THE CHINA BUSINESS REVIEW
JULY-AUGUST 1996
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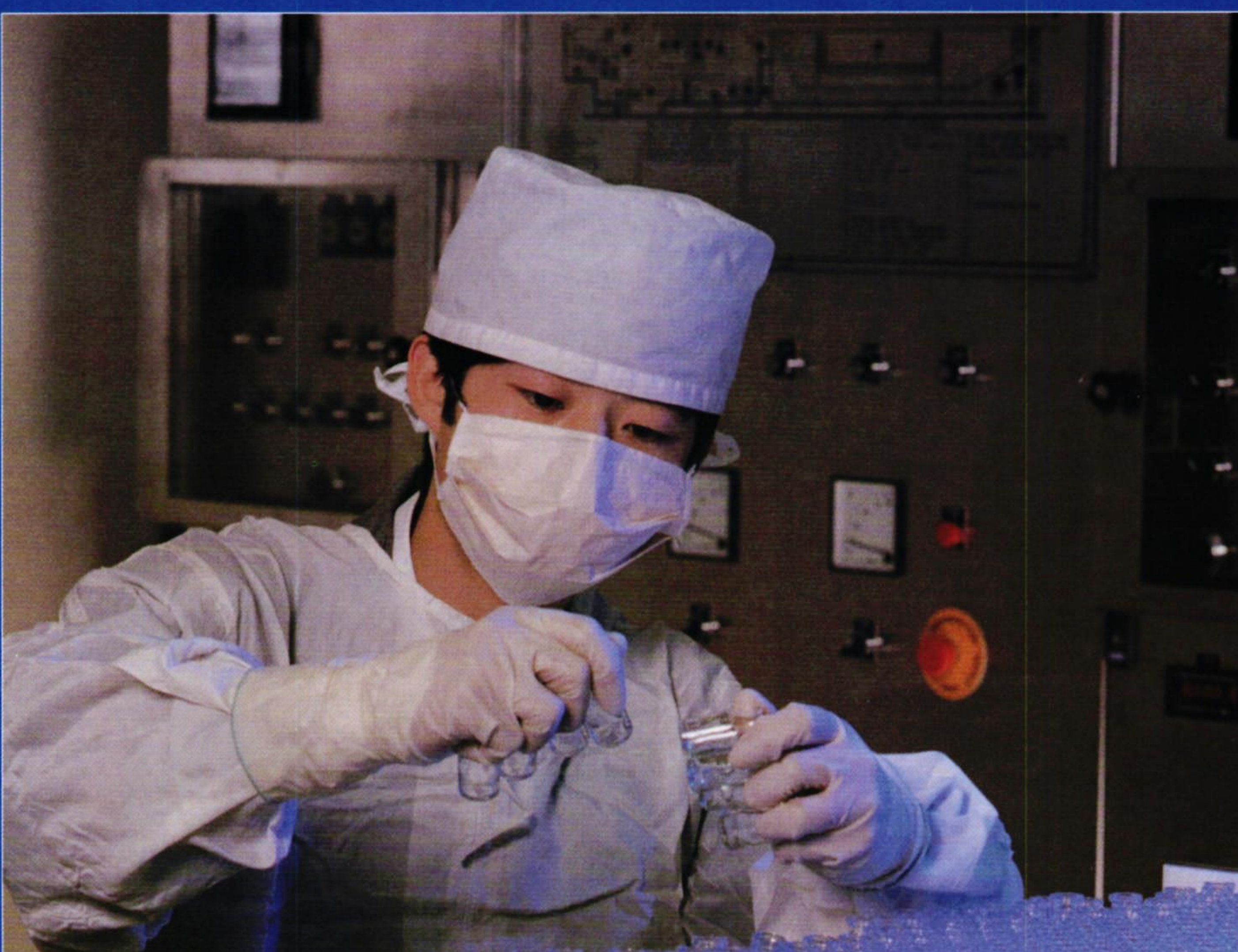
The Medical Scene



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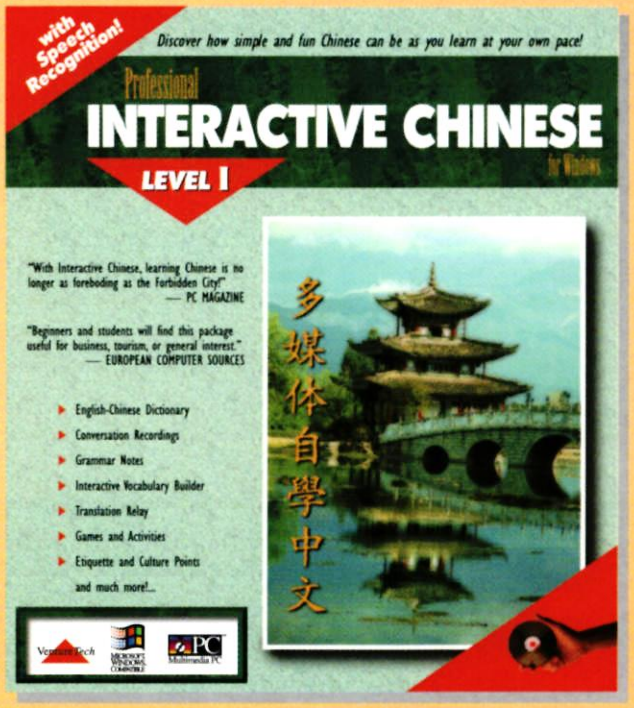

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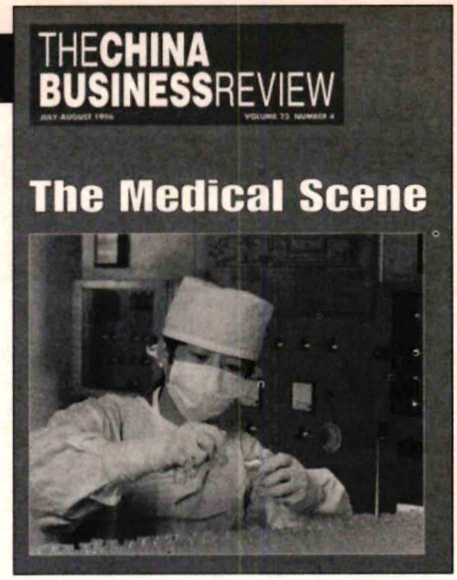
CONTENTS

美中商贸评论

July-August 1996



FOCUS: The Medical Scene

FEATURES

DEPARTMENTS

Cover photo by Charlotte Raymond.
Photo courtesy of Bristol-Myers Squibb Co.

US and China Avert IPR-Related Trade Sanctions

US and Chinese officials narrowly dodged a trade war on June 17, when Acting United States Trade Representative (USTR) Charlene Barshefsky announced that China's recent efforts to curb intellectual property rights (IPR) violations sufficiently demonstrated China's commitment to protecting intellectual property.

In the weeks leading up to the June deadline, Barshefksy and her team verified the closure of 15 pirate compact disc (CD) factories, 12 of which were licensed plants. Twelve of the plants were in Guangdong Province, which USTR had singled out as home to the most flagrant pirate activities.

US officials attested that the business licenses and audio-visual permits of these factories were revoked, their equipment was seized and confiscated, and those responsible for operating the factories are being investigated and prosecuted consistent with China's IPR protection laws. In addition, beginning June 12, Beijing forbade the establishment of any new CD plants and prohibited the unauthorized importation of CD presses. Any CD found without a source identification (SID) code is now considered illegal and will be immediately confiscated.

Chinese officials also announced the extension of the Special Enforcement Period in Guangdong Province for another seven months and launched a nationwide "Concentrated Enforcement Period," which will run through the end of August. During this period, wholesale and retail markets will be targeted for inspection throughout the country. US officials also secured guarantees that China will enforce efforts to stop shipments of illicit products, particularly across the Hong Kong-Guangdong border.

The market access gains for US entertainment and software firms were less clear, though China agreed in principle to allow US companies to sign recording contracts with artists and produce their records, and permit the establishment of joint-venture production enterprises in the sound recording and motion picture industries. China also promised to eliminate the import quota on motion pictures, which currently stands at 10 films per year.

Monitoring the enforcement of these measures will be an ongoing process, but US officials and members of the business community are hailing the deal a success.

—Meredith Singer

Meredith Singer is a business advisory services associate at the Council.

Ex-Im Holds Firm on Three Gorges

Citing environmental concerns about the massive dam project, the Export-Import Bank of the United States (Ex-Im Bank) on May 30 declined to issue preliminary letters of interest for the Three Gorges project. Several US exporters had requested export assistance in their bids to participate in the 185 m-high hydroelectric dam project, which is now estimated to cost as much as $30 billion.

Ex-Im Bank Chairman and President Martin Kamarck characterized the decision as "routine" and in accordance with the institution's congressional mandate to follow environmental review procedures for each proposed guarantee. Of particular concern to the Ex-Im Bank board was the absence of specific plans detailing how water quality and ecological resources would be protected. Kamarck left open the possibility that the release of further information addressing some of these issues could allow Ex-Im Bank to reconsider requests for export financing for this project.

The Chinese reaction to the announcement was highly critical. In wire reports, Premier Li Peng said the Ex-Im Bank ruling effectively "killed" US involvement in the project. In early June, though, Beijing announced plans to stem pollution along the Yangtze River, which would seem aimed at answering some of Ex-Im Bank's concerns. *—VLW*

SHORT TAKES

Add a Digit to Make 8 in Guangzhou

Guangzhou joins Shanghai, Beijing, and Hong Kong in making the leap to eight-digit phone numbers. As of June 8, Guangzhou phone numbers beginning with 2, 3, 4, 5, 6, and 7 require an additional "8" before the first digit. Numbers beginning with "8" add a "1" *after* the first digit instead.

New Western Pipeline

By August, the Xinjiang Uygur Autonomous Region's 291 km pipeline will begin pumping 1.3 million tonnes of finished oil products from Karamay, an oil-producing region in the region's northwest, into Urumqi, the capital city.

Recycle by Rail

China's Ministry of Railways has banned the use of food packaging that is not biodegradable, effective July 1. Food stalls at stations and dining cars will have to deliver their fare in boxes made of paper and biodegradable polypropylene.

A Computer in Every Home?

According to *Bejing Scene*, 10 percent of China's households may have a personal computer (PC) by 2000. If Beijing is any indication, this prediction is not far off the mark. Last year, 150,000 Beijing households owned PCs, a figure which is expected to double by the end of 1996.

China on the World Wide Web

Since the US-China Business Council has been hooked up to the Internet for several months now, we thought we'd share some of the more edifying websites we've uncovered. For those looking for news and information, and other China-related resources on the Internet, here are some sites that might be useful:

http://asiabiz.com/news.html—*ABC-Asia Business Connection* lists a variety of Asia-related links, focusing on commercial enterprises with an Internet presence. You can link up to news sources, travel and tourism information, and country-specific commercial data.

http://www.asia-inc.com/—*Asia, Inc.* updates its *Online* website weekly with business-related news capsules and feature articles from across the region.

http://www1.usa1.com/~ibnet/ccpithp.html—*The China Council for the Promotion of International Trade* (CCPIT) offers information on trade promotion activities and on how to sign up for its trade-related publications.

http://www.cnd.org/—*China News Digest* offers several online newsletters about China in both English and Chinese. News is culled from newswires and *China Daily*. Subscriptions, which are free, e-mail you newsletters several times a week.

http://china-window.com/window.html—*China Window* lets you reach a dozen PRC cities—and many local newspapers, including the *Shanghai Star*, *Jie Fang Daily*, and *Xin Min Evening Daily*.

http://darkwing.uoregon.edu/~felsing/ceal/welcome.html—*The Council on East Asian Libraries* has organized China-related websites by category, from Buddhism to transportation, and also offers some texts online. The site also provides links to other sites offering software that enables the user to read Chinese language texts.

http://www.doc.gov/—The *US Department of Commerce (DOC)* online services include US census, defense conversion, and budget statistics. Under "Commerce Agencies," the International Trade Administration (ITA) provides information by industry and country; updates on the DOC's National Export Strategy and DOC events; and trade statistics and other information. The China Economic Area's homepage, under regional and country information, offers basic trade statistics for China, Taiwan, and Hong Kong.

http://www.hk.super.net/~milesj/—*Finding News About China* organizes "political, social, and economic news about mainland China, Hong Kong, Taiwan and Tibet [that are] available free of charge on the Internet."

http://www.hkstandard.com/—*The Hongkong Standard* provides a high-graphic front page of regional news—though the graphics take a while to load. Just click on the China-specific photo to read the latest news on the PRC and Taiwan. Other Standard locations worth a visit include the financial review and job market pages.

http://www.tdc.org.hk/main/—*The Hong Kong Trade Development Council*'s website provides an abundance of useful information, including lists of upcoming trade and other commercial events, economic statistics on Hong Kong and China, and partial online access to its publications, including *International Market News*.

http://www.laurasian.org/igl.html—*The Laurasian Institute*'s Institute for Global Learning website offers online information about its educational programs on business planning and cross-cultural communication.

http://www.usitc.gov—At the *United States International Trade Commission (ITC)*'s exteremely useful site, you can find weekly updates of new trade dispute filings and press releases, and can download ITC opinions, reports, and publications.

gopher://gopher.voa.gov/1—the *Voice of America* gopher can be a good source of news, and also provides daily Chinese language radio scripts.

—*CG*

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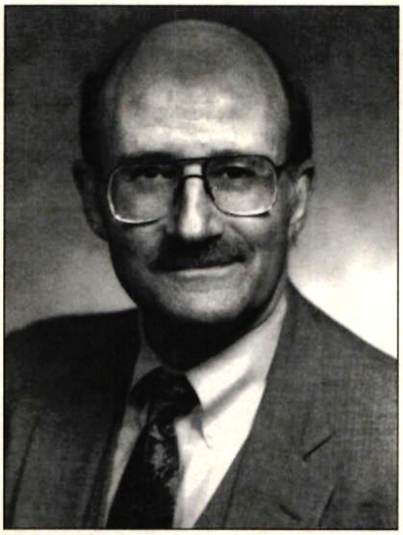


Robert A. Kapp

The Road to "Normalization"

There's some cause to be optimistic that we're on the right track

Several months ago, in the face of the mounting US-China crisis over Taiwan and other issues, we began quietly to urge whenever we could that the two sides deal one by one with outstanding issues, taking each off the table with little fanfare, and thus gradually removing the various acute irritants from the stage of US-China relations. It seemed to us that, first of all, no single wave of a magic wand would suffice to restore an overall atmosphere of cordiality and cooperation to US-China ties; and that, second of all, it would be necessary for both sides to act in a forthcoming and considerate manner if politically acceptable accommodations were to be reached. Our hope was that once each of the several open wounds was treated, it would be possible for both China and the United States to regain some sense of confidence that they could still resolve their specific differences and gradually return to a more forward-looking and cooperative relationship.

From one perspective, as we enter the summer, much has been achieved in that direction. The Taiwan issue was, and remains, principally a matter for China and Taiwan to address, but to the extent that the United States had become tightly enmeshed in the tensions of 1995 and early 1996, the atmosphere for the moment seems to have improved. Although concrete achievements in the further development of Taiwan-PRC relations have been few since the March elections on the island, the tone of the dialogue between the two has calmed down, lowering the temperature of US political rhetoric to some extent as well.

On the purely bilateral front, the two big irritations of the first half of 1996 have been put to rest, at least for the present, through laborious negotiation. The furor over China's export of ring magnets to Pakistan (a debate which dragged more people into an overheated discussion of a topic they knew little or nothing about than any comparable issue this year—how many of the debaters had the slightest idea what a ring magnet is and what it does?) is largely over.

More recently still, in the acrimonious intellectual property rights (IPR) dispute, the drearily familiar pattern of eleventh-hour negotiations has ended with the cancellation of US and Chinese plans to impose reciprocal trade sanctions against billions of dollars' worth of each others' exports. The exact nature of any new IPR commitments by China in this area has yet to emerge publicly, but the affected US industries, particularly those most critical of China's IPR practices, pronounced themselves pleased with the new understandings. With luck, with appropriate enforcement on the Chinese side, and with continued US recognition of the complexity of the task of promoting IPR protection in any emerging market, we may look forward to a lessening of US-China tension on that front.

Meanwhile, it has been rewarding to note that the President has acted to retain unconditional MFN/NST (Most Favored Nation/No Special Treatment) tariffs on PRC imports, and that unconditional MFN/NST enjoys the support of the expected Republican presidential candidate, Bob Dole. Moreover, the key committee responsible for sending to the House floor the annual "Resolution of Disapproval" that would overturn the President's MFN renewal is doing so with an overwhelmingly negative recommendation, in effect urging the full House to defeat the Resolution and support MFN/NST renewal.

For its part, the White House has begun a concerted effort, including a succession of public pronouncements on China by the President and cabinet officials and a planned visit to China by National Security Advisor Anthony Lake, to focus on the longer-term management of a complex but vital bilateral relationship. Rumors persist that a more sustained encounter between the leaders of the US and Chinese governments might be in the offing as well.

From the US side, then, it's possible to imagine the beginnings of a sea-change in favor of greater continuity and stability in US-China relations. If that happy prospect continues to emerge, one can conjure up a vision of further long-term progress, with the major economic and commercial issues (permanent MFN/NST treatment, resolution of the WTO accession problem, removal of leftover sanctions against China such as the Overseas Private Investment Corp. and Trade Development Agency prohibitions) moving toward resolution. We might actually be on the road to what many are now calling "Commercial Normalization."

> The depth of China's disenchantment with the United States is difficult to define.

