's State General Administration of Quality Supervision and Inspection and Quarantine (see also Chapter 6 of this document). For more information, please visit AQSIQ's website: www.aqsiq.gov.cn or www.cnca.gov.cn ; or go to the following web page for frequently ask questions on CCC mark: http://www.mac.doc.gov/China/Docs/BusinessGuides/CCCFAQ.htm

Testing of products by the carriers is a must, even if these products will be sold to local operators.

Larger vendors are advised to work directly with the carriers to sell their products while smaller firms may want to start with agents and distributors that have the necessary resources, for instance, necessary connections and technical support.

Best Prospect Telecommunications Sub-sectors

Best sub-sector prospects within the telecommunications sector include the following:

1. Mobile communications including 3G and value-added service platforms;
2. Value-added capabilities for e-mail and web browsers and the ability to download ringing tones, logos/images, music, videos, games, stock market quotations;
3. Broadband Access Network equipment including Wireless LAN, LMDS; ADSL;
4. Operational management systems like BOSS and multiple service platforms.

Telecommunication Equipment Market

	2001 (actual)	2002 (actual)	2003 (estimate)
Total Market Size	21,398	19,645	20,500
Total Local Production	13,430	19,115	18,000
Total Exports	2,032	3,460	4,500
Total Imports	10,000	4,000	7,000
Imports from the U.S.	1,100	724	900

The above figures are calculated in USD millions taken in part from MII's reported top 15 Chinese telecom vendors sales estimates and represent unofficial estimates.

3. China Software Market

China's general computer market revenues increased 16 percent in 2002 totaling USD 28.5 billion in sales revenue. Of the computer market, hardware accounted for 67.2 percent, software accounted for 14.6 percent, and information services accounted for18.2 percent of the market share. According to February 2003 reports in the CCID "Consulting News", the software market will continue to post strong growth as a result of a favorable domestic economy and the trend of industries and enterprises toward China's informatization.

Within the software market, applications software accounted for 64.5 percent of the total market, middleware accounted for 6.6 percent, representing a 2.9 percent increase compared with same period last year, and platform software accounted for 28.9 percent. In line with China's overall rapid development in the IT sector, market competition has become more intense.

Best Prospects in Software:

- For the applications software market, China's domestic products are the fastest-growing segment.
- For middleware market, the domestic products and foreign products have an equal share.
- For system software market, foreign products monopolized this market. In 2002, foreign products accounted for 95.3 percent market share. Foreign products should continue to monopolize the high-end operating system, high-end server system, database management system and system networking management software markets. These products will continue to be the leading sector in the coming year.

China's "Tenth Five-Year Plan" indicates that the following software projects are the priorities.

- To develop security operation systems, security authentication systems, and advance China's e-commerce solutions;
- To develop information security software packages that are based on LINUX operation systems; and
- To develop production platforms which are based on the software structure and middle ware structure.

China's successful bid for the 2008 Olympic Games as well as its membership in the WTO will be the main drivers for growth in the software market and industry over the next several years. In 2003, the software tariffs were eliminated (reduced to zero), and China furthermore, issued a number of policies ranging from export incentives to value-added tax rebates and financial assistance to small businesses, as well as laws addressing intellectual property rights protection. If U.S. companies can gain good access to China market, there should be positive opportunities in the software market.

Packaged Software Import & Export Market

	2001 (actual)	2002 (actual)	2003 (estimate)	2004 (estimate)
Total market size	9,538	13,864	16,635	18,899
Total local production	9,077	13,253	15,903	18,289
Import	781	847	954	900
Export	320	236	222	290
Import from US	223	195	198	200

The above figures calculated in USD millions and are representatives of estimates from the China Customs Import and Export data.

The above table is calculated based on HS codes 8524.31, 8524.39, 8524.40, 8524.91, 8524.99; and software downloaded from the Internet is not included in the above table.

4. Oil and Gas

China's overall energy consumption ranks second in the world. China's growing demand for energy has caused this traditionally off-limits sector to gradually open up to increasingly larger scale foreign participation. Reluctance to change has made progress in the oil and gas sector slow for foreign firms in China, but government encouragement has produced progress. The best opportunities for foreign participation are in natural gas infrastructure development and offshore oil exploration and production. Onshore oil projects are far less attractive due to lack of access to satisfactory leverage and geological data, and a greater tendency to source equipment, services and technology domestically. Offshoot industries with high technology components are in high demand.

Among the primary energy consumption sources, crude oil comprised about 26.31 percent in 2002. China's annual growth rate during the past ten years for crude oil production rose only 1.97 percent. This growing imbalance has made China a net oil importing country.

China's overall petroleum consumption exceeded 23,106,600 tons in 2002, ranking it second in the world after the United States. This growth in oil consumption is attributed to continued strong economic growth. In fact, China's consumption of crude oil grew at an annual rate of nearly 6.2 percent over the past decade, while the growth rate of crude oil supply was less than 2 percent during the same period. In the next 15 years China forecasts that its economy will grow at an annual rate of 7 percent. During the same period, the demand for the crude oil is expected to increase at a rate of 4 percent, while the growth rate for domestic crude oil production will be only around 2 percent. Forecasts for crude oil demand by 2005 are 245 million tons. Forecasts further estimate that by 2010, China's annual consumption of crude will reach 300 million tons.

Currently, natural gas provides only 3 percent of China's primary energy demand, which is much lower than the world average of 24 percent and the average in Asia of 8.8 percent. There exists great potential in the domestic natural gas market. The consumption demand for natural gas in the power sector, chemical and fertilizer industries, and city gas grids will grow rapidly. The total demand for natural gas was 32.63 billion cubic meters in 2002, and by 2005 it will hit 61 to 70 billion cubic meters. The proportion of natural gas in the primary energy consumption will climb to 5 percent. If this trend continues through 2010, demand for gas will reach 120 billion cubic meters, and by 2020 it will increase to 220 billion cubic meters, or 10 percent of primary energy consumption.

China's oil product consumption in 2002 was 120 million tons and is expected to reach 126.05 million tons in 2003. Higher demand and an anticipated slowdown in domestic output are likely to boost LPG imports in 2003. China's LPG imports scored a new high of 6.26 million tons in 2002. Top-ten petroleum traders doubled LPG imports by nearly 60 percent in 2002. A rough calculation shows that the commercial LPG production increased by 8.5 percent, to 10.03 million tons in 2002. The National Statistics Bureau of China reports that the Chinese total LPG output increased by 9.4 percent, to 11.9 million tons in the last year, with a year-on-year growth of 15 percent. In 2005, the import of LPG will be 4 billion cubic meters. By 2010, the demand for import of LPG and piped natural gas will be about 30 billion cubic meters.

The development of China's petrochemical industry in the Tenth Five-year Plan period (2001-05) will focus on increasing the production of refined oils. Demand for oil products is expected to witness a sizable increase in the next five years, with total consumption of gasoline, diesel and kerosene achieving an annual growth rate of 4.3 to 4.6 percent, reaching 136 million to 138 million tons by 2005. Structural reforms will be carried out in major petroleum and petrochemical enterprises such as CNPC (China National Petroleum Corp.), Sinopec and China National Offshore Oil Corporation to sharpen the industry's competitive edge in the world market, while further opening-up policies will be initiated to attract more foreign investment. China will try to bring the overall oil refining capacity to 270 million tons, including over 75 million tons of sulfur crude; build eight to nine oil refining bases, each with a refining capacity of 10 million tons; adjust installations, optimize crude varieties, increase the output of diesel and naphtha, expand gasoline export, raise the output of fuel oil, provide more quality raw materials for ethylene production; and also produce more high grade road asphalt, quality lubricants and paraffin. In 2003, China will gradually open its gasoline and diesel market and increase the import of oil products, which have an import quota of 25.3 million tons (i.e. including 20 million tons quota for state trade and 5.3 million tons quota for non-state trade).

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

China now is carrying out several huge oil and gas projects to meet its growing energy needs. Major projects are being driven by a combination of political, environmental and market factors. The ongoing Guangdong LNG Terminal and Supply Project, West to East Gas Project, coal liquefaction, natural gas exploration, and the Bohai Bay exploration projects will continue to provide export opportunities for foreign companies. Good opportunities exist in both upstream and downstream engineering, project supervision, licensing, equipment, technology, consulting, marketing and supply sectors.

Downstream infrastructure development in China centers primarily on upgrading existing refineries rather than building new ones, due to current overcapacity. In the late 1990s, the Chinese Government shut down 110 small refineries, which generally made inferior quality petroleum products. 62 other small refineries owned by provincial and local governments are also likely to be merged into CNPC and Sinopec (China Petroleum & Chemical Corp.) in the near future. Another major issue in the Chinese downstream sector is the lack of adequate refining capacity suitable for heavier crude oil, which will likely become a necessity as Chinese imports rise in the mid-term. Several existing refineries are being upgraded to handle heavier and the more sour grades of crude oil.

China intends to build a national strategic petroleum reserve, but no formal announcement has been made. To date, it is clear that China will build a government-held reserve of crude oil like the U.S. Strategic Petroleum Reserve (SPR) or require refiners to maintain a minimum stock level like in Europe, Japan and South Korea. The basic outline of establishing China' s strategic oil reserves should include: 1) reasonably determining the volume of the strategic oil reserves - efforts should be made to increase the domestic oil reserves to 25 million tons, and the total scale of storage tanks to 30 million cubic meters by 2010, when China's net volume of oil imports may reach 100 million tons; 2) designing the distribution of reserve bases; 3) choosing the types of storage tanks in line with the requirements of war conditions; 4) establishment by the government, of a special fund; and 5) measures for direct government control of the program.

Oil and Gas Market

	2001 (actual)	2002 (actual)	2003 (estimate)
Total Exports	630	660	667
Total Imports	800	830	854
Exports to US	32	38	35
Imports from US	330	350	361

The above figures are calculated in USD millions and represent unofficial estimates for oil and gas sector.

5. Medical Equipment

China's medical device market is one of the largest and fastest growing, ranked 11th in the world. Imports account for approximately 50 percent of China's USD 2.5 to 3.0 billion medical device market. The U.S. accounts for around 35 percent of the total imported products, followed by Japan (25 percent), and Germany and other European countries (28 percent). In spite of a short period of spike in the sales of medical devices to treat SARS in early 2003, China's market for imported medical device is growing at about 10 to15 percent annually. U.S. companies have reported increased sales and also project 10to 15 percent market growth in 2003. As China's WTO commitments are phased-in over the next two years, the uncertainty of the regulatory environment (centralized procurement and pricing regulations) will negatively effect profit expectations. Over the next 10-12 years, however, China should offer good prospects for U.S. manufacturers of medical equipment.

The U.S. is the leading supplier of imported medical devices in China and U.S. products are viewed by Chinese end-users as being of superior quality and possessing the most advanced technology. Domestic companies are consolidating, upgrading quality and beginning to compete in medium level technology niches.

Most Chinese, as many as 85 percent, lack health insurance and only 1 to 2 percent of the population can afford Western standard medical care. Ongoing reforms are not designed to expand the number of insured, but rather to replace government funding with enterprise/employee funding. In the past, all government employees and workers at state-owned enterprises enjoyed virtually free medical care for themselves and their dependents. A new urban medical insurance system was introduced in 2000, with the goal of offering basic health care to urban workers. Approximately 50 million urbanites are now covered under this system.

Depending on the product being exported to China, two Chinese agencies-- the State Food and Drug Administration (SFDA) and the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ) have regulatory roles in the approval processes for medical devices. All medical and dental equipment must be registered with SFDA prior to sales and distribution in China. The

AQSIQ has established technical standards for imports and exports of seven categories of medical equipment through compulsory product certification. The Ministry of Health also regulates one-time use disposables.

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

Medical Equipment Market

	2001 (actual)	2002 (actual)	2003 (Estimate)
Total Market Size	2,760	3,042	3,213
Total Local Production	1,908	2,396	2,755
Total Exports	787	968	1,006
Total Imports	1,639	1,614	1,464
Imports from U.S.	563	531	730

The above import and export figures are calculated in USD millions and represent unofficial estimates from Chinese Customs statistics (only registered imports are included and production figures are estimated from the National Development and Reform Commission and the China Medical Device Association). The 2003 figures were estimated on the basis of Chinese Customs statistics from January to May and actual figures will likely differ.

6. Pharmaceuticals

China's pharmaceutical market experienced 10 percent growth in 2002, making it the ninth largest pharmaceutical market in the world, with a sales market of USD 13.8 billion in 2001 and USD 14.7 billion in 2002. U.S. industry has forecasted a growth rate of 10 percent annually. China's changing healthcare environment is designed to extend basic health insurance to a larger portion of the population and give individuals greater access to products and services.

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

Imported and joint venture medicines account for 30 percent of the market, with U.S. products well regarded for their high quality and reasonable prices. The drug distribution system in China is inefficient and adds considerably to the retail costs of medicine.

Many U.S. companies complain of strict import regulations, low profitability, and complex licensing, hospital bidding, and reimbursement schemes.

It is estimated that most hospitals derive 25 to 60 percent of their revenue from prescription sales, as hospitals remain the main distribution network for pharmaceuticals in China. This will change with the separation of hospital pharmacies from healthcare services, and with the growing number of retail pharmacy outlets. Retail pharmacy outlets are expected to grow in number with the government's late-2002 efforts to separate over-the-counter drugs (OTC) from prescription drugs. The government is now encouraging development of drug store chains, but the full effect will not be seen for several years.

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

In accordance with WTO regulations, China has committed itself to cutting tariffs, liberalizing its domestic distribution practices, and restructuring its regulatory environment. Over the next two years, China will allow foreign enterprises to import products and engage in distribution services. Furthermore, China has also implemented new drug administration laws designed to streamline product registration and protect Intellectual property rights. These new laws may have a negative effect on market growth and profitability during the transitional period, but over the next five to ten years, this market should provide good returns on investment.

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

Pharmaceutical Market

	2001 (actual)	2002 (actual)	2003 (estimated)
Total Market size	13,800	14,700	16,170
Total Exports	738	790	835
Total Imports	986	1,130	1,502
Imports from U.S.	119	101	137

The above figures are calculated in USD millions and represent unofficial estimates. Import-export statistics were obtained from Chinese Customs data.

7. Pollution-Control Equipment

By 2005, China has plans to reduce its total pollutant discharge as compared to 2000, by10 percent. Spending on environmental protection during the Tenth Five-year Plan period (2001-2005) is projected to reach 1.2 percent of GDP, approximately USD 84 billion. China plans to spend USD 17 billion annually, and Beijing, Shanghai, Dalian, Xiamen, and Guangzhou plan to spend an additional 2-3 percent of local GDP on environmental protection. By 2005, the Chinese Government will try to ease the pollution situation, slow down the deterioration of the environment, improve environmental quality in key cities and regions, as well as improve environmental protection policies, laws, and regulations.

China's new Clean Protection Laws are increasing market demand for cleaner production, innovations, resource recovery, and environmental management techniques that simultaneously protect the environment and save or generate money. Pollution abating and monitoring equipment have great market potential in China because of poor quality of locally-produced equipment. Products enjoying the best sales prospects include medical waste management equipment, alternative fuel technologies, emissions control and inspection equipment, air monitoring equipment, clean coal technology and coal additives, flue gas desulfurization equipment, drinking water purification systems, municipal/industrial wastewater treatment equipment, online water monitoring technologies and equipment, and low-cost resource recovery and refuse handling systems of solid & hazardous waste. Large firms or consortia that can provide flexible financing and turn-key solutions often have an edge.

Most large U.S. environmental firms have concentrated on World Bank and Asian Development Bank projects. The future may be brighter as affluent Chinese cities begin to dramatically increase environmental spending, multinational investors uncork new sources of demand, and municipalities experiment with new project financing models. China's accession to WTO will help U.S. environmental exporters by lowering tariffs and discouraging import substitution policies. China's WTO environmental services commitments cover sewage, solid waste disposal, cleaning exhaust gases, noise abatement, nature and landscape protection, and other environmental services. However, environmental monitoring and pollution source inspection is excluded.

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

1) Export Import Bank of the United States (Ex-Im Bank)

The Ex-Im Bank facilitates the export of U.S. goods and services by providing export credit insurance, loan guarantees, and loans for export sales. The major features of the program include: 1) short-term export insurance policy to provide enhanced short-term support for small business exporters; and 2) enhanced medium and long-term support for environmental projects, products, and services.

For more information concerning Ex-Im Bank programs and application procedures contact Ex-Im Bank in Washington, DC at (800) 565-EXIM or (202) 565-3545. In China, contact Ms. Marilyn Taylor at the U.S. Commercial Service, U.S. Embassy Beijing at Tel: (86-10) 8529-6655, x 806, Fax: (86-10) 8529-6558. Exposure fee calculations and applications can be found on-line at www.exim.gov.

2) U.S. Trade and Development Agency

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

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

Under the bilateral WTO agreement, foreign service suppliers may provide environmental consultation services through cross-border delivery, without having to establish a representative office in China. All other foreign service suppliers may operate in China through a joint venture.

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

Pollution Control Equipment Market

	2001 (actual)	2002 (estimate)	2003 (estimate)
Total Market Size	12,181	14,577	17,485
Total Local Production	4910	5,870	7,040
Total Exports	240	288	345
Total Imports	7,511	8,995	10,790
Imports from U.S.	803	960	1,150

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

8. Airport and Ground Support Equipment

Between 1949 and 1978 China invested several billion RMB in building and expanding airports, thus laying a sound foundation for the development of civil aviation. Since 1979 there has been a new spate of activity as new airports are built and old ones enlarged or renovated in response to the new demand created through reform and opening policies. Developments have included a hub and spoke network and the consolidation of the airlines.

During the Ninth Five-Year Plan period (1995-2000), China invested 68 billion RMB (USD 8.2 billion) in civil aviation capital construction and 14.3 billion RMB (USD 1.7 billion) in technical renovation and utilized USD 62 million of foreign investment for airport construction. 48 airports, including 25 trunk line airports have been built or renovated in the past five years, in locations including Beijing, Shanghai, Kunming, Guilin, Zhengzhou, Huhehot, Harbin, Shenzhen, Chengdu, Wurumqi, Nanchang, Haikou, Xiamen, Yinchuan, Nanning, Nanjing, Hangzhou, Fuzhou, Guiyang and Hefei. 23 regional and tourism airports were built or renovated in the corresponding period of time. By the end of 2000, China had 143 civil airports, including 23 4E airports, 35 4D airports and 40 4C airports.

During the Ninth Five-Year Plan Period, China started the construction of major air traffic control centers in Beijing, Shanghai and Guangzhou. During the Tenth Five-Year Plan Period (2001-2005), China will complete the unfinished work for the above three major air traffic control centers and continue the construction of four aircraft and aircraft-engine maintenance bases in Beijing, Guangzhou, Shanghai and Chengdu.

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

Priority will further be given to the foreign investment that will be directed toward airport infrastructure construction, technology upgrade and management training. The areas China strives to improve include: aviation security systems and equipment, weather observation automation systems, telecommunication systems, computer information management, settlements ticketing systems, global distribution systems and E-commerce. The traffic control system will also be fully converted from program control to radar control.

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

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

The data provided below summarizes the import trend of airport equipment and services, based on imports in several HTS categories. These categories only represent imports of radar, remote radio control apparatus, navigational aids, elevators and escalators, baggage sorting and handling equipment systems, communication systems, signaling & safety equipment for airfields, special vehicles, baggage x-ray machines, and runway friction testers, therefore they must be viewed as incomplete, though representative of general trends.

Industry sources agree that the Chinese authorities have available funding and the interest in purchasing nearly USD 500 million of air traffic control equipment during the next five years, although nearly USD150 million will likely go to a single company for the area control centers.

Airport and Ground Support Equipment Market

	2001 (actual)	2002 (actual)	2003 (estimate)
Total Market Size	1,539	1,703	1,884
Total Local Production	626	689	758
Total Exports	285	262	268
Total Imports	1,198	1,276	1,354
Imports from U.S.	311	218	231

The above figures are calculated in USD millions and represent unofficial estimates. Trade numbers are based on Chinese customs figures for the HTS codes: 842810, 84798940, 8526, 85281340, 85308000, 86080090, 870190, 87021020, 8705, 87091100, 90221910, and 90318090.
**Local production figures are calculated on the basis of combined information from the General Customs Administration of China, “CAAC Journal” and “Economic Daily”.

9. Building/Decorations Materials

Among the hottest market sectors in China is the home building and decorations materials industry. Liberalization of home ownership has driven rapid growth in housing construction and renovations, making this market increasingly attractive.

Of the two, the home decorations market is experiencing the most rapid growth. Expected to continue development at a rate of 25 to 30 percent annually over the next five years, the total annual volume of decoration and refurbishing work will also likely soar from USD 24.2 billion to USD 72.6 billion from 2001 through 2005.

High-end housing, including units specifically designed for expatriates, has been the target segment for most foreign building material suppliers, as their products are familiar to customers. This kind of housing includes villas, serviced apartments and luxury flats with an average of price above USD 750 per square meter. Customers in this market segment are mainly executives of foreign-owned enterprises or joint ventures and affluent local Chinese. With China’s accession to the WTO and strong economic growth, this niche will continue to grow.

Best prospects for building materials are: acrylic and vinyl based paints; granite, crude/rough; coniferous wood veneer sheets; doors, windows, frames, and thresholds;

aluminum doors, windows, and frames; plasters; sinks, wash basins, and stainless steel products; sanitary fixtures, porcelain/china; and other miscellaneous structural materials.

The global export market to China in building/decoration materials exceeded USD 2.78 billion in 2002, an increase of 10.6 percent compared with 2001. China's building materials industry will continue to boom in 2003, with total imports reaching USD 3.2 billion, 15.4 percent above 2002.

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

The Chinese Government recently reported the annual growth rate for housing at between 20 percent and 30 percent. MOC estimates that 3.0 billion square meters of urban housing will be completed in the next 5 years. While general construction expands, the government is working to ensure that housing is complete and not just an "empty shell." Traditionally, new houses were totally empty, with no bathroom fixtures, appliances, light fixtures or floor covering: just a concrete box. The Beijing Construction Commission recently issued a new regulation encouraging builders to completely decorate new and refurbished construction. Though this puts Beijing developers in a position to exercise monopolistic power, empty-shell housing should end within one to three years, generating a huge market for supplemental construction and decoration materials.