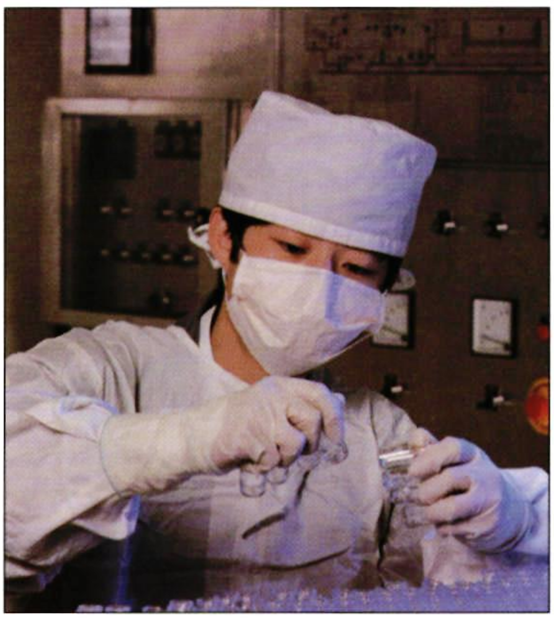
But we're not there yet. This year's congressional battle over MFN/NST is not over as *The China Business Review* goes to press, and there remain substantial pockets of extraordinarily bitter and vituperative opposition to normal trade and economic relations with China. The calming effects emanating from the resolution of recent disputes could be squandered at any moment by a successful congressional assault on unconditional MFN/NST or the passage of destructive "alternative legislation" so beloved by some on Capitol Hill. The credibility, for lack of a better word, of the executive branch policy toward China (which in Chinese eyes was badly damaged by the granting of the visa to Taiwan's Lee Teng-hui last spring) remains vital to stronger US-China ties; should the Administration be backed into a corner by a hostile Congress over MFN and alternative legislation this year, much of the recent damage control could unravel.

And then there is China itself. The depth and intensity of China's elite and popular disenchantment with the United States and of China's increasingly brittle response to perceived US insults and pressures is difficult to define or measure. But most US observers have seen the rise of such sentiments over the past two years, and certainly the Chinese media are replete with prickly and even hostile commentaries. While the resolution of the IPR and ring magnets controversies suggests a continued willingness in key Chinese circles to negotiate differences and find dignified accommodation with the United States on focused issues, it is not clear how fully or how quickly China will choose to move forward on the remaining bones of contention, economic or otherwise.

So we continue to stride forward, but on tiptoe, hopeful that we are now beginning to proceed in a more dignified manner to achieve more stable economic and political relations between the United States and China. But the relative quiet of mid-June, following the IPR settlement, could be short-lived. Let's hope that, come autumn and particularly come the New Year, we'll be embarking not on another round of defensive maneuvers, but on a much more positive initiative toward the further normalization of US-China economic and political relations.

Reshaping the Medical Equipment Landscape

Roberta Lipson and Lawrence Pemble



Each year, the PRC spends more than $1 billion on medical equipment, more than half of it imported. According to US-based Health Industry Management Association statistics, the PRC is the second-largest market in Asia for medical devices after Japan, and the fastest-growing market in the world. The average value of existing medical equipment in China, at about $2,000 per bed in 1995, was four times what it was in 1990. As both living standards and the elderly population continue their rapid increase—the country will have 130 million citizens over the age of 60 by the end of the century—overall health care expenditures are sure to rise. And China's Ninth Five-Year Plan (9th FYP) goals for 1996-2000, from improving access to basic health care to reducing mortality rates, also are likely to boost medical spending.

But despite all the signs of an expanding market, and the fact that China's health care system serves roughly 1.2 billion people at more than 60,000 hospitals nationwide, the news for foreign medical equipment producers is somewhat mixed. The annual volume of medical equipment imports in China has held steady or even declined in recent years (*see* p.11). The exception was 1995, during which imports grew 24 percent to $456 million, according to PRC Customs. Though last year's surge can be attributed, in part, to one-time purchases of extremely expensive equipment such as gamma knives, generous financing programs in Finland, Austria, and Norway, which bolstered medical equipment sales from those countries, are also responsible for the 1995 increase.

And although medical imports were up overall in 1995, certain categories of imports still lost ground to cheaper domestic substitutes. To maintain market share, foreign medical equipment providers will have to keep close track of reforms in China's health care system, financing and regulatory environment, and foreign trade regime. While some of the changes wrought by these reforms should help foreign sales in China, others could make the going more difficult.

With health system reforms...

In March, China's National People's Congress approved a set of ambitious 9th FYP objectives for the health sector, aimed at devising a system in which "all Chinese people can access basic health care commensurate with different strategic stages of social and economic development as well as health demands at different levels." Specific goals include increasing life expectancy from 70 to 72 years by 2000 and to 73-74 by 2010, and reducing infant-, pregnancy- and childbirth-related mortality rates by one-third over 1990 levels. Further, China faces the challenge of reforming an unwieldy national health care system plagued by rising expenditures, rampant abuse, and growing numbers of citizens without insurance coverage.

Over the past two decades, China's traditional universal health care system has been dismantled. Only two State-run insurance systems still exist: State insurance programs that

■ **Roberta Lipson is president of US-China Industrial Exchange, Inc. (Chindex), a Bethesda, MD-based company that represents Western manufacturers in China. Lawrence Pemble, Chindex executive vice president, is responsible for the company's business development and finance operations.**

provide full coverage to retirees, students, and members of the Chinese central, provincial, and local governments and the military; and large State-owned enterprise (SOE) and collective enterprise programs that provide full coverage to all employees and partial coverage for dependents. Significant portions of the population thus are not covered by these State-organized systems. Foreign-invested enterprises (FIEs), small collective and town and village enterprises, private enterprises, individual business operators, and rural workers all have had to find other ways to arrange for health care. Some collective and private enterprises have contracted with hospitals for the care of their employees, while others cover actual costs for their employees. Still, many PRC citizens must pay all health care expenditures themselves. In 1995, only 23 percent of national health care costs were covered by the two State-organized insurance systems. The remaining 77 percent of costs were covered by self-paying patients or by some form of collective health insurance.

The current limited insurance system, though, is characterized by irrational, costly, and even abusive practices. The system's problems have been compounded by the cutbacks, over the last three to four years, on State allocations to hospitals and other health care facilities. As direct State allocations are no longer a primary source of funding, hospitals are looking to maximize reimbursements for tests, consultations, procedures, and medications. Hospitals have been known to conduct more tests than necessary to earn revenue, for example, as State and other insurance schemes reimburse hospitals on a per-procedure basis. And doctors have tended to prescribe more drugs—and more expensive pharmaceuticals—than are medically necessary because hospitals try to compensate for lost revenue in other reimbursement areas by abusing their virtual monopoly on prescription drug distribution in China (*see* p.16).

The government has embarked on a campaign to create a nationwide market-based health insurance system covering the entire population, to control rising medical care costs and to shift more financial responsibility for medical care to individuals and their employees (*see The CBR*, January-February 1996, p.8). Beijing's efforts to expand health care coverage, which began with two pilot programs in 1994 in Zhenjiang, Jiangsu Province, and Jiujiang, Jiangxi Province,

> Hospitals rely largely on patient fees to recoup their investment in imported medical equipment.

are being implemented in a large number of medium-sized cities. The reform campaign is designed to reconcile the needs of China's health care system with the demands of an increasingly market-oriented economy by integrating existing job-based insurance schemes with private accounts. These insurance programs are integrating market forces into the health care system by requiring individuals to co-pay prior to treatment. The co-payments, typically 10-20 percent of total medical costs, are taken out of an individual's "insurance account," which is made up of a set percentage of the individual's wages. Because patients are responsible for a portion of their medical care costs, they should have a greater stake in demanding cost-effective treatment.

Other experiments reportedly under consideration include "capitated cost" systems, in which the local insurance provider—whether the employer or the locally managed health insurance fund—pays a hospital only a flat per-patient rate for medical care; a system in which hospitals are reimbursed for treating insured patients on an average per-day cost basis, as opposed to the current per-procedure system; and a scheme allowing hospitals to administer earmarked funds for an insured population. In this last option the State, hypothetically, would tax the salaries of a town of 250,000 residents to raise ¥50 million ($6 million). These funds would in turn be spent at the discretion of the hospitals serving this population. Any of these approaches, if implemented, would force hospitals to strive for greater cost efficiency. Though such attention to the bottom line might lead some hospitals to restrict spending on equipment, others likely would invest in more efficient diagnostic and treatment equipment as a way to improve profitability and the quality of patient care.

...come new purchasing priorities

The cutbacks in State funds for health care, as well as the moves toward reform, have left the medical equipment procurement process substantially decentralized, allowing hospitals to make independent, but sometimes ill-advised, purchasing decisions. Up until the early 1990s, import licenses were required to import medical equipment into China. Once the United States persuaded China to eliminate import licenses during the 1994 market access talks, several big-ticket medical devices, such as computed tomography (CT) scanners and magnetic resonance imaging (MRI) equipment, could be imported without licenses. And as Chinese hospitals were able to import these and other foreign medical devices more easily, foreign marketers of medical equipment thus began to take note of how hospitals make their purchasing decisions.

Hospitals rely largely on patient fees to recoup their investment in imported medical equipment. The level of fees hospitals are able to charge, however, depends on how they fare in the State's evaluation system. Hospitals in China are graded based on their size, departmental offerings, professional staff ratios, and specific medical equipment. Achieving the higher grades of "3A," "3B," or "3Special" confers prestige, eligibility for the highest State reimbursement levels, and the right to charge a premium for services. The reimbursement level in turn affects the calculation of the payback period on an investment in medical equipment, so a lower-grade hospital is severely limited in its ability to purchase expensive imported medical equipment. Smaller hospitals in towns and villages are much less likely to achieve higher ratings because they lack the resources to upgrade their facilities significantly. Comparatively wealthy hospitals at the municipal, provincial, and national levels, though, may tend to invest their resources in top-quality diagnostic and other equipment that can help them boost their ratings.

The second most important criterion in a hospital's purchasing decision is whether a certain equipment purchase will provide a fast return on investment. A few high-end types of medical equipment can achieve internal rates of return on investment of 25 percent or more through patient fees and State reimbursement. Such high return rates have been the impetus behind the recent swift growth in the import and joint-venture production of sophisticated diagnostic imaging devices, including CT scanners, which use x-rays to take images of body sections and cost from \$500,000-\$1 million; MRI devices, which use magnetic fields to take images of body sections and cost up to \$1.5 million; and color doppler ultrasound machines, which cost \$200,000-\$350,000. Imports of non-invasive surgical equipment are also in demand. For example, linear accelerators (which cost around \$700,000), used together with \$400,000 x-knife machines, and gamma knives—which cost \$3 million each—are being purchased to treat neurological and some spinal tumors.

Chinese hospitals also base their purchasing decision on a manufacturer's technical support package. Chinese purchasers generally are willing to pay a premium for US medical devices because their quality and technology are often among the best in the world. They negotiate heavily, however, for generous technical after-sales support agreements. Though the willingness to provide a service contract is key to any long-term marketing program in China, foreign suppliers often find the commitment to service expensive, as the Chinese system makes it very difficult to collect payment for out-of-warranty service work.

The inability to collect payment in *renminbi*—and Chinese hospitals' reluctance to pay in foreign currency—for service contracts poses a real challenge to foreign medical equipment suppliers. Foreign companies may be tempted to stop providing service to hospitals that fail to pay their service bills. But because service ranks among the top factors influencing purchasing decisions and also has a direct impact on a company's reputation in the marketplace, suppliers intending to be in China for the long term must be willing to shoulder the cost of an expensive after-sales service contract, or risk losing sales to more generous competitors.

> Of the medical devices in demand in China, imaging equipment used in diagnostic procedures was the most popular import during 1990-95.

High-tech imports

Of the medical devices in demand in China, imaging equipment used in diagnostic procedures was the most popular import category during 1990-95, as frequent use of such devices—for which hospitals charge high fees—are an easy source of revenue. CT, MRI, and ultrasound devices will continue to be popular investments, as hospitals in smaller cities and towns look to boost their diagnostic capabilities, while other hospitals invest in replacement or upgraded equipment.

Physicians are quick to point out that the high-tech, expensive machines improve their ability to deliver basic care. The new regulations governing the overall system, including the grading and reimbursement mechanisms, also are designed to improve the level of basic care. The quality of care likely will be reinforced, too, by the more market-oriented health care system, as Chinese patients themselves now have greater ability to choose where to receive hospital or outpatient care.

As any health care system develops, it spends money first on diagnosing what is wrong with a patient, and then on what it needs to help cure and care for the patient, through hospital support services and instruments such as sterilizers, for example. In recent years, marketers of medical devices in China have witnessed increasing demand for specialized treatment equipment, such as x-knives and gamma knives, along with traditional surgical instruments and general operating room surgical equipment.

The financing challenge

In the past, the PRC government financed nearly all purchases of medical equipment and devices. On the decline since the early 1990s, actual PRC government grants and subsidies now cover less than five percent of China's medical equipment spending. As direct government spending on medical equipment began to fall in the early 1990s, hospitals searched for other ways to pay for their equipment investments. Some hospitals relied on retained earnings and made only the most essential purchases. When credit was more readily available in the early 1990s, many hospitals were able to raise money through domestic banks, other non-bank financial entities and, later, through issues of private-placement debt. In some cases, enterprises with contract-based medical care relationships with hospitals also were good sources of financing.

Credit from even these conventional sources began to dry up in the 1992 austerity drive, so the more creative hospitals started to sell bonds to their own employees, offering considerably more attractive returns than the rates available from other investments. The government has begun to discourage this method of raising funds, since it makes central control of the money supply much more difficult, but many hospitals continue to issue their own bonds. More recently, some hospitals have attracted both foreign and Chinese direct investment funds, in the form of loans that do not require a sovereign PRC bank guarantee or even as complex joint-venture arrangements. Assessing and creating structures to deal with credit risk are increasingly important to foreign suppliers of hospitals in China.

The scarcity of financing continues to be the largest hindrance to medical device import growth. The financing problem is particularly severe for US suppliers, whose share of imports in 1995 lost ground to suppliers from other developed countries for the second consecutive year. Many US exporters find the US government's export credit system too slow-moving and restrictive to enable US medical equipment exports to compete effectively against other developed-country suppliers with more aggressive government-backed export financing programs. The categories of US medical equipment imports, such as ultrasound and dental equipment, that continued to grow despite the overall stagnation did so either because the imported product had no effective domestic or foreign competition, or because the US supplier found a way to finance the deal.

Indeed, the most successful foreign medical equipment suppliers are those who are able to help hospitals finance their purchases. Some foreign companies bear the financing risk themselves by offering extended payment terms to their best customers. These sales sometimes involve payment periods of up to five years, imposing on suppliers the added burden and risk of debt collection over time. Fortunately, most Chinese hospitals are slow but ultimately reliable partners in this regard.

Other successful suppliers have introduced direct investors to their customers. One direct investment scheme involves an arrangement by a foreign investment fund to purchase a medical equipment system from a separate foreign supplier. The equipment is then sold to a hospital in China that is known to be able to deliver the patient load, and thus the reimbursement fees needed to meet the repayment terms. Usually 25-30 percent of the sales price is repaid each year for three to four years. The legal form this arrangement takes can be a contractual joint venture between the investment fund and the hospital, and sometimes also with the equipment supplier, who offers a service contract either through the manufacturer or an agent. The investor often retains legal possession of the equipment for the duration of the repayment period. The hospital is responsible for making the preparations for the unit's installation, though such costs also may be financed. At the end of the repayment period, the hospital owns the equipment outright.

The most effective strategy, however, involves government-sponsored export financing. Israel, Austria, Norway, Germany, Spain, and Finland, among others, have been particularly aggressive in offering government-guaranteed loans for medical equipment exports to China. Though the Organization for Economic Cooperation and Development (OECD)'s 1992 guidelines prohibit below-market-rate loans for commercially viable projects in China and other middle-income countries, transactions of less than $3 million, or projects that are judged not commercially viable, do not fall under the OECD rules. These loans, coordinated through bilateral agreements, allow companies from these countries to gain market share in China. The US government, though, does not initiate concessional loans to commercially viable projects, and has only limited funds to make financing proposals to counter the soft loans offered by other countries.

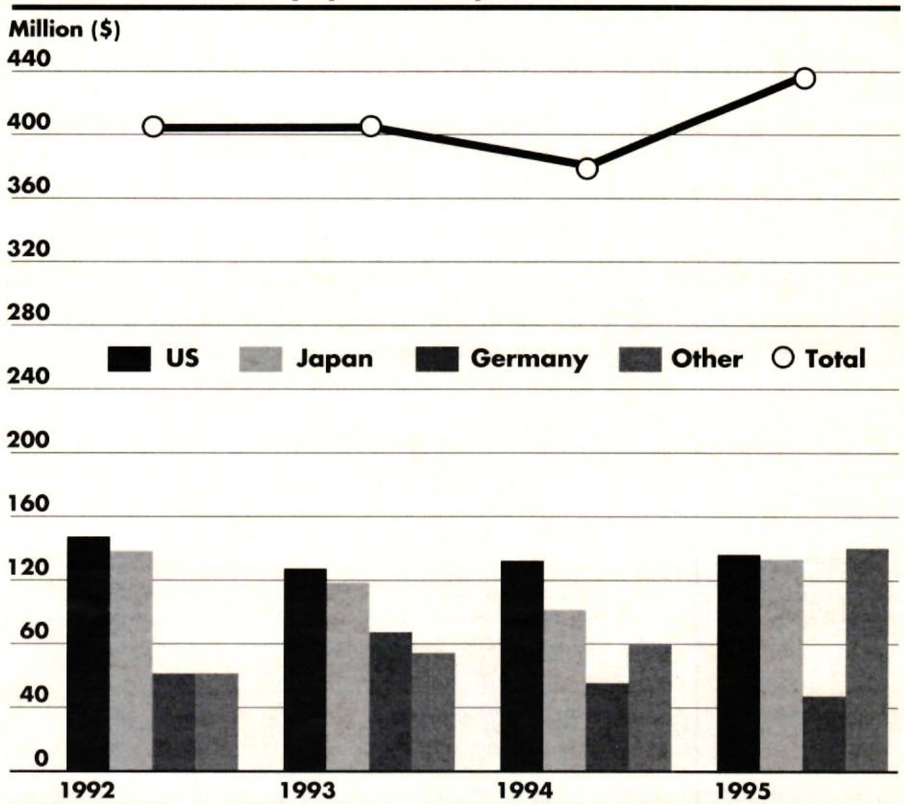
The most successful foreign medical equipment suppliers are those who are able to help hospitals finance their purchases.

In some cases, however, the Export-Import Bank of the United States (Ex-Im Bank) can use its tied-aid policy to help US companies compete against tied-aid offers from other countries. In 1996, Ex-Im Bank helped US-China Industrial Exchange (Chindex), a distributor of US medical equipment in China, compete successfully against a foreign soft-loan offer from Austria by providing an $8.4 million low-rate loan package for US medical equipment exports to China. This was the first Ex-Im Bank tied-aid loan extended to China. But despite Ex-Im Bank's willingness to match soft loan offers by US competitors, US exporters will continue to be at a disadvantage, compared to their counterparts from other countries, as a result of Ex-Im Bank's inability to initiate such loans.

A new regulatory environment

In addition to financing difficulties, US suppliers of medical equipment must contend with the ups and downs of an increasingly regulated Chinese market. Two new sets of regulations that took effect re-

China's Medical Equipment Imports, 1992–95



SOURCE: *China's Custom Statistics*

cently should have a particularly strong influence on China's medical equipment market. As of January, the State Pharmaceutical Administration of China (SPAC) requires all medical devices marketed in China to be registered and approved for sale by SPAC offices. Foreign equipment providers stand to gain a considerable advantage from this change, since SPAC has decided to accept certifications granted by foreign regulators such as the US Food and Drug Administration and equivalent agencies in other countries. Local manufacturers, meanwhile, will have to undergo lengthy application and approval procedures, in most cases at local pharmaceutical administration offices in their home provinces. Some local manufacturers will have to conduct clinical trials and re-submit results and documents at the central-government level, after clearing all the hurdles at the local level.

Another set of regulations, the Provisional Measures for the Administration of Installation and Application of Large Medical Equipment, may pose more problems for foreign companies. Issued in July 1995 by the Ministry of Public Health (MOPH) as a ministerial ruling, the measures are worded less precisely than the SPAC rules and thus are subject to a variety of interpretations. The apparent purpose of the MOPH ruling is to ensure the efficient allocation of resources and sensible distribution of large medical devices. It seems that the Ministry must now approve all purchases and installations of the largest and most expensive categories of equipment, including the MRI, CT, x-knife, and gamma knife. Hospitals that request permission to purchase such devices will need to obtain an MOPH "certificate of need." This system, common in many countries, may help the situation in China, where the distribution of high-end equipment tends to be quite unbalanced. For example, Beijing, a city of 11 million, already has more than 80 CT scanners and over 30 MRI installations.

Equipment to be used for scientific or educational purposes can still be imported duty-free.

The MOPH ruling seems to have been spurred by the 1994-95 import of 13 gamma knives (there are currently only about 60 systems worldwide). Several of these sophisticated gamma knives were installed in small hospitals that lack the ability to use them properly, and instances of misuse have prompted several malpractice suits. Despite the benefits of the new regulations, some foreign exporters still wonder whether these regulations might be used to replace the import licenses eliminated two years ago.

The foreign trade umbrella

China's shifting trade picture also promises to affect the climate for imports of foreign medical equipment in coming years. In its decade-long effort to gain admission to the World Trade Organization, China has undertaken far-reaching changes in its foreign trade regime. The most recent and perhaps most dramatic reform—the range of tariff cuts that took effect April 1—actually will have little impact on the medical sector, since the basic duty rate for most medical equipment remains unchanged at 12 percent (see *The CBR*, May-June 1996, p.44). Some minor relief has come in the form of lower duty rates for chemical reagents, needles, and syringes, however.

The April 1 loss of duty exemptions on capital equipment imports likely will have more of an impact on the medical sector. Duty exemptions are being phased out for equipment imported through Special Economic Zones, equipment purchased through soft-loan financing, and capital equipment imported by joint ventures. Significant amounts of medical equipment previously entered China through each of these channels. Equipment to be used for scientific or educational purposes can still be imported duty-free, though, which is good news for many importers of medical equipment—some hospitals have been known to change their names to qualify as research institutions.

Operating limitations

A number of foreign companies have formed joint ventures for assembling or manufacturing medical electronics in China, including General Electric Co. and Siemens AG, both of which manufacture CTs; Analogic Devices, which manufactures MRIs; and Hewlett-Packard Co., which assembles its mid-priced ultrasound equipment. Many companies feel, however, that the benefits do not outweigh the costs in added management complexity and quality control that a medical equipment joint venture can incur. And future joint ventures will be more expensive to establish, because companies will have to pay import duties and value-added tax on imported equipment.

At present, there seems to be increasing interest in the local manufacture in China of such medical consumable products as disposable syringes, adhesive bandages, catheters, chemical reagents, electrodes, and ultrasonic gel, for which local equivalents generally do not exist. Foreign companies are pursuing both joint ventures and wholly foreign-owned enterprises (WFOEs) to manufacture these types of products in China. Becton Dickinson and Co., for example, recently formed a joint venture to manufacture its vascular access products, such as disposable syringes, in Suzhou, Jiangsu Province; and 3M Corp. is licensed to manufacture electrodes and dental products at its WFOE in Caohejing, Shanghai's high-tech industrial zone. Where medical consumables are concerned, however, unless the opportunity also exists to use China as an export base, foreign firms often find it difficult to make the venture profitable in the near term.

Another set of options for medical device companies interested in exporting to China is to operate through a representative office, sell through local distributors, or work through the representative office of a foreign distributor. Like FIEs, representative offices of foreign companies cannot distribute imported goods and are not permitted to engage officially in sales activities. They can act only on behalf of their home office and are not allowed to bill hospitals directly in local currency, though they can carry out marketing activities and sign orders on behalf of head office personnel for equipment and technical support. These restrictions do not hinder medical equipment sales, but difficulties arise for companies that seek to provide, and bill for, after-sales service. Sales of smaller, lower-cost products and consumables are hard to make profitable under this framework.

> Foreign companies are increasingly interested in manufacturing locally such products as disposable syringes and adhesive bandages.

By operating through an experienced and established foreign distributor, a foreign supplier can benefit from an in-country, Western-style sales force with Western-style management and marketing expertise. In general, a single-product manufacturer can utilize effectively a foreign agent/distributor rather than set up its own direct marketing, sales, and technical support operations. The foreign agent/distributor may, in turn, utilize local sub-distributors, depending on the specific product characteristics. Smaller distributors tend to specialize in individual market segments or geographic areas, but larger organizations can develop nationwide expertise. Local distributors may solve the problem of in-country logistical distribution and direct local currency billing to the hospital, but may not provide the professional marketing and sales skills to enter the market successfully.

Market prognosis

Ongoing reforms in China's health care system and economy will continue to present new challenges to foreign medical equipment suppliers. The government seems determined to shift more accountability onto the shoulders of both medical service providers and insurers. Such new responsibilities might, in the short term, cause hospitals to purchase more conservatively in categories of equipment where the reimbursement levels are changing or under consideration as a consequence of the hospital grading system and the ongoing insurance reforms. In one specific case, a hospital's administrators wanted to upgrade the hospital's clinical chemistry capability with an entirely new technology base, but delayed the purchasing decision indefinitely because they were not sure they could get the approval for the reimbursement levels needed to finance the purchase. Nonetheless, the reforms promise a more rational and financially sound health care system that will, in the long run, be in a better position to buy the world's leading medical technology.

In the short term, essential diagnostic instruments such as CTs, MRIs, and ultrasound machines will continue to have a significant market in China, especially as hospitals add new clinical capabilities to existing technologies. The market for medical equipment may grow, too, as foreign companies begin to set up their own medical facilities in China. Chindex, for example, is near to opening its joint-venture medical clinic in Beijing, which will provide obstetric and pediatric care for China's expatriate community (*see* below). The market for medical consumables used in diagnostic testing certainly will expand significantly as well, as China improves its disease-screening protocols. And therapeutic instrumentation and related patient care and health care services will continue to expand as the medical system modernizes.

Economic reforms are sure to cause some short-term dislocations in China's medical equipment market, though. The economy's cycle of a few years of high growth interspersed with periodic efforts by the central government to slow down growth by restricting credit have hit the medical equipment sector particularly hard. The ability to provide alternative financing arrangements, therefore, will continue to be crucial. But despite the hot and cold spells of Chinese economic policy, incomes and standards of living are rising steadily. Chinese citizens increasingly will demand more of their health care system and, as in the past, Chinese hospitals will find much of what they need from US suppliers. 完

A New Birth Experience

Childbirth is a once-in-a-lifetime experience for most Chinese couples, and while the country's standard of living continues to rise, the standard of medical care, especially in obstetrics, has not quite kept up. Maternity services, even at China's best hospitals, are generally adequate but little more. Wards are overcrowded and nurses tend to provide little in the way of education and support for new parents. Hospitals also do not allow fathers to attend or take part in births. But by the end of 1996, expectant mothers in China will have another option: the Beijing United Family Health Center, a joint venture between US-China Industrial Exchange (Chindex) and the Chinese Academy of Medical Sciences.

Beijing United's Western physicians and midwives will provide general women's health services, pre-natal care, laboratory services, immunizations, and pediatric care. In addition to showcasing state-of-the-art family health care services to the Chinese medical establishment, Beijing United will offer an important option to expectant expatriates. No longer will pregnant expatriates be forced to choose between making do in a Chinese hospital or flying home well before the baby's due date. The centerpiece of the project will be the clinic's modern labor and delivery suites modeled after Western-style birthing centers. Women will be able to spend their labor, delivery, and recovery in a private suite with room for family members. While local hospital maternity wards seldom allow newborn babies or their fathers to stay overnight in the same room as the mother, Beijing United will encourage this practice.

There are already signs that China's growing middle and upper classes are willing to pay a premium for top-notch medical service. China currently has at least five million families with annual incomes above ¥50,000 ($6,000), and more than one million families with yearly incomes of ¥1 million ($120,000) and higher, according to China's State Statistical Bureau. Many of these people have lived abroad and have first-hand knowledge of Western health care standards.

Until now, those willing to spend their money on premium-quality medical care in China could choose only from the special wards, sometimes called "Foreigner Wards" or "Overseas Chinese Wards," established at leading hospitals around the country. While their facilities are superior to those of standard PRC hospitals, such wards nevertheless have trouble distinguishing themselves from the hospitals in which they are located. As their nursing staff and support services usually are shared with the rest of the hospital, the primary advantage they offer is a more luxurious and spacious private room.

Unlike other joint-venture clinics, which tend to concentrate on out-patient and emergency services, Beijing United will allocate bed space both for new mothers and pediatric patients. The center also will have a fully equipped surgical theater for caesarian sections and 24-hour professional staffing. After this year's opening of the flagship Beijing unit, additional centers are scheduled to open in other cities throughout China's coastal region. The Beijing pilot center will serve as a model, offering training and referral services for the regional clinics.

—Roberta Lipson

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Rx for China's Pharmaceutical Sector

■ James Shen

Far-reaching reforms may change the way pharmaceuticals are sold

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China's pharmaceutical industry continued to grow last year while adjusting to reforms of the State health care system. Like other health-related sectors, the pharmaceutical industry was forced to adapt both to continued reductions in State funding and to new regulatory measures designed to improve safety and spur the development of the domestic drug sector. While State-owned pharmaceutical enterprises have streamlined and consolidated their operations, foreign firms have expanded their joint ventures to maintain market share and are moving aggressively to promote over-the-counter (OTC) and other types of medicines in China.

The Chinese pharmaceutical marketplace has undergone significant changes in the last several years, prompted in part by the urgent need to reduce escalating health care expenditures. Recent reform measures, aimed at cutting the cost of medication, have included local-level drug reimbursement schemes and the issuance of a National Essential Drugs Bulletin (NEDB), both of which act to restrict the numbers and prices of drugs eligible for State reimbursement. Other new regulatory efforts, such as the stricter control of pharmaceutical advertising and the enforcement of Good Manufacturing Practices (GMP) in the local pharmaceutical industry, were triggered by Chinese consumers' growing demand for better quality control over medicines. The introduction of patent and administrative protection of foreign pharmaceuticals patented after 1987 was a result primarily of international pressure for intellectual property protection. Other changes, such as the decentralization of authority over price controls on pharmaceuticals from Beijing to local governments, and the ongoing weakening of central control over the State pharmaceutical distribution system, are primarily market driven and reflect a shift from central planning to a more market-based economy.

While foreign companies now have greater access to the pharmaceutical market, China's business environment still poses challenges. Profit margins may be slim, as foreign firms increasingly will have to keep prices low to be able to sell to Chinese consumers. The practice of selling to price-insensitive customers who were covered fully by State medical insurance systems is over, at least in most regions. Foreign pharmaceutical firms, in reassessing the current purchasing power and price sensitivity of Chinese patients, likely will have to be more flexible about short-term profits as they position themselves for a long-term presence in the PRC drug market.

The emerging self-medication market, in the form of retail pharmacies that stock a full range of medications, offers foreign firms particularly promising opportunities. State-licensed retail pharmacies have become an affordable treatment alternative for many of China's citizens (*see* p.24). The retail pharmacies increasingly serve the "floating" population and employees in the private sector who have no health insurance and must bear the entire cost of medical care themselves, as well as those Chinese citizens under the State's new employee co-payment plans. This self-medication market likely will become a battleground among foreign, joint-venture, and local companies, as Chinese consumers now have more choices than they had in the past under the virtual monopoly hospitals enjoyed over drug sales.

Domestic consolidation

The State-owned sector of the Chinese pharmaceutical industry, along with State-owned firms in other sectors, remained troubled in 1995 by widespread losses, particularly among smaller enterprises: more than one-third of State-owned pharmaceutical manufacturing enterprises suffered losses in the first eight months of 1995. State firms also faced a shortage of working capital caused by Beijing's tight credit policy; outstanding inter-enterprise, or triangular, debts; and stiff competition among a large number of manufacturers with extremely similar product portfolios.

Despite these difficulties, though, 1995 was a year of respectable growth for the domestic pharmaceutical industry in China. Total output was estimated at more than ¥100 billion ($12 billion) at year-end 1995, up 17.6 percent over 1994, according to official PRC sources. The estimated total sales by the State pharmaceutical distribution sector were ¥75 billion ($9 billion), an increase of 11.1 percent over 1994 levels. And total export sales were estimated at $3 billion, a 15.4 percent increase over 1994. The average annual growth of the industry during 1990-95 was estimated at 21 percent by the State Pharmaceutical Administration of China (SPAC).

> Since the early 1990s, larger pharmaceutical firms in China have been merging to concentrate resources and increase competitiveness.

Since the early 1990s, larger pharmaceutical firms in China have been merging to improve economies of scale, concentrate resources, and increase competitiveness through vertical integration. The 50 leading State pharmaceutical enterprises, out of over 3,000 nationwide, represented 40 percent of the total industry output in 1995. Smaller State-owned pharmaceutical enterprises and town and village enterprises (TVEs) continue to face pressure to close down or merge with larger State firms. The current wave of consolidation is helping the Chinese pharmaceutical industry improve its structure and efficiency by forcing a large number of small and inefficient companies (many of them TVEs) to close down. The consolidation also should discourage competition from low-tech companies with repetitive product portfolios, encouraging larger and more efficient enterprises to upgrade their technology continuously to comply with new GMP standards. Foreign companies operating in China could find that these restructured Chinese companies, down the road, are stronger and more efficient competitors.

Many large, State-owned pharmaceutical companies also have transformed their ownership structures into joint ventures, State-owned or State-controlled limited liability corporations, or public companies to raise capital and shift to a more modern management structure. By the end of 1995, 14 State-owned pharmaceutical enterprises had succeeded in listing on China's stock exchanges, while a few others issued shares in Hong Kong and other foreign exchanges. This

Wholesale and Retail Prices of Selected Joint-Venture Pharmaceuticals, 1996

Product	Manufacturer	Wholesale Price (¥)	Retail Price (¥)*
Capton 12.5 mg, 100 tablets	Sino-American Shanghai Squibb (SASS)	123.08	146.00
Contac, 10 capsules	Tianjin SmithKline French (SKF)	9.11	12.00
Daktarin Cream 1%/15g tube	Xian Janssen	7.08	8.50
Fenbid 300 mg, 20 tablets	Tianjin SKF	15.91	20.00
Hismanal 10 mg, 10 tablets	Xian Janssen	8.56	12.00
Imodium 2 mg, 12 tablets	Xian Janssen	3.93	5.30
Motilium 10 mg, 30 tablets	Xian Janssen	14.31	16.50
Sibelium 5 mg, 20 capsules	Xian Janssen	24.00	31.98
Tagamet 400 mg, 20 tablets	Tianjin SKF	36.99	50.00
Theragran M, 30 tablets	SASS	15.98	24.00

SOURCE: WiCON International Limited
* In Beijing, 1996

trend is likely to continue, as more firms look to raise capital for renovation and expansion.

A desire to develop research and development capabilities by centralizing resources has also prompted the government to encourage State-owned enterprises to consolidate into large pharmaceutical groups. In addition, since 1993, Beijing has funded the establishment of three new national-level drug screening centers, three new drug safety appraisal centers, and three good clinical practice (GCP) clinical research centers to screen active ingredients for new drug development. By the end of 1995, these centers had screened over 7,000 chemical compounds, including 1,000 active ones.

Beijing is making efforts to set up a system to classify pharmaceuticals as either OTC or prescription drugs.

Meanwhile, existing State pharmaceutical research institutions, facing limited State funding, continue to integrate with pharmaceutical manufacturing companies through joint ventures, co-development schemes, and licensing arrangements. Foreign pharmaceutical companies in China also stepped up their collaborative efforts in pharmaceutical research and

INTERVIEW

One Firm's View

Bristol-Myers Squibb Co., with four joint ventures and one representative office in China, got its start in the PRC in 1982 with the Sino-American Shanghai Squibb (SASS) pharmaceutical joint venture. Bristol-Myers Squibb currently employs more than 1,000 people and markets pharmaceuticals, consumer medicines, nutritional and personal care products, and orthopedic implants and ostomy appliances in China. Jack M. Wolinetz, president of Bristol-Myers Squibb's China Headquarters, recently spoke with CBR *Assistant Editor Catherine Gelb about reforms in China's pharmaceuticals sector.*

CBR: *What products does Bristol-Myers Squibb make in China?*

Wolinetz: Our leading products are Velosef® antibiotics and Capoten® for cardiovascular disease. Our leading consumer medicines are Theragran® multivitamins and Bufferin® analgesics. Through our Guangzhou-based nutritional joint venture, Mead Johnson, we manufacture and market Enfamil® and O-Lac® infant formulas and Enfapro® follow-on formulas. One of our most popular nutritional products is Mama Sustagen® for pregnant and breastfeeding women. In the medical device area, we were the first US company to manufacture and distribute ostomy products (Qualinex® and Unidress®) tailored for the China market, through our Shenzhen joint venture, Squibb ConvaTec Medical Products.