China's accession to the WTO in 2001 further spurred growth. Aside from improved corporate confidence towards trade and investment in China, other tangible benefits are gradually emerging. Chief among them will be reductions in tariffs. As the table below shows, China lowered rates for eight categories of building materials upon the accession to WTO.

WTO - Related
Tariff Reductions on Imported Building Materials

Products	Before WTO	After WTO
Glazed Ceramic Tile	45%	35%
Marble	24%	19%
Porcelain Ware	30%	24%
Kitchen Appliances	30%	24%
Windows	16%	12.4%
Decorative Laminate Board	8%	4%
Household Red Wood Furniture	22%	14.7%
Stainless Steel Furniture	18%	16%

Building/Decorative Materials Market

	2001 (actual)	2002 (actual)	2003 (actual)
Total Market Size	17,086	17,854	18,591
Total Local Production	17,686	18,716	19,800
Total Exports	1,299	1,633	2,057
Total Imports	699	771	848
Imports from U.S.	45	52	60

The above figures are calculated in USD millions and represent estimates based on China Customs figures.

10. Automotive Parts

China is making efforts to develop its automotive industry into a pillar industry in the national economy by 2010. According to the Auto Industry Tenth Five-Year Plan (2001-2005), by 2005, annual production volume will reach 3.2 million vehicles of which 1.1 million will be passenger cars. The value of automotive industry production is projected to be USD 15.7 billion. The percentage of diesel engine vehicles is projected to increase from 29 percent in 2000 to 35 percent by 2005. The main goals for automotive components, parts and accessories are to improve technology and quality and to develop design capability. By 2005 it is proposed that the quality and standards of automobiles and key spare parts should reach or be close to international levels.

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

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

U.S. Position in the Market

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

Import Climate

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

Best Prospects for Products and Technology

In March 2002, China's top government authorities issued a new "Directory of Industries for Foreign Investment" which took effect on April 1, 2002.

The new Directory encourages foreign investment in the following fields in the automotive manufacturing industry:

- Passenger cars and motorcycles;
- Engines for motor vehicles and motorcycles;
- Key automotive parts and components including brake assemblies, axle assemblies, transmissions, diesel engine fuel pumps, turbo-superchargers for diesel engines, external emission control equipment for diesel motor vehicles, filters (lube-oil, air and fuel filters), constant velocity universal joints, combination instruments and special high-strength fastener parts;
- Electronic fuel injection systems, safety air-bag equipment, and other automotive electronic equipment systems;
- Key motorcycle parts and components including carburetors, magnetos, starting motors and disk brakes;
- Special-purpose desert vehicles for the petroleum industry;
- Design and manufacturing of machine tools for motor vehicles and motorcycles including trimming dies, injection molds and die forming; clamping fixtures including welding fixtures and inspection jigs;
- Casting and forging of semi-finished products for motor vehicles and motorcycles; and
- Auto tail gas scavengers, catalytic agents and additives for motor vehicles.

Automotive Parts Market

	2001 (actual)	2002 (actual)	2003 (estimate)
Total Market Size	12,974	19,447	22,364
Total Local Production	12,207	17,847	20,167
Total Exports	1,782	2,800	3,220
Total Imports	2,549	4,400	5,940
Imports from U.S.:	70	80	95

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

11. Agricultural Chemicals

China's agriculture-related chemical market has been the subject of great attention. There is no doubt that China plays an important role in the global agricultural chemical market. It is one of the biggest agrochemical consumers, and more crucially, a large agrochemical importer. Agrochemical exports to China are very important for U.S.

exporters, ranking as the top destination among U.S. fertilizer exports in recent years. In 2002, China imported USD 825 million in fertilizers and USD 23.62 million in pesticides from the U.S., accounting for 35 percent and 17 percent of total imported fertilizers and pesticides respectively. U.S. DAP (Diammonium Phosphate) has a strong position in the China fertilizer market. In 2002, 93.89 percent of China's DAP imports came from the United States. China's goal is to rely less on fertilizer imports in the future. However, the country lacks potassium resources and its phosphate is difficult to recover. Domestic output of fertilizer still cannot meet the total market demand, forcing China to import high-concentration and compound fertilizers. The import of such fertilizer is controlled by a quota management system, which will be phased out over the next two years.

China's accession to the WTO will provide benefits to U.S. fertilizer exporters. On accession, tariffs dropped 6 percent from the 11 percent import duty rate. In 2003, the total volumes of import quota for urea, DAP and NPK were 1.8 million, 5.95 million and 2.98 million tons, respectively. The import volumes within the quota are levied an import duty of 4 percent, while imports exceeding the quota are levied a duty of 50 percent. The quotas will be replaced by a tariff-rate quota system with in-quota tonnage limits expanded each year. WTO commitments further stipulate that all quotas must be fully allocated, forbidding the current practice of limiting imports by only allocating a certain portion of the quotas each year. Perhaps most significant, foreign firms will gain the right to import and distribute fertilizers after a five-year transition period, gradually dismantling the state-controlled trading monopoly. The stage is set for greater market access for U.S. suppliers; however, the appearance of non-tariff barriers and a lack of transparency in the allocation process remain a problem.

At present, China's pesticide output ranks second worldwide. It is growing into one of the major pesticides exporters in the world. 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 in pesticides 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.

Agricultural Chemicals Market

	2001(actual)	2002 (actual)	2003 (estimate)
Total Market Size	11,100	11,518	11,250
Total Local Production	9,520	9,900	10,296
Total Exports	320	890	1,147
Total Imports	1,900	2,508	2,101
Imports from U.S.	700	848	720

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

12. Plastic Materials and Resins

In the Tenth Five-Year Plan (2001-2005), China's annual growth rate of general synthetic resins is projected to be 6.8 percent, and that of engineering plastics materials is expected to be 10 percent. However, the local output of plastics materials and resins can only satisfy 50 percent of market demand. As a result, China must import large quantities of plastics materials each year.

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

Special engineering plastics and other resins, which possess special physical and chemical properties, are used widely in various industries as special materials. The China Engineering Plastics Association expects that in 2003, the market demand for the five basic engineering plastics will reach 800,000 tons, broken down as follows: PA (165,000 tons), PC (405,000 tons), POM (140,000 tons), PET and PBT (68,000 tons), and MPPO (22,000 tons). U.S. engineering plastics products have a good reputation as high-technology and are usually competitive in the local market. However, U.S. firms now face stiff competition from Japan, Korea, Taiwan, and Germany. In recent years, imports of general plastics from the U.S. dropped, due to price competition and the close relationship between Asian competitors and China.

China needs to import large amounts of synthetic resins to meet local market demand. China's imports of PVC reached 2.29 million tons in 2002, and are expected to increase to 3 million tons in 2003. Meanwhile, China has become the largest importer of engineering plastics for the last four successive years. By 2005, the demand for the five major engineering plastics (PC, POM, PA, PBT and PPO) and ABS should increase to 590,000 t/a and 1.6mt/a, respectively.

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

	2001 (actual)	2002 (actual)	2003 (estimate)
Total Market Size	16,500	17,895	19,055
Total Local Production	6,000	6,420	6,400
Total Exports	600	600	650
Total Imports	11,100	12,075	13,305
Imports from U.S.	700	740	1,100

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

B. Best Prospects for Agricultural Goods and Services

Go to www.fas.usda.gov and search attaché reports for more information and reports on products and commodities.

1. Grains

Short-term prospects for grain imports are not great. Small markets for high quality wheat and rice exist but face growing competition from domestic production. Currently the only dynamic import market for grains is for malting barley to meet the growing demand in China for beer. Total stocks of grain grew sharply in the late 1990s due to government support programs, and declining human consumption of wheat and rice. This is currently the biggest drag on imports. However, domestic grain production has declined 15 percent as compared to the late 1990s, and demand for feed continues to increase steadily. It may take anywhere from two to five years to reduce the current large stocks of grain, but long term prospects for substantial imports are good. In the long-run, limited land and water resources would indicate from a perspective of economic efficiency, that China should import a good portion of its grain needs. WTO commitments will allow China to limit combined rice, corn and wheat imports to just over 22 million metric tons a year or about 5 percent of consumption. Best prospects are for feed grains, particularly as domestic quality is improving for both wheat and rice.

Wheat, Corn, Rice Market

	MY 2001/02 (actual)	MY 2002/03*	MY 2003/04*
Total Market Size	363	367	369
Total Production	332	333	325
Total Exports	12	17	14
Total Imports	1	1	1
Imports from the U.S.	0	0	0

Marketing Year (MY) October/September
The above figures are measured in million metric tons and represent unofficial estimates.
* Forecast

2. Grass Seeds

China continues to beautify its cities, expanding green spaces, parks and golf courses. This has led to a growth in demand for turf and lawn seed. In addition, China's growing livestock industry has increased demand for forage seed varieties that cannot be supplied domestically. The anti-desertification campaign in northern China and water erosion programs in southern China both emphasize tree and grass reclamation, adding to the demand for seeds. Total grass seed exports to China in the first quarter of 2003 were about 50 percent greater than each of the past two years. The promise for future seed sales looks bright. U.S. seed exporters should be cautious, however, when arranging payment terms and collection. Also, disputes over new plant variety protection and trademarks are common. The U.S. continues to be the largest supplier of grass seeds to China, but price competition from Canada, Australia, and a few EU countries has influenced China's importers in recent years. Many U.S. companies have found success marketing U.S. grass seeds as a high quality product that is easier to manage than the lower quality seeds from other sources. (For more information on the grass seed and planting seed market in China please refer to FAS GAIN report CH2056 Planting Seeds Annual Report.)

Grass Seed Market

	2002 (actual)	2003*	2004*
Total Market Size	NA	NA	NA

Total Local Production	NA	NA	NA
Total Exports	3	3	3
Total Imports	25	26	27
Imports from the U.S.	12.12	14	15

The above figures are calculated in USD millions and represent unofficial estimates.
* Forecast

3. Oilseeds

Long-term prospect for soybeans and soybean products continue to be promising. High rates of economic growth and rising incomes are driving up demand for vegetable oils and for livestock feed. Total soybean demand is forecast to increase by 12.6 percent in 2003 as compared to a year earlier, and to increase by a moderate 2.4 percent in 2004. Slower growth in 2004 is partially due to a forecasted record production of rapeseed. Total soybean imports in 2003 are projected to reach 16.25 million mt and 2004 imports are projected to reach 16.5 million mt. Import growth will be tempered by increased domestic soybean production, which hit record highs in 2003 and is expected to continue to rise in 2004 as well. Annual crushing capacity is currently 50 million mt, and is expected to expand to 57 million mt in 2004. As a result of the growth in crushing capacity, Chinese soybean meal exports are growing. Soybean oil imports remain stable. U.S. exporters will face stiff competition from South American soybeans. China's biotech rules continue to be an issue. Current interim approval for imports of biotech soybeans runs out on September 2003. In meetings with the trade and U.S. officials, Chinese authorities have promised to extend the interim approval until March 21, 2004, but this has yet to be announced publicly, causing some concerns within the trade.

Soybeans Market

	MY 2001/02 (actual)	MY 2002/03*	MY 2003/04*
Total Market Size	30,760	34,642	35,472
Total Local Production	15,410	16,300	17,000
Total Exports	304	270	300
Total Imports	10,386	16,250	16,500
Imports from the U.S.	4,461	6,650	6,700

Marketing Year (MY) October/September
The above figures are measured in 1,000 metric tons and represent unofficial estimates.
*Forecast

4. Cotton

Demand for cotton is forecast to remain strong in 2004 and consumption is forecast to increase 4.5 percent as compared with the 11 percent growth that is expected to occur in 2003. Imports are forecast to increase to 800,000 mt from a projected 2003 import estimate of 570,000 mt. High cotton prices are expected to motivate China's farmers to plant 17.5 percent more cotton in 2004 than in 2003. The additional planted area is expected to come out of corn and wheat in areas where such planting flexibility exists. Yields in 2004 are forecast to remain consistent with 2003. Ending stocks in 2003 are estimated to decline to 1.8 million mt. In 2004, even with substantially increased production and imports, consumption is forecast to outstrip supplies and lead to further reductions in stocks. This optimistic import forecast could be negatively affected if the United States decides to exercise its rights to impose safeguard duties on Chinese textiles.

Cotton Market

	MY2001/02 (actual)	MY 2002/03*	MY 2003/04*
Total Market Size	8,537,718	8,294,416	8,385,416
Total Local Production	5,324,000	4,920,000	5,781,000
Total Exports	72,302	190,000	200,000
Total Imports	89,124	570,000	800,000
Imports from the U.S.	42,456	380,000	400,000

Marketing Year (MY) August/July
The above figures are measured in metric tons and represent unofficial estimates.
*Forecast

5. Poultry Meat

Poultry meat is a large import market. The market, though, is a unique one. China produces enough chicken muscle meat to satisfy the domestic market and even exports to other countries. Unlike in the U.S., there is strong demand in China for chicken offal. Because of the lack of demand for this product in the U.S. it sells for low prices, and is exported in large quantities to China. The United States dominates the poultry product import market in China. The most popular items are chicken paws and chicken wingtips. Restrictive Chinese administrative measures, however, have cut imports by 20 percent in recent years. It is likely that these trade-restricting measures have been imposed in reaction to trade restrictions recently imposed on Chinese poultry products in Japan, Russia, and the EU. China's trade restricting measures are not WTO consistent, and its trading partners are pushing to have them removed. Unrestricted trade access would almost assuredly result in a return to growth in our poultry product exports to China.

Poultry Products Market

	2002 (actual)	2003*	2004*
Total Domestic Production (No. of Broilers, Ready to Cook)	9,558	9,844	9,800
Total Exports (Product Weight)	328	320	320
Total Imports (Product Weight)	583	580	585
Imports from the U.S. (‘’)	490	490	495

The above figures are measured in 1,000 metric tons and represent unofficial estimates
*Forecast

6. Hides & Skins

China is a major market for imported bovine hides and skins that are processed and used to manufacture finished leather goods for both domestic and export markets. U.S. hides are competitive as inputs particularly for the high-quality leather export industry. The demand for U.S. hides should grow as tanneries from other countries continue to re-locate to China to take advantage of low labor costs and a growing domestic market. At present, a large volume of U.S. hides and skins are transshipped to China through Hong Kong. According to U.S. Census Bureau data, U.S. hides and skins exports to China and Hong Kong were worth USD 431 million in 2002, just off the 2001 record of USD 439 million. During the first trimester of 2003 U.S. exports were 35 percent ahead of 2002. Chinese importers are very price conscious. The main competitors for U.S. raw hides are Canada and Australia. The main competitors for U.S. wet blues are Italy, Canada, Taiwan and South Korea.

7. Tree Nuts and Dried Fruit

China imported 30 percent more dried fruit and 17 percent more edible tree nuts in 2002 than in 2001. Of those imports, U.S. market share doubled for dried fruit and remained virtually the same for tree nuts over the same period. Among tree nuts, pistachios, almonds and hazelnuts have been most popular and are often used as ingredients by high-end bakery chains in loafs, cookies, cakes and breads, or may be seen packaged on supermarket shelves as high-quality snacks. Prunes and raisins make up the largest group among dried fruit imports. American raisins and cranberries are increasingly visible in joint venture or wholly foreign-owned bakery outlets, which prefer U.S. or other imported ingredients over domestic products because of superior quality, dependability and hygiene. The Almond Board of California, the California Prune Board, the California Cherry Advisory Board, the California Pistachio Commission, and the California Raisin Administrative Committee are all active in China and frequently hold promotional and technical activities for local participants. U.S. competition for China's tree nut market includes Vietnam, Russia and South Korea, while Vietnam and Myanmar are the United States' main competitors in the dried fruit market. (The annual Food Processing Sector Report–CH3807 provides additional information.)

Edible Tree Nuts Market

	2002 (actual)	2003*	2004*
Total Market Size	N/A	N/A	N/A
Total Local Production	N/A	N/A	N/A
Total Exports	226.3	226.5	227
Total Imports	63.76	65	70
Imports from U.S.	11.32	12	12.5

The above figures are calculated in USD million and are sourced from the World Trade Atlas
* Forecast

Dried Fruit Market

	2002 (actual)	2003*	2004*
Total Market Size	N/A	N/A	N/A
Total Local Production	N/A	N/A	N/A
Total Exports	34.31	36	38
Total Imports	36.23	36.5	37
Imports from U.S.	6.52	8	9.5

The above figures are calculated in USD million and are sourced from the World Trade Atlas
* Forecast

8. Wine

In 2002, China imported USD 1.4 million worth of American wine, thereby comprising the 14th largest market for U.S. exports by value. In the past several years, the Chinese market for imported wines has shifted from Hong Kong sourcing to direct imports (mostly via Shanghai), and from bulk to bottled wine. Although table wine is increasingly popular, consumer understanding, particularly of foreign wines, remains largely non-existent. Importer and distributor options for getting wine into China have continued to increase, both in quality and diversity. These trends combine with growing disposable income, declining import duties, and government promotion to create growth opportunities for producers willing to focus and conduct due diligence. The main competitor countries for American wine are France, Australia, and Chile. The most recent USDA report on China's wine situation is CH3802.

Wine Market

	2002 (actual)	2003*	2004*
Total Market Size	N/A	N/A	N/A
Total Domestic Production	N/A	N/A	N/A
Total Exports	2,350	2,000	2,000
Total Imports	30,487	30,500	30,800
Imports from U.S.	785	1,000	1,000

The above figures are measured in kiloliters (1 kiloliter = 264 gallons) and are sourced from China Customs Data.
* Forecast

9. Fresh Fruit

Although China's fruit production is significant, there are still opportunities to export several varieties of fresh fruit to China. In 2002, China imported over USD 27 million in fresh citrus, over USD 32 million in fresh grapes, and over USD 22 million in apples and pears. However, by and large, the biggest fruit imports by value were in HS Code 0810 (Other fresh fruits, e.g. Durian, Lychee, Berries) totaling USD 85 million. Overall, the United States is the third largest supplier of fresh fruits to China after the Philippines and Thailand. The market, however, for U.S. fruit products remains strong. Growth in U.S.-China fruit trade could quicken if quarantine restrictions on a variety of products are addressed. This process of identifying the quarantine issues of concerns for a number of fruits, and measures to mitigate them is ongoing in both China and the United States. Currently, a large percentage of China's fresh fruit imports enter from Hong Kong and are trans-shipped through Guangdong province to wholesale and retail markets throughout China. However, as fruit tariffs are reduced in accordance with China's WTO Accession Agreement, more direct imports of fruit are expected to flow into Mainland China. There is a particular need for fresh fruits in the retail and HRI sectors during the Chinese New Year Festival and year around in cities in which incomes are rising. In many cities, fruit plates featuring imported fruits are an appealing dessert item. The quality of Chinese fruit is improving along with improvements in post-harvest management and cold-storage. This high quality fruit competes well with imported U.S. fruit in the HRI and retail sectors. (For more information on fresh fruit market opportunities in China, download FAS GAIN reports CH2045 Deciduous Fruit Annual Report and CH2055 Citrus Fruit Annual Report.)

Fresh Fruit Market

	2002 (actual)	2003*	2004*
Total Market Size	NA	NA	NA
Total Local Production**	69,520 tmt	71,000 tmt	72,000 tmt
Total Exports	289	291	293
Total Imports	250	250	250
Imports from U.S.	32	32	32

The above figures are calculated in USD millions (unless otherwise specified).
Trade values include HS codes :0803, 0805, 080610, 0808, 0809, 0810
Source for trade statistics: China Customs
* Forecast
** Includes apples, oranges, pears, grapes, and bananas

10. Beef & Pork

Growth in beef imports continues. About half of all beef imports are beef offal, the rest are muscle meat. The most popular cuts of imported beef offal are stomach and tendons. Two markets exist for imported beef muscle meat cuts. The first, accounting for 60 percent of muscle meat imports, are lower-end cuts (short plate and chuck eye roll) used for Chinese hot pot; the second are higher quality table cuts such as rib eye, sirloin and tenderloin. The pork import market, although very large, is almost exclusively offal. Local pork muscle meat is of a quality comparable to or better than that of any other country, and local production has been able to keep up with domestic demand. However, the Chinese affinity for offal cuts, an affinity that is almost nonexistent in the West, makes for a good market for imports of those products. Recent foot and mouth disease concerns have led Chinese authorities to ban most imports of European pork. Popular pork offal cuts are feet, stomach and tongue. Much of China's beef and pork imports enter through so-called "gray" channels. Gray channel imports enter China illegally, and avoid quarantine inspection, which means that there is still a market in China for EU pork offal, despite the fact that it has been banned by central authorities. Recently the Government has stepped up its efforts to stop this illegal trade, with some success. China can be expected to continue these anti-smuggling efforts. Long term demand for pork and beef offal should continue. With limited land resources constraining beef production, long-term prospects for beef muscle-meat cuts are also good.

Beef & Pork Market

	2002*	2003**	2004**
Total Local Production (ccs wgt)	48,600	49,800	50,500
Total Exports (product wt.)	174	175	170
Total Imports (product wt.)	268	260	260
Imports from the U.S.	71	69	70

The above figures are measured in 1,000 Metric Tons
* Estimate
** Forecast

11. Dairy Ingredients

China's demand for dairy products has greatly increased in recent years. Demand has grown the most for fluid milk; including yogurt and flavored dairy drinks. Total domestic milk production for 2002 was 14 million mt, up by 25 percent from the previous year. Cow milk production was 13 million mt, up by 27 percent. Although milk production has grown quickly in China, it is still insufficient for domestic consumption. In 2002, imports accounted for about 15 percent of China's total consumption of dairy products. Even with recent strong consumption growth, China's per capita milk consumption is only about 10 kg. per year, among the lowest in the world. For the long term, as incomes rise and consumers continue to develop a taste for dairy products, the outlook for large increases in dairy product sales is excellent. Use of dairy products for feed for China's growing livestock sector should also grow steadily. Undoubtedly the domestic industry will expand to meet part of this demand but imports will continue to catch a significant portion of this growth as well. High domestic production costs, particularly high land costs, should make prices for dairy products from other countries competitive. Dry milk products in particular show promise since they can be shipped relatively cheaply from other countries. Powdered milk and whey already account for the great majority of China's dairy imports.