CBR: *How have changes in China's health care and pharmaceutical markets affected your operations?*

Wolinetz: While the final outcome of government efforts to modernize the health care system is uncertain, these reforms will put significant downward pressure on drug prices, which are already low. At the same time, we hope that the government will consider data in other countries indicating that innovative medicines are a cost-effective form of health care, frequently reducing the length of hospital stays for patients and, in some instances, eliminating the need for costly operations.

The recent implementation of national and local essential drug bulletins, though, invariably restricts doctors' freedom to prescribe the drugs that they deem appropriate for their patients. While we appreciate the PRC government's objectives, it would be helpful if there were greater transparency in the process of determining which drugs are included on these lists.

CBR: *What impact will such developments as the planned over-the-counter (OTC) classification for pharmaceuticals and the recent institution of Good Manufacturing Practices (GMP) standards have?*

Wolinetz: We are looking forward to the implementation of OTC drug regulations, which should foster substantial growth in the consumer medicines market. The development of the OTC area would offer consumers greater access to medicines and more choices in treating common ailments and could, potentially, alleviate pressures on the health care system.

Beyond the OTC regulations, we hope that the Chinese government will seriously implement GMP. Ensuring product quality and safety is a priority for our industry and our company. We were one of the first companies to manufacture pharmaceuticals up to GMP standards. In fact, our SASS facility was the first joint venture to receive US Food and Drug Administration certification in 1989, enabling us to export products from China to the United States. These GMP standards are essential for the protection of the public and equally essential if China is to become the major player in the global pharmaceuticals market, as is envisioned in the PRC's Ninth Five-Year Plan.

development in 1995, focusing on active-substance sourcing, extraction, and screening, particularly of Chinese herbal medicines.

Seizing new ground...

For foreign pharmaceutical companies in China, 1995 was characterized by an accelerated rate of market entry and expansion. Many larger foreign companies seized control of their joint ventures by increasing their registered capital and acquiring equity shares from their Chinese partners. A number of pharmaceutical multinationals established holding companies for their China investment projects and publicly committed to increasing their investments in China before the turn of the century. A growing number of foreign investors clearly believe that despite domestic consolidation, the potential to maintain market share is strong.

Overall, though, pharmaceutical joint ventures had to work hard in 1995 to maintain their existing market share, gained in the early 1990s before the implementation of major health care reforms. As joint-venture sales to hospitals began to lag—hospitals have been focusing heavily on cost containment in recent years—many joint ventures started to diversify their product lines to offset these losses. Nevertheless, joint ventures have retained a strong foothold in China, mainly due to these firms' effective marketing and management strategies and, most importantly, their steady introduction of new products, including OTC products (*see* p.18). At the end of 1995, many major joint ventures reported substantial growth in sales and profits.

> Foreign pharmaceutical firms in China may have to surmount the potentially large barrier of being included on the government's new essential drug bulletins.

...and holding on to old

The year was more mixed, however, for drug imports, which accounted for 13 percent of total national pharmaceutical sales in 1995, according to a report by the SPAC. The demand for imported and joint-venture products continues to surge in metropolitan areas: the PRC's National Pharmaceutical Industry Corp. has estimated that total drug sales grew an average of 20.2 percent per year between 1990-94, while sales of imported and joint-venture drugs in Beijing and Shanghai grew 34.2 percent and 32.6 percent, respectively, during the same period.

But sales growth of imported drugs slowed in 1995, partly a result of the new government drug reimbursement schemes. According to official sources, China imported about $670 million worth of pharmaceuticals, including traditional Chinese medicines, in 1995, only a 10 percent increase over the $610 million imported in 1994. Of the total, finished products—bulk pharmaceuticals already processed into tablets or capsules—made up 57 percent. The East China Pharmaceutical Information Network, an association of all major State pharmaceutical distributors in East China, surveyed sales records for 40 imported drugs in the first half of 1995. The results showed that 23 of the products posted a drop in sales, while the sales of 7 of the 23 products fell by more than 50 percent over the corresponding period in 1994. Ongoing efforts to control health care outlays eventually will reduce the demand for many imported drugs, particularly those that have local equivalents. State-owned pharmaceutical enterprises increasingly will have the upper hand in supplying the more common, low-cost drugs to State medical care systems as well as to rural residents, who generally are not covered by any health insurance system. Foreign companies and joint ventures, though, will continue to dominate the market for new and expensive drugs for which there are no local equivalents—such as Proscar (Finasteride) imported by Merck, Sharp, and Dohme—and which are sold to major urban hospitals.

Over the long term, foreign pharmaceutical firms exporting to China and producing there may have to surmount the potentially large barrier of being included on the new NEDB and local reimbursement bulletins. These bulletins—lists of drugs eligible for reimbursement by the State's health care system—are among the major components of recent health care reform measures (*see* p.22). The bulletins are aimed at cutting the medication costs borne by the State by allowing reimbursement mostly for low-cost, locally produced drugs that have proven therapeutic effects. Beijing developed the NEDB as a reference for local governments after several localities started drawing up their own local bulletins. Only a limited number of imported drugs that are not available in China, but are critical to certain treatments, will be included on the NEDB. Joint-venture products are considered local products but tend to be rejected for inclusion in the bulletins if they cost considerably more than domestically produced equivalents without demonstrating any superior efficacy.

> In an effort to improve the quality of medicines produced in China, Good Manufacturing Practices standards were introduced in 1995.

In addition to the drug bulletins, a number of developments and new pharmaceutical regulations issued in 1995 at both central and local levels also stand to have a dramatic impact on the sector overall, and foreign pharmaceutical producers in particular. Moves toward the creation of an OTC drug designation, and developments concerning intellectual property protection, were among the most relevant for foreign firms. The most important developments during the year included:

■ **The OTC market** Perhaps the most important news in the last year was Beijing's effort to set up a system to classify pharmaceuticals as either OTC or prescription drugs. To date, OTC and prescription drugs have been treated the same: all drugs, with or without prescriptions, must be registered and can be sold only by hospitals or State-licensed retail pharmacies. Both the Ministry of Public Health (MOPH) and SPAC took steps in 1995 to prepare OTC regulations. MOPH apparently also has sought advice from the US Food and Drug Administration and other foreign government agencies.

The launching of a number of well-known foreign OTC products in China last year, including the pain relievers Bufferin and Tylenol, testifies to the growing foreign presence in the expanding retail drug market. In a 1994 survey of consumer attitudes toward OTC drugs by Frank, Small & Associates of Hong Kong, almost half of the 3,000 consumers surveyed in Beijing, Shanghai, and Guangzhou said they would seek a Western-type OTC remedy as the first line of therapy for one or more of a dozen minor ailments, from headaches to mild flu symptoms. But the survey also found that brand awareness of both local and international OTC drugs is weak, presenting foreign OTC drug producers with the challenge of improving advertising and marketing efforts in China in coming years.

Nevertheless, some significant barriers continue to hinder the development of China's OTC market. The country's underdeveloped retail pharmaceutical network in both rural and urban areas inhibits OTC growth. The current pharmaceutical retailing system also lacks sufficiently widespread distribution channels, numbers of outlets, equipment and

Imported Drugs as a Percentage of Total Sold in Selected Chinese Cities

City	Share of Imported Drugs (Percent)
Beijing	49.7
Changsha	19.2
Guangzhou	58.7
Hangzhou	25.6
Harbin	16.0
Nanjing	32.4
Shanghai	31.8
Tianjin	36.0
Wuhan	26.3
Xian	23.6

SOURCE: China National Pharmaceutical Industry Corp.
NOTE: Figures are derived from a June 1995 survey of 220 major urban hospitals.

warehouse facilities, and trained and qualified staff. The retail pharmacies that are proliferating in many of China's cities, though, could act as the foundation for a true OTC market in the near future.

■ **Intellectual property rights (IPR) issues** IPR protection of pharmaceuticals was another area that required attention from Beijing last year, despite the PRC's limited success in improving IPR protection in other areas. SPAC's Office of Administrative Protection of Pharmaceuticals (OAPP) protects foreign drugs that received patents between 1987-92. OAPP successfully processed 12 new applications for administrative protection of pharmaceuticals (APP): 4 of the 1995 applications were approved last year, along with 8 applications left over from 1994. The office also clarified several APP implementing regulations, including the rules regarding drugs patented prior to the issuance of China's 1993 patent law; and clarified that domestic firms that register with the MOPH products that are imitations of foreign pharmaceuticals can continue to market these drugs if a foreign producer's APP application is pending at the time of registration. The clarifications also involved the types of sales or manufacturing contracts, and the qualifications of Chinese partners, that are acceptable in support of APP applications.

Problems persist with the APP procedures, though. US pharmaceutical companies have complained to US authorities through the Pharmaceutical Research and Manufacturers of America (PhRMA) that Chinese authorities have interpreted the APP regulations too rigidly. Of particular concern is OAPP's requirement that the APP applicant be the originator of the product, so companies that merely license products are not eligible for APP. However, if the APP applicant's licensing company is European and it is licensing the particular product from a European producer, the applicant is entitled to administrative protection under the European trade agreement with China, according to PhRMA. Other problems cited by foreign companies include confusing APP rules, bureaucratic application procedures, and excessive requirements for supporting documents. Fortunately, a recent series of informal conferences among multinational pharmaceutical firms and SPAC officials suggests some progress in resolving these issues. In November 1995, for example, SPAC sponsored a day-long APP workshop in which multinational firms and OAPP officials met to discuss a range of common concerns.

■ **Pharmaceutical advertising** In an attempt to improve oversight of pharmaceutical advertising and ensure safer use of pharmaceuticals, the Advertising Law of the PRC—which revised the State Council's 1986 advertising rules—took effect on February 1, 1995. Many articles of the revised law specifically address drug and medical device advertisements (*see The CBR*, September-October 1995, p.26). The new rules also should help stem the proliferation of substandard medicines in the marketplace.

■ **Regulation of health care products** MOPH began to draft laws and regulations on administration of health care products in mid-1995. To improve safety and prevent fraud, the proposed laws and regulations will define and specify health care products and/or product categories subject to regulatory control.

■ **GMP certification** In an effort to improve the quality of medicines produced in China, the China Pharmaceuticals Certification Commission started accepting applications for GMP certification as of October 1, 1995. According to the Commission, GMP-certified manufacturers will be given priority in processing new drug registrations. Distributors and hospitals will be urged to purchase products from GMP-certified manufacturers. Manufacturers with operations currently established in China that do not receive GMP certification by June 30, 1998, will not be allowed to submit new drug registration applications. Newly established manufacturers will, upon passing initial inspection, receive provisional GMP certification, while full certification will be subject to a satisfactory re-inspection after one year of operation.

■ **Filing of the first drug lawsuit** A Shanghai resident recently filed the first lawsuit in China against a pharmaceutical manufacturer, claiming that the Shanghai Huanghe Pharmaceuticals Factory omitted important information on adverse drug reactions in its package insert for the drug Carbamazepine. If the plaintiff wins the case, the legal ramifications for the Chinese pharmaceutical industry could be significant. Given the poor regulation and enforcement of package inserts and high incidence of adverse drug reactions in China, a wave of liability lawsuits can be expected. And because widespread public pressure is not likely to subside on this issue, the government soon may be forced to introduce and enforce stricter package insert requirements for pharmaceuticals, including imported ones.

> The government's moves should improve the safety and quality of pharmaceuticals in China.

■ **The rise of local protectionism** Many governments at the provincial and city levels introduced local regulations in 1995 requiring non-local pharmaceutical manufacturers and distributors to apply for local sales licenses or permits. SPAC and MOPH have urged local governments to eliminate such protective regulations, as only the central government is allowed to issue these kinds of rules. Though a few provinces, most notably Zhejiang, have promised to abolish such regulations, local protectionism could increase in the

Making the List

As China's leaders search for ways to set up insurance schemes that will cover more of the population, cutting health care expenses—including the cost of medication—has become a priority. The issue of reimbursement for medication is of great concern to reformers of China's health care system, as this is one way the State can control health care costs. Reimbursement bulletins that have been developed over the last several years by central and local governments list inexpensive, effective drugs that are eligible for reimbursement by State health insurance plans.

After witnessing the proliferation of local drug reimbursement bulletins issued by many provincial and municipal governments, the Ministry of Public Health (MOPH) began to develop the National Essential Drugs Bulletin (NEDB) in 1992 to serve as a basic reference for local drug reimbursement schemes. MOPH designated the China Medical Association (CMA) to lead the selection process for drugs to appear on the national bulletin and issued the final part of the NEDB in early 1995. A leaders group within the headquarters of the CMA and working groups within each of its specialized professional societies and provincial-level branch associations were responsible for implementing the bulletin's selection and development. The bulletin will be reviewed every three years.

Though MOPH requires local governments to use the national bulletin as a basis for development of their own local drug reimbursement bulletins, the memorandum issued by MOPH accompanying the issuance of the NEDB also included the caveat that "certain deviance [from the NEDB] is allowed, taking into account local needs." As "certain" and "local needs" are not clearly defined, local governments were left relatively free to decide the content of their own reimbursement bulletins. Six provinces and municipalities have introduced drug reimbursement schemes thus far, while most other local governments have chosen to adopt the national drug reimbursement guidelines.

Local drug reimbursement bulletins typically are developed by the Office of State Medical Care under each provincial or municipal government, together with the office's own advisory panels. Many members of the local advisory panel also serve as members or advisers of the CMA leaders group and working groups for development of the NEDB. The extent to which NEDB products are included in local bulletins varies among different local governments.

Although inclusion of a product in the NEDB does not lead to automatic inclusion in local-level drug reimbursement bulletins, it certainly increases the chances that the product will make the local list. Pharmaceutical companies, both foreign and domestic, thus are eager to have their products listed in the NEDB. According to MOPH, the drugs on the NEDB are defined as representative drugs in their own therapeutic drug categories, and are screened and selected after scientific appraisal. Drugs are selected for their good therapeutic effects, low adverse drug reactions, stable quality, reasonable price, and convenient application.

CMA's selection criteria are, first, that the drug be clinically in demand and able to meet the health care demands of the majority of the population; second, that the drug be proven safe and effective; third, that the cost of a full course of treatment, rather than unit price, be considered reasonable; and fourth, that dosage forms be convenient for patients. The criteria must be weighed against each other when a drug is under consideration for inclusion in the bulletin.

Though joint-venture manufactured and imported products often are not top candidates for inclusion in the national and local drug reimbursement bulletins because of their generally higher price tags, joint-venture and foreign companies would do well to approach leading members of groups that develop national and local essential drug bulletins and demonstrate the suitability of their products for the China market.

—James Shen

short term, making the market harder to penetrate for both foreign and domestic firms from outside a given locality.

Tracking the trends

The government's moves, intended to introduce regulatory controls in a largely under-regulated market, should improve the safety and quality of pharmaceuticals in China. So should the restructuring of State and foreign firms, and measures to improve regulatory control which are likely to continue in coming years. As firms adapt to further health care reforms, too, the pharmaceutical industry is likely to see greater local production of low-cost medicines for supply to the rural market, and the continued dominance of imported and joint-venture drugs at the high end.

For advanced medicines that are not available in China, the possibility of being included in the essential drug bulletins is high—provided that careful lobbying efforts are undertaken.

The implications of the recent market changes for foreign firms are mixed: foreign producers of pharmaceuticals are sure to benefit from improved safety, regulatory, and IPR controls, but may find it harder to market their products in China. It will be increasingly difficult for imported products to be included in national or local drug reimbursement schemes, and even joint-venture products could be affected adversely. Joint-venture sales are likely to outperform imports over the next few years, as joint ventures will find it easier to price products to match both consumers' income levels and the State-imposed drug price ceilings brought about by the drug reimbursement lists. But for advanced medicines that are not available in China, the possibility of being included in the essential drug bulletins is high—provided that careful lobbying efforts are undertaken. Finally, though, a door for foreign firms should open with the development of the OTC market, and could ensure a significant market share for foreign pharmaceutical companies in years to come. 完

Off the Shelf

■ Daniel G. Silver

Retail pharmacies are starting to sell more of China's medical products and services

■ Daniel G. Silver is a senior associate at Technomic Consultants China Ltd. in Hong Kong.

Walking into a retail pharmacy in China today, one often finds counter staff diagnosing customers' ills and selling medicines—from aspirin to antibiotics—on the spot. Though many of these salespeople have no formal qualifications to dispense medicines, let alone recommend a course of treatment, retail pharmacies are fast emerging as a primary source of health care in China's cities. And though retail pharmacies account for only about 10-15 percent of national pharmaceutical sales, their share of the market is increasing swiftly, especially in South China. In Haikou, Hainan Province, 70 percent of all drug sales were made through retail pharmacies in 1995; in Shenzhen, the retail pharmacy share of total drug sales was 50 percent, and in Guangzhou it was 30 percent.

Market forces and the growing number of self-paying patients account for much of the growth in the numbers of retail pharmacies. There is currently no formal distinction in China between prescription and over-the-counter (OTC) drugs. All medicines—even cough syrup and aspirin—can be sold only at licensed retail pharmacies or hospitals. And OTC products, moreover, are banned from entering the vast non-pharmacy retail sector, including supermarkets and private stalls. At the same time, however, loose regulations allow retail pharmacies to sell all but a very limited class of pharmaceuticals (such as anaesthetics) without a doctor's prescription.

The retail pharmacy marks an important shift in how patients purchase pharmaceuticals. In the past, individuals tended to go to hospitals to consult doctors, obtain prescriptions, and buy the prescribed medicines at the hospital pharmacy. Today, retail pharmacies are an attractive alternative to hospitals for urban residents, who receive limited insurance coverage or none at all as a result of scaled-back State funding and the proliferation of private companies, which usually provide no health insurance to their staff.

When it comes to simple ailments that do not appear to require specialized care, a pharmacy is generally a quicker, cheaper option than a visit to the hospital, where patients must endure long waits and are charged even for brief consultations. Since hospital pharmacies will not sell medicines without prescriptions, citizens who pay for their own medical care increasingly prefer to avoid the cost of a doctor's visit by buying drugs at retail pharmacies. At a retail pharmacy, consumers can usually get any medication they need, even injectables such as antibiotics, which they carry off to have administered at home or at their work unit clinic.

All new retail pharmacies require approval by three local government bodies: the local Pharmaceutical Administration Bureau, the Health Bureau, and the State Administration for Industry and Com-

> Many retail pharmacies have doctors available for consultations.

merce. The local Pharmaceutical Administration Bureau, which officially owns the distributors that in turn own the retail pharmacies, tends to limit the number of retail pharmacy licenses granted to other applicants in its jurisdiction. The licensing provisions require each retail pharmacy to employ a licensed pharmacist, though in practice the day-to-day operations of these stores often are left to untrained and unsupervised counter staff. Approval also hinges on passing an inspection of the premises and planned layout, including counter space, floor space, and storage facilities.

A final provision, requiring a review of how close the prospective pharmacy will be to others in the surrounding area, frequently blocks new entrants into a given market: local bureaus claim that the location already is saturated with retail pharmacy outlets. But when retail sales in a given market reach a certain level—which Hong Kong-based Technomic Consultants China Ltd. estimates to be around 20-25 percent of total sales—the benefits that flow to pharmaceutical distributors from the opening of new outlets outweigh the costs they face in increased competition from new retail stores. An explosion then occurs in retail pharmacies, both licensed and unlicensed.

An eye on developments

Though they number only 60,000 nationwide, retail pharmacies are beginning to play a broader role in health care. Many retail pharmacies now have doctors available for consultations, making hospital visits unnecessary. These doctors have a partitioned area for their own use or sometimes simply sit at a desk near the retail counters. In Shenzhen, an estimated 75 percent of the city's 2,000 retail pharmacies act as clinics, with doctors on site part of the day. Drug sales are the mainstay of these clinics, however, as the doctors charge very low consultation fees of around $1-$2 per visit.

For suppliers whose products are not included on government reimbursement lists (*see* p.16), retail pharmacies offer a potentially lucrative lifeline to the next incarnation of the market. Foreign pharmaceutical producers now send sales teams to visit many retail pharmacies in each city; in the past, the supplier had direct contact with only a handful. Major foreign OTC producers also are actively encouraging the PRC government to create and manage a separate category of OTC drugs. The government's main concern is that the general population is insufficiently aware of the dangers of improper consumption of medications.

While foreign participation in pharmacy retailing has been limited to individual counters within larger retail outlets, in 1995, Watson's—a retail pharmacy chain and subsidiary of Hong Kong's Hutchison Group—won licenses to establish its stores in Guangzhou and Shanghai with local partners. Other foreign pharmacy chains, and even some supermarkets, are expected to follow suit. Nevertheless, each outlet, whether foreign or domestic, still must apply for pharmacy approval. At least one Watson's outlet in Shanghai was denied a license on the grounds that the neighborhood was already saturated with other pharmacies.

In early 1995, the China National Association of Large Urban Pharmacies, a nationwide trade organization encompassing 300 retail pharmacy companies in more than 60 cities, was established with foreign assistance. Initiated by the Guangzhou Municipal Pharmaceuticals Co., the association has received sponsorship and funding from Bristol-Myers Squibb Co., Daiichi Pharmaceutical, Johnson & Johnson, and Roche Consumer Health. The association, formed to encourage the creation of professional and well-organized retail pharmacy chains, meets quarterly to share ideas among foreign suppliers and retail pharmacy customers. Through the trade association, another Guangzhou firm, the Guangzhou Medicinal Products Co., is in the process of converting 89 dingy outlets to bright, consistently organized shops. Abandoning the practice of naming each store after the district in which it is located, all 89 outlets will bear the name *Caizhilin*—after the company's oldest outlet—to be displayed prominently on signs and clerk uniforms.

The government's retreat from the universal provision of health services has left a vacuum for retail pharmacies to fill. And once the government moves to separate out a prescription category, China's retail pharmacies are likely to emerge as the foundation of the resulting non-prescription sector. Even before the new categories are designated, though, patients requiring simple medicines will increasingly turn to their neighborhood retail pharmacies.

The second, and most lasting role, of the retail pharmacy sector will be as a source of community health care in China's cities. Particularly in large urban areas like Shanghai, retail pharmacies are sure to mean strong competition for hospitals as the economy evolves toward a free market. Across the country, more and more people are frequenting retail pharmacies for quick diagnosis and treatment of their ailments. For many products, retail pharmacies, and the clinics that grow out of them, promise to be major players in the health care market in the next decade. 完

On and Off the Beaten Track

■ David Richter

Foreign health care providers go out of their way to serve expatriates in China

■ David Richter is director of operations at the Seattle, WA, office of AEA International, an international medical services company. Previously general manager of AEA's Beijing office from 1993-95, he has traveled and worked in China since 1980.

As business interests take more foreign investors to familiar as well as remote parts of China, the demand for Western-standard medical services in all corners of the PRC has grown significantly. Though Western-standard health care of varying degrees of quality is available in Beijing, Guangzhou, and Shanghai (*see* p.30), foreign-invested enterprises (FIEs) operating in remote or rural locations have been forced to adopt new strategies to satisfy the health care demands of expatriate employees—especially as increasing numbers of companies send executives together with their families to China. Though China has many hospitals and well-trained doctors, the consistency of care in these hospitals can be unreliable, the treatments ineffective, and the blood supply of questionable safety.

A foreign company looking to provide its China-based employees with Western medical care has several options: it can set up and manage a Western medical facility itself, contract on its own with an international medical assistance company to provide medical services for its employees, form a group with other FIEs and contract the services of an international health care provider, or purchase a membership in a foreign clinic. As with any business in China, a stand-alone clinic faces its own set of regulations and obstacles, including obtaining a license to operate a medical facility and licenses for each foreign doctor; gaining approvals to import pharmaceuticals; recruiting local medical staff; and maintaining cooperative relationships with local medical establishments. Given these challenges, many foreign companies opt to enlist the assistance of an international medical services company.

First things first

Before addressing the issue of company-wide health care in the PRC, US companies should first encourage China-bound employees to take preventive health measures, including complete physical and dental check-ups, before leaving the United States. All standard immunizations should be current for travelers to China, including MMR (measles, mumps, rubella), DTP (diptheria, tetanus, and pertussis), and polio. Although no vaccinations are required to enter China, the following are recommended: Hepatitis A and an adult polio booster for all travelers; Hepatitis B, for those traveling for more than 30 days; Japanese B encephalitis, for those traveling for more than 30 days between May and September; typhoid, for long-term travelers and all travelers headed for rural areas; and rabies, for those who will be on extended stays or who will have only limited access to medical care. And, though there is no risk of yellow fever infection in China, all travelers (over the age of one) arriving from infected areas must present a yellow fever vaccination certificate.

Personnel headed to China should take appropriate precautions when eating fruits and vegetables and drinking water, to prevent hepatitis and other common diseases. Foreigners also should carry prescription medications with them. Foreign-issued prescriptions can be refilled through the clinics operated by international medical assistance companies in major Chinese cities, but may take a few weeks to fill, depending on the drug. Expatriates in the more remote parts of China must rely on trips to major cities or Hong Kong for prescription refills, unless they or their employers are affiliated with an international clinic that will send refills to them.

At the corporate level, the steps that a company takes to ensure satisfactory health care for its employees depends on several factors, including the number and age mix of employees and dependents, the nature of the project, the location, and the operating budget. Obviously, companies involved in oil exploration and mining face different health and safety risks from those involved in high-tech manufacturing or the hospitality industry.

The first step in identifying an FIE's needs should be a medical survey of the proposed work site. Such a study typically would be conducted by the company's medical department or by an international provider. In either case, a Western-trained doctor with experience in remote-site and emergency medicine—and familiarity with conditions in China—should evaluate existing medical facilities, investigate local health hazards, examine potential health risks associated with the venture, and recommend procedures to improve health conditions in the workplace. Some surveys also investigate emergency medical conditions and recommend procedures for medical evacuation from China. Since the most significant medical risk in China is not illness but rather injury in a motor vehicle accident, FIEs—especially those located outside the major urban areas—should have established medical evacuation procedures. About 30 percent of the more than 1,700 patients AEA helped evacuate throughout Asia in 1995 were injured in road accidents.

Depending on the scope and location of a project, survey recommendations may include first-aid training for staff, purchasing first-aid kits tailored to the region or industry sector, or establishing a medical facility to be staffed by a paramedic, doctor, and/or nurse. A company that requires a full-time, fully staffed clinic might consider establishing its own company-dedicated clinic or sharing the responsibility with other FIEs in the area.

On the beaten track

Most foreign clinics are staffed with at least one full-time foreign doctor and nurse as well as local nurses. To practice medicine in China, all foreign doctors must pass a difficult annual written exam as well as an oral exam given by the local health bureau. The Chinese reportedly have been working on similar licensing procedures for foreign nurses, but no regulations have been issued yet. While incorporating local doctors into a small clinic's practice poses some challenges (including language barriers, a different cultural approach to doctor-patient interaction, and less attention to sterile techniques and sanitary practices), supervising local doctors on a larger scale, such as in a 50-100 bed hospital, proves even more difficult.

Local nurses, though, present a greater challenge, as few Chinese nurses have received the professional training that nurses in the West must complete. They often have no more than the equivalent of a high school degree and have little training in sterile techniques or standard Western sanitary practices. As nurses have the most contact with patients and are the ones carrying out doctors' orders, significant development is needed in nurse education and training programs if Chinese hospitals are to raise their standards. To date, only a small number of professional nurses at Chinese hospitals (usually in the intensive care or cardiac care units) have received training abroad.

Far more choices

Despite the difficulties foreign medical providers face in China, health care options for expatriates in the PRC have improved dramatically in the past two years. International medical services providers and clinics typically can offer several membership plans to FIEs. The most basic plan is a simple annual membership fee followed by a per-service charge at the clinic. Some clinics offer a pre-paid program, where patients pay an annual fee for unlimited doctor consultations during business hours. This plan can be a cost-effective option for families with children, who tend to need frequent doctor visits. Still other clinics have "cashless" medical plans whereby the member company pays a deposit from which charges for employee visits are deducted. When the deposit runs down, the company replenishes the account.

The Beijing AEA International clinic, operating in Beijing since 1994, has on-site advanced dentistry, x-ray, and ultrasound equipment, and a laboratory as well as an emergency room and fully equipped imported ambulances. Though AEA's policy is to accept all emergency cases, routine care is reserved for AEA members. AEA now has several hundred members in China, including expatriates from AT&T, Boeing, Chrysler Corp., General Electric Co., and IBM Corp. Over 90 percent of AEA members are foreign employees of FIEs, while the remainder are foreign students, diplomats, and experts.

Further south in Shanghai, expatriate health care facilities include the New Pioneer Medical Clinic, a Hong Kong project, as well as the Japanese-funded Well-Being Clinic, which is open around the clock. Both facilities provide services only to those who pay for memberships. AEA has contracts with four Shanghai hospitals—Huashan, Huadong, Ruijin, and First People's—to provide medical services to all AEA corporate and individual members, and plans to open its own facility soon.

But foreign health care providers have had their share of troubles establishing ventures in Shanghai. International SOS (ISOS) was running a clinic out of the city's Huashan Hospital, but closed the facility in 1995 because of problems with its partner. American Healthcare considered assuming management over the foreign patient ward of Shanghai First People's Hospital after the ward's contract with Austrian-based Voest-Alpine expired, but negotiations with the prospective Chinese partner broke down. American Healthcare reportedly is pursuing a plan to run a clinic at Zhongshan Hospital, though the target opening date appears to be at least 12 months away.

Not surprisingly, Guangzhou has few specialized clinics, as most expatriates can travel easily across the border to Hong Kong to take care of any medical problems. Nonetheless, ISOS staffs one clinic out of the FOK Heart Institute and another one for employees of The Procter & Gamble Co. and NIKE, Inc. out of the Greenery Residential Complex.

Though some medical services companies have managed to set up operations in China, the plans of many others to build clinics or hospitals have yet to materialize. HealthAsia Inc., a Hong Kong-based company, announced a plan in 1994 to set up a clinic in Beijing's Lido Holiday Inn Hotel, but the project was canceled due to difficulties procuring a license for the clinic. Jardine Pacific Inc. took an interest in a similar clinic at the Lido, but abandoned the project when the hotel chose to build an apartment tower on the proposed clinic site. American Healthcare has been pursuing the development of clinics in Beijing as well but has had problems obtaining licensing. Rumors have circulated that Singapore, Canadian, and American companies are all pursuing hospital projects in Beijing and elsewhere to serve the general public as well as foreigners, but nothing concrete has resulted to date. Investors apparently have been daunted by the challenges of having to manage a Chinese medical and support staff, provide Western standards of care, and also turn a profit.

Further afield

Increasingly, expatriate communities are springing up in less well-known cities in China. Large joint-venture manufacturing facilities in Nanjing, Tianjin, and Wuhan, for example, have brought large numbers of expatriate employees and their families to these cities. Still, the total number of expatriates in these cities warrants fewer clinics than in Beijing or Shanghai. Several companies in these cities have formed groups to contract with private medical services providers to open joint medical facilities specifically for the companies' employees. Many of these clinics play a role similar to that of a general practitioner in a small American town. Full-scale medical emergencies are handled through "alarm centers" in Beijing and Hong Kong, where a Western doctor is on call around the clock to assess the urgency of the case and recommend specific treatments or evacuation procedures.

The large number of Citroen and Renault joint-venture expatriate employees in Wuhan made an emergency and primary-care clinic a viable business opportunity for Service Medical International (SMI), a French medical services company recently acquired by AEA International. Citroen and Renault are SMI's principal contractors, but the clinic admits other FIEs as supporting members. The clinic maintains a doctor and nurse on duty around the clock and provides member companies with community care medicine, out-patient treatment, emergency care, and assistance in medical evacuations for seriously ill expatriate employees.

Air Evacuation from Rural China

Road accidents are among the most common reasons for medical evacuation from China. AEA International, a global medical assistance provider, coordinates medical evacuations through "alarm centers" in Hong Kong and Beijing. One incident handled by AEA last year illustrates the many steps involved in any evacuation.

In this case, two business travelers in China were involved in a car accident in Henan Province and were hospitalized in the nearby city of Kaifeng. When their employer contacted the AEA alarm center in Hong Kong, the female victim already had undergone a six-hour operation.

The first step for AEA's Beijing office was to locate and confirm the identity of the patients. AEA doctors in Beijing learned that the victims were actually in two different hospitals in Kaifeng. Both patients had sustained head injuries: the man was reportedly in stable condition, but the young woman was in a deep coma. After discussions among the AEA coordinating doctors and the patients' families and employer, it was decided that both patients should be evacuated to Hong Kong, the woman by Learjet air-ambulance and the man by commercial flight.

The nearest civilian airport was in Zhengzhou, 60 km from Kaifeng, and the AEA doctor in Beijing in charge of the case concluded that the critical condition of the patients precluded road transport. Adding to the complications, the Zhengzhou airport was under threat of closure because of an impending snowstorm.

Using their contacts at the Civil Aviation Administration of China, the People's Liberation Army Air Force, and local hospitals, AEA staff in Beijing were able to make arrangements to transport the two patients to Hong Kong. A General Aviation M18 helicopter based in Handan, a town near Kaifeng, was chartered to airlift each victim to the Kaifeng military airbase. AEA also arranged for the victims' families to travel from Hong Kong to Kaifeng to accompany the victims along each leg of the evacuation. Once the arrangements were in place and the weather in Zhengzhou had cleared, the air-ambulance, carrying an intensive-care specialist and over 70 kg of special supplies and equipment, left its base in Singapore and landed at the Zhengzhou airport.

Before transporting the victims, AEA doctors consulted with the attending Chinese doctors and reviewed all test results and x-rays. The patients were examined, stabilized for transport, and then transferred to the helicopter for the trip to Zhengzhou, where the Learjet air-ambulance was waiting. The young woman, connected to aeromedical monitoring equipment, was flown immediately to Hong Kong, escorted by the intensive-care specialist. The man was escorted to Hong Kong by two AEA nurses on a commercial flight. Both patients were admitted to hospital in Hong Kong for further treatment and recovery. The $100,000 cost of the evacuation, treatment, and travel arrangements for the two patients and their families was borne by the insurance company. —*David Richter*

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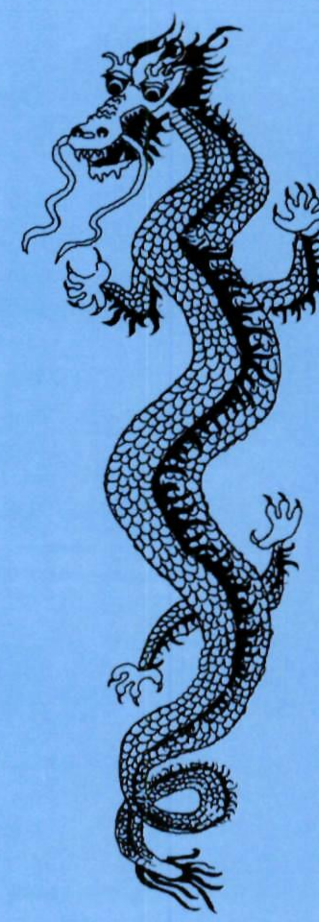

September 20, 1996
The Sheraton Palace Hotel
2 New Montgomery Street
San Francisco, California

FIEs in Tianjin lost the services of the ISOS International Medical Center Clinic in the Hyatt Hotel when the clinic closed because of licensing and other problems in mid-1995. One Tianjin FIE, Motorola Inc., moved to establish its own clinic, located in the company's residential facilities. The clinic, managed by AEA, serves all expatriate staff and maintains a Western doctor and nurse on staff and a modern pharmacy. It may become available to other AEA member companies in Tianjin that register with Motorola. In Nanjing, LM Ericsson Inc. has a clinic similar to Motorola's that is available to other companies through a registration process. In general, these private international clinics accept new companies as supporting members as long as the number of potential patients does not exceed the clinic's capabilities.