12. Aquatic Products

China's food processing, HRI, and retail sectors require large volumes of fresh, chilled, and frozen aquatic products. China's aquatic product processing sector, primarily located in Qingdao and Dalian, import large quantities of aquatic products for processing and re-export. Most processors in these two cities report that factories were well below capacity and could have used larger volumes of product over the last two years. As such, aquatic product imports to these locations should continue to grow so long as world supplies and prices allow. China's HRI and retail sectors are familiar with the high-quality of U.S. products such as salmon, crab, loligo squid, and geoduck. For example, seafood traders in Qingdao are often permitted to place U.S. product in self-owned cold-storage warehouses prior to quarantine approval. Imports for other nations have to sit longer in quarantine, incur greater fees, and get to the market/end-user at higher prices. Cheaper farmed salmon from Norway and less expensive salmon from Canada pose a challenge to U.S. salmon exports. The other challenge the U.S. faces are from domestically farmed and caught product, which, as it cannot always be exported, finds itself being consumed in greater volumes within China. (For more information on seafood in China, please refer to FAS GAIN report CH3019 Aquatic Products Review and Outlook.)

Aquatic Products Market

	2002 (actual)	2003*	2004*
Total Market Size	NA	NA	NA
Total Local Production	45,645 tmt	46,500 tmt	47,500 tmt
Total Exports	4,504	4,800	5,000
Total Imports	1,573	1,600	1,700
Imports from the U.S.	106	107	108

The above figures are calculated in USD Million (unless otherwise specified) and are sourced from the China Customs (trade statistics).
* Forecast

13. Forest Products

Forest product imports continue to grow rapidly and prospects for continued growth are excellent. Growing consumption and declining domestic supplies drive increased import demand. Continued efforts to preserve natural forests and improve harvesting practices have limited domestic supplies. The government's housing reform campaign has helped stimulate consumption by increasing the demand for wood products for interior decoration and furniture. Demand for hardwood products is strong in fancy plywood production and interior decoration uses. There has also been considerable growth in the construction of wood-frame housing; however, the size of this market is limited by building codes that do not recognize western-style wood-frame construction. The government has voluntarily reduced tariffs on a wide range of wood products since early 1999. Imports of logs and lumber now enter duty-free. U.S. exporters to this market face strong competition from European hardwoods and from tropical hardwoods from Southeast Asian and African countries.

Forest Products Market

	2002 (actual)	2003*	2004*
Roundwood			
Total Market Size	63,382	68,336	71,000
Total Production	42,809	43,237	43,800
Total Exports	13	12	12
Total Imports	20,573	25,099	27,000
Temperate Hardwood Logs			
Total Market Size	19,715	20,742	21,000
Total Production	14,127	14,410	14,400
Total Exports	12	11	11
Total Imports	5,588	6,314	6,500
Temperate Hardwood Lumber			
Total Market Size	5,972	6,811	7,200
Total Production	3,059	3,606	4,000
Total Exports	350	367	360
Total Imports	2,913	3,205	3,300

The above figures are measured in 1000 cubic meters and represent unofficial estimates.
*Forecast

6. Trade Regulations and Standards

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

China has traditionally 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. In January 2002, China made the tariff cuts required under its WTO Accession Agreement and greatly expanded access to trading rights. In January 2003, China again lowered tariffs, as required by its WTO Accession Agreement. China also has reformed its 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 will continue to phase out or notify to the WTO all remaining quotas. China has clarified its licensing procedures in accordance with the WTO's transparency requirement.

A. Import Tariffs and Customs Regulations

The most comprehensive guide to Chinese customs regulations is The Customs Clearance Handbook (2002), compiled by the General Administration of Customs (China Customs). This guide contains the tariff schedule and national customs rules and regulations. It may be obtained for 240 RMB plus shipping and handling from:

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

Tariff Rates: China Customs assesses and collects tariffs. Import tariff rates are divided into three categories: general rates, most-favored-nation rates, and Bangkok Agreement rates. 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.

Customs Valuation: The dutiable value of an imported good is its CIF price, which includes the normal transaction price of the good, plus the cost of packing, freight, insurance, and seller's commission. Just prior to its WTO accession, China released new valuation regulations. Under the regulations, China Customs has been tasked with assessing a fair valuation to all imports. To tackle this task, all Customs officers now have access to a valuation database that lists appropriate valuations for various imports, based on international market prices, foreign market prices and domestic prices.

Customs officers check the price reported by the importer against this database. Normally, Customs officers will accept the importer's price. However, if the reported value is too far out of line with the database, the Customs officer will estimate the value of the goods based on methods listed in Article 7 of the PRC Measures for the Determination of Customs Values for Imported and Exported Goods.

Tariff classification. China Customs only uses an eight-digit harmonized tariff system, as opposed to the more detailed ten-digit codes. Customs officers have wide discretion to classify in what general category to place each import.

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 now bound by WTO rules to offer identical tax treatment for domestic and imported products. VAT is collected regularly on imports at the border, although importers note that their domestic competitors often fail to pay taxes.

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

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

China intends to eventually phase out its two-tier income tax system for domestic and foreign enterprises. Domestic enterprises have long resented rebates and other tax benefits enjoyed by foreign-invested firms. The move towards national treatment will mean the gradual elimination of special tax breaks enjoyed by many foreign investors. However, in some cases Chinese authorities have promised to grandfather existing foreign investments with current tax incentive deals for at least a certain period of time.

B. Trade Barriers

The Chinese Government has recognized for years that economic reform and market opening are essential components of sustainable and balanced economic growth. The Chinese Government in 2001 and 2002 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 to ensure WTO consistency. 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 will bring enormous changes – both economically and socially – but WTO entry will not remove all commercial problems and the implementation process will take time.

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

Tariffs: WTO accession will have a dramatic effect on tariffs for many products of interest to the United States. China must reduce tariffs for U.S. priority agricultural products from an average of 31 percent to 14 percent by January 2004. Tariffs for some passenger cars were over 100 percent prior to accession, and must be reduced to 25 percent by 2005. The Information Technology Agreement calls on China to eliminate duties on IT goods – such as semiconductors and computer hardware –by January 1, 2005. Still, China plans to maintain high duties on products that compete with those of domestic industries the Chinese Government seeks to protect. For example, the tariff on large motorcycles will only fall from 60 percent to 45 percent. Likewise, most video, digital video, and audio recorders and players will still face duties around 30 percent.

Import Quotas: WTO rules bar quotas and other quantitative restrictions. China has been gradually eliminating them and will continue this process after accession over a 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. After two rounds of quota elimination, quotas limit eight categories of imports, including automobiles, motorcycles, oil, rubber, and tires. Bureaucratic delays in allocating quotas have disrupted imports of many products such as passenger cars.

Tariff-Rate Quotas (TRQs): China applies TRQs to imports of wheat, corn, rice, soy oil, cotton, barley, vegetable oils, and fertilizer. With its WTO accession, China for the first time published TRQ levels and the regulations governing TRQ administration. China will gradually increase these already-large TRQ levels. A growing portion of each TRQ will be reserved for importation through firms other than state trading entities. To ensure full use of the TRQs, China agreed to specific rules for administration of the TRQs, including increased transparency and reallocation to importers of any unused quota. In China's first year as a WTO member, TRQ allocation, like quota allocation, was plagued by official delays. Timing of TRQ allocations and re-allocations seemed to improve in 2003, but concerns remained over China's system of TRQ administration. The National Development and Reform Commission (NDRC) refuses to publish 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.

Import Licensing: Products subject to import quotas or TRQs also require import licenses, including some wool, grains, oilseeds and oilseed products, cotton, iron and steel products, commercial aircraft, passenger vehicles, fertilizer, hauling trucks, and rubber products. 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.

Export Licenses: Fifty-two categories of Chinese exports require licenses. Garment and textile exports – which are strictly limited by importing countries and require quota visas to enter foreign markets such as the United States – make up the bulk of these exports. Beyond textiles, products requiring licenses include some raw materials and metals, lethal chemicals, and food products. China also requires export licenses on products that are the subject of countervailing duties in a foreign market. MOFCOM is responsible for the enactment of general policy on export licenses, but local-level Economic and Trade Commissions are beginning to take charge of issuing specific export licenses. Currently, 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. The licenses are issued by local Economic and Trade Commissions, which report to MOFCOM.

Transparency: China publishes laws and regulations relating to international trade in the China Foreign Trade and Economic Cooperation Gazette, published by MOFCOM and available by subscription. Most government ministries also publish the texts of related laws and regulations on their websites. Economic newspapers routinely carry the texts of government circulars, announcements and regulations. In addition, there has been a proliferation of online news and information services such as chinaonline.com, sinolaw.com, and sohu.com that offer up-to-date news about and texts of new laws and regulations. As a WTO member, China has committed to publishing for comment all measures that could affect trade in goods, services, TRIPS or the control of foreign exchange, and to providing a translated copy of new laws, regulations, and other measures to the WTO Secretariat in Geneva no later than 90 days after promulgation. MOFCOM has established an "Enquiry Center" to provide information on commercial, investment, and trade laws and regulations. Despite this progress, transparency remains a problem for foreign companies. 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 foreign-invested enterprises for comment. The rule-making process remains secretive and 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.

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

Trading Rights: China restricts the types and numbers of entities with the right to trade. Only those firms with trading rights may 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. Currently, firms with a presence in China and annual export volumes valued in excess of USD 10 million may register for export privileges for most products. Research and development centers in China may also now import small quantities from their parent companies for test marketing. Firms with trading rights must undergo an annual qualifications test and certification process. China has not yet issued regulations to implement its WTO obligation to extend full trading rights to minority-owned FIEs, as it committed to do one year after WTO accession. Firms without a presence in China must use a domestic agent with trading rights to import and distribute goods.

Distribution Rights: In general, foreign firms have only been allowed to distribute products that they manufacture in China. Foreign firms were forced to engage local agents to distribute imported goods. China's WTO accession should improve the ability of foreign firms to distribute their products effectively. As part of its WTO Accession Agreement, China agreed to phase out distribution restrictions for most products within three years of accession. It remains to be seen, however, how China will implement this commitment and whether it will require FIEs to establish new joint ventures to act as distributors, since rules implementing the first phase – the granting of distribution rights to minority owned FIEs – still have not been published.

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. Recent examples include telecom equipment and autos. 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.

Standards and Testing: For many products China requires strict conformity assessment licenses, quality and safety licenses, sanitary and phytosanitary testing, and labeling verifications. In an attempt to eliminate some double testing and multiple fees for imports, in 2001 China merged its domestic and quarantine testing agencies into one new organization – the State General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ). AQSIQ has issued regulations establishing a new compulsory product certification system that applies to 132 product categories. Under this system, which will be fully implemented August 1, 2003, there is to be 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 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. In some sectors, particularly cellular phones, telecommunications, and medical equipment, companies also face duplicative certification and testing requirements.

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 of China. Such practices may restrict market access for certain imported products, raise production costs, and restrict market opportunities for foreign-invested enterprises in China.

Trade Remedy Regime: Since its accession to the WTO in December 2001, China has made increasing use of its antidumping law, initiating eleven new antidumping investigations, six of which are against U.S. exports. More than three-quarters of the aforementioned total cases are against chemical products. Cases are most often brought by state-owned enterprises finding it difficult to compete as tariff barriers are removed. Foreign companies involved in the investigations complain that the process lacks transparency, pricing methodologies used in making the determinations are flawed, and Chinese investigators rely excessively on data provided by the Chinese petitioners. Further, China conducted its first-ever safeguard investigation against steel products in 2002 following on the heels of similar actions in the United States and Europe, putting definitive measures in place against five categories of steel products in November 2002. The measures are widely regarded to have had disastrous results for Chinese steel consumers, and the Chinese Government has subsequently issued two lists of exclusions from the definitive measures. Regardless of the outcome, continued competitive pressure on China’s state-owned enterprises suggests there will be more, not less, reliance on trade remedy measures.

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 the bilateral WTO agreement are beginning to improve 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 impose high capital requirements and limitations on expansions that seem 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.

C. Import Documentation

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.

D. U.S. Export Controls

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

The Tiananmen Sanctions of 1990 are still in effect and sharply curtail U.S. exporter opportunities to sell crime control equipment to China's police agencies and defense electronics equipment to the Chinese military. The Tiananmen Sanctions prohibit the export of items listed on the U.S. Munitions List and crime controlled items listed in the Export Administration Regulations (EAR).

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

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

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

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

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

A law passed by Congress in late 1997 requires that the U.S. Government do PSVs on all High Performance Computers (HPC) shipped to one of 50 countries including China. As of March 8, 2002, the definition of a HPC with respect to China is any computer with a MTOPS (million theoretical operations per second) level of 190,000 or greater. There is a USDOC requirement that a MOFCOM issued end-user certificate (EUC) must be obtained by the exporter before the computer is shipped to China. Ordinarily the computer importer or re-seller in China applies for this document and passes it to the exporter. For information on this regulation see the BIS web page at www.bis.doc.gov/HPCs.

USDOC Dual-Use Export Applications: A USDOC dual-use export license application that does not present to the USDOC reviewers serious Chinese end-user concerns is usually approved by the USDOC in about one week. In the case of a PLC requirement, USDOC requests MOFCOM's permission for a Commercial Officer from the U.S. Embassy to visit the site of an end-user to determine the bona fides of the end-user for the actual end-use of the product. This must be done before USDOC will act further on the export license application. The amount of time needed to complete the entire PLC process is usually two to three months. If the U.S. Government is not permitted to conduct a PLC by the Chinese Government, an export license may not be issued.

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

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

U.S. Embassy-Beijing, Commercial Section
John Larkin, BIS Officer Tel: (86-10) 8529-6655 x811 Fax: (86-10) 8529-6558

The U.S. State Department's Office of Defense Trade Controls, under the Arms Export Control Act and the International Traffic in Arms Regulations (ITAR), controls the export of items listed on the U.S. Munitions List, including satellites and related technology. For information on State Department export licensing procedures see the relevant State Dept website of the Office of Defense Trade Controls at http://www.pmdtc.org. A point of contact for State Department Licensing business advocacy matters at the State Dept is David Nobles, Tel. 202-647-1817. In the U.S. Embassy in Beijing, the point of contact for State Dept. Licensing matters is the Economic Section, Tel: 86-10-6532-3431, Fax 86-10-6532-6422.

E. Chinese Export Controls

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

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

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

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

On August 22, 2002, China promulgated Regulations on the export control of missiles and missile related items and technologies. The export licenses required under these regulations are issued by MOFCOM.

On October 14, 2002, China promulgated Regulations on the export control of dual-use biological agents and related equipment and technologies. The export licenses required under these regulations are issued by MOFCOM.

On October 18, 2002, China promulgated Regulations on the export control of certain chemicals and related equipment and technologies. The export licenses required under these regulations are issued by MOFCOM.

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

F. Inspection Standards

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

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

To meet the arrival inspection requirements, it is advisable that Chinese quality certification be obtained from Chinese authorities prior to shipment of goods to China. The quality and safety certification process appears to require extensive investigation and may be time-consuming. If your products are required to have this certification, contact the State General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ) at 15 Fangcaodi Xijie, Chaoyang District, Beijing 100020 China; Tel: (86-10) 6599-4328 or fax: (86-10) 6599-4306. AQSIQ is a new ministry-level entity whose creation was announced on April 17, 2001. AQSIQ is the result of a merger of the State Administration for Entry and Exit Quarantine and Inspection (SAIQ) and the China State Bureau of Quality and Technical Supervision (CSBTS). AQSIQ's new structure was published by AQSIQ in August 2001. AQSIQ has a website at www.aqsiq.gov.cn. The website gives a wealth of information on China's import safety certification news, regulations, procedures, policies including reference to WTO accession, and a China AQSIQ organization chart. Under AQSIQ, two commissions have been created which report to the State Council on standards issues. These two commissions are the China National Certification Administration (CNCA), which oversees certification and the China Compulsory Certification Marl (CCC Mark), and State Standardization Administration (SSA). AQSIQ is the primary Chinese government agency responsible for implementing and enforcing standards. However, since this is a new organization, AQSIQ is still in the process of formulating its procedures and methods. The U.S. Embassy will continue to follow this process.

A point-of-contact in the USDOC on standards is at the National Institute of Standards and Technology's Global Standards Program, (Mary H. Saunders, Director), 100 Bureau Drive, MS 2100, Gaithersburg, Maryland 20899-2100, Tel: 301-975-6094, Fax: 301-975-4715, e-mail: gsp@nist.govm, website: http://www.ts.nist.gov/gsp. The point-of-contact at USCS Beijing, John Larkin at Tel: 86-10-8529-6655 x811 or Fax: 86-10-8529-6558.

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

The office that does this certification is the:
China National Information Security Testing Evaluation and Certification Center (CNISTEC).
No. 36 Xinjiang Gongmen
Hai Dian District, Beijing 100091

Tel: 86-10-6879-6484 Fax: 86-10-6288-0411

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

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

G. Labeling and Marking Requirements

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

All products sold in China must be marked - in the Chinese language - with the relevant information. The 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.

H. Special Import Provisions

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

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

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

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

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

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

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

I. Prohibited and Restricted Imports

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

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

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

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

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

7. Investment Climate

A. Openness to Foreign Investment

China received more foreign direct investment (FDI) than any other country in 2002, adding USD 52.7 billion for a cumulative total of USD 449.7 billion. On the strength of

China's accession to the WTO and the fading of the Asian financial crisis, FDI inflows saw a second straight year of double digit growth, rising 12.5 percent in 2002 and 14.9 percent in 2001, after two years of flat performance in 1999 and 2000. The United States accounted for 10.3 percent of total FDI in China in 2002, making it the third largest source of new FDI, behind Hong Kong and the British Virgin Islands and ahead of Japan and Taiwan. On a cumulative basis, the United States, with USD 39.9 billion invested through 2002, remains the second largest foreign investor after Hong Kong.

Chinese officials are forecasting continued strong growth in FDI for 2003, even after the near shut-down of international and domestic travel for much of the second quarter due to the severe acute respiratory syndrome (SARS) epidemic. First quarter FDI grew by more than 56 percent, year over year, giving Chinese officials confidence China will receive the USD 60 billion in FDI they have forecast for 2003. Growth in FDI receipts slowed somewhat in April and more in May. The real impact may show up later in the year, since delayed contract signings in the spring may result in some investment being deferred until next year. In addition, the SARS crisis may cause some investors to reconsider the risks of concentrating too much production in a single country.

China's investment climate has changed dramatically in 24 years of reform and opening. In the early 1980's, China restricted foreign investments to export-oriented operations and required foreign investors to form joint venture partnerships with Chinese firms in order to enter the market. Since the early 1990's, however, China has allowed foreign investors to manufacture and sell a wide variety of goods on the domestic market. In the mid-1990's, China authorized the establishment of wholly foreign-owned enterprises (WFOEs), now the preferred form of FDI. However, the Chinese Government's emphasis on guiding FDI into manufacturing has led to market saturation and over-capacity of some industries in that sector, while leaving China's service sector highly underdeveloped.

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

Prior to China's WTO entry, many international firms allied with Hong Kong companies to gain access to the China market. As a result, Hong Kong is the largest "foreign" investor in Mainland China. By the end of 2002, the cumulative value of Hong Kong's direct investment in the mainland stood at USD 204.6 billion, accounting for over 45.5 percent of total FDI into China. In part, Hong Kong's investments in China outpaced investments by other economies because Hong Kong's entrepreneurs were willing to accept the risks of investing in developing China before other investors. As China's WTO entry makes the operating environment more transparent and predictable, however, Hong Kong's role will change. Shanghai is emerging as a major alternative to

Hong Kong, although the limitations on convertibility of the Chinese currency will impede Shanghai's ability to supplant Hong Kong. (See separate report on Hong Kong's investment climate.)

A growing number of firms are opting to channel their China investments through vehicles registered in the freeports of British Virgin Islands, the Cayman Islands, and Western Samoa. In 2002, new FDI nominally from these three tax haven economies accounted for 15.5 percent of total new FDI. The ultimate origin of this FDI is unclear, but anecdotal information suggests that it includes investments from corporations headquartered in OECD economies, Taiwan, and even China itself. The rise in investment from these freeports correlates closely with the decline in investments from Hong Kong, suggesting that some firms are shifting the nominal origin of their investments.

Types of Foreign Enterprises in China: Among the three main foreign investment vehicles available to foreign investors, WFOEs are currently the most popular. New registration of WFOEs exceeded that of JVs for the first time in 2000. WFOEs accounted for 65 percent of projects approved in 2002. By value, WFOEs represented 69 percent of these deals, a dramatic increase from previous years, as wholly-owned ventures became possible in a greater range of industrial sectors. JVs with Chinese firms are still required, however, in many industries of interest to U.S. investors.

Encouraged versus Restricted Investment: China attempts to guide new foreign investment towards "encouraged" industries and regions. Over the past five years, China has implemented new policies introducing new incentives for investments in high-tech industries and in the central and western parts of the country in order to stimulate development in less developed areas. A new catalogue took effect April 1, 2002, replacing the December 1997 list and designating sectors in which foreign investment would be encouraged, restricted or prohibited. Unlisted sectors are considered to be permitted.

Among other things, the new catalogue aims to implement sectoral openings that China promised in its WTO accession agreement, including banking, insurance, petroleum extraction, and distribution. According to an accompanying regulation, projects in "encouraged" sectors benefit from duty-free import of capital equipment and value-added tax rebates on inputs. The same regulation states that approval authority for "restricted" investments rests with the relevant central government ministry and may not be delegated to the local level. For a number of restricted industries, a Chinese controlling or majority stake is required. Industries in which foreign investment is prohibited include national defense, firearms manufacturing, most media content sectors, and biotechnology seed production.

Regulations governing foreign investment in specific industries have been issued in large numbers over the past few years, spurred by WTO obligations to open these sectors. Prospective investors should examine these regulations carefully.

Mergers and Acquisitions (M&A): China recently issued new regulations governing foreign purchase of stakes in domestic enterprises. Regulations issued in November 2002 permit foreign purchase of traded and non-traded (designated state) shares of Chinese enterprises. In addition, China issued regulations that took effect in April 2003, specified procedures for foreign acquisition of and merger with domestic enterprises.