In November 1995, the first phase of Healthcare Medical Centre, a Singapore joint-venture clinic among HCS Management International Pte. Ltd., the Straits Steamship Land Ltd., and the Singapore-Suzhou Industrial Park, opened in the Suzhou Industrial Park in Jiangsu Province, complete with a Singapore doctor and nurse, emergency medical gear, and basic lab equipment. The second phase of the center, to be completed in 1999, includes plans for a more sophisticated facility to keep patients overnight for observation and treatment. The clinic will have several membership plans and currently is open to the general public.

Off the beaten track

For FIEs located in remote regions, setting up a company-specific medical plan may be the only option. For example,

Medical Facilities for Foreigners

Clinics in China's Major Cities
A number of clinics and hospitals serve foreigners' medical needs in China:

Beijing AEA International Clinic
Ta Yuan Diplomatic Office
Building 2-1-1
14 Liangmahe South Road
Beijing 100600
Tel: 8610/6462-9112
Fax: 8610/6462-9111
This 24-hour clinic provides family practice, dental care, and emergency services as well as specialized diagnostic facilities, including x-ray equipment and laboratory. Emergency medical evacuation is also available through the adjacent AEA alarm center.

International Medical Center (IMC)
Beijing Lufthansa Center Office
Room S106
50 Liangmaqiao Road
Beijing 100016
Tel: 8610/6465-1561/2/3
Fax: 8610/6465-1984
A 24-hour clinic with an emergency/trauma room, laboratory, and x-ray equipment, IMC also offers emergency medical evacuation in cooperation with ISOS.

Hong Kong International Medical Clinic
3rd Floor, Swissotel
2 Chaoyangmen Bei Road
Chaoyang District
Beijing 100027
Tel: 8610/6502-3426
Fax: 8610/6500-4660
This joint-venture clinic is staffed by experienced Chinese doctors, and has a dental chair and general x-ray, ultrasound, and laboratory equipment. Hours: 9 am-9 pm.

New Pioneer Medical Centre
Shanghai Liaison Office
910 Heng Shan Road
Xujiahui
Shanghai
Tel: 8621/6469-3898
Fax: 8621/6469-3897
New Pioneer is run by a Chinese physician from Hong Kong.

Well-Being Clinic
Ocean Oil Building, Room 1910
583 Ring Road
Shanghai
Tel/Fax: 8621/6487-3359
This 24-hour Japanese-run clinic provides medical treatment and consultations to member company employees.

FOK Heart Institute
Guangzhou No.1 People's Hospital
602 Renmin Bei Road
Guangzhou
Tel: 8620/8333-3090
This cardiology center, located in the Guangdong People's Hospital, has a foreign ward and offers the best intensive-care unit in Guangzhou. The facility limits the number of foreigners admitted.

Evacuation Services
Two major firms have local offices to coordinate evacuation services from China and provide telephone consultations and referrals:

AEA International
Ta Yuan Diplomatic Office
Building 2-1-1
14 Liangmahe South Road
Beijing 100600
Tel: 8610/6462-9100
Fax: 8610/6462-9199

AEA International
24/F Tai Sang Commercial Building
24-34 Hennessy Road
Wanchai, Hong Kong
Tel: 852/2528-9900
Fax: 852/2528-9933

International SOS
Suite 438, Kunlun Hotel
Chao Yuan District
Beijing
Tel: 8610/6500-3419
Fax: 8610/6500-3228

International SOS
507-8 Kai Tak Commercial Building
317-321 Des Voeux Road
Central, Hong Kong
Tel: 852/2541-6483
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two ISOS nurses staffed a clinic for Loral Space Systems at the rocket launch facility in Xichang, Sichuan Province, during the period leading up to the company's satellite launches. The primary goal of these types of clinics is to provide immediate medical attention to ill or injured project personnel and coordinate evacuations if required. Given the dangerous nature of their work, oil companies are obvious candidates for company-dedicated clinics and account for about one-third of all site-specific medical facilities in China. Foreign oil companies have contracted with AEA to station paramedics on oil platforms in the Bohai, East China, and South China seas and in Xinjiang's Tarim Basin.

Major construction projects involving hundreds of expatriates working in very remote areas also require on-site clinics. For example, the Yellow River dam project, with over 600 expatriates in a small city in Hebei Province, has set up a clinic with three foreign doctors, a Western pharmacy, and emergency equipment, including a defibrillator, respirator, and laboratory. The Ertan hydropower project in western Sichuan Province has one clinic run by the French contractor Dumez and another clinic managed by the Italian contractor Impregilio. At the Daya Bay nuclear power station near Hong Kong, a French company with over 300 expatriates on site has contracted SMI to run a clinic with help from AEA, which maintains a 24-hour helicopter standby in Shenzhen for evacuation services support. The project has required over 30 helicopter evacuations for illnesses and injuries ranging from motor vehicle accidents to soccer mishaps.

Paying for services

International medical services providers also can help streamline the payment process for medical treatment in China. Some foreign insurance companies have set up cashless medical arrangements with Chinese hospitals through international medical services companies. In such an arrangement, the insurance company contacts the international services company when a policyholder receives out-patient treatment or is hospitalized. The international services company then contacts and puts up a monetary guarantee at the hospital. The international provider pays the bill and forwards it to the insurance company for reimbursement.

Few of the Western-run clinics take Western insurance cards, though many US insurance companies reimburse policyholders upon proof of payment for medical services in China or other foreign countries. Some of the company-specific clinics accept insurance cards, however, since most of their patients come from only one company. For clinics that serve a group of FIEs, though, the cost of billing numerous insurance companies from several countries is prohibitive. Instead, some companies set up company deposits to cover their employees' expenses, while others expect their employees to pay any expenses and submit the bill to the insurance company.

A balancing act

Many foreign investors in remote parts of China are, in the future, likely to transfer responsibility for medical care management to medical services companies with proven track records. The number of foreign clinics, meanwhile, will continue to increase over the next few years simply because foreign companies continue to invest in China. Though Chinese hospitals also are improving their standards and many have created special foreign wards equipped with air conditioning and other amenities, they still lack American standards of hygiene, nursing and medical care, and medical technology. New foreign health care companies will continue to be drawn into the Chinese health care market, but their success will depend on a significant commitment of funds and energy for the long term. Bureaucratic regulations in the health care sector are perhaps more burdensome than those for other industries, and the PRC government's sensitivity to allowing Western doctors to practice medicine in China only makes it more difficult to enter the China market. 完

A Loss of Investor Privileges

■ Owen D. Nee, Jr., and Archie Parnell

China's capital equipment import duty exemption was a long-standing incentive for foreign investors

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In the first three months of 1996, foreign firms signed contracts committing to invest a total of $27.4 billion in China, an increase of 86.8 percent over the same period last year. If foreign direct investment (FDI) were to continue at this rate, 1996 would match the banner year of 1993, when China received commitments for $111 billion in new foreign investment. Even for China, which has been the second most popular destination for FDI in the world for the past three years—ranking behind only the United States—such rapid growth in new investment is staggering.

While many factors may have contributed to the steep first-quarter increase, the most likely cause is the State Council's announcement on December 26, 1995, that as of April 1, 1996, foreign ventures in China would lose their exemption from Customs duties and the value-added tax (VAT) on capital equipment and raw materials they import during the start-up of a venture. Though tariff reductions on almost 5,000 product lines took effect simultaneously, simply having to pay any tariffs, as well as a 17 percent VAT, will increase the price of investing in China considerably. Calculations using an average tariff rate of 16 percent on machinery and equipment suggest that the cost of importing capital goods will go up 36 percent (*see* box).

The first-quarter rush to sign contracts also reflects the grandfather clauses included in the December 26 announcement. Capital equipment and raw materials imports by foreign-invested enterprises (FIEs) with total investment of $30 million or more approved before April 1 will continue to be exempt from tariffs and VAT up to the total approved investment until December 31, 1997. FIEs approved prior to April 1 with total investment of less than $30 million will have until December 31, 1996, to import up to their investment limit. Any capital equipment and/or raw materials that are specified as part of the foreign party's registered capital contribution, but imported after the applicable deadline, will be taxed.

To take full advantage of this grace period, many foreign investors and their Chinese counterparts accelerated negotiations to finalize deals prior to the April Fool's Day deadline. Officials in Beijing, however, apparently out of concern that some investor guidelines might be overlooked in the race to sign, stipulated in late March that all contracts approved between October 1, 1995-March 31, 1996, regardless of project size, must be re-approved at the central level by the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). Local governments were required to submit to the State Planning Commission (SPC), the State Economic and Trade Commission (SETC), and MOFTEC by April 30, 1996, all contracts and other documents relating to FIEs approved during the October-March period.

Beijing's motivations

Overall, China sought to achieve several objectives with the new capital import duty rule. Judging from the investment guidelines issued last year, the central government wanted to tighten up enforcement of the central-level approval process for large projects and certain types of projects. Many foreign investors and local government officials doubted at that time, however, that Beijing would have the resources to enforce these limits in the provinces. But by revoking the import tax exemption and crafting a grandfather clause that necessitates obtaining central-level approval, Beijing now has an added tool to restrict the power of local approval authorities.

The new rules were imposed not simply to force local governments and investors to adhere to Beijing's wishes, but also to slow down the flow of foreign capital into China. Though foreign investment has greatly improved productivity, exports, and overall prosperity in China in recent years, some in Beijing—particularly officials responsible for monetary policy—attribute the country's recent inflation problems in large part to uncontrolled foreign investment. While austerity measures succeeded in bringing inflation down from a peak of 25.2 percent in October 1994 to 14.8 percent by the end of 1995, many Chinese officials believe that unchecked foreign investment pushes the cost of construction and raw materials upward, adding to inflationary pressures.

Further, the December State Council notice states that "high tariff and tax rates, excessive reductions and exemptions, and a small tax base" have resulted in burdensome taxes on some enterprises and insufficient taxes on others. Firms generally assumed by some PRC policymakers to be taxed too heavily are State enterprises and those in China's interior regions. Those that get off easy, according to these officials, are FIEs and enterprises in the coastal regions.

The PRC also claims that the new tax measures grant national treatment to FIEs—a prerequisite for World Trade Organization (WTO) membership—by putting them on the same footing as State enterprises. But such statements obscure the fact that these moves actually signal Beijing's desire to tighten its grip over foreign business in China. Since it was inaugurated 17 years ago, China's Open Door policy has consisted largely of incentives for FIEs, including the tax break on imported capital equipment and technology, and particularly enticing policies in the Special Economic Zones (SEZs) and other coastal areas. The termination of the import tax incentive on April 1 may create a more level playing field for Chinese and foreign investors, but it also could prompt some foreign businesspeople to invest in more inviting locales. And while the new, lower Customs duties that took effect April 1 on 5,000 types of imports (*see The CBR*, May-June 1996, p.44) may improve the PRC's bid to enter the WTO, many non-tariff barriers remain in place, impeding China's WTO membership.

The new rules

The exemption freeing FIEs from Customs duties and tax obligations on machinery, equipment, parts, and other material imported as part of the foreign party's capital contribution to a China project was one of the most important means of attracting FDI. Various circulars and internal regulations granted similar exemptions to PRC enterprises in certain cases. All enterprises in SEZs, Economic Trade and Development Zones (ETDZs), high-technology zones, and other open economic areas, as well as technology-transfer projects and State Council-approved construction projects, enjoyed the exemption. Equipment imported for use in enterprises involved in barter trade, export processing, and compensation trade also were exempt from import duty and tax obligations.

The State Council's December notice changed this treatment, stating that the import of equipment and raw materials by FIEs approved after March 31, 1996, "shall be uniformly subject to Customs duties and import-related tax" according to rates prescribed by law. Though the notice refers only to "newly approved foreign investment enterprises" subject to tariff duties and VAT, these obligations apply as well to capital equipment

Calculating the Costs

Though the additional costs investors can expect as a result of the new import policy of course depend on the actual equipment the FIE imports for its plant, a hypothetical case can help illustrate the impact of the new rules. In this example, a foreign company plans to invest in a wholly foreign-owned enterprise that will engage in productive activities for at least 10 years. Seventy percent of the $50 million investment is to be used to acquire machinery and equipment from outside the PRC. The c.i.f. value of the machinery and equipment to be imported is thus $35 million. The 10-year term would make the enterprise eligible for a two-year income tax holiday and three subsequent years of paying income tax at a 50 percent rate.

Using an average 16 percent PRC tariff rate on imported machinery and equipment, the Customs duties imposed on the $35 million in imported equipment would amount to $5.6 million. The 17 percent VAT, levied on top of the duties, would cost the investors another $6.9 million. Thus, the $50 million project would jump quickly in cost to $62.5 million, a 25 percent increase (and a 36 percent increase in the cost of imported equipment), with the loss of the capital equipment import duty and VAT exemptions.

The added costs continue, however. Under current PRC law, VAT paid on fixed assets is not creditable against output VAT, so the $6.9 million in import VAT may not be applied to the VAT owed on the firm's output. Instead, the value of the Customs duties and VAT is included in the total value of the firm's assets for income tax depreciation purposes. But since the firm enjoys a two-year income tax holiday and three subsequent years of paying only partial taxes, it does not stand to benefit fully from any income tax depreciation until five years after start-up.

—*Owen D. Nee, Jr., and Archie Parnell*

imports after April 1 by pre-existing FIEs. Except for the five SEZs (Shenzhen, Shantou, Zhuhai, Xiamen, and Hainan), the Shanghai Pudong New Development Area, the Suzhou Industrial Zone, and free-trade zones (FTZs), all specially designated investment areas—including ETDZs, high-tech zones, and open coastal cities—lost the import tax exemptions on April 1. In the five SEZs, Pudong, and Suzhou, the exemption will be phased out by 20 percent over each of the next five years.

Certain types of enterprises also lost the exemptions. Firms importing capital equipment to conduct barter trade, export processing, and compensation trade, for example, now are liable for import duty and tax on capital equipment and raw materials. Capital equipment and raw materials imported into the SEZs, Pudong, or Suzhou for internal use by PRC domestic enterprises (but not FIEs) will be exempt from Customs duties and VAT, but only if the SPC authorizes the import. The notice requires the Ministry of Finance and the Tariff Regulation Commission of the State Council to formulate specific measures regarding capital equipment imports by foreign and domestic enterprises in the SEZs, Pudong, and Suzhou.

Though the notice stipulates that enterprises can apply to MOFTEC for grace periods beyond the 1996 and 1997 deadlines, such extensions are not likely to be obtained easily—applications must undergo "study and approval" by MOFTEC, the Ministry of Finance, the Tariff Regulation Commission of the State Council, the SPC, the SETC, the State Administration of Taxation, and the General Administration of Customs (GAC).

A last-minute curve ball

Though foreign investors had been hearing rumors of imminent changes for months, MOFTEC's March 22 notice mandating reinspection of FIEs approved between October 1, 1995-March 31, 1996, caught many investors by surprise. To take advantage of the grandfather provisions, any FIE approved during this period must submit to MOFTEC re-examination. Perhaps indicative of MOFTEC's lack of trust in the willingness of provincial and local approval authorities to pass large projects to Beijing for approval, the March 22 notice also stipulates that if a

Most foreign investors still do not know when they will receive re-approval decisions.

previously approved project's total investment was increased to $30 million or more after December 28, 1995 (when the December 1997 import deadline for projects in excess of $30 million became known), the project cannot take advantage of the longer time frame to import capital equipment.

MOFTEC currently is examining all project documents approved between October 1995-March 1996, and will provide, at an undetermined date, its provincial offices and the GAC with a list of projects that do not pass re-examination as well as a list of re-approved projects. The GAC will be responsible for distributing these lists to local Customs offices. Conversations with MOFTEC officials in Beijing suggest that FIEs will have no way of knowing if they are re-approved, short of waiting for the release of the entire list. Upon receiving the list of re-approved projects, the Customs office in whose jurisdiction a given project falls then will complete the registration and recordation procedures for re-approved FIEs, which, in turn, will have to provide the office with a schedule of machinery and equipment to be imported.

In an odd departure from the previous practice of slicing large projects into smaller ones to facilitate approval at the local level, local approval authorities reportedly were busy repackaging projects prior to the April 30 deadline so that they would meet with MOFTEC's favor. In the past, local approval authorities at times encouraged foreign investors to divide large projects into smaller projects, each with a contract value of less than $30 million, to avoid having to submit projects to Beijing for approval (*see The CBR*, January-February 1995, p.8). In recent months, though, local authorities were recombining many of those projects they had initially recommended that the foreign investor divide into two, three, or four smaller projects under the $30 million threshold for approval at the local level. At present, it is unclear what risks large projects that had been divided into smaller projects—and now have been recombined—face, or what the chances of re-approval are for projects that received central-level approval between October 1995-March 1996.

Investors also are watching with interest MOFTEC's approach to reviewing the documents for projects approved during the October-March window. Though scrutinizing the applications would seem to require an army of lawyers and accountants, MOFTEC is likely to rely largely on the documentation supplied by local approval authorities. According to MOFTEC officials, some projects have been re-approved, while others have been deemed "questionable" and put aside for later consideration. Most foreign investors, though, still do not know when they will receive re-approval decisions. MOFTEC officials have indicated that during the review period, FIEs may be able to import machinery and equipment under an undefined temporary importation arrangement pending the outcome of the re-approval process.

Remaining exemptions

In addition to the grandfather rules, other types of projects stand to enjoy grace periods that range from one year to "the life of a project." While equipment imported for construction projects approved by the State Council is subject to the Customs duties and VAT as of April 1, all such projects approved by the State Council prior to April 1 are entitled to preferential Customs duties and VAT on equipment imported during the life of the project. Some of the SPC-approved projects have been granted a complete exemption, while others have been given a 50 percent reduction. Thus, Chinese and foreign contractors to projects approved by the State Council prior to April 1 will be spared the increased costs now weighing on many FIEs. The enormous Three Gorges project, which consists of several sub-projects, will be covered by this exception, since each sub-project has received State Council approval.