These regulations require pre-merger notification and allow for examination of antitrust considerations in some cases. By requiring approval of all owners of the domestic enterprise, the regulation implicitly prohibits hostile takeovers. Because the enterprise resulting from the M&A will be foreign-invested, the procedures require approval of both the M&A and of the registration of the resulting enterprise, in accordance with the general rules governing approval of foreign investment.

China also issued provisional regulations in November 2002, effective January 2003, on using foreign investment to reorganize state-owned enterprises. These reorganizations, however, require extensive approvals and full agreement of the domestic enterprise's labor union; these requirements are likely to limit the appeal of such investment.

Even before the issuance of these new regulations, the Chinese Government began approving a small but growing number of foreign M&A deals involving domestic enterprises. Cross-border M&A deals involving sales of firms in China averaged USD 1.9 billion annually from 1997 through 2001, accounting for 2.5 percent of global cross-border M&A in developing countries, based on data from the UN Conference on Trade and Development. A significant portion of these deals are thought to be carried out by overseas subsidiaries of Chinese firms, however, suggesting that even Chinese firms find the domestic M&A regulations excessively cumbersome. Several Chinese economists favor modernizing China's Company Law to accommodate more cross-border mergers and acquisitions. China has also been working for many years on drafting an antimonopoly law, which may eventually replace or subsume the procedures established for cross-border M&A in the April 2003 regulation.

Mergers and spin-offs involving only foreign-invested firms are governed by the Regulations on the Merger and Division of FIEs, which were amended in November 2001 to improve the conditions for M&A activity among such enterprises.

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

The vast majority of FDI is directed to China's coastal provinces. From 1979 through 2001, 86 percent of cumulative FDI went to the 11 provinces and provincial-level cities along the eastern and southern coast. Nearly two-thirds of cumulative FDI receipts have gone to just five provinces: Guangdong (27.9 percent), Jiangsu (12.8 percent), Fujian (9.5 percent), Shanghai (8.3 percent). and Shandong (6.2 percent). Of these, FDI to only two of these destinations grew faster than the national average in 2001: Shanghai (up 35.8 percent) and Shandong (up 18.5 percent). All five areas have been particularly targeted by Taiwan and Hong Kong-based manufacturing, attracted by low labor costs for export production. Shandong has also been especially popular with South Korean firms.

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

Western China continues to struggle to attract significant amounts of FDI. China has touted a high-visibility "Great Western Development" campaign and included a variety of western development provisions in its 10th five-year plan. However, provincial and local governments in the western areas have generally tried to steer prospective investors to invest in failing state-owned enterprises (SOEs) in hopes of saving jobs at these large employers. Prospective foreign investors have found these SOEs to be almost uniformly unattractive business propositions. Governments have not been as willing to promote some of the very promising private enterprises to foreign investors. The investment climate and business environment are also significantly less sophisticated and transparent than in the coastal areas, making it difficult for foreign investors to assess prospective investments. Finally, the most attractive export routes and domestic consumer market segments are concentrated in the East. As a result of these limitations, few foreign investors have made significant moves in China's west, which took in only 4 percent of FDI received in 2001.

New FDI in China continues to flow overwhelmingly to the manufacturing sector, which took 69.8 percent of FDI in 2002. In the initial phase of China's economic opening, manufacturing FDI was concentrated in low technology garments and other soft goods. Starting in the 1990s, however, China also began receiving growing amounts of capital-intensive (chemicals and petroleum processing) and technology-intensive FDI. The two fastest growing sectors for new FDI in 2001 were electronics and communications equipment (up 54 percent) and textiles (up 40 percent), demonstrating that China continues to gain competitiveness in higher technology products without giving up its dominance of the low end. For example, the top seven products exported by foreign-invested enterprises (FIEs) in 2001 consisted of USD 25 billion in garments, textiles and footwear and USD 25 billion in information technology and telecommunications goods.

In the electronics sector, in particular, industrial clusters are starting to crop up in China, adding momentum to the shift by major manufacturers and their suppliers of production from other Asian locations to China. Nokia, for example, established the Xingwang Industrial Park in Beijing in 2001 in an attempt to draw in its suppliers. Other clusters have grown up naturally, such as the laptop manufacturing cluster in and near Shanghai.

With the exception of real estate, service sector investment has been minimal, mainly due to Chinese government restrictions. The ratio of manufacturing to service investment should shift over the coming several years as China phases out current barriers to foreign access to service industries as part of its WTO accession agreement. The extent of this shift will depend on the details of new regulations governing the opening of these sectors. In some cases, onerous requirements contained in new regulations have limited foreign interest in investment in newly opened service sectors. For example, education, culture, arts, radio, film, and television broadcasting, which have opened only minimally under WTO, collectively received only USD 38 million in 2002, still below their 2000 peak. FDI in wholesaling, retailing, and catering fell 20 percent to USD 933 million in China's first year in the WTO.

Foreign indirect investment (FII) still plays only a modest role in foreign investment in China, despite an extraordinary surge in 2000. In China, FII is essentially limited to foreign investors buying and selling shares of Mainland Chinese companies listed on foreign stock exchanges, primarily in New York (N-shares) and Hong Kong (H-shares). Mainland companies raised only USD 2.9 billion through overseas equity placements in 2001, after having taken in USD 21.9 billion in 2000, due both to company-specific delays and the cooling of global equity markets.

Incentive Programs: Foreign investors sometimes have to negotiate incentives and benefits directly with the relevant government authorities. Some incentives and benefits may not be conferred automatically. The incentives available include significant reductions in national and local income taxes, land use fees, import and export duties, and priority treatment in obtaining basic infrastructure services. Chinese authorities have also established special preferences for projects involving high-tech and export-oriented investments. Priority sectors include transportation, communications, energy, metallurgy, construction materials, machinery, chemicals, pharmaceuticals, medical equipment, environmental protection and electronics. However, new regulations effective in 2002 provide that state-owned land use rights may be awarded only through tender.

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

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

China's tax incentive system is complicated and difficult to implement. Discrepancies between central, provincial and local government tax regulations hamper foreign investment, and these problems are particularly acute in remote and impoverished areas. Still, initial efforts at reform are beginning to take effect. Collection efforts have been centralized and the responsibility for assessment and filing of returns was shifted to the taxed enterprise in late 1999. A computerized standard reporting and payment procedure has been progressively expanded nationwide to reduce overpayments and loopholes.

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

China's WTO obligations. In addition, WTO national treatment rules aim to eliminate discrimination against imported goods and do not apply fully to investment.

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

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

Chinese laws are typically drafted broadly, requiring reference to regulations and even more detailed implementing rules for practical application. Under the terms of its WTO accession agreement, China obligated itself to publish all trade related laws, regulations, and other measures in advance for comment prior to implementation, and this obligation should encompass many regulations affecting foreign investment.

A potentially significant recent development is the emergence of industry associations distinct from government agencies. While it is too early to make conclusive judgments, some foreign observers are concerned that FIEs might be barred from membership in some industry associations and thus are excluded from the self-regulatory and standards setting functions these groups aspire to carry out. Further concerns about the independent commercial nature of these industry associations were raised by reports that they will fall under the supervision of the State-owned Assets Supervision and Administration Commission, which was established in March 2003.

Laws Affecting Foreign Enterprise Establishment:

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

Investment in WFOEs is now the most popular FDI vehicle in China. The WFOE Law was originally promulgated in 1986, and the law and implementing regulations have been amended five times. The WFOE Law was amended most recently in October 2000 and amended implementing regulations were promulgated in April 2001. The 2001 revisions of the WFOE Law and implementing regulations (State Council Order No. 301) amended or deleted sixteen articles. The revisions eliminated requirements for foreign exchange balancing, struck requirements for domestic sales ratios, removed or adjusted technology transfer and export performance requirements, and modified provisions on domestic procurement of raw materials. Several former requirements remain "encouraged," however.

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

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

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

FICLS: FICLS are organized as shareholding companies in which foreign investors hold at least 25 percent of equity. They have been difficult to organize because of demanding regulatory preconditions and requirements for Ministry of Commerce approval. They should become more popular as more Chinese companies organized as share companies establish market presence, reducing the benefit of forming joint ventures.

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

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

Holding Companies: There has been some relaxation of the restrictions on business scope and operations of holding companies, although minimum capital requirements normally make them suitable only for corporations with several sizeable investments to manage. A new regulation that took effect in April 2003 made it possible for holding companies to manage human resources across their affiliated companies and provide certain market research and other services to their affiliates. Distribution and trading functions of holding companies are scheduled to be phased in over a five-year period under China's WTO commitments. However, some restrictions on financial operations and ability to balance foreign exchange internally will remain for holding companies even after full implementation of the WTO commitments. Profit and loss consolidation within holding companies is still prohibited.

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

Other laws relating to investment include the following:

Contract Law: China's Contract Law went into effect on October 1, 1999. The NPC passed the law to unify three earlier laws covering domestic economic contracts, foreign-related economic contracts, and technology contracts, and to address the rising use and complexity of contracts in China.

The new Contract Law moves China closer to international legal norms and to greater legal transparency. It encourages stronger contractual compliance by providing legal recourse - although enforcement of judgments will continue to be a problem. Certain contracts involving foreign firms (including those involved in establishing a FIE, many technology import contracts, and infrastructure project contracts) are still subject to government approval. Certain contracts, such as foreign loan contracts, other technology import contracts, and real estate contracts, must be registered but are not subject to approval requirements.

Securities Law: The Securities Law, effective on July 1, 1999, codifies and strengthens the administrative regulations that govern the underwriting and trading of corporate shares, as well as the activities of China's stock exchanges in Shanghai and Shenzhen. The Securities Law does not distinguish between SOEs and non-SOEs. In practice, however, few non-SOEs have been allowed to sell "A" shares. "A" shares are local currency shares. "B" shares, denominated in foreign currency, were originally for sale only to foreign legal persons and continue to be subject to separate administrative regulations. In February 2001, the authorities opened the "B" share market to Chinese citizens with legally obtained foreign currency holdings. Despite press reports indicating the "A" and "B" share markets will gradually be integrated, the exact timing of this move - which would be closely linked to changes in China's foreign exchange regime - remains unclear.

In December 2002, the People's Bank of China and the China Securities Regulatory Commission implemented new joint regulations for "qualified foreign institutional investors" (QFII) that gave eligible foreign firms conditional access to the country's domestic equity markets, including "A" shares and traded government and corporate bonds. The State Administration of Foreign Exchange also issued supplementary regulations on the use of foreign exchange for investment by QFIIs. Several foreign financial institutions were designated QFIIs in the first half of 2003, but most observers expect QFIIs to limit their exposure to the Chinese share market due to perceived overvaluation, shortcomings in corporate governance, and restrictions on the industries available for investment.

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

Tendering and Government Procurement Laws: Concerns over the WTO consistency of the draft tendering law led the National People's Congress, on April 9, 1999, to make a surprise announcement that it had decided to move key sections relating to government procurement into a separate law. The tendering law (which now governs only state administered capital construction and infrastructure projects) was finalized in 1999, and the State Council issued "Provisions for the Administration of Government Purchases." The NPC approved the new government procurement law in June 2002; the law took effect January 1, 2003, replacing the "Provisions."

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

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

The first step is approval of the project proposal. The central government has delegated varying levels of approval authority to local governments. Until a few years ago, only the Special Economic Zones and open cities could approve projects valued at up to USD 30 million. Such approval authority has now been extended to all provincial capitals and a number of other cities throughout China. Most other cities and regions are limited to approving projects valued below USD 10 million. With certain exceptions involving areas such as municipal infrastructure projects, FDI exceeding these limits must be approved by MOFCOM and the NDRC. If an investment involves USD 100 million or more, it must also obtain State Council approval. The approval process for projects over USD 30 million has become less of an obstacle than in the past. Sometimes the political relationship between China and the home country of the foreign investor influences the approval process.

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

Despite efforts since the early 1990's to push technical institutes towards the market, the political and economic structures of the old "planned economy" are still important obstacles. Lack of familiarity with intellectual property protections discourages Chinese companies from investing in research. Patent, copyright, and trademark infringement often prevent companies from recapturing their investment in product research and development. Furthermore, technology utilized by state-owned enterprises (SOEs) tends to lag far behind that of the growing private sector, in part because SOEs lack incentives to conduct research and development activities. There is a broad consensus among Chinese scientists and Chinese leaders that more reform and greater IPR protection are needed. China continues to reform its science and technology system in order to create incentives for innovation and to link science and technology research work more closely to the needs of the market.

Foreign companies' research and development centers in China have often focused on product localization or development of new products for the Chinese market. More recently, several companies, including Microsoft, Motorola, and Intel, have established research centers in China aimed at product development for regional or global markets. The Chinese Government has welcomed the establishment of these centers although some Chinese critics worry that the centers will create an "internal brain drain" of talent away from Chinese companies and research institutions to foreign companies.

B. Conversion and Transfer (Foreign Exchange) Policies

In periods when foreign currency was relatively scarce in China, profits that were not generated in foreign exchange could only be repatriated with great difficulty. Since 1994, however, China's foreign exchange reserves have grown rapidly (over USD 320 billion in mid-2003), and FIEs have generally enjoyed liberal access to foreign exchange. On December 1, 1996, China announced the full convertibility of its currency on the current account (for trade in goods, services and remittance transactions, including profits). To prevent rampant fraud, in 1998 China tightened the scrutiny of underlying documentation. Bureaucratic procedures as authorities implemented the new regulations created difficulties for many foreign and domestic companies requiring hard currency to complete their transactions. Foreign bank branches are allowed to engage in foreign currency business according to the same rules as Chinese banks. Under the terms of China's WTO entry, foreign bank branches and foreign-invested banks will become eligible to engage in local currency operations in stages over several years.

All FIEs in China are entitled to open and maintain foreign exchange accounts for current account and capital account transactions. In order to do so, an FIE must first apply to China's State Administration of Foreign Exchange (SAFE) for permission. After SAFE grants permission for the account, it establishes a limit, based on the FIE's anticipated foreign exchange operational needs, beyond which foreign exchange must be converted to local currency. According to a SAFE document issued in September 2002, the value of these accounts may not exceed 20 percent of the holder's foreign exchange earnings under the current account in the previous year; if no current account foreign exchange earnings were realized, the limit is USD 100,000. Another SAFE regulation that took effect in April 2003 expanded the mechanisms for transferring FDI funds into China. In general, the restrictions on FIE accounts are less onerous than for wholly Chinese-owned firms. Establishing foreign exchange accounts for capital account transactions involve more complex reporting and qualification requirements.

C. Expropriation and Compensation

Chinese law prohibits nationalization of FIEs, including investments from Hong Kong, Taiwan, and Macau, except under "special" circumstances. The Chinese Government has not defined "special" circumstances although officials claim that "special" circumstances include national security considerations and obstacles to large civil engineering projects. Chinese law calls for compensation of expropriated foreign investments but does not define the terms of compensation.

There have been no cases of outright expropriation of foreign investment since China opened to the outside in 1979. However, the Department of State believes that there are several cases that may qualify as expropriations under Section 527 of the FY94-95 Foreign Relations Authorization Act.

D. Dispute Settlement

Arbitration: Although China is a member of the International Center for the Settlement of Investment Disputes (ICSID) and has ratified the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (a.k.a. the New York Convention), it places strong emphasis on resolving disputes through informal conciliation and mediation. If it is necessary to employ a formal mechanism, most parties prefer arbitration to litigation. The authorities greatly prefer arbitration through institutions in China. Most foreign investors consider arbitration as a last resort and have found it to be time-consuming and unreliable.

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

Enforcement of arbitral awards is sporadic. Sometimes, even when a foreign company wins in arbitration in China, the local court may delay or fail to enforce the decision. Even when the courts do attempt to enforce a decision, local officials often ignore court decisions with impunity.

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

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

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

Bankruptcy and Creditors' Rights: China's provisional bankruptcy law, passed in December 1986 and applicable only to SOEs, provides for creditors' meetings to discuss and adopt plans for the distribution of bankrupt property. The resolutions of creditors' meetings, which are binding on all creditors, are adopted by a majority of the attending creditors, who must account for more than half of the total amount of unsecured credit. Other laws govern bankruptcy by non-SOEs, but bankruptcy law, as a whole is incomplete, inefficient, unprofessional, and subject to gross inequities.

Even Chinese officials contemplating broad enterprise reforms recognize the inadequacy of China's current provisional bankruptcy law. A unified enterprise "Bankruptcy Law" is in draft but is still in relatively rough form, in part because the authorities remain reluctant to address the social consequences of bankruptcy.

A major problem for Chinese commercial banks is the formal and informal constraints on liquidating the assets of non-performing SOE loans. Notably, local political leaders, through the ubiquitous apparatus of the Communist Party, continue to control or to influence not only the courts but also the state-owned banks themselves and can effectively block efforts to dispose of SOE assets. The November 2002 Sixteenth Congress of the Chinese Communist Party mandated the creation of a new paradigm for the management of state-owned enterprises and other assets designed to clarify the ownership rights and responsibilities of central, provincial, and local authorities over state property located under their respective jurisdictions. The establishment in March 2003 of the State Asset Supervision and Administration Commission (SASAC) to replace the State Economic and Trade Commission as the leading institution with respect to China's state-owned industrial sector, is one manifestation of this new system, the significance of which has yet to be fully clarified.

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

E. Performance Requirements/Incentives

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

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

Local Content: Chinese regulations grant FIEs freedom to source inputs both in China and abroad, though priority is given to Chinese products when conditions are equal. Chinese regulations forbid "unreasonable" geographical, price, or quantity restrictions on the marketing of a licensed product. FIEs thus retain the right to purchase equipment, parts, and raw materials from any source. Chinese officials, however, still encourage localization of production.

Technology Transfer: FIEs often involve the transfer of technology through a licensing agreement, the transfer of technology from a third party, or the transfer from the foreign partner as part of its capital contribution. China has committed to enforce only those laws or other provisions relating to the transfer of technology or other know-how if they are in accordance with WTO provisions on protection of IPR and TRIMS, including a prohibition on technology transfer as a condition to approval. Regulations promulgated in 2001 have generally improved the regulatory environment for foreign technology providers. Despite these commitments, foreign investors may still encounter pressure to transfer technology.

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

The amended EJV Law provides that the joint venture partners will determine, by consultation, the Chairman and Vice-Chairman. If the foreign side assumes the chairmanship, the Chinese party must have the vice-chairmanship, and vice-versa.

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

F. Right to Private Ownership and Establishment

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

G. Protection of Property Rights

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

Intellectual Property Rights: Overview

Chinese leaders have acknowledged that protection of patents, copyrights, trademarks, and specialized intellectual property such as domain names and plant variety rights is needed to promote a "knowledge-based economy" in China. China committed to full compliance with the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) upon accession to the WTO. China's legal framework is increasingly compliant with the TRIPS Agreement and international standards, although in some key areas such as implementing enforcement procedures and legal remedies that have a deterrent effect, as required by TRIPS, China's performance is not adequate. In spite of significant progress in improving its intellectual property legal and regulatory regime, IPR protection in China remains weak. Trademark, patent, and copyright violations are blatant and widespread. While Chinese officials are increasing enforcement efforts, IPR violations, including growing exports of counterfeit products, continue to outpace enforcement.

Membership in International IPR Organizations:

China is a member of the World Intellectual Property Organization (WIPO), Paris Convention for the Protection of Industrial Property, Berne Convention, Madrid Trademark Convention, Universal Copyright Convention, and Geneva Phonogram Convention. China's amended copyright law is not fully consistent with the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. Despite committing to host the 2003 WIPO Summit, China has still not acceded to the WIPO Internet Treaties. As a result, China is increasingly a haven for Internet sites acting as "hosts" for IPR infringing material.

IPR Enforcement:

The United States Government recognizes the enforcement efforts that China has made to date, but the continuation of unacceptably high levels of piracy and counterfeiting require more effective and coordinated action. Enforcement of existing IPR regulations is uneven and is sometimes impeded by local interests. Some of China's largest markets openly sell pirated and counterfeit goods, despite repeated U.S. Government requests that China shut down and prosecute vendors of infringing goods.

Industry associations representing computer software, entertainment, and consumer goods industries report high levels of piracy and counterfeiting of all types of products. The Business Software Alliance estimates that more than 90 percent of business software used in China is pirated. Consumer goods companies report that, on average, 20 percent of their products in the Chinese marketplace are counterfeits. Chinese companies experience similar, or greater, problems with piracy and counterfeits.

Pirated products are still being produced locally and imports of pirated products from other economies continue to flood the Chinese market. The levels of optical media piracy (CDs, VCDs, and DVDs) in China remain at extremely high levels in the domestic market, and China remains a center for entertainment software piracy and the production of pirated cartridge-based video game products. The black market for audiovisual products is due in part to excessive market access restrictions, as China tightly controls the distribution of films, books, and music. End-user piracy of business software within the government remains largely unabated despite issuance of directives to government ministries to use only legitimate software. In addition, the piracy of journals and books is a significant problem that has only now begun to show some improvement. The counterfeiting of goods bearing American trademarks, including some well-known marks, by Chinese companies remains a major problem. Despite some enforcement efforts against such activities, large volumes of counterfeit goods, often of well-known products, continue to be produced and sold in China and to be exported to many other countries. Counterfeit medicines are common and pose a health threat to consumers in China. Companies registering legitimate medicines and other patented products in China often find the that confidential data they are required to submit to the relevant government agencies is compromised, leading unscrupulous local generic producers to produce unauthorized imitations, sometimes with poor quality or content standards, resulting in unhealthful products.

While industries report improved cooperation with administrative enforcement agencies in regard to raids, the administrative penalties for IPR violations, often no more than confiscation of the counterfeit products or nominal fines, are generally insufficient to deter counterfeiters. Very few cases are referred to criminal prosecution because the threshold for initiating criminal cases for IPR infringements remain very high. China's criminal sanctions against IPR violations are seldom used, in part because of restrictions on types of admissible evidence and unclear mandates for law enforcement authorities with little experience in prosecuting IPR violations.

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

H. Transparency of the Regulatory System

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

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

Chinese Government agencies have also begun to publish some trade-related regulations in draft for public comment, including comments from foreign parties. This process, required by China's WTO accession agreement, is still in its early stages.