Though equipment imported for projects involving "technological transformation"—purchase contracts for entire plants or technology—generally lost all duty exemptions, technological transformation projects that were part of a central- or provincial-level construction plan prior to April 1, 1996, will continue to enjoy preferential Customs duties and import VAT treatment. Energy, transportation, and metallurgy projects with a total investment of more than ¥50 million ($6 million), as well as light industry, textile, and electronics projects with a total investment of more than ¥30 million ($3.6 million), will be eligible for a 50 percent reduction of both Customs duties and VAT on equipment imported before December 31, 1997. For projects in these industry sectors that do not meet the applicable monetary thresholds, the 50 percent reduction applies until December 31, 1996. As with the general grandfather provisions, if capital equipment for these projects is not imported within the transition period, the importer can apply to MOFTEC for an extension.

The December notice stipulates that imports for certain projects, such as those in the auto, electronics, oil, and gas sectors, will remain exempt or qualify for continued reductions from Customs tax and VAT for the duration of the Ninth Five-Year Plan (FYP, 1996-2000). The preservation of such preferential tax policies comes as little surprise to most observers, though, since Beijing has a history of supporting these sectors. The reduction of VAT to 6 percent on airplanes imported by China is more surprising, however.

Meanwhile, the internal regulation that links reduced Customs duties and VAT rates on imported parts used in the production of passenger cars and video cameras to the percentage of local content used in the production processes will remain in effect through 2000. The exemption from Customs duties and VAT on equipment and materials imported for offshore oil and gas exploration projects also will remain in place until 2001. Imported equipment and materials that cannot be manufactured in China but that must be used to meet performance requirements in the exploration and development of onshore oil and gas fields (designated by the State Council) likewise will be exempt from Customs duties and VAT through the 9th FYP.

Toward WTO

In the past, the bifurcation of China's business laws into one set of rules for FIEs and one for domestic enterprises set the PRC apart from most large trading nations. The termination of the capital equipment import policy seems to signal that China is entering a new period in its foreign economic relations, as foreign investors are being treated more and more like domestic investors. Though China may claim that the trend toward more even treatment of foreign and domestic enterprises is in line with WTO principles, few foreign firms will welcome the change. The termination of FIE preferences on imported capital equipment marks a fundamental change in investor privileges as old as the Open Door policy itself. Those involved in foreign investment projects will be keeping a close eye on ways to apply the various exemptions and grandfather provisions, as well as on the tallies and types of new investment contracts signed in the aftermath of the duty and tax changes. 完

Education for the PRC Executive

■ Tali Levine Kamis

Chinese and foreign firms in Beijing are looking to provide a range of management training options

As US businesses expand their corporate presence in China, more and more firms are weighing the options for providing their Chinese managers with Western-style business training (*see The CBR*, March-April 1996, p.22). But for US companies hoping to learn what types of management training programs are best suited to the Chinese market, little research had been conducted until recently.

Last year, the Commercial Section of the US Embassy in Beijing contracted with Gallup Research Co., Ltd. to analyze market demand for executive management training (EMT) programs in Beijing. Conducted between December 1995-January 1996, Gallup's survey—the first empirical study of EMT needs in the PRC—surveyed 200 domestic enterprises (both State- and privately owned) and 200 foreign-invested enterprises (FIEs) in Beijing, including both joint ventures and wholly foreign-owned enterprises (WFOEs). The survey results indicate that companies have a range of priorities and preferences regarding how their managers are trained.

In April 1995, the Gallup survey was among the topics discussed at the Department of Commerce (DOC) US-China Management Training Symposium in Washington, DC (*see* box). This symposium, along with another DOC-sponsored symposium on management training in China scheduled for the fall of 1996 in Beijing, is part of DOC's ongoing efforts to promote US business interests in China through the US-China Joint Commission on Commerce and Trade.

Surveying the scene

Of the FIEs surveyed by Gallup, 31 percent of the WFOEs were US companies and 16 percent of the joint ventures were partnerships between Chinese and American firms. The largest percentage (35 percent) of joint ventures were those between companies from China and Hong Kong. The bulk of respondents were from the services sector (38 percent of total and 48 percent of foreign respondents); 14 percent of the total and 17 percent of the foreign companies were specifically labeled finance or insurance services firms. Thirty percent of the survey participants were from manufacturing companies. Though both manufacturing and services firms expressed an interest in participating in EMT programs, services firms—particularly firms in the financial services sector—were most likely to do so.

To test company preferences, the project research team created a matrix of 16 EMT program options for this survey. To identify the optimal EMT program, the survey asked respondents to rank (on a scale of 0-10) how likely they would be to send their Chinese employees to each program. Each of the 16 hypothetical program options involved a mix of vari-

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ables, such as the price companies would pay to send Chinese managers to the EMT program, teaching method, US internship component, language of instruction, and whether participants would receive a formal degree. For example, respondents were asked to rate how likely their companies would be to enroll executives in a program that cost $20,000 per person, was conducted in English using a high-tech teaching approach, included an internship in the United States, and offered the participant an MBA degree. The Gallup survey results, extrapolated, suggest that up to 12.8 percent of enterprises in Beijing would send one or more of their Chinese managers to such a program. The most attractive program option, one chosen by 14.3 percent of the survey sample, would encompass a $20,000 MBA program taught in English using a hybrid teaching approach, which typically would involve both on-site classroom lectures by professors and real-time, interactive televised lectures.

The least attractive program options were those that offered high-tech teaching methods and cost upwards of $45,000 per participant. Nonetheless, the survey results indicate that roughly two percent of the respondents were willing to sign up even for the most expensive, high-tech option. As Beijing currently has over 43,000 enterprises, the survey results suggest a large pool of potential buyers exists for virtually all of the proposed types of EMT programs.

The results also suggest several factors are driving the demand for EMT programs. Analyzing such factors using a popular marketing framework, the "Four P's"—price, product, place, and promotion—sheds some light on China's demand for EMT programs.

Price...

Not surprisingly, the price of the management training program emerged as the critical factor among personnel managers, section managers, or general managers tasked with deciding whether to sign Chinese executives up for one of the proposed programs. Asked to select among three tuition levels ($20,000, $33,000, or $45,000) for either MBA or non-degree programs consisting of about 450 hours of lectures, small-group discussion sessions, and exams, these decision-makers would be more likely to sign employees up for the less-expensive EMT programs. For example, the survey results suggest that more than 4,500 enterprises in Beijing would be willing to spend $20,000 per program participant, almost 3,000 firms would pay $33,000 per participant, and just over 1,800 firms would pay up to $45,000 per participant. For each $1,000 price increase above $20,000, the number of Beijing enterprises likely to sponsor Chinese executives to an EMT program drops by approximately 100.

Product...

Though not as crucial as price, the content of the EMT program and the teaching methodology were considered "somewhat important" by personnel officers, general managers, and others responsible for making executive training decisions. Both foreign respondents and those from PRC enterprises found an MBA program administered by a US university or management training firm more attractive than a non-degree program.

A non-degree EMT program typically would offer basic courses in accounting, finance, marketing, economics, and other business topics. These courses might be taken to obtain credit from a sponsoring university. The credits could then be transferred to a specific MBA program, or used to meet corporate educational requirements.

Though the hypothetical MBA program described by the Gallup survey would be similar in content to a standard US MBA program, this degree would require successful completion of fewer courses than a traditional full-time, two-year US MBA degree. The MBA program, likely a full-time, one-year program, would include the following core subjects: executive leadership, corporate strategy, accounting, economics, marketing, finance, statistics, and operations management. The Gallup analysis of the survey results suggests that approximately 3,600 enterprises in Beijing would be willing to pay $32,500 per participant for an MBA program, while only about 2,200 companies would spend the same amount on a non-degree program.

Survey respondents rated executive leadership the most important course in an MBA program, giving this topic an average score of 4.29 on a five-point scale in which a 5 equals "very important." Other top-ranking courses included corporate strategy (4.12), human resource management (4.09), marketing management (4.05), and operations management (3.92).

These course ratings reflect the skills those in charge of overseeing executive development consider important for Chinese executives to possess. Survey respondents noted that Chinese managers tend to have strong analytical skills and average computer and English-language skills. The companies surveyed were attracted to EMT programs because such programs would help develop the general management, marketing, interpersonal communications, and technical capabilities of their Chinese managers. When asked about specific skills to be gained through EMT programs, decision-makers ranked problem solving (4.67) as the most important skill for Chinese executives to develop, followed by leadership, interpersonal communications, creative thinking, and negotiating skills.

When asked specifically about their reasons for participating in an EMT program, 88 percent and 90 percent of survey respondents employed by foreign and domestic enterprises, respectively, noted it was important to "to develop knowledge and competencies in the workplace." The majority of respondents were interested in grooming managers who would be able to craft new strategies for the China market, recruit capable employees, and formulate innovative approaches to marketing and operations.

Many respondents also believed that participation in an EMT program was an important way to reward top Chinese managers. As high personnel turnover is a problem for many of China's FIEs, foreign ventures generally consider EMT programs an excellent way to recruit and retain skilled workers. Ninety percent of the respondents, though, were not particularly concerned that employees receive an MBA degree from an accredited American university.

The demand for EMT programs is also a function of the trend toward hiring PRC natives for managerial positions. Many multinational corporations are looking to hire more Chinese nationals for executive jobs because of their language skills, local contacts, and understanding of the domestic market (*see The CBR*, May-June 1996, p.26).

The Gallup survey also asked questions to test respondents' views on two distinctly different teaching methods. In a high-tech approach to management training, professors and students would interact primarily via two-way interactive television and on-line computer connections. A more traditional approach would involve on-site lectures, small group discussion sessions, and tutorials conducted by US professors, who would personally supervise examinations. A hybrid approach involving elements of both methods proved to be the most attractive option overall to those in charge of executive development in foreign companies. Among decisionmakers willing to pay more for management training, the high-technology approach seemed more popular than the traditional teaching methodology. Roughly 8.3 percent of survey respondents were willing to spend up to $32,500 per participant in an EMT program using the high-technology approach, while only about 6.7 percent would send one or more Chinese executives to attend a hybrid EMT program priced at the same level.

Summer internships and the language of instruction appeared to have little influence on the decision to send Chinese managers to EMT programs. However, FIE respondents expressed a preference for three-month summer internship programs in the United States that included MBA courses at US universities. While enrolled in MBA courses over the summer, the EMT program participant also would work as an intern in his or her employer's home office or in another multinational company engaged in the same line of business. Foreign companies appeared to prefer to have courses taught only in English by US professors, but PRC firms that responded to the survey preferred English-language instruction with simultaneous interpretation into either Mandarin or Cantonese. In either case, before entering an EMT program, participants would need to demonstrate fairly good English skills, by receiving a satisfactory score (generally in the 500-550 range) on the Test of English as a Foreign Language (TOEFL).

Place...

In contrast to the many queries devoted to the content and design of each EMT program, survey respondents were asked few questions addressing preferences for where the training would take place. The survey asked only whether the

A Meeting of Managerial Minds

The recent US Department of Commerce (DOC)-sponsored Gallup survey on management training in China served as the backdrop for the US-China Management Training Symposium, held in Washington, DC, on April 25-26. The symposium was part of DOC's ongoing effort to work through the US-China Joint Commission on Commerce and Trade (JCCT) to improve bilateral commercial ties. More than 60 management training and human resource development specialists representing US universities and colleges, companies, associations, and non-profit organizations participated in the April symposium. Among those represented were: the Ford Motor Co., Colgate-Palmolive Co., American Assembly of Collegiate Schools of Business, American Management Association, National Foreign Trade Council, and the US-China Business Council.

DOC has long been a supporter of management training efforts in China, initially through its work in the 1980s with the National Center for Industrial Science and Technology Management (NCISTMD) at Dalian University, which graduated several thousand Chinese executives before being discontinued in 1991 for lack of funding. During his October 1995 visit to Beijing for JCCT talks, late DOC Secretary Ron Brown unveiled plans for the management training initiative, including efforts like the symposium.

The April symposium, the first DOC-sponsored conference on management training needs in China, focused on five areas, including historical lessons for the current environment, China's economic reform and management challenges, human resource development needs US companies face in China, management training programs, and ways to identify resources and build partnerships. A second management training symposium, scheduled for this fall in Beijing, will offer US organizations another opportunity to explore possible areas of interest with their Chinese counterparts.

Encouraging the development of consortia that cover the full range of company management training needs in China and offer highly focused, practical, short- and long-term training courses is one of the primary goals of the DOC effort. DOC plans to work with the Ministry of Foreign Trade and Economic Cooperation, the State Education Commission, other Chinese organizations, US firms, US universities and colleges, and private training groups to develop these consortia and identify management training and human resource development expertise and resources in China. DOC also is examining ways of encouraging cooperation between US educational institutions and Chinese universities that offer MBA degree programs. —*Paul Kullman*

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company preferred to sponsor an in-house training program or participate in a training consortium. Because they often have similar training requirements and are close to each other geographically, some companies elect to form training consortia—alliances which divide the expense of outside training (provided by either management training consultants or universities) among several parties.

About half of the respondents either were unwilling to state a preference (20 percent) or were unsure of their company's preference (31 percent), suggesting that many companies had not yet made final decisions on where the training should occur. Just 16 percent of respondents would opt for an in-house program, while 33 percent would opt to join a consortium. Approximately half of the respondents who selected the consortium option expressed a preference for a program that would attract participants from China and Southeast Asia, while another 44 percent preferred to take part in a program aimed only at Chinese managers.

The fact that only about one in six respondents was interested in sponsoring an in-house program that would involve a minimum of 25 participants may reflect the fact that the sample included many companies with fewer than 500 employees. Most firms, it seems, would have only a small number of employees eligible for EMT programs. The median number of workers employed by the companies surveyed was 360, with median numbers of 500 and 200 employees at the Chinese and foreign firms, respectively. For the total survey sample, the median number of employees eligible to participate in an EMT program was just 10, compared with 20 for Chinese enterprises and 7 for foreign ventures. When asked about the types of managers they hoped to sponsor for an EMT program, about half of the survey respondents stated that their companies most likely would sponsor two or three senior divisional, regional, or line managers. Approximately one-third of respondents, many of whom were personnel officers from domestic enterprises, said that their firms would select 4-10 mid-level managers to participate in EMT programs. Only 14 percent of respondents expressed an interest in using EMT programs to develop the skills of management trainees.

...and promotion

Few questions in the Gallup survey addressed the matter of how EMT programs are promoted. However, respondents were asked to evaluate the effectiveness of various ways of informing companies about EMT programs. The survey results indicated that the most effective marketing efforts would include invitations to visit the offices of management training consultants, advertisements on local television and in newspapers, written testimonials (especially attractive to FIE managers), visits by school officials to companies, and brochures mailed to corporate offices. Radio advertising, presentations at service clubs, direct mailings to employees' homes, and business department-sponsored open houses all were rated less-effective advertising tools.

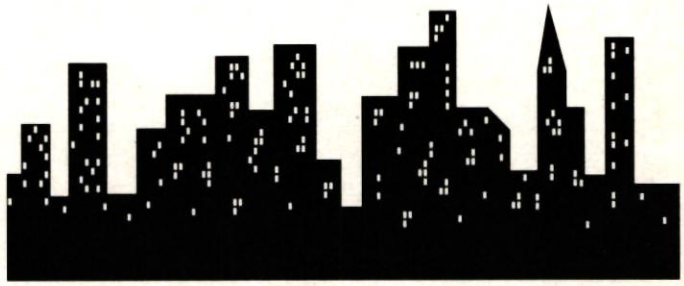
The right mix

The Gallup survey results suggest that companies doing business in China today—both local and foreign—have varying visions of what management training programs should entail. As many companies in China are making it a priority to provide educational opportunities for their executives, a new segment within the PRC market is beginning to open for US and multinational management training and human resources firms and educational institutions.

To date, a few US-based management training consultants have set up shop in China. The 26 or so Chinese universities that currently offer MBA programs all use traditional teaching methods. In the past, US universities administered a variety of non-degree courses, internships, and other types of short-term educational exchanges in China, but did not offer full-fledged degree programs. Several US universities, including Ohio State University and Rutgers University, are looking into offering targeted management training programs or establishing MBA programs in China in cooperation with Chinese universities. According to the Gallup survey, the companies in China that are most interested in arranging with universities to offer their employees EMT courses were smaller firms (around 100 employees) that were large enough to have a pool of employees who needed training, but not large enough to support an in-house training program.

If foreign management training firms can tailor their EMT programs to meet the needs of different US and Chinese businesses in the PRC, they stand to gain a sizable share of this emerging market. The difficulty, then, for firms unfamiliar with the China market is designing and executing custom-made EMT programs. But for new and old China players alike, surveys such as the Gallup study provide information to start companies off on the right track. 完

No Longer A Hardship Post



■ Andrew Ness

Expatriates in Shanghai now have a multitude of residential housing options

■ Andrew Ness is associate director, Research & Development Consultancy, Richard Ellis Ltd., in Hong Kong. Richard Ellis Ltd. is a firm of international property consultants, valuers, and estate agents.

Ten years ago, foreign residents in Shanghai had little choice where to live. At that time, foreigners could lease housing only at the Hongqiao Villa complex, which had a total of 77 single-family homes. Today, Shanghai has some 77 multi-story apartment projects providing 15,800 residential units approved for leasing and sale to foreigners, as well as 4,600 single-family homes in 31 low-density developments. At least another 30,000 units under development in Shanghai are scheduled to become available over the next four years.

The demand for expatriate housing shows no signs of tapering off, though. Shanghai now boasts 4,700 foreign representative offices and 14,450 foreign-invested enterprises (FIEs). The city can claim over 16,000 registered foreign residents, a figure which has increased an average of 43 percent per year since 1990. But only in 1995 did the number of residential units for lease or sale to expatriates in Shanghai finally exceed the number of expatriate residents. If Shanghai's expatriate community grows at a more moderate 30 percent annual rate, there will be a 16 percent surplus in the stock of residential property available for foreigners at the turn of the century.

A closer look

While the overall supply of overseas-type residential property increased rapidly between 1992-95, the share of Grade A residential property has grown more slowly. Grade A property generally is rented fully furnished, designed and equipped to international specifications, located in or near the central business district, and managed by an international or Sino-foreign property management firm. At present, only 10 apartment complexes—accounting for just 9 percent of Shanghai's overseas apartment supply for foreigners—are classified as Grade A. Similarly, of the city's current supply of single-family dwellings, only 470 residential units merit the Grade A label.