Comment periods are sometimes extremely brief, and it is not always clear how much impact public comments have on the final regulations. Indeed, many regulations are published in final form, making any comments made by interested parties ineffective in altering their contents. Moreover, China still lacks a single source, along the lines of the U.S. Federal Register, for public releases of draft documents. Some government agencies have released draft regulations in advance only to certain favored enterprises (usually domestic enterprises) or have allowed enterprises only to read but not retain drafts. Also, comments by interested parties do not become part of a public record.

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

I. Capital Markets and Portfolio Investment

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

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

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

China's progress in reducing political interference in the banking system has been mixed. The authorities have encouraged China's commercial banks, all of which are wholly or partially state-owned, to improve their loan portfolios by increasing the proportion of their lending to small and medium-sized enterprises, including private firms. Lending to individuals for housing mortgages, purchase of consumer durables, and education expenses has also increased. The government has also maintained three "policy banks" to lend to commercially unattractive endeavors such as infrastructure development and government agricultural procurement. Nevertheless, China's commercial banks still carry a heavy percentage of non-performing loans. Authoritative estimates of the total stock of bad debt in China's financial system range from 45 percent to 75 percent of the country's annual gross domestic product. Large SOEs continue to receive the bulk of commercial bank lending, although local financing of FIEs is becoming more widely available.

In 1998, the authorities - alarmed by the Asian financial crisis - took steps to reduce financial risk in the banking system. The People's Bank of China (China's central bank) reorganized its structure along regional lines similar to that of the U.S. Federal Reserve System, and the Communist Party created its Central Financial Work Commission to oversee the selection of senior managers in the country's financial institutions. Both measures aimed at reducing the influence of local political leaders over credit decisions, a major cause of China's abundance of non-performing loans. In 2003, the authorities took a further step toward stronger regulation of the financial system by merging the Party's Financial Work Commission with the departments of the People's Bank charged with supervising China's financial institutions to create a new China Banking Regulatory Commission (CBRC) independent of the central bank. As in the case of the new state asset management system, it is too early to determine what the full implications of this restructuring on the operation of China's financial institutions will be.

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

As of the end of 2002, foreign banks could undertake business in domestic currency in eight cities. Under the terms of China's WTO accession protocol, China committed to end all geographic restrictions on business by foreign banks by January 1, 2005.

J. Political Violence

Corruption, SOE layoffs, and economic disparities between rural and urban areas and between coastal and interior regions have fueled resentment among segments of the Chinese populace. As China continues to restructure SOEs and makes the difficult and still incomplete transition to an entirely new social security system, unemployment and other social pressures have risen. As a result, urban worker protests have increased. Most of these have been fairly small and resolved peacefully. However, some protests have been large and persistent, such as those by thousands of workers in China’s northeastern provinces in March and April 2002. In recent years, there have been isolated violent actions by disgruntled individuals - in some cases motivated by personal rather than political reasons - who damaged public buses, markets, and railroad tracks. More worrisome, though still relatively rare, were incidents of worker violence against owners or managers. Declining rural incomes have contributed to protests by farmers in rural areas. Local authorities have generally dealt with urban and rural protests in a peaceful manner and have not resorted to violence.

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

K. Corruption

Corruption remains widespread in China. Although the government launched a high profile anti-corruption campaign, these efforts are hampered by the lack of truly independent investigative bodies. Numerous senior provincial and municipal officials came under scrutiny, but there are widespread reports that more senior officials and their family members used their connections to avoid prosecution. Banking and finance are among the sectors most afflicted by corruption, as are government procurement and construction projects. Zhu Rongji, China's Premier until March 2003, has criticized corruption in the construction industry because of the safety hazards created by shoddy construction.

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

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

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

L. Bilateral Investment Agreements

China has entered into bilateral investment agreements with 107 countries, more than any other developing economy, according to the UN Conference on Trade and Development. Agreements have been signed with Japan, Germany, the United Kingdom, France, Italy, Thailand, Romania, Sweden, the Belgium-Luxembourg Economic Union, Finland, Norway, Spain, Austria, and others. The provisions of these agreements cover such issues as expropriation, arbitration, most-favored-nation treatment, and transfer or repatriation of proceeds.

The United States does not have a bilateral investment agreement with China, although the two governments did sign an agreement on investment guaranties that entered into force October 30, 1980. Any American investor investing in China should make sure that expropriation and arbitration are covered in the terms of the contract.

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

M. OPIC and Other Investment Insurance Programs

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

Although OPIC insurance is unavailable, the Multilateral Investment Guarantee Agency (MIGA), an organization affiliated with the World Bank, can provide political risk insurance for investors interested in investing in China. Some foreign commercial insurance companies also offer political risk insurance, as does the People's Insurance Company of China (PICC). Foreign political risk insurers have noted a decline in the past couple of years in new business in China. One possible explanation is that the political turmoil elsewhere in the region in the wake of the Asian financial crisis reduced the perception of risk with respect to China.

N. Labor

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

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

Compensation:

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

Local governments also require enterprise and worker contributions to pension and unemployment insurance funds. Tax rates for pension funds may run as high as 20 percent of an enterprise's total wage bill. Employees must also contribute between 3 percent and 8 percent of their salary, depending on the locale. In general, FIEs are free to pay whatever wage rates they choose as long as it is above the locally designated minimum wage. In practice, income tax laws often make it desirable to provide greater subsidies and services rather than higher wage rates. Most FIES determine their methods and calculations of salaries and benefits after observing local practice. China's national labor law also requires compensation for overtime work.

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

Worker Rights: It is illegal under Chinese law to oppose efforts to establish officially sanctioned unions. Amendments to the Trade Union Law, passed in 2001, provide tougher legal sanctions for anti-union activity. The amendments are widely perceived as strengthening unions' organizing activities in the private sector, including FIEs, where they have been underrepresented. However, these amendments do not require establishment of unions in these enterprises. The Communist Party controls the country's sole officially recognized workers' organization, the All-China Federation of Trade Unions (ACFTU). Independent trade unions are illegal. FIEs without unions often have worker organizations that perform functions similar to Chinese unions, such as organizing social and charitable activities.

China's Labor Law provides for collective labor contracts to specify wage levels, working hours, working conditions, and insurance and welfare. Most collective negotiations, however, appear to be pro-forma in nature. This is because local Communist party committees, rather than the workers themselves, control the selection of the union leaders who conduct collective bargaining.

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

O. Foreign-Trade Zones/Free Ports

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

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

8. Trade and Project Financing

A. Banking System

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

Central Bank and Banking Regulatory Commission:

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

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

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

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

State-Owned Commercial Banks – The 'Big Four':

In 1995, the government introduced the Commercial Bank Law to standardize the operations of China's commercial banking institutions. At present four major state-owned banks, the Bank of China (BOC), the China Construction Bank (CCB), the Agricultural Bank of China (ABC), and the Industrial and Commercial Bank of China (ICBC), dominate the banking system and together account for well over half of all loans and deposits in China's banks.

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

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

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

The Agriculture Bank of China (ABC) specializes in providing financing to China's agricultural sector and offers wholesale and retail banking services to farmers, township and village enterprises (TVEs) and other rural institutions.

Policy Banks:

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

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

Second Tier Commercial Banks:

In addition to the big four state-owned commercial banks, there are smaller commercial banks. The largest ones in this group include the Bank of Communication, CITIC Industrial Bank, China Everbright Bank, Hua Xia Bank, China Minsheng Bank, Guangdong Development Bank, Shenzhen Development Bank, China Merchants Bank, Shanghai Pudong development bank and Fujian Industrial Bank. The second tier bankshave, on the whole, tended to adhere more closely to commercial principles in their operations but, nevertheless, have also encountered problems with respect to asset quality.

Trust and Investment Corporations:

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

Years of government-directed lending have burdened these banks with large amounts of non-performing loans. According to theofficial data from the People's Bank of China, non-performing loans accounted for 21.4 percent to 26.1 percent of total lending of China's four big banks in 2002. In 1999, four asset management companies (AMC) were established to transfer the non-performing assets from the banks. The AMCs plan to repackage the non-performing loans into viable assets and sell them off to the investors.

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

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

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. In his report to the Sixteenth National Congress of the Chinese Communist Party in November 2002, then-CCP General Secretary Jiang Zemin reaffirmed the authorities' intention to deregulate interest rates "steadily" and to allow them to be determined by market forces. Market-based interest rate reform aims at establishing the pricing mechanism of deposit and lending rate based on market supply and demand. The central bank would continue to adjust and guide the interest rate development which allowing the market mechanism to play a dominant role in financial resource allocation.

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

As interest rate liberalization progressed, the PBOC has liberalized, simplified or abandoned 114 categories of interest rates initially under control since 1996. At present, 34 categories of interest rates remain subject to PBOC control. The full liberalization of interest rates on other deposit accounts, including checking and saving accounts, is expected to take much longer. On the lending side, market-determined interest rates on loans will first be introduced in the rural areas and then followed by rate liberalization in the cities.

China's entry into the WTO will bring tremendous opportunities to foreign banks. As a milestone move to honor its WTO commitments, China released the Rules for Implementing the Regulations Governing Foreign Financial Institutions in the People's Republic of China in January 2002. The rules provide detailed regulations for implementing the administration of the establishment, registration, scope of business, qualification, supervision, dissolution and liquidation of foreign financial institutions.

They also stipulate that foreign bank branches conducting full aspects of foreign-currency business and full aspects of RMB business to all categories of clients are required to have operating capital of at least USD 72.3 million, of which at least USD 48.2 million must be held in RMB (RMB 400 million) and at least USD 24.1 million in freely convertible currency.

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

B. Foreign-Exchange Controls

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

The Chinese Government has eliminated the foreign-exchange swap centers on which FIEs used to trade among themselves, and all FIEs have been integrated into the formal banking system. Foreign-invested enterprises (FIEs) are permitted to keep foreign exchange in foreign exchange accounts at commercial banks. Since 1995 China has required that FIEs submit an annual report on their foreign-currency transactions, known as the Foreign-Exchange Examination Report. This report must be prepared by a certified public accountant registered in China and approved by SAFE and is necessary to qualify for foreign-exchange privileges. The purpose of the report is to ensure that FIEs' foreign-exchange earnings from exports are sufficient to meet their own requirements as well as any obligation to repatriate profits. Once the report is approved, firms receive a stamped Foreign Exchange Registration Certificate that enables them to obtain foreign exchange.

On July 1, 1996, China began to allow all FIEs in China to buy and sell foreign currency and exchange RMB in authorized banks for trade and services, debt payment and profit repatriation. The PBOC has lifted limits on exchanging and remitting currency for non-trade purposes and raised the ceilings for the amount of foreign exchange for private use. In mid-1998, however, SAFE cracked down on many of the loopholes used to get around the controls on capital account transactions. Many FIEs complained that delays occurred when SAFE screened their documentation more closely. SAFE has streamlined its system, but the requirement for proof that all relevant local taxes have been paid is a burden for many offshore service providers. In June 2002, SAFE authorized FIEs to draw on foreign exchange in their capital fund accounts for transaction settlements without prior SAFE approval. SAFE has also authorized designated Chinese commercial banks to change domestic currency needed by Chinese citizens for educational or travel expenses within specified limits, thus streamlining access to foreign currency for many individuals. Nevertheless, China's stated goal of achieving a fully convertible currency remains distant because of political concerns over the potential impact to the Chinese economy, and the authorities refuse to commit to a specific timetable for capital account liberalization.

Foreign banks, their branches and foreign joint-venture banks are authorized to buy or sell foreign exchange from or to foreign-funded ventures. Foreign-funded banks or branches are not allowed to accept local currency deposits or to make RMB loans unless they are in certain designated cities and have been specially licensed for domestic currency business. Elsewhere, foreign banks and their branches are prohibited from accepting RMB deposits (liabilities) but may establish RMB accounts to convert currencies for their joint venture and foreign customers. China has pledged to eliminate all geographical restrictions within five years of its 2001 entry to he World Trade Organization (WTO) and has subsequently increased the number of cities in which foreign banks may undertake RMB business each year since its WTO accession.

C. General Financing Availability

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

Export Credits:

The U.S. Export-Import Bank, an independent agency of the U.S. government, seeks to increase the competitive position of U.S.-based exporters in overseas markets by supporting the financing of U.S. export sales. Ex-Im Bank guarantees the repayment of loans or makes loans to international purchasers of U.S. goods and services. Ex-Im Bank also extends export credit insurance to overseas buyers and protects U.S. exporters against the risks of non-payment for political or commercial reasons. A reasonable assurance of repayment on every transaction financed must be concluded.

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

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

For more information concerning Ex-Im Bank programs and application procedures contact Ex-Im Bank in Washington, DC at (800) 565-EXIM or (202) 565-3545. In China, contact Ms. Marilyn Taylor at the U.S. Commercial Service, U.S. Embassy Beijing at Tel: (86-10) 8529-6655, x806, Fax: (86-10) 8529-6558. Exposure fee calculations and applications can be found on-line at www.exim.gov.

Direct grants:

U.S. Trade & Development Agency fund feasibility studies, orientation visits, specialized training grants, business workshops and technical assistance worldwide. TDA is active in more than 60 countries and has recently opened its programs in China after a 12-year break in 2001. In order to be eligible for assistance, projects must have a procurement process open to U.S. firms, represent an opportunity for sales of U.S. goods and services and be a development priority of the country where the project is located. Contact Mr. Geoff Jackson, Regional Director for Asia/Pacific, at TDA's Arlington, VA office. Tel: (703) 875-4357, Fax: (703) 875-4009. In China, contact the TDA Representative, Ms. Wan Xiaolei, at the U.S. Commercial Service, U.S. Embassy Beijing at Tel: (86-10) 8529-6655, x839, Fax: (86-10) 8529-6558. Website: www.tda.gov

Multilateral Agencies:

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

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

As a member of the World Bank, The International Finance Corporation has become increasingly active in China. It is mandated to assist joint venture and share holding companies with substantial non-state ownership to raise capital in the international markets. The IFC takes equity positions in these companies. The IFC's core business is "project finance," and it currently has over 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 is a multilateral development finance institution owned by 61 member countries, including 34 emerging market countries in Asia, provides loans and technical assistance to governments for specific projects and programs. In 2002, ADB loan approvals totaled USD 5.7 billion for 89 loans and four equity investments. Co-financing for the year amounted to USD 2.7 billion.

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

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

Once a project is initially approved by the ADB and the Chinese Government, it is included in a monthly publication called "ADB Business Opportunities" which is available by subscription from the Publications Unit, Information Office, ADB, P.O. Box 789, Manila, Philippines, Fax: (632) 632-5122 or 632-5841. The Commerce Department has established a Multilateral Development Bank Operations Office (Fax: (202) 273-0927) which publishes information to assist companies in winning such contracts. The ADB Resident Mission in China is located in Beijing. Contact Bruce Murray, Resident Representative at Tel: (86-10) 6642-6601, Fax: (86-10) 6642-6606. Website: www.adb.org.

D. Terms of Payment:

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

Letters of credit: Although the Bank of China dominates China's trade-finance business, most Chinese commercial banks have the authority to issue letters of credit for imports. These include China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China and CITIC Industrial Bank. Foreign banks with branch or representative offices in China (see section G, Chapter 8) can also issue letters of credit.

There are a few peculiarities about letters of credit issued by Chinese banks. First, sometimes local Chinese courts issue administrative orders that bar Chinese banks from clearing letters of credit whose underlying documentation has been challenged. In 1997, the Supreme Court of China issued guidance against this practice, which is gradually disappearing. Second, China, 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.

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

Other methods:

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

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

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

E. Insurance

Insurance: Congress suspended the China operations of the Overseas Private Investment Corporation (OPIC) in 1989 (see section VII M. above). The U.S. Ex-Im Bank has programs that provide guarantees and export credit insurance covering U.S. content. Some private companies, such as American International Group and Home Life, also offer export credit insurance policies for China. AIG Beijing office Tel: (86-10) 6597-8889, Fax: (86-10) 6597-8878. Home Life Beijing office Tel: (86-10) 6552-0608, Fax: (86-10) 6552-1883

F. Project Financing

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

G. Commercial Bank Contacts

Chinese Bank Contacts:

Agricultural Bank of China
Mrs. Ma Liqun, Director of Marketing Division of International Department
100 Xi San Huan Bei Lu, Beijing, China 100037
Tel: (86-10) 6842-4524
Fax: (86-10) 6842-4493

Bank Of China
Mr. Xing Ping, Chief of American & Oceanic Affairs Division
#1 Fuxingmennei DaJie

Beijing, China 100818
Tel: (86-10) 6659 2824
Fax: (86-10)6601-4096

China Construction Bank
25 Jinrong Dajie
Beijing, China 100032
Tel: (86-10) 6759-8600 / 6759-8655 (Foreign Affairs Office)
Fax: (86-10) 6759-7153
Contact: Mr. Wan Binjiang / Chief Of Foreign Affairs Division

China Development Bank (Policy Bank)
Mr. Du Runping / Deputy General Manager Of Int'l Finance Department
29 Fuchengmen Wai Dajie
Beijing, China 100037
Tel: (86-10) 6830-6568 / 6581 (Foreign Affairs Office)
Fax: (86-10) 6830-6541

CITIC Industrial Bank
Mr. Liu Yong / GM Of International Business Management Division
Fu Hua Mansion, 8 Chaoyangmen Bei, Chaoyang District
Beijing, China 100027
Tel: (86-10) 6554-1891
Fax: (86-10) 6554-2181

Bank Of Communications
Mr. Hu Rongbing / General Manager Of Foreign Affairs
No. 188 Yin Cheng Mid Road
Shanghai, China 200120
Tel: (86-21) 5878-1234 ext. 2102
Fax: (86-21) 5888-0559

Everbright Bank of China
Mr. Peng Yiping, Office of Foreign Affairs
Everbright Building
No. 6 Fuxingmenwai Dajie
Beijing, China 100045
Tel: (86-10) 6856-1302/03
Fax: (86-10) 6856-1301

Huaxia Bank
Mr. Duan Jianwei / Deputy Director Of Int'l Business Dept.
111 Xidanbeidajie, Xicheng District
Beijing, China 100032
Tel: (86-10) 6615 1199 - 2109
Fax: (86-10) 6618-8333

Industrial & Commercial Bank of China
Ms. Cai Qi / Division Chief Of Foreign Affairs Division
55 Fuxinmennei Dajie, Xicheng District
Beijing, China 100032

Tel: (86-10) 6610-6047
Fax: (86-10) 6610-6044

Merchants Bank (Shenzhen Headquarters)
Ms. Xu Yunxi / Foreign Affair Division
Merchants Bank Building, No. 7088 Shennan Dadao
Shenzhen, Guangdong Province, China 518040
Tel: (86-755) 8319-5652
Fax: (86-755) 8319-5081

Minsheng Bank Of China
Mr. Li Wen / Chief Of Foreign Affair Division
No.4 Zheng Yi Lu, Dongcheng District
Beijing, China 100006
Tel: (86-10) 6522 6699 - 6060
Fax: (86-10) 6559 6883

Bank Of Shanghai
Mr. Zhang Shude / Chief Of International Business
No.585, Zhongshan East Road
Tel:021-6337-0888
Fax:021 6337-0083

Shanghai Pudong Development Bank
Mr. Jin Jialiu / Administration Office
12 Zhongshandongyi Road
Shanghai, China 200002
Tel: (86-21) 6329-6188
Fax: (86-21) 6323-2036

Shenzhen Development Bank
Mr. Ma Limin / General Manager Of Intl. Business
5047 Shennan Dong Lu
Shenzhen, Guangdong Province, China 518001
Tel: (86-755) 8208-1069 / 8208-8888
Fax: (86-755) 8208-1069

Foreign Bank Contacts:

ABM-AMRO
Beijing Branch
Suite 2801, 28th Floor
North Tower, Beijing Kerry Center
1 Guanghua Lu, Chaoyang District
Beijing, China 100020
Contact: Mr. Charles Ng, Vice President
Tel: (86-10) 6561-7766, X9001
Fax: (86-10) 8529-8650

Bank Of America
Beijing Branch

China World Tower 1, 26th Floor
1 Jianguomenwai Avenue
Beijing, China 100004
Contact: Ms. Annie Wong, Managing Director
Tel: (86-10) 6505-3508, X628
Fax: (86-10) 6505-3509

Shanghai Branch
18th Floor, South Tower
Shanghai Stock Exchange Building
528 Pudong Road South, Pudong New Area
Shanghai, China 200120
Contact: Ms. Anna Cheung, Vice President
Tel: (86-21) 6881-8686
Fax: (86-21) 6881-8816

Guangzhou Branch
Bank Of America Plaza, 25th Floor
No. 555 Renmin Zhong Road
Guangzhou, China 510180
Contact: Mr. Herman Ng, Vice President
Tel: (86-20) 8130-0888, X238
Fax: (86-20) 8130-0899

Bank One, NA
Beijing Branch
Room 1605, CITIC Building
19 Jianguomenwai Avenue
Beijing, China 100004
Contact: Mr. Kok-Chi Tsim, Managing Director/General Manager
Tel: (86-10) 6500-3281, X228
Fax: (86-10) 6500-3166

BNP Paribas
Beijing Branch
19th Floor, China World Tower
1 Jianguomenwai Avenue
Beijing, China 100004
Contact: Mr. Daniel Gillen, General Manager For Greater China
Tel: (86-10) 6505-0888, X601
Fax: (86-10) 6505-1704

Citibank, NA
Beijing Branch
16/F, Tower 1, Beijing Bright China Chang-An Building
No. 7 Jianguomennei Ave.
Beijing, China 100005
Contact: Ms. Deng Ning, Chief Representative
Tel: (86-10) 6510-2933, X7388
Fax: (86-10) 6510-2932

Shanghai Branch
101 Marine Tower
No. 1 Pudong Ave.
Shanghai, China 200120
Contact: Mr. Huang Xiaoguang, General Manager
Tel: (86-21) 5879-1200
Fax: (86-21) 5879-5933

Guangzhou Representative Office
7201-7202, Office Tower, CITIC Plaza
233 Tian He North Road
Contact: Mr. Tony Luo, Vice President
Tel: (86-20) 3877-1333, 1370
Fax: (86-20) 3877-0990

Shenzhen Branch
37/F., International Financial Building
2022 Jianshe Road
Shenzhen, China 518001
Contact: Ms. Wang Li, General Manager
Tel: (86-755) 8223-2338 Ext. 2328
Fax: (86-755) 8223-1238

Xiamen Representative Office
Room 208, Holiday Inn Crowne Plaza Harbour View,
Xiamen, Fujian Province, China 361001
Contact: Ms. Xie Lin, Chief Representative
Tel: (86-592) 213-3751
Fax: (86-592) 213-3752

Credit Lyonnais
Beijing Representative Office
China World Trade Center, China World Tower 2, 35F, Unit 06-07
1 Jianguomenwai Avenue
Beijing, China 100004
Contact: Mr. Remy Yao, Chief Representative
Tel.: (86 10) 6500 4562
Fax: (86 10) 6500 4479

Deutshe Bank
Beijing Representative Office
China World Trade Center, Room 908
1 Jianguomenwai Avenue
Beijing, China 100004
Tel: (86-10) 6505-2305, ~~X113~~
Fax: (86-10) 6505-2304

Shanghai Branch
29th Floor, Shanghai Senmao Int'l Bldg.
101 Yin Cheng East Road
Pudong, Shanghai, China 200120

Tel: (86-21) 6841-0266
Fax: (86-21) 6841-2277

HSBC (Hong Kong & Shanghai Banking Corp Ltd)
Beijing Branch
COFCO Plaza, Block A, Ground Floor
8 Jianguomenwai Avenue
Beijing, China 100005
Contact: Mr. Ding Guoliang, Manager
Tel: (86-10) 6526-0668
Fax: (86-10) 6526-0669

JP Morgan Chase
Beijing Branch
25th Floor, South Tower
Beijing Kerry Center
Beijing, China 100020
Contact: Mr. Dennis Zhu, Chief Representative
Tel: (86-10) 8529-6333
Fax: (86-10) 8529-6322

Rabobank
Beijing Representative Office
Kempinski Tower C, Room 213B
Chaoyang District, Beijing China 100016
Contact: Ms. Dao Hui, Chief Representative
Tel: (86-10) 6461-5552
Fax: (86-10) 8451-2980

Scotiabank
Beijing Representative Office
Unit 503, China Resources Building
No.8 Jianguomenbei Avenue, Dongcheng District
Beijing, China 100005
Contact: Ms. June Q. Fu, Chief Representative
Phone: (86-10) 8519-2050
Fax: (86-10) 8519-2055

Societe Generale
Beijing Representative Office
Beijing China Resources Building, 1707
8 Jianguomen North Avenue
Beijing, China 100005
Contact: Ms. Charlotte Baubion
Tel: 8519-2810
Fax: 8519-2819

9. Business Travel

Before traveling to any foreign country, consult updated travel information available on the State Department's website: http://travel.state.gov
It is further advised that American citizens register with the U.S. Embassy to prevent unwanted delays in case of any unforeseen events, such as the loss or theft of a U.S. passport. This can be done easily online at: www.usembassy-china.org.cn

A. Planning and Logistics

Visa: U.S. citizens traveling to China must obtain a Chinese visa before embarking on the trip. A few different types of visas are issued to visitors, including the tourist visa (Type L) that allows the bearer one to two entries, and to stay for up to one month each time. Short-term business visas (Type F) are issued to travelers who are invited to visit for business or research purposes and require a formal invitation from a Chinese host organization. The U.S. Embassy and Consulates can only issue such invitations to U.S. Government employees on official business. Business travelers on short-term excursions for meeting or site-visit purposes, generally apply for either the Type L or Type F visa. Consult the Chinese Embassy or Consulate General on obtaining the right type of visa, or apply through a travel agency.

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

Holidays: Normal business operations in China are slowed or cease during the three "golden week" Chinese holidays: Spring Festival (Chinese Lunar New Year 2004 will occur in late January); Labor Day (May 1); and National Day (October 1). Business travelers will find all government agencies, schools and most businesses (aside from the exceptionally crowded and busy tourism services venues) closed during these holidays; and due to vacationing workers, business meetings may be difficult to secure in the weeks just prior to and after, these week-long holidays. Travel within China is furthermore logistically more difficult to manage as millions of Chinese take to the various modes of long-distance travel. It is advised that domestic transportation and hotel reservations during these holidays be booked well in advance.

Transportation: Several international airlines offer direct flights into major cities such as Beijing, Shanghai and Guangzhou. Once in-country, domestic and international airlines fly to most cities, and reservations can be made through travel agents (in the U.S and in China) or directly with the carriers. Ground transportation (taxis) in major cities is easily accessible and relatively inexpensive by international standards. Some cities have developing subway systems and extensive public bus systems, however crowds and communication differences can lead to considerable confusion. Car rental services with or without a chauffeur is also available in these cities, however the latter option requires international driving qualifications, understanding of local traffic regulations, and a great deal of courage. Most travel agencies can also arrange for personal car service with a driver during the duration of each stay.

Accommodations: There are currently more than 3,000 internationally star-rated hotels in China. In May 2003, China began lifting dwelling restrictions (but only in Beijing), which generally prohibit non-rated hotels from accommodating foreign citizens. Instead of having to pick from among the 300 designated hotels in Beijing, foreign citizens can now stay in almost any hotel or guesthouse (a leased dormitory facility) they choose. While considerably less expensive, these new alternatives often provide very poor quality security, sanitation and service.

Communication: Spoken English proficiency among Chinese professionals can vary from very little to superior fluency. If needed, translation services can be found through local business service providers. Ask your local host, travel agency or consulting firm for recommendations, or consult the U.S. Commercial Service business service providers web page at www.buyusa.gov/china/en/bsp.html

As all four and five-star hotels are required to be able to provide foreign/English language services, assistance from hotel personnel can often be extremely helpful for giving directions or delivering messages for those who do not speak the local Chinese dialect. Most travel agencies, including local operators, can also arrange for English-speaking guides with varying degrees of fluency, if you request this service in advance.

Health Care: Major cities afford relatively good access to quality medical care through select hospitals and clinics and/or internationally owned or operated clinics. Before coming to China, you may want to verify the scope of international coverage provided by your health insurance carrier. If coverage is inadequate for your needs, an Internet search will reveal that there are several good international programs available with worldwide SOS and routine coverage; travelers insurance can also be purchased for the short-term, to provide illness and medical evacuation coverage under limited circumstances. The American Chambers of Commerce in Beijing and Shanghai also offer annual health care packages to expatriate members.

B. Temporary Entry of Materials and Personal Belongings

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

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

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

A local sponsor with authority to engage in foreign trade may sponsor small exhibitions or technical seminars, requiring less than 500 square meters in exhibition space, without first seeking approval from 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.

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

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

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

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

10. Economic and Trade Statistics

A. Country Data and Domestic Economy

Population

	2000	2001	2002	2003	2004
Population (in millions)	1,267	1,276	1,285	1,293	1,301
Population Growth Rate	1.0%	1.0%	1.0%	1.0%	1.0%

Official growth rate for 2002 is assumed for 2002 forward and is used to produce population estimates for those years.

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

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

Workweek: Official workweek is 40 hours per week.

Domestic Economy

	2001	2002	2003	2004
GDP (RMB trillions)/2	9.731	10.240	10.906	11.724
GDP Growth (percent)/3	7.3	8.0	8.0	8.0
GDP Per Capita (USD)	925	967	1020	1090
Government Spending (percent GDP)	13.2	13.0	13.0	12.8
Retail Price Inflation (percent)	-0.8	-1.3	-1.5	-0.5
Unemployment (percent)/4	3.6	4.0	4.5	4.5
Total For. Ex. Reserves (USDBn)	212	286	350	400
Avg. Exchange Rate (RMB/USD)	8.27	8.27	8.27	8.27
Foreign Debt (USD Bn)/5	170.1	168.5	165.0	167.0
Debt Service Ratio	7.5	7.9	8.0	8.0

Notes:
1/ 2001 and 2002 are officially reported Chinese Government statistics. Figures for 2003 and 2004 are Embassy estimates.
2/ At current prices.
3/ At constant prices.
4/ Official Chinese estimate of urban unemployment. Unofficial estimates range from 8-15 percent.
5/ The Chinese Government changed its official methodology for calculating its foreign debt in 2001 to conform with internationally accepted standards. As a result, the figures given here are not comparable with those from years prior to 2001.

B. Trade Data

Trade Data (USD Billions)

	1999	2000	2001	2002	2003
Total PRC exports /1	195	249	266	284	355
Total PRC imports /1	165	225	244	295	335
U.S. exports to PRC /2	13	16	19	22	24
PRC imports from U.S. /3	19	22	26	27	30
U.S. imports from PRC /2	81	100	102	125	132
PRC exports to U.S. /3	41	52	54	70	74
Total US ag. exp. to PRC/4	.85	1.72	1.94	2.1	2.7
Total US ag. imp. from PRC/4	.77	.81	.82	1.0	1.2

1/ China Customs data; China Academy of International Trade and Economic Cooperation estimates for 2003.
2/ U.S. Custom's data; U.S. Embassy estimates for 2003.
3/ China Customs data; U.S. Embassy estimates for 2003.
4/ U.S. Department of Agriculture; U.S. Embassy estimates for 2003.

C. Investment Statistics

The Ministry of Commerce produced the data below. The statistics on utilized investment are based on required reporting by FIEs of committed capital. Cumulative values are simple totals of data collected each year. As such, they do not accurately reflect true investment stock, for they are based on historical costs, are not adjusted for inflation, and do not take into account disinvestment. In addition, MOFCOM does not publish data on the components of inward FDI (equity, reinvested profits, and intercompany debt), nor do its statistics reflect repayments of intercompany debt or disinvestment. More sophisticated and detailed data on foreign investment are not currently available in China.

MOFCOM has been working with the Organization for Economic Cooperation and Development, the International Monetary Fund, and the UN Conference on Trade and Development (UNCTAD) on ways to improve statistical gathering and computation. One result of these efforts has been a correction of the treatment of foreign debt used to finance foreign-invested projects, in keeping with the requirements of the International Monetary Fund's Balance of Payments Manual, 5th ed. This has resulted in unannounced adjustments to some previously published statistics for FDI in 2002.

China's FDI data include investment from Hong Kong and Macau, which are special administrative regions (SARs) of China, as well as from Taiwan. Many mainland companies invest via Hong Kong and Macau subsidiaries in order to obtain investment incentives, such as tax breaks, which are available only to foreign investors. Analysts estimate that Mainland Chinese funds flowing through Hong Kong account for 10-30 percent of Hong Kong's total realized FDI in China. Further skewing Hong Kong and Macau statistics, many Taiwan firms invest in the mainland via these SARs in order to avoid the scrutiny of the Taiwan authorities. Indeed, some observers estimate actual FDI cumulative inflows from Taiwan at two to three times the USD 33.1 billion formally recorded by China. A recent loosening of restrictions on investment in the Mainland by Taiwan authorities should result in more Taiwan investment being formally recorded as such, as reflected in the 25 percent increase in FDI from Taiwan in 2002.

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

Table 1 -- Utilized Foreign Direct Investment in China from All Sources
(1979-2001) (In USD Millions)

Year	Utilized FDI
1979-82	1,769
1983	916
1984	1,419
1985	1,956
1986	2,244

1987	2,314
1988	3,194
1989	3,393
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
Total	447,966

Source: Ministry of Commerce, National Bureau of Statistics.
Note: Yearly figures do not sum exactly to total due to rounding.

Table 2 -- U.S. Utilized Foreign Direct Investment in China (1979-2001)
(In USD Millions)

Year	Utilized FDI
1979-82	13
1983	5
1984	256
1985	357
1986	326
1987	263
1988	236
1989	284
199O	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
Total	39,889

Source: Ministry of Commerce;
National Bureau of Statistics
Note: Yearly figures do not sum exactly to total due to rounding.

Table 3 -- China's Utilized and Cumulative Foreign Direct Investment by Top 10 Source Economies for 2002 and as of 2002
(In USD millions)

	Utilized FDI	Cumulative FDI
Hong Kong	17861	204,875
Virgin Islands	6,117	24,387
United States	5,424	39,889
Japan	4,190	36,340
Taiwan	3,971	33,111
European Union	3,710	33,290
Korea	2,721	15,199
Singapore	2,337	21,473
Cayman Islands	1,180	3,804
Germany	928	7,994
United Kingdom	896	10,696
Total (All Sources)	52,743	447,966

Source: Ministry of Commerce.

Note: Cumulative figure for the European Union reflects 1986-2002 data only and includes German and United Kingdom investments.

Table 4 -- China's Utilized Foreign Direct Investment by Sector, 2002
(In USD Millions)

	Utilized FDI 2002	Change from 2001 (percent)
Agriculture, Forestry, Animal Husbandry, and Fisheries	1,028	14.3
Mining	811	-28.4
Manufacturing	36,800	19.1
Utilities	1,375	-39.5
Construction	709	-12.1
Management	7	-30
Transport, Warehouse, Postal and Telecom	913	0.4
Services		
Wholesale and Retail Trade and Food		

Services	933	-20.2
Banking and Insurance	107	206
Real Estate	5,663	10.2
Social Services	2,943	13.4
Health Care, Sports and Social Welfare	128	7.6
Education, Culture, Arts, Radio, Film and TV Industry	38	5.6
Scientific Research and Computer Technical Services	198	65
Others	1,321	25.7
Total	52,743	12.5

(Percentages and totals may not be exact due to rounding.)
Source: Ministry of Commerce

Note: MOFCOM's FDI statistics do not fully capture financial services investment.

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

	2001	Percent Change	Percent of National Figures
2001 FIE Share of Fixed Asset Investment	46,878	15.1	10.5
2001 FIE-Generated Industrial Value Added	8,007	24.2	24.6
2001 FIE-Generated Tax Revenues	34,861	30.0	19.0
2002 FIE-Generated Exports	169,927	27.6	52.2
2002 FIE-Generated Imports	160,286	27.4	54.3
2002 FDI inflows/GDP	-	-	4.3
2002 FDI stock/GDP	-	-	36.3

Source: Ministry of Commerce.
National Bureau of Statistics

Notes: "Stock" is actually a cumulative total of historical inflows, not necessarily current stocks. RMB figures converted to USD at current exchange rates.

Table 6 -- Chinese FDI Outward Flows and Stock, 1997-2001 (USD billions)

Year	Outflow	Outward Stock
1998	2.6	23.1
1999	1.8	24.9
2000	0.9	25.8
2001	6.9	32.7
2002	2.5	35.2

Source: State Administration of Foreign Exchange (SAFE).
"Stock" is estimated by summing annual outflows.

Major U.S. Investors in China:

Motorola ($3.7 billion) -- Motorola is the largest U.S. investor in China. Facilities include a $1.9 billion semiconductor plant in Tianjin and a telecom equipment manufacturing facility in Hangzhou.

General Motors ($2 billion) -- includes $1.6 billion Shanghai GM joint venture, $135 million Jinbei GM joint venture (Liaoning), $100 million SAIC-Wuling joint venture (Liuzhou), and other ventures.

GE ($1.5 billion) -- GE's China operations include medical equipment, plastics, lighting, power generation, silicones, special materials, industrial equipment, aircraft engines, airplane leasing, capital services and transportation systems. GE recently opened a new research and development center in Shanghai.

ExxonMobil (over $1.2 billion) – Exxon Mobil has total investments in mainland China of over $1.2 billion. The bulk of this investment is in production-sharing contracts for upstream oil exploration, as well as chemical and lubricant blending plants. In 2002, ExxonMobil signed an agreement for potential participation in the West-East gas pipeline project. ExxonMobil also invested in Sinopec's IPO in 2000, thus forming strategic partnership with Sinopec, and is evaluating several large joint ventures under this alliance.

Kodak ($1.2 billion) -- Kodak opened sensitizing facilities in Xiamen and Shantou in June 2000. Other Kodak investments include equipment manufacturing including digital cameras and photochemicals.

Coca-Cola ($1.1 billion) -- Coca-Cola operates 28 bottling plants throughout China. In April 2000, the Coca-Cola Company and the China National Cereals, Oils, and Foodstuffs Import and Export Corp. (COFCO) signed a joint venture agreement to establish COFCO Coca-Cola Beverages Ltd., the first Chinese majority-owned bottling operation in Coca-Cola (China). The joint venture plans to invest $150 million in China within the next five years.

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

United Technologies Corporation ($450 million) -- Several of UTC's subsidiaries have established operations in China, including Otis Elevator, Carrier, UT Automotive, Turbo

Power Systems, Pratt and Whitney, and New Training Center near Beijing Capital International Airport.

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

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

Pepsi ($800 million) -- Pepsi has established some 40 JV plants in China.

Alcoa ($300 million) -- Alcoa currently has invested in five JVs in China. Also, Alcoa is currently in negotiations to invest $250 million in an aluminium hot rolling mill project, $500 million in Guangxi Province for alumina and electrolytic aluminium production project and mine exploitation project, and $400 million in power industry in Guangxi Province.

Ford ($250 million) -- Ford has several facilities in China producing auto parts, light vehicles, and trucks.

Wal-Mart ($150 million) – Wal-Mart has thus far opened 28 stores in China. It plans to open 3 more in the second half of 2003.

Cummins ($140 million) -- Cummins has established six factories with Cummins ownership producing eight engine families, turbochargers, filters, generators, and gensets. Cummins moved its East Asia regional headquarters to Beijing in 1997 to manage Cummins business operations in Taiwan, Hong Kong and Mainland China.

Hewlett-Packard ($100 million) -- Hewlett-Packard has established manufacturing facilities for personal computers and printers in Shanghai and elsewhere in China.

Note: A significant portion of the USD 39.9 billion in cumulative FDI inflows from the United States was made by firms that have since changed hands through corporate M&A outside of China. Motorola surpassed BP as the largest foreign investor this year (see above). BP holds $3.5 billion in FDI and $1 billion in portfolio investments in Petrochina and Sinopec. BP and its heritage companies have been in China since the 1970's. BP is a UK-US invested company.

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Tel: (86-10) 8522-9207/9205/9217
Fax:(86-10) 8522-9283

State Tobacco Monopoly Bureau
No2 Building, 26 West Xuanwumen Avenue, Xuanwu District, Beijing 100053, China
Director: Jiang ChenKang
Tel: (86-10) 6360-5852/5782
Fax: (86-10) 6360-5036
Website: www.tobacco.gov.cn

G. Associations & Corporations

All-China Federation of Industry and Commerce
93 Beiheyan Dajie, Beijing 100006
Chairman: Huang Meng Fu
Tel: (86-10) 6513-6677 Ext. 2233, 2234
Fax: (86-10) 6513-1769
Website: www.acfic.org.cn

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

China Council for the Promotion of International Trade(CCPIT)
1 Fuxingmenwai Street, Beijing 100860
President: Wan Ji Fei
Tel: (86-10) 6801-3344
Fax:(86-10) 6801-1370
Website: www.ccpit.org

China Huaneng Group
40 Xue Yuan Nan Lu, Haidian District Beijing 100088, China
President: Li Xiaopeng
Tel: (86-10) 6229-1535
Fax: (86-10) 6223-0171
Website: www.chng.com.cn

China International Trust and Investment Corporation
Capital Mansion, 6 Xinyuan Nanlu, Chaoyangqu, Beijing 100004 China
President: Wang Jun
Tel: (86-10) 6466-0088 8486-8718
Fax: (86-10) 6466-1186
Website: www.citic.com.cn

China Nonferrous Metals Industry Association
Yi 12 Fuxing Lu, Xicheng, Beijing 100814, China
President: Kang Yi
Tel: (86-10) 6396-6393 6397-1807
Fax: (86-10) 6396-5360

China National Offshore Oil Corp.
P.O. Box 4705, 6 Dongzhimenwai Xiaojie
Beijing 100027
President: Wei Liucheng
Tel: (86-10) 8452-1071/8452-1010
Fax: (86-10) 8452-1080

China National Petroleum Corp.
6 Liupukang, Xicheng District, Beijing 100724, China
President: Ma Fucai
Tel: (86-10) 6209-4798/6209-4114
Fax:(86-10) 6209-4806

China National Tobacco Corporation
#26 B. Xuwumenwai, Xi Da Jie, Xuanwu District, Beijing, 100053
President: Jiang Cheng Kang
Tel: (86-10) 6360-5678
Fax: (86-10) 6360-5681

China North Industries Corp.
Guang An Men Nan Da Jie Jia 12, Beijing 100053, China
President: Li De
Tel: (86-10) 6354-2738
Fax: (86-10) 6354-0398
Website: www.norinco.com.cn

China Petro-Chemical Corporation
6 Hui Xin Dong Jie Jia, Beijing 100029
President: Li Yizong
Tel: (86-10) 6499-9936
Fax:(86-10) 6421-8356

China State Construction Engineering Corporation
15 Sanlihe Rd., Xicheng District, Beijing 100037, China
President: Sun Wenjie
Tel: (86-10) 8808-2958
Fax: (86-10) 8808-2789

China State Shipbuilding Corporation
5 Yuetanbeijie, Xicheng District, Beijing 100861, China
President: Li Changyin
Tel: (86-10) 6803-8833 6803-9205 6803-3947
Fax: (86-10)6803-9205/ 6803-1579
Website: www.csic.com.cn

Everbright Industrial Corp.
6 Fu Xing Men Wai Street, Everbright Building, Beijing 100045, China
President: Wang Minquan
Tel: (86-10) 6856-1226/1206
Fax: (86-10) 6856-1121
Website: www.ebchina.com

People's Insurance Company of China
#69 Xuan Wu Men Dong He Yan Jie, Beijing 100052, China
President: Tang Yunxiang
Tel: (86-10) 6315-2033 / 6303-5376
Fax: (86-10) 6315-2033 / 6303-3589
Website: www.piccnet.com.cn

H. American Chambers of Commerce/Trade Associations

American Association for Manufacturing Technology
Rm. 2507 Silver Tower
2 Dongsanhuan North Road
Chaoyang District
Beijing 100027
Tel: (86-10) 6410-7374, 6410-7375/76
Fax: (86-10) 6410-7334

American Chamber of Commerce in Beijing
Christian Murck, Chairman
Patrick Lin, (Acting) Executive Director
Suite 1903 China Resources Building
8 Jianguomenbei Avenue
Beijing 100005
Tel: (86-10) 8519-1920
Fax: (86-10) 8519-1910
Website: www.amcham-china.org.cn

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

Construction Industry Manufacturers Association (CIMA)
No. 6 Southern Capital Gymnasium Road
Room 458, Office Tower New Century Hotel
Beijing 100044
Tel: (86-10) 6849-2403
Fax: (86-10) 6849-2404
Website: www.cm-1.com

U.S.-China Business Council

Patrick J. Powers, Director of China Operations
CITIC Building,Suite 26D
Beijing 100004
Tel: (86-10) 6592-0727
Fax: (86-10) 6512-5854,
Website: www.uschina.org

U.S. Grains Council
Todd Meyer, Director
China World Tower 2, Room 901
Beijing 100004
Tel: (86-10) 6505-1314, 6505-1302
Fax: (86-10) 6505-0236
Website: www.grains.org

U.S. Wheat Associates
Zhao Shipu, Director
China World Tower2, Room 903
Beijing 100004
Tel: (86-10) 6505-1278, 6505-3866
Fax: (86-10) 6505-5138
Website: www.uswheat.org

United States Information Technology Office (USITO)
Jim Gradoville, (Acting) Managing Director
C511B Lufthansa Center Office 50 Liangmaqiao Road
Chaoyang District, Beijing 100016
Tel: (86-10) 6465-1540/41/42
Fax: (86-10) 6465-1543
Website: www.usito.org

I. U.S. Embassy Contacts

U.S. Embassy Beijing
No. 3 Xiu Shui Beijie
Beijing, China 100600
Tel: (86-10) 6532-3831
Website: www.usembassy-china.org.cn

Mailing Address from U.S.:
U.S. Embassy Beijing
Department of State
Washington, D.C. 20521-7300

Ambassador's Office
Clark T Randt, Jr.
Tel: (86-10) 6532-3831, x 6400
Fax: (86-10) 6532-6422

Economic Section
Minister-Counselor for Economic Affairs: Bob Wang

Tel: (86-10) 6532-3831 x 6999
Fax: (86-10) 6532-6422

U.S. Commercial Service
Minister-Counselor for Commercial Affairs: Craig Allen
Tel: (86-10) 8529-6655 x801
Fax: (86-10) 8529-6558
Deputy : Denny Barnes
Tel: (86-10) 8529-6655 x802
Fax: (86-10) 8529-6558

Foreign Agricultural Service
Agricultural Affairs Office
Minister-Counselor for Agricultural Affairs: Maurice House
Tel: (86-10) 6532-1953
Fax: (86-10) 6532-2962

Beijing Agricultural Trade Office
Director: Laverne Brabant
Tel: (86-10) 8529-6418
Fax: (86-10) 8529-6692

Guangzhou Agricultural Trade Office
Director: Keith Schneller
Tel: (86-20) 8667-7553
Fax: (86-20) 8666-0703

Shanghai Agricultural Trade Office
Director: Ross Kreamer
Tel: (86-21) 6279-8622
Fax: (86-21) 6279-8336

Animal and Plant Health Inspection Service
Director Gary Greene
Tel: (86-10) 6532-3212
Fax: (86-10) 6532-5813

American Consulate General Chengdu
No. 4 Lingshiguan Road, Section 4
Renmin Nanlu, Chengdu China 610041
Consul General: David Bleyle
Tel: (86-28) 8555-3119
Fax:(86-28) 8558-3520
Principal Commercial Officer: Helen Peterson
Tel: (86-28) 8558-3992
Fax: (86-28) 8558-9221

American Consulate General Guangzhou
No. 1 South Shamian Street, Guangzhou China 510133
Consul General: John J. Norris
Tel: (86-20) 8121-8000

Fax: (86-20) 8121-6296
Principal Commercial Officer: Eric Zheng
Tel: (86-20) 8667-4011
Fax: (86-20) 8666-6409

American Consulate General, Shanghai
1469 Huaihai Zhong Lu, Shanghai China 200031
Consul General: Douglas Spelman
Tel: (86-21) 6433-6880
Fax: (86-21) 6433-4122
Principal Commercial Officer: Catherine Houghton
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: Mark Kennon
Tel: (86-24) 2322-1198
Fax: (86-24) 2322 2374
Principal Commercial Officer: Erin Sullivan
Tel: (86-24) 2322-1198
Fax: (86-24) 2322-2206

J. Washington-based USG China Contacts

U.S. Department of Commerce
International Trade Administration
Office of China Economic Area
Room 1229
14th & Constitution Avenue
Washington, D.C. 20230
Tel: (202) 482-3583
Fax: (202) 482-1576

Multilateral Development Bank Office
Brenda Ebeling, Director
Tel: (202) 482-3399
Fax: (202) 482-5179

U.S. Trade Promotion Coordinating Committee
Trade Information Center
Tel: 800-USA-TRADE

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
Robert Kapp, President
1818 N Street, N.W., Suite 500
Washington, D.C. 20036-5559
Tel: (202) 429-0340
Fax: (202) 775-2476

12. Market Research

<u>Industry Sector Analyses</u>

Solid Waste Management Northeast
(China - 01/10/2001)

Railroad Development
(China - 11/16/2001)

Fine And Speciality Chemicals
(China - 28/02/2002)

Semiconductor Manufacturing Equipment
(China - 31/05/2003)

Automotive Accessories
(China - 30/06/2002)

Computers/Peripherals & Growth Of Internet (Users, Computers, Handheld Devices)
(China - 30/06/2002)

Sewage/Wastewater Treatment-Northeast China
(China - 30/06/2002)

Passenger Vehicles (2002 UPDATE)
(China - 30/06/2002)

Municipal Waste Treatment In Shanghai And East China
(China - 01/07/2002)

Oil Spill Montoring, Clean-up And Prevention Technologies
(China - 17/07/2002)

Amusement Park Industry
(China - 21/07/2002)

Auto Parts Industry In Sichuan And Chongqing
(China - 30/07/2002)

Specific Cardiac Products In Southwest China
(China - 30/07/2002)

Medical Device Market Over View
(China - 31/07/2002)

IT Product Distribution In Southern China
(China - 31/08/2002)

Environmental Montoring Equipment $ Analytical Instruments
(China - 15/09/2002)

Oil And Gas Pipeline Market

(China - 30/09/2002)

Agricultural Chemicals
(China - 30/09/2002)

Machine Tool Industry
(China - 30/09/2002)

Exhibition And Trade Show Industry
(China - 30/09/2002)

Building Products Market- ISA Deleted From All Sources, Per 3/3/03 Email From D.Snodgrass
(China - 30/09/2002)

Solar Photovoltaic Development
(China - 30/09/2002)

The Cosmetic Industry In Southern China
(China - 31/12/2002)

Guandong Training Industry
(China - 30/06/2003)

Electronics Industry Products/Testing Equipment
(China - 30/06/2003)

Surgical Equipment In Southwest China
(China - 30/06/2003)

Airport Development In Southwest China
(China - 30/07/2003)

South China Franchising Industry
(China - 31/07/2003)

Wireless Communications In Eastern China
(China - 31/07/2003)

Auto Repair Equipment In Sichuan
(China - 30/08/2003)

Medical Diagnostics Testing Equipment
(China - 31/08/2003)

Guangdong Metro Equipment Market
(China - 31/08/2003)

Value-Added Servce For Mobile Phone Industry In Southwest China
(China - 15/09/2003)

Coal Bed Methane Market In China
(China - 20/09/2003)

China OTC Market
(China - 30/09/2003)

China Natural Gas Distribution
(China - 30/09/2003)

Books And Periodicals In China
(China - 30/09/2003)

Dental Equipment Market In China
(China - 30/09/2003)

International Market Insights

U.S.-China Enviro Biz June 03
(China - 07/07/2003)

Banking In China
(China - 07/07/2003)

Investment Climate
(Macau (China) - 07/03/2003)

China Safety and Security Market Brief
(China - 06/27/2003)

SARS impact on China's retail
(China - 06/26/2003)

Chengdu Metro Project
(China - 06/19/2003)

China to open travel-agency market
(China - 06/18/2003)

China's Information Security Software Market
(China - 06/18/2003)

China's Electronics and Information Industry Grew by 30% During the First Qua...
(China - 06/18/2003)

Fixed Wireless Regulatory Framework in China - Frequently Asked Questions
(China - 06/17/2003)

Solid Waste Treatment Project in Jiashan, Zhejiang Province
(China - 06/11/2003)

SARS to Stimulate China's Spending on IT and Communications Infrastructure

(China - 06/11/2003)

Opportunities for U.S. Casino / Gaming-Related Vendors in Macau
(Macau (China) - 06/10/2003)

SARS Expedites Sichuan's Medical Waste Treatment Projects
(China - 06/06/2003)

China Is Still A "Forbidden Land" for Used Vehicles
(China - 06/06/2003)

Shanghai Bao Steel Aims for China's Auto Market
(China - 06/04/2003)

SAIC CHERY Automobile is Looking for International Suppliers / Partners
(China - 06/03/2003)

Four Hydropower Stations to be Constructed in West China
(China - 05/30/2003)

XIANSEN BIOTECH SEEKS MONITORING EQUIPMENT FOR HERBAL PLANTING
(China - 05/29/2003)

Chengdu Shuangliu Airport Expansion Project
(China - 05/28/2003)

Airlines in SARS
(China - 05/27/2003)

SARS Impact on Chinese Tourism Industry
(China - 05/21/2003)

Summary of Seven Key Semiconductor Projects in China
(China - 05/20/2003)

The 2003 Chengdu International Building & Decoration Materials Expo
(China - 05/20/2003)

Frequently Asked Questions on CCC Mark Issues
(China - 05/16/2003)

Demand For Food Processing Equipment
(China - 05/16/2003)

SARS Expedites China's Medical Waste Incineration Plan
(China - 05/13/2003)

U.S. - China Enviro Biz Newsletter for April 03,2003
(China - 05/12/2003)

Integrated Circuit Card Industry

(China - 05/12/2003)

China's Largest IT Company Adopts a New Brand Name
(China - 05/08/2003)

Internet Survey 2003
(China - 05/08/2003)

Training Programs for Gaming Industry
(Macau (China) - 05/05/2003)

AQSIQ and CNCA Announces Postponement of CCC Mark Enforcement
(China - 04/27/2003)

The Trouble With ADS: An Overview of China's Authorized Destination Status an...
(China - 04/24/2003)

Chinese Tourism to the United States
(China - 04/23/2003)

Auto Market Update
(China - 04/23/2003)

Market Snapshots – The Education and Training Industry
(China - 04/22/2003)

Olympics Hot Sheet - 04/09/2003
(China - 04/20/2003)

China Commercial Brief - 04/11/2003
(China - 04/20/2003)

Getting Paid in China
(China - 04/18/2003)

Credit Cards in China
(China - 04/15/2003)

South-to-North Water Transfer Project
(China - 04/10/2003)

A New Move In Chinese Water Conservation Campaign - National Voluntary Water...
(China - 04/10/2003)

Hazardous Waste Treatment in China
(China - 04/10/2003)

China Plastic Injection Molding Industry
(China - 04/09/2003)

Internet Survey 2003

(China - 04/08/2003)

The Asian Development Bank's Operations in China
(China - 04/07/2003)

China Commercial Brief - 03/28/2003
(China - 04/01/2003)

Olympics Hot Sheet - 02/14/2003
(China - 04/01/2003)

Olympics Hot Sheet - 03/21/2003
(China - 04/01/2003)

Olympics Hot Sheet - 03/26/2003
(China - 04/01/2003)

China Commercial Brief - 03/14/2003
(China - 03/26/2003)

China Commercial Brief - 02/14/2003
(China - 03/26/2003)

China Commercial Brief - 02/28/2003
(China - 03/26/2003)

China Commercial Brief - 01/24/2003
(China - 03/26/2003)

Telecommunications & Broadcasting Regional Market Brief -- China
(China - 03/25/2003)

Jinyang District, A New Urban Area of Guiyang City
(China - 03/12/2003)

NORTHEAST REGION TRADE AND INVESTMENT TRENDS
(China - 02/27/2003)

Cambridge Forest New Town Hospital Development Opportunity in Shanghai
(China - 02/24/2003)

Rules on Overseas Investment in Civil Aviation in China
(China - 02/12/2003)

2002 INTERNATIONAL CONFERENCE AND EXHIBITION ON TRADITIONAL CHINESE MEDICINE...
(China - 02/12/2003)

WEST CHINA AGRICULTURAL FAIR IN CHENGDU, SICHUAN, CHINA
(China - 02/06/2003)

China Commercial Brief - 01/10/2003
(China - 01/27/2003)

Olympic Hot Sheet - 01/13/2003
(China - 01/27/2003)

A Large Potential Market: Engineering Plastics Industry in China
(China - 01/26/2003)

China Compulsory Certification (CCC) Mark Update
(China - 01/25/2003)

SPORTING GOODS INDUSRTY IN CHINA
(China - 01/17/2003)

Shanghai Moving Forward with Massive Deepwater Port Project (Update)
(China - 01/14/2003)

China's Growing Recreational Marine Market
(China - 01/13/2003)

U.S. - China Environmental Biz Newsletter – January 11, 2003
(China - 01/13/2003)

CIRCULATION MARKET IN CHINA
(China - 01/08/2003)

HUADA LOGISTIC PROJECT
(China - 01/08/2003)

FRANCHISING DEVELOPMENT
(China - 01/08/2003)

Distribution Development
(China - 01/08/2003)

China Southern Airlines to Develop Cargo Business
(China - 01/08/2003)

Shenzhen Begins SOE Offloading
(China - 01/08/2003)

Guangzhou City To Raise Wastewater Treatment Fee
(China - 01/08/2003)

Wastewater Treatment Cost for Guangzhou
(China - 01/08/2003)

Jewelry Sector in China
(China - 01/08/2003)

Guangzhou American Industrial Village
(China - 01/08/2003)

China Aviation Fuel Corporation
(China - 01/08/2003)

China reformed its civil aviation industry
(China - 01/08/2003)

China needs 1,762 aircraft by 2021
(China - 01/08/2003)

Security Software 2002
(China - 01/08/2003)

China Beijing Semiconductor Industry Association
(China - 01/08/2003)

Shanghai Garment Research Testing Lab
(China - 01/07/2003)

Northeast: Construction Equipment Demand in Heilongjiang Province
(China - 12/29/2002)

China Commercial Brief - December 20, 2002
(China - 12/27/2002)

Chengdu Haolin Group Seeks Spa Designer
(China - 12/18/2002)

U.S. - China Environmental Biz Newsletter – December 16, 2002
(China - 12/16/2002)

Taizhou Sunson Education Group Seeks English Language Partners
(China - 12/09/2002)

Yiwu Public Schools Hungry for English as a Second Language
(China - 12/09/2002)

China Compulsory Certification (CCC) Mark
(China - 11/22/2002)

2003 Fertilizer TRQ Released
(China - 11/20/2002)

Chinese Group to Build Multi-purpose Plaza in Shanghai
(China - 11/20/2002)

U.S. - China Environmental Biz Newsletter - November 13, 2002
(China - 11/19/2002)

The Huai'an Water Treatment Plant: Clean Water for the South to North Water T...
(China - 11/07/2002)

Zhejiang Provincial Pharmaceutical University Seeks Partners in Education
(China - 11/05/2002)

Franchising in China
(China - 11/04/2002)

Three Chemical Industry Bases Identified in Beijing
(China - 10/31/2002)

2nd China International Petroleum Pipeline Construction & Technical Equipment...
(China - 10/30/2002)

China Environmental Business Newsletter - September, 2002
(China - 10/08/2002)

SICHUAN DAIRY INDUSTRY DEVELOPMENT PLAN IN 2002
(China - 09/30/2002)

WASTEWATER TREATMENT PLANT IN THE YIBIN CITY DEVELOPMENT ZONE
(China - 09/30/2002)

An Introduction to Future Sichuan Infrastructure Development
(China - 09/30/2002)

Sichuan Yangtian Biopharmaceutical Group
(China - 09/30/2002)

SICHUAN JIUDA SALT CORP. UNDERTAKING PRODUCT EXTENSION AND TECHNOLOGY IMPROVE...
(China - 09/30/2002)

SICHUAN GREAT WALL TELECOM GROUP CO. ANNOUNCES TWO NEW TELECOM PROJECTS FOR...
(China - 09/29/2002)

STONE ELEPHANT LAKE MODEL ECOLOGICAL ECONOMIC ZONE
(China - 09/28/2002)

Architect Needed for Shanghai International Medical Zone
(China - 09/24/2002)

DISTRIBUTION IN CHINA
(China - 09/20/2002)

China State Drug Administration International Bio-Pharmaceutical Forum 2002
(China - 09/18/2002)

China Online Education Taking Off

(China - 09/12/2002)

China's Import Quotas for Oil and Tires Rise 15% in 2003
(China - 09/11/2002)

Hospital Management Opportunity in Shanghai: The Guangci Hospital
(China - 09/11/2002)

Opportunities in the Taizhou Medical School and Taizhou Central Hospital
(China - 09/04/2002)

China Environmental Newsletter - August 24, 2002
(China - 08/30/2002)

Shanghai Environmental Newsletter - July 27, 2002
(China - 08/30/2002)

China to Leap Forward in Upgrading Farm Industry In Three Years
(China - 08/30/2002)

PRC Rules for Foreign Food Exporters Published
(China - 08/28/2002)

Shanghai trains a new generation of MBAs
(China - 08/26/2002)

ADB COMMERCIAL STUDY
(CHINA - 08/01/2002)

ADB ENVIRONMENTAL PROJ
(CHINA - 08/01/2002)

ADB URBAN ENVIRONMENT PROJ
(CHINA - 08/01/2002)

CHINA COMMITMENTS ON CONSTRUCTION INDUSTRY AFTER ITS ENTRY INTO WTO
(China - 07/30/2002)

Who Favors Foreign Insurance Products
(China - 07/23/2002)

Potash Fertilizer, NPK Imports Favored
(China - 07/16/2002)

CAPACITY BUILDING IN NATIONAL ECONOMIC/SOCIAL PLANNING & IMPLEMENTATION FOR P...
(CHINA - 06/25/2002)

HENAN HAI RIVER WASTEWATER TREATMENT PROJECT
(CHINA - 06/25/2002)

CNPC Sets Eight Major Development Strategies for New Century
(China - 06/23/2002)

Health Supplements in China #4 of 4
(China - 06/05/2002)

□Health Supplements in China #3 of 4
(China - 06/05/2002)

□Health Supplements in China #2 of 4
(China - 06/05/2002)

□Health Supplements in China #1 of 4
(China - 06/05/2002)

Three-Five Systems
(China - 06/02/2002)

ON Semi-Conductors - A Case Study
(China - 06/02/2002)

Mega Group Intl. - A Case Study
(China - 06/02/2002)

Home Way - A Case Study
(China - 06/02/2002)

13. Trade Event Schedule

A. Trade Shows in China

The Fifth China Franchise Convention & Exhibition
Beijing, August 2003
China Chainstore & Franchise Association
tel: 8610-6839-1441
fax: 8610-6839-1444
email: info@ccfa.org.cn
www.ccfa.org.cn

The 7th China International Fair for Investment & Trade
Xiamen, September 8 - 11, 2003
Venue: International Conference and Exhibition Center, Xiamen, China
Organizers:The Provincial Government of Fujian, The Municipal Government of Xiamen, Investment Promotion Affairs Bureau of the Ministry of Commerce
Tel: (86-592) 5068420
Fax: (86-592) 5068459
E-mail: ciipc3@chinafair.org.cn
Web Site: http://www.chinafair.org.cn

The 7th China International E-Business Conference
Dates: September 12 – 13, 2003
Place: International Convention Center, Beijing
Tel: (8610) 6820-8247
Fax: (8610) 68208238

CEBIT ASIA
Shanghai, China September 18-21, 2003
Tel: (86-21) 6886 3286
Fax: (86-21) 6886 3797
Email: cebit-asia@hfchina.com
Web Page: www.cebit-asia.com

The 2nd Beijing International Green Building Materials Exhibition
September 17-20, 2003 Beijing
Web Page: www.gbm.com.cn
China Building Materials Industries Association
China National Building Materials Exhibition & Trading Center
Ms. Zhiling Li
Tel: (86-10) 8808-2309, 8808-2308
Fax: (86-10) 8808-2305
Email:lizhiling@gbm.com.cn

Airport and Air Traffic Control Expo China 2003
Date: 17/09/2003 - 20/09/2003
Venue: China International Exhibition Center, Beijing
Organizor: China Promotion Ltd.
Tel: 852-2511-7427
Fax: 852-2511-9692
E-mail: cp@cpexhibition.com
Website: www.cpexhibition.com

The 7th International Exposition in Equipment and Technology for the Power Industry
Beijing, October 2003
CCPIT Beijing
Tel: (86-10)6422-7788
E-mail: huangsen@biec.com.cn
caiwer@biec.com.cn

7th Beijing International Construction machinery
Oct.14-17, 2003 Beijing
National Agricultural Exhibition Center, Beijing
China National Construction Machinery Corp &
China Council for Promotion of International Trade Machinery Sub-council
Ms. Manli Wang & Mr. Jingxin Sun
Tel: (86-10) 6859-6427, 6859-6428
Fax: (86-10) 6851-3987
Web Page: www.const-mach.com

China Irrigation Expo 2003
Beijing, September 23-25, 2003

China Council for the Promotion of International Trade, Specialized Sub-council of Agriculture (CCPIT-SSA)
Tel: (86-10) 6419-4401
Fax: (86-10) 6591-8986
Email: joy@ccpit-ssa.org.cn
Website: http://www.ccpit-ssa.org.cn/eng/irri/

China High-tech Fair/ComNet Shenzhen 2003
Dates: October 12 – 17, 2003
Place: CHTF Fair Exhibition Center, Shenzhen, China
Tel: 8610-65266655
Fax: 8610-65260865

The 7th Sichuan TV Festival
October 28-31, 2003
Chengdu, China

ChinaPlas 2003
Beijing, December 4-7, 2003
Adsale Exhibition Services Ltd., Beijing
Tel: (86-10) 6465-6301
Fax: (86-10) 6467-7385
Website: www.adsale.com.hk

China Pharm'2003
(the 8th Chnia international Pharmaceutical Industry Exhibition)
Organizer: China Center for Pharmaceutical International Exchange of State Food Drug Administration
Date: Oct. 28-31, 2003
Venue: Shanghai International Exhibition Center
Contact: Tracy Li
Tel: 8610-8425-1746
Email: Chinapharmex@china.com

China Fisheries & Seafood Expo & Aquaculture China 2003
Shanghai, October 29 - 31, 2003
Organizer: China Council for the Promotion of International Trade
Overseas Co-Organizer: Sea Fare Expositions, Inc.
Tel:(86-10) 8527-5057/58/59/60
Fax: (86-10) 8527-5061
E-mail: ccpitssa@public3.bta.net.cn
Web Site: http://www.ccpit-ssa.org.cn

INT'L SOFT CHINA 2003
China International Exhibition Center Beijing
Dates: November, 2003
Tel: (86-10) 62186579; 52143861
Fax: (86-10) 62143871
Email: csia@css.com.cn
Web Page: www.csia.org.cn

PT/Wireless & Networks Comm China 2003
China International Exhibition Center, Beijing, China
November 12-16, 2003
Adsale Exhibition Services Co. Ltd.
Tel: (8610) 6642-9900/01/02
Fax: (8610) 6642-6556
Email: ptcomm@ptac.com.cn

China Med 2003
(the 15th International Medical Instruments and Equipment Exhibition)
Organizer: Medical Department of General Logistics Department, Chinese People's Liberation Army
Date: Nov. 13-16, 2003
Venue: Beijing Exhibition Center, Beijing, China
Contact: Diana Liang,
China World Trade Center Co., Ltd.
Tel: 8610-6505-3832
Fax: 8610-6505-3260
Email: dianaliang@263.net
Website: www.chinamed.net.cn

Sino-Dental 2003
(the 8th China International Dental Equipment & Affiliated Facilities Exhibition)
Organizer: International Health Exchange Center, Ministry of Health
Chinese Stomatological Association

2003 China International Winter Sports & Tour Fair
Nov 15 - 18, 2003, Beijing
Beijing Bei Ao Co., Ltd
Tel: 8610-8463-1360
Fax: 8610-8463-4726
email: bal00029@ciwstf.com
www.ciwstf.com

The 10th International Exhibition on Construction Equipment and Building Materials Machinery
Nov. 18-21, 2003 Shanghai
Adsale Exhibition Service Ltd.
Mr. Stanley Chu, Chairman
Tel: (852) 2811 8897
Fax: (852) 2516 5024
Contact in Beijing: Ms. Li Liu
Tel: (86-10) 6468-0579
Fax: (86-10) 6467-7385, 6461-9569
Web Page: www.adsale.com.hk

China International Travel Mart 2003
November 20-23, 2003, Kunming
Beijing Xinghualu Exhibition Limited
Tel: (86-10) 6053-6832
Fax: (86-10) 6053-5708

Email: xhlexpo@163bj.com
Web Page: www.xhlexpo.com.cn

EP Shanghai 2003
The 4th International Exhibition on Electric Power Equipment and Technology
Shanghai, November 2003
Adsale Exhibition Services Ltd
Tel: 852-2811-8897
Fax: 852-2516-5024
E-mail: power@adsale.com.hk
Web Page: www.adsale.cm.hk

Energy Asia 2003 & 7th ELEC TRO
Shanghai, November 2003
Hannouer Fairs China Ltd
Tel: (86-21)6886-3286 ext 207/307
Fax: (86-21)6886-2355
E-mail: energy-aisia@hfchina.com

6th Guangzhou Electricity & Electrical Exhibition
Guangzhou, November 2003
Guangdong Creation Exhibition Inc.
Tel: (86-20)8761-7370
Fax: (86-20)8761-9065
E-mail: creation@gd-exhibition.com

Cosmoprof Asia
November, 2003, Hongkong, China
Cosmoprof Asia Ltd
tel: 00852-2827-6211
fax: 00852-2827-7831
email: cosmasia@cmpasia.com
www.cosmoprof-asia.com

Date: Dec. 1-4, 2003
Venue: Beijing Exhibition Center, Beijing, China
Contact: Mr. Liu Zhigui, or Ms. Zhou Shaobo
Tel: 8610-6879-2540/42/25/39
Fax: 8610-6879-2543
Email: vivianzsb@hotmail.com
Website: Http://ihec.moh.gov.cn

EXPO/Comm China South 2003
Jinhan Exhibition Center
Guangzhou, China
December 10-13, 2003
E.J. Krause & Associates, Inc.
Tel: (8610) 8451-1832
Fax: (8610) 8451-1829
Email: ejk@public3.bta.net.cn

CIPEPC 2003
Beijing,15th-18th December 2003
State Environmental Protection Administration
Tel:8610-68393827/68393245
Fax:8610-68393748
Email:chai@chinaenvironment.org
ciepec@163.net
Webpage:www.chinaenvironment.com/ciepec2003

Stadia China 2004: China International Exhibition on Stadia & Arena and Sports & Leisure Infrastructure Supplies and Services
February 16-18, 2004
Fairlink Exhibition Services, Inc.
Guan Hong, Director
Tel: (86-10) 8580-0790/91/92
Fax: (86-10) 8580-0786
Email: lacey@fairlink.com.cn
Web Page: www.stadiachina.com
North American Contact: Kallman Associates Inc.
Jerry Kallman or Mr. Mark Alt
Tel: (201) 652-7070
Fax : (201) 652-3898
Email: jerry@kallmaninc.com or mark@kallmaninc.com

Intertextile Beijing
March, 2004, Beijing
Messe Frankfurt Ltd
tel: 00852-2802-7728
fax: 00852-2598-8771
email: textile@hongkong.messefrankfurt.com
www.messefrankfurt.com.hk

China Refrigeration 2004
April 8-10, 2004 Shanghai
China Council for the Promotion of International Trade, Beijing Sub-council (CCPIT, Beijing)
Beijing International Exhibition Center (BIEC) of CCPIT Beijing Sub-Council
Ms. Lu Peng
Tel: (86-10) 6422-7788ext. 625; 6424-5051
Fax: (86-10) 6425-1287
E-mail: penglu@biec.com.cn

ELE/Expo Comm Shanghai 2004
Shanghai, China
June, 2004
E.J. Krause & Associates, Inc.
Email: Tel: (8610) 8451-1832
Fax: (8610) 8451-1829
Email: ejk@public3.bta.net.cn

China Police 2004

China International Exhibition On Police Technologies & Equipment(2nd Event)
June 23-26, 2004
Equipment & Finance Bureau, Ministry of Public Security
Tel:8610-68728993, 852-2511-7427
Fax:8610-68716028,852-25119692
e-mail:cp@cpexhibition.com, bj@beijingaviation.com
website: www.cpexhibition.com

The 6th China Interantional Machinery & Equipment Show
The 7th China Machine Tool & Tools Commodities Fair
June 22-26, 2004, Beijing
China National Machine Tool Corp.
Tel:8610-84882863
Fax:8610-84882861
e-mail:chen_jingying@sohu.com, ces@bjces.com.cn, cimes@bjces.com.cn
website: www.bjces.com.cn

Auto China 2004
June 2004
Venue: China International Exhibiton Center, Beijing
Organizor: China Automotive Industry, International Corp., CCPIT Sub-Council of Automotive Industry, Seciety of Exhibition Center Group Corp.
Tel: 8610-6493-8403, 8610-6491-5259, 8610-6497-3895
Fax: 8610-6496-8699
Contact: Jing Yongjian, Wen Yimei, and Huang Yan
E-mail: autochina@caic.com.cn
Website: www.autochina.com.cn

2004 China International Mining Expo & International Forum on Mining Development
Beijing, June 2004
China Enterprises International Exhibitions & Advertising Co. LTD.
Tel: (86-10)8838-2247
Fax: (86-10)8838-2248
E-mail: eaciecco@mx.cei.gov.cn

PT/Expo Comm China 2004
October 26-30, 2004
China Int'l Exhibition Center,
Beijing, China
www.expocommcn.com
E.J. Krause & Associates, Inc.
Email: Tel: (8610) 8451-1832
Fax: (8610) 8451-1829
Email: ejk@public3.bta.net.cn

B. Trade Shows in the U.S.

FY 2004 International Buyer Program
Calendar of Events

For additional information on any of these events, please contact the show's Project Officer. If a project officer is not listed please contact Jim Boney at 202-482-0146. The program's fax number is 202-482-0115.

1. MINExpo International – September 27-30, 2004, Las Vegas, Nevada
Sponsor: Moya F. Phelleps, Vice President, Manufacturers and Services
National Mining Association
101 Constitution Avenue NW, Suit 500 East
Washington, DC 20001
Tel: 202-463-2639; Fax: 202-463-2666; Email: mphelleps@nma.org.
Project Officer: Kevin Haley, 202-482-6434; email: kevin.haley@mail.doc.gov

2. Plastics USA – September 28-30, 2004, Chicago, Illinois
Sponsor: Jordan Morgenstern, Chief Trade Shows & Global Affairs Officer
The Society of the Plastics Industry, Inc.
1801 K Street NW, Suite 600K
Washington, D.C. 20006-1301
Tel: 202-974-5235; Fax: 202-296-7243; Email: tradeshows@socplas.org.
Project Officer: Barbara Rawdon, 202-482-5291; email: barb.rawdon@mail.doc.gov.

3. Medtrade - October 7-9, 2003, Atlanta, Georgia
Sponsor: Cory Smith, Medtrade Group Show Director
VNU Expositions
1115 Northmeadows Pkwy.
Roswell, GA 30076
Tel: 770-291-5437; Fax: 770-777-8821; Email: csmith@medtrade.com.
Project Officer: Carol Rudman, 202-482-0905; email: carol.rudman@mail.doc.gov.

4. WEFTEC 2003 Water Environment Federation 76th Annual Technical Exhibition and Conference - October 11-15, 2003, Los Angeles, California
Sponsor: Nannette Tucker
Water Environment Federation
601 Wythe Street
Alexandria, VA 22314
Tel: 703-684-2434; Fax: 703-684-2475; Email: ntucker@wef.org.
Project Officer: Mark Wells, 202-482-0904; email: mark.wells@mail.doc.gov.

5. Pack Expo Las Vegas 2003 - October 13-15, 2003, Las Vegas, Nevada
Sponsor: Lindsay Marsh, Global Mktg. Coord.
Packaging Machinery Manufacturers Institute
4350 N. Fairfax Dr., Ste. 600
Arlington, VA 22203
Tel: 703-243-8555; Fax: 703-243-8556; Email: lindsay@pmmi.org.
Project Officer: Monica McFarland, 202-482-3364; email: monica.mcfarland@mail.doc.gov.

6. CTIA Wireless I.T. & Internet 2004 - October 22-24, 2004, Las Vegas, Nevada
Sponsor: Robert Mesirow
Cellular Telecommunications & Internet Association
1250 Connecticut Avenue NW, Suite 800
Washington, D.C. 20036

Tel: 202-736-3654; Fax: 202-736-3686; Email: rmesirow@ctia.org.
Project Officer: Andy Bihun, 202-482-3363; email: andy.bihun@mail.doc.gov.

7. Louisiana Gulf Coast Oil Exposition (LAGCOE) – October 28-30, 2003 Lafayette, Louisiana
Sponsor: Phillipe Gustin, Director
Le Centre International de Lafayette
735 Jefferson Street, Lafayette, LA 70501
Tel: 337-291-5474; Fax: 337-291-5480; Email: philippe@lecentre.org.
Project Officer: Molly Costa, 202-482-0692; email: molly.costa@mail.doc.gov.

8. Worldwide Food Expo – October 29 to November 1, 2003, Chicago, Illinois
Sponsor: Anne Halal, American Meat Institute
1700 North Moore Street, Suite 1600
Arlington, VA 22209
Tel: 703-841-2400; Fax: 703-527-0938; Email: ahalal@meatami.com.
Project Officer: Kevin Haley, 202-482-6434; email: Kevin.haley@mail.doc.gov.

9. Automotive Aftermarket Industry Week – November 4-7, 2003, Las Vegas, NV
Sponsor: Judy Novak, AAIW International Representative
William T. Glasgow, Inc.
10729 West 163rd Place
Orlando Park, IL 60467
Tel: 708-226-1300; Fax: 708-226-1310; Email: novakjudyann@aol.com.
Project Officer: Joe English, 202-482-3334, email: joseph.English@mail.doc.gov

10. International SHOPA (School, Home, & Office Products Association) Show – November 11-13, 2003, Atlanta, Georgia
Sponsor: Patricia M. Rosen, Associate Director,
School, Home, & Office Products Association
3131 Elbee Road, Dayton, OH 45439
Tel: 937-297-2250; Fax: 937-297-2254; Email: patr@shopa.org.
Project Officer: Bill Corfitzen, 202-482-0584; email: William.corfitzen@mail.doc.gov

11. International Irrigation Show – November 18-20, 2003, Sand Diego, California
Sponsor: Thomas H. Kimmell, Executive Director
The Irrigation Association
6540 Arlington Blvd
Falls Church, VA 22042
Tel: 703-536-7080; Fax: 703-536-7019; Email: tom@irrigation.org.
Project Officer: Mark Wells, 202-482-0904; email: mark.wells@mail.doc.gov

12. IAAPA Orlando 2003 Annual Convention and Trade Show - November 19-22, 2003, Orlando, Florida
Sponsor: Marc Parsont, Exhibits Mgr.
International Association of Amusement Parks & Attractions
1448 Duke St., Alexandria, VA 22314
Tel: 703-836-4800; Fax: 703-836-4801; Email: mparsont@iaapa.org.
Project Officer: Jennifer Harrington, 202-482-0595; email: jennifer.harrington@mail.doc.gov.

13. International CES – January 8-11, 2004, Las Vegas, Nevada
Sponsor: Diann Groff, International Marketing Manager
2500 Wilson Blvd
Arlington, VA 22201-3834
Tel: 703-907-7605; Fax: 703-907-7675; Email: cesinfo@ce.org.
Project Officer: Andy Bihun, 202-482-3363; email: andy.bihun@mail.doc.gov.

14. The International Builders' Show – January 19-22, 2004, Las Vegas, Nevada
Sponsor: Dennis Harrison, Staff Vice President, Convention & Meetings Division
National Association of Home Builders
1201 15th Street NW
Washington, DC 20005-2800
Tel: 202-266-8111; Fax: 202-266-8104; Email: dharrison@nahb.com.
Project Officer: Joe English, 202-482-3334; email: joseph.english@mail.doc.gov

15. PGA Merchandise Show – January 29 to February 1, 2004, Orlando, Florida
Sponsor: E. Gail Billingsley
383 Main Ave.
Norwalk, CT 06851
Tel: 203-840-5400; Fax: 203-840-9400; Email: gbillingsley@reedexpo.com.
Project Officer: To be determined

16. World Ag Expo - February 10-12, 2004, Tulare, California
Sponsor: Gary Schulz, General Mgr.
International Agri-Center, Inc.
P.O. Box 1475
Tulare, CA 93275-1475
Tel: 559-688-1751; Fax: 559-686-5065; Email: gray@farmshow.org
Project Officer: Kevin Haley, 202-482-6434; email: kevin.haley@mail.doc.gov

17. SATELLITE –March 2004, Washington, D.C.
Sponsor: Susan Newman
1201 Seven Locks Rd, Suite 300
Potomac, MD 20854
Tel: 301-354-2000; Fax: 301-354-1662; Email: snewman@pbimedia.com.
Project Officer: Miguel Olivares 202-482-4918; email: miguel.olivares@mail.doc.gov

18. Water Quality Association 30th Annual convention and Exhibition – March 16-29, 2004, Baltimore Maryland
Sponsor: Andrew Warnes, Director—World Assembly Division
Water Quality Association
4151 Naperville Road
Lisle, Illinois 60532
Tel: 630-505-0161, ext. 505; Fax: 630-505-9637; Email: awarnes@mail.wqa.org.
Project Officer: Mark Wells, 202-482-0904; email: mark.wells@mail.doc.gov

19. CTIA Wireless –March 22-24, 2004, Atlanta, Georgia
Sponsor: Robert Mesirow
Cellular Telecommunications & Internet Association
1250 Connecticut Avenue NW, Suite 800

Washington, D.C. 20036. Tel: 202-736-3654; Fax: 202-736-3686; Email: rmesirow@ctia.org.
Project Officer: Andy Bihun, 202-482-3363; email: andy.bihun@mail.doc.gov

20. Electric Power – March 30 to April 1, 2004, Baltimore, Maryland
Sponsor: David I. Johnson, Executive Director
The TradeFair Group, Inc.
1220 Blalock Road #310
Houston, TX 77055. Tel: 713-463-9595; Fax: 713-463-9997; Email: davej@tradefairgroup.com
Project Officer: Andy Bihun, 202-482-3363; email: andy.bihun@mail.doc.gov

21. International Franchise Expo – April 2004, Washington, D.C.
Sponsor: Cheryl Burkhalter, MFV Expositions
210 Route 4 East, Suite 403
Paramus, NJ 07652
Tel: 201-226-1130 or 888-872-2677; Fax: 201-226-1237; Email: cburkhalter@mfvexpo.com.
Project Officer: Frances Lee, 202-482-1650; email: frances.lee@mail.doc.gov

22. NAB2004 –April 17-22, 2004, Las Vegas, Nevada
Sponsor: Justine L. McVaney
National Association of Broadcasters
1771 N Street NW
Washington, D.C. 20036-2891
Tel: 202-775-4971; Fax: 202-775-2146; Email: jmcvaney@nab.org.
Project Officer: Miguel Olivares, 202-482-4918; email: miguel.olivares@mail.doc.gov

23. National Restaurant Association Restaurant, Hotel-Motel Show (NRA Show) - May 15-18, 2004, Chicago, Illinois
Sponsor: Pamela Dohoney, Senior Manager, Marketing Communications
The National Restaurant Assn.
150 N. Michigan Ave., Ste. 2000
Chicago, IL 60601T
Tel: 312-853-2522, Fax: 312-853-2548
Project Officer: Monica McFarland, 202-482-3364; email: monica.mcfarland@mail.doc.gov

24. Digestive Disease Week – May 16-19, 2004, New Orleans, Louisiana
Sponsor: Brenda Arson, Exhibits Manager
DDW Administration
7910 Woodmont Avenue, Suite 700
Bethesda, MD 20814. Tel: 301-941-2603; Fax: 301-654-3978; Email: barson@gastro.org.
Project Officer: Bill Kutson, 202-482-2839; email: william.kutson@mail.doc.gov

25. ASTD International Conference and Exposition (ASTD 2004) – May 21-26, 2004, Washington, DC
Sponsor: Virginia Artis, Dir., Conferencing and Meetings
American Society for Training and Development (ASTD)
1640 King St., Box 1443

Alexandria, VA 22313-2043
Tel: 703-683-8189; Fax: 703-683-9203; Email: vartis@astd.org.
Project Officer: Kevin Haley, 202-482-6434; email: kevin.haley@mail.doc.gov

26. American Water Works Association Annual Conference and Exhibition – June 13-17, 2004, Orlando, Florida
Sponsor: Jon Runge, Director of Communications and Marketing
American Water Works Association
6666 West Quincy Avenue
Denver, CO 80235
Tel: 303-347-6232; Fax: 303-794-8735; Email: jrunge@awwa.org.
Project Officer: Mark Wells, 202-482-0904; email: mark.wells@mail.doc.gov

27. SUPERCOMM – June 20-24, 2004, Chicago, Illinois
Sponsor: Jack Chalden, General Manager
SUPERCOMM
2500 Wilson Blvd. Suite 300
Arlington, VA 22201
Tel: 703-907-7744; Fax: 703-907-7746; Email: jchalden@tia.eia.org.
Project Officer: Miguel Olivares, 202-482-4918; email: miguel.olivares@mail.doc.gov

28. Annual Meeting & Clinical Laboratory Exposition of the American Association for Clinical Chemistry – July 25-29, 2004, Los Angeles, California
Sponsor: Deborah Grossman Shaked, Director of Marketing
The American Association for Clinical Chemistry, Inc.
2101 L St, NW
Washington, DC 20036
Tel: 202-835-8733; Fax: 202-887-5093; Email: dshaked@aacc.org.
Project Officer: To be determined

29. MAGIC International (Summer) - August 2004, Las Vegas, Nevada
Sponsor: Gaspare M. Asaro, Director of International Development
MAGIC International
One Park Avenue
New York, NY 10016-5802
Tel: 917-326-6324; Fax: 917-326-6168; Email: gasaro@advanstar.com.
Project Officer: Yvonne Jackson, 202-482-2675; email: yvonne.Jackson@mail.doc.gov

30. International Baking Industry Exposition – September 15-18, 2004, Las Vegas, Nevada
Sponsor: Sheila G. Hoffmeyer, IBIE Associate Secretary/Treasurer
International Baking Industry Exposition
401 N. Michigan Avenue
Chicago, IL 60611
Tel: 312-644-6610 x3220; Fax: 312-527-6657; Email: sheila_hoffmeyer@sba.com.
Project Officer: Joe English, 202-482-3334; email: joseph.english@mail.doc.gov

31. International Hardware Week – August 15-18, 2005, Chicago, Illinois
Sponsor: Timothy S. Farrell, Executive Vice President & Chief Operating Officer
American Hardware Manufacturers Association
801 North Plaza Drive

Schaumburg, IL 60173-4977. Phone: 847-592-3507; Fax: 847-605-1030; Email: tfarrell@ahma.org.
Project Officer: Bill Corfitzen, 202-482-0584; email: william.corfitzen@mail.doc.gov

32. Broadband Plus--The New Western Show – Dates to be Confirmed, Anaheim, California

Sponsor: Clark Franklin, Dir. of Events
California Cable & Telecommunications Assn.
4341 Piedmont Ave., P.O. Box 11080
Oakland, CA 94611-0080
Tel: 510-428-2225; Fax: 510-420-9010; Email: clark@cable.org.
Project Officer: To be determined.