Capital values—the final selling prices of both resales and first-time sales by developers—for the most strongly positioned Grade A residential single-family homes and apartments are likely to hold steady over the next three to four years. Some of these properties will continue to appreciate slightly, perhaps under five percent per year, as they will continue to remain a fairly scarce commodity. However, capital and rental values for more weakly positioned Grade A residential properties, particularly older facilities, may even decline slightly.

Both supply and demand for Grade B properties will increase faster than for Grade A properties. Grade B properties, which feature strata-title (condominium-type) ownership, typically are managed by either a local developer or a local property management company; are designed and equipped to specifications which usually fall short of the expectations of foreign tenants; and may be located further from business centers. Rental and capital values for these mid-market properties likely will continue to decrease over the next three to four years, depending on the property's location.

A rental peak

Rental rates for a basket of medium- to high-quality residential properties approved for leasing to foreigners peaked at $42 per sq m per month in the first quarter of 1995 and declined to about $39 per sq m per month by the first quarter of 1996. The properties that dropped significantly in rental value during this period were strata-title, Grade B developments.

In contrast, rental values for a select group of Grade A apartment developments located in the downtown business areas rose six percent last year, and currently exceed $52 per sq m per month. Vacancy levels at such luxury developments as the Shanghai Centre Apartments, Ruijin Building, Shanghai International Trade Centre, and Longbai Apartments are still quite low and the market remains tilted in the landlords' favor. From a regional perspective, Shanghai's luxury housing rental rates are roughly on par with those in Hong Kong and Hanoi, but approximately 19 percent lower than Beijing rates, which are among the most expensive in the Pacific Rim (*see* Figure).

Shanghai's luxury housing rental rates are roughly on par with those in Hong Kong, but lower than in Beijing.

Though the supply of high-end residential property for sale and lease remains tight, few expatriates posted to Shanghai enjoy monthly housing subsidies in excess of $3,000-$5,000, so the bulk of demand is for middle- to low-grade housing. Junior expatriates moving to Shanghai may find affordable apartments in one of the recently completed, lower-end overseas residential projects.

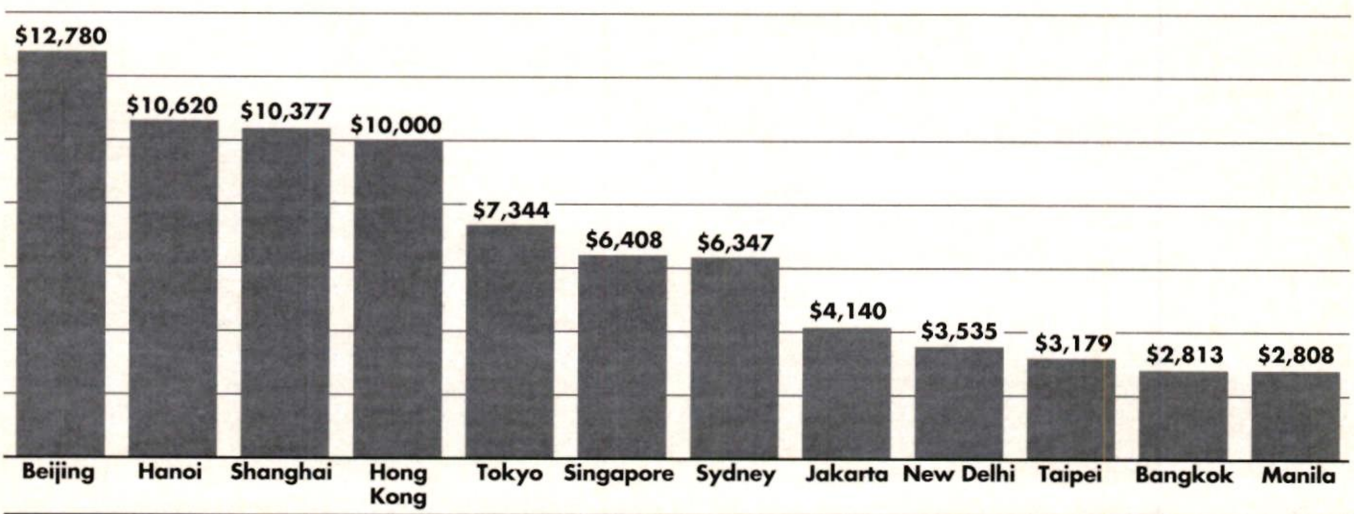
Looking to buy

The overseas property pre-sales and sales market in Shanghai has been much more sluggish than the rental market over the past year and a half. The overseas property sales market is influenced by such external factors as the availability of mortgage facilities to support property acquisition and the degree of buyer confidence in acquiring property through pre-sales.

The weakening that characterized the residential sales market over the past 18 months can be discerned clearly in the gap between the asking and final selling prices of properties for sale to foreigners. On average, asking prices were 5-15 percent higher than final prices, though a small number of strongly positioned properties managed to maintain firm asking prices for much of 1995. The sluggish residential sales prices likely are the result of the credit clampdown that began in 1994, which left domestic banks short of funds for property-related lending. Consequently, the buyers for overseas sales properties tend to be FIEs and multinational corporations with offices in Shanghai that have their own credit sources, rather than individual developers or endusers that must rely on scarce domestic bank loans.

Those looking to invest in Shanghai residential property, meanwhile, benefit from very high pre-tax yields by international standards. A recent survey by Richard Ellis Research & Development Consultancy found that Grade A and B rental apartments currently provide their owners with gross pre-tax yields of 15.4 and 16.3 percent per year, respectively. Grade A and B single-family homes offer yields of 18.6 and 17.5 percent per year,

Average Monthly Rents in the Asia-Pacific Region*



SOURCE: Richard Ellis Ltd.

* Based on April 1996 information for 180 sq m luxury apartments

respectively. However, as in any emerging market, such high yields do not come without risk. In Shanghai, the principal risks are the magnitude of future supply increases and uncertainty over how and when the Shanghai government will implement the PRC's detailed tax regulations on overseas-rental residential property. Though rental income from property currently is subject to taxation under PRC law, the Shanghai municipality has yet to implement an effective collection system (*see* box).

Where to live in Shanghai

For those not looking to invest in property in Shanghai but merely to find a place to live, househunting still means finding a home close to work and with all the desired amenities. As Shanghai's traffic problems grow, location is becoming increasingly important. Virtually every area in Shanghai that is a focus of international business activity has at least one, if not several, high-quality residential developments within a short commute. Shanghai's main commercial districts include:

Signing on the Dotted Line

Though Beijing issued national regulations governing property leasing in June 1995, the measures have yet to be implemented widely in China's major urban centers (*see The CBR*, September-October 1995, p.38). In the absence of local implementing regulations, most landlords simply are not registering their tenancy agreements with the Shanghai Real Estate Administration (REA) for all but the most prominent commercial leasing transactions. Sources in the REA and Shanghai Finance Administration have stated privately that within the next 12 months they hope to issue, on a trial basis, a detailed set of local implementing regulations for Article 3, Registration of Property Leasing Agreements of the Measures for the Administration of the Leasing of Urban Real Estate. Such implementing regulations would serve as a first step toward curbing rental income tax evasion in Shanghai. Under the trial system, all landlords would have to apply to the REA for a leasing permit and then would be required to register each tenancy agreement and provide supporting documentation to the REA. Parties failing to comply with these procedures would face as-yet undetermined sanctions.

Shanghai authorities have not cracked down actively on tenancy agreements in which no prior application from the Shanghai Real Estate Administration Bureau for an "Overseas Leasing Permit" has been made. However, expatriates who enter into tenancy agreements to lease such properties should be aware that these transactions are unauthorized. Though tenants are unlikely to be penalized by Shanghai authorities, they might find their tenancy agreements abruptly terminated (and be compelled to find new lodgings) if authorities begin to police this emerging grey market. Currently, the Shenzen Special Economic Zone is the only city in China where officials are actively enforcing a system that mandates application for leasing permits. Shanghai officials could, like their Shenzen counterparts, fine landlords who violate local leasing regulations, confiscate rental gains obtained from property leasing, and temporarily withdraw permission to lease property.

Presently, many Shanghai landlords who rent to expatriates are based outside the PRC and avoid paying PRC taxes on their rental income. Contrary to the desires of the Shanghai government, most overseas owners of condominium-type property stipulate in their tenancy agreements that they be paid offshore and in hard currency, enabling the owners to bypass foreign exchange controls on remitting rental income abroad. It is possible that the Shanghai government will move to mandate that all transactions between landlords and tenants, including transfer of all rental and related payments, take place in Shanghai. It is more likely, however, that the first regulations to be enforced will involve the registration of all newly signed tenancy agreements with the REA. Sources in the REA and Finance Administration note that if a tenancy agreement is registered properly, the Shanghai government may be willing to countenance offshore rental payments, since registration of a tenancy agreement ensures that any attempt to evade rental income taxes will be noted immediately by Shanghai authorities.

Once the local regulations are implemented, strata-title (condominium-type) landlords in Shanghai will be held accountable for taxes on rental income. Prospective tenants should be knowledgeable about rental tax matters to ensure that they are not held liable for any taxes. Prospective tenants should craft their tenancy agreements to state clearly that both landlord and tenant are bound to act strictly in accordance with PRC law, and that the landlord—not the tenant—is responsible for all PRC taxes on rental income. The tenancy agreement should stipulate that, in the event that PRC taxes are not paid, the landlord bears all legal responsibility arising from nonpayment. Though few such agreements have been concluded in Shanghai to date, this type of tenancy agreement should protect the tenant fully from any tax-evasion charges.

Given the present regulatory framework governing the leasing of properties to foreigners in Shanghai, prospective tenants are advised to adhere to certain general procedures when leasing residential property in Shanghai (*see* p.43). While the Chinese government clearly intends to bring all landlord/tenant relations within the rule of law, to insist on public documentation of all leasing agreements, and to prevent tax evasion on rental income by property owners, the growing number of residential properties and landlords will make such goals difficult to achieve quickly. For now, it seems, the best that tenants can do is to draw up agreements that give themselves maximum protection.

—*Andrew Ness*

■ **Hongqiao Economic and Technological Development Zone (ETDZ)** With its high-rise residential and office-cum-residential towers, the Hongqiao ETDZ in the Changning subdistrict has emerged as Shanghai's largest commercial and residential area. Located only a short distance from both central Shanghai and the Hongqiao International Airport, the area has witnessed a proliferation of residential developments over the last nine years. Changning now is home to 28 high-rise apartment developments approved for overseas sale, including such luxury complexes as the Longbai Apartments, Regent Tower, Golden Bridge Mansion Apartments, and Shanghai International Trade Centre Apartments. In addition, 14 single-family home developments are located in this district, including such properties as the Hongqiao Villas, Elegant Gardens, Green Valley Villas, and Hillcas Quarter. The Changning subdistrict is also home to both the American and Japanese international schools, and another Japanese school is under construction.

■ **Center city** Historically the city's central commercial zone, the Huangpu district has not attracted many expatriate residents because of severe traffic congestion problems. Shanghai's core residential triangle is close by, however, encompassing certain parts of the Jing An, Luwan, and Xuhui districts. The Jing An district—particularly the area around Jing An Temple and a portion of Nanjing West Road—was a popular expatriate residential area at the turn of the century. Several European-style apartment buildings were taken over by the Shanghai government after 1949 and refurbished as hotels and guesthouses. In the late 1980s, the area became a major inner-city focal point for the development of luxury foreign-invested hotels and commercial complexes, including the Shanghai Centre and President Mansions.

The Luwan district, located in the former French Concession, lies to the west of the intersection of Shanxi South Road and Huai Hai Road and still features large, single-family residences. Like the Jing An Temple area, the Huai Hai Road-Mao Ming South Road area has emerged as a major hub of retail shopping and now boasts a number of luxury hotels, including the Nomura Garden and the Jinjiang. The completion of the Shanghai Metro Line Number One and the Chengdu Road Elevated Freeway now provide easy access to central Shanghai. And nine major foreign-invested commercial development projects are under construction in locations along or near Huai Hai Road.

Neighboring the Luwan district to the southeast, substantial portions of the Xuhui district also lie within the former French Concession area. A commercial enclave, Xuhui has yet to emerge as a major expatriate residential hub. Of the five high-rise overseas-sale apartments in the district, only the Dahui Garden has attracted large numbers of expatriates. But the district is targeted for upscale renovation. The soon-to-be-completed development at 41 Hengshan Road, for example, reflects an attempt to revive the "belle epoque" architectural style of early twentieth-century Paris.

■ **Pudong New Development Area** On the Huangpu's eastern bank lies the Pudong New Development Area, a 350 sq km zone established in 1989. Much of Pudong's central financial district, Lujiazui, is still under construction. Most expatriates who have established residence in Pudong have done so to be near their company's operations there.

When Leasing Residential Property in Shanghai...

Procedures	Remarks
The prospective tenant should establish that the landlord has good title to the land and building offered for leasing.	The landlord should be prepared to present the following documents upon request: • Identification documents, such as an identification card or business license • State-owned Land Use Rights Certificate • Real Property Ownership Certificate*
The landlord and tenant sign a tenancy agreement (TA).	As yet, Shanghai has no standard municipal TA. However, according to the Measures for the Administration of the Leasing of Urban Real Estate, items that must be included in the tenancy agreement are as follows: • Lessor's name and address • Location, orientation, area, and furnishings of the subject property • Intended use of the leased property • Terms and conditions of leasing • Rental and payment method • Maintenance obligations • Conditions for modification or termination of the lease • Liabilities for breach of the TA
The landlord registers the TA at the Real Estate Administration Bureau within 20 days of signing the document. **	The following documents should be presented to register the TA: • A signed TA • Landlords' identification documents • Real Property Ownership Rights Certificate
REA issues the tenant a Property Leasing Certificate, a document certifying that the lease has been concluded. **	The property leasing certificate certifies that the tenancy agreement can be used as legal evidence in a court of law. It also serves as the principal document used for the registration of foreigners' residences by the Shanghai Public Security Bureau.

SOURCE: Richard Ellis Ltd.

* In Shanghai, the State-owned Land Use Rights Certificate and the Real Property Ownership Certificate have been combined into one Real Property Ownership Rights Certificate.

** In theory, these measures are required by national law for both commercial and residential leases. In practice, however, they are widely followed only in major commercial leasing transactions.

Though Pudong boasts the Yaohan Nextage Department Store, Shanghai's most upscale shopping complex, the area is not a favored residential area and will not become truly hospitable to foreign businesspeople and expatriates until it can offer more amenities, such as public parks and internationally managed five-star hotels. The Pudong Marriott Hotel will open in Lujiazui in the near future, while the Pudong Shangri-la Hotel is currently under construction. Within the next two to three years, Pudong should evolve into a far more inviting place for business travelers and both long- and short-term expatriate residents.

To date, nearly all of the apartment blocks for overseas sale and lease in the Lujiazui area are below the Grade A level. Many of these developments also fall into the mixed-use, office-cum-apartment category. Of the properties available in Pudong, the single-family homes and multi-story apartment buildings in the Crest Villas have proven more popular than office-cum-apartment developments such as the Golden Pool Garden, Washington Place, and Oriental Plaza.

■ **The suburbs** Industrial parks, which generally include offices but rarely incorporate residential facilities, are not favored residential choices for foreign businesspeople. However, some expatriates must live near their corporate manufacturing facilities and, as a result, residential developments have sprung up close to the smaller industrial parks. For expatriates posted to work in Minhang, Shanghai's oldest internationally oriented manufacturing area, the Shanghai Garden, a single-family home development, currently is the residential location of choice.

The numerous high-rise and multi-story apartment blocks approved for overseas sale that are currently under construction in Shanghai's suburban fringes will mean more lower-cost options for foreign businesspeople. Expatriates working in the large Waigaoqiao Free-Trade Zone (FTZ) north of Pudong had no suitable residential accommodations in the zone until the recent opening of the Waigaoqiao Apartment Building, the first residential accommodations in the FTZ.

Spanning 35 km, the Hujia Highway links central Shanghai with the town of Jiading, the county seat of Jiading County. A number of low-density resi-

Covering All the Bases

Many of the properties marketed to expatriates in Shanghai were constructed by developers with little prior experience designing and building Grade A housing—which usually is fully furnished, designed and equipped to international standards, located in or near the central business district, and managed by an international or Sino-foreign property management firm. The design flaws in many of Shanghai's recently completed residential buildings, coupled with some growing security concerns, mean that house-hunters need to shop carefully for housing. Before signing a residential tenancy or purchase agreement in Shanghai, prospective residents should take note of the following concerns:

■ **Training of security staff** A chief worry among many expatriates is that doormen or security guards in residential complexes catering to expatriates are not trained adequately. The attentiveness of lobby personnel is of particular concern in complexes where water, gas, and electricity meters are located in each individual apartment, making it necessary for meter readers to enter the tenants' apartments.

Following a number of kidnappings in residential complexes in 1994-95 and a murder in the Rome Garden complex in 1995, residential security now looms as a primary concern for expatriates. A number of residential projects managed by international property consultants or joint-venture property management companies have started to deploy well-trained security personnel as doormen. The Golden Bridge Mansions building in the Hongqiao ETDZ posts bereted security guards, likely recruited from the People's Liberation Army or the police, in the lobby to screen all incoming visitors.

■ **Security equipment and protective systems** Prospective tenants also should verify that a property has controlled-access equipment. In a small number of high-rise apartment projects catering to expatriates, features such as concealed panic buttons, locks on interior apartment doors, and steel-core or reinforced main doors with imported locks and dead-bolt systems have begun to appear, but are still far from standard.

Though the overall security of recently completed higher-end residential projects in Shanghai has gotten better, there is still need for improvement. Developers must pay greater attention to monitoring the walls surrounding single-family home developments, recruiting and training competent staff to screen all incoming visitors, and installing systems to detect forced entry of doors and windows. While high-rise apartments typically feature intercom systems between individual apartments and the lobby and some even feature video security systems, these systems only strengthen tenant security if lobby attendants are vigilant. In a further effort to prevent break-ins, metal cage-type doors now are often affixed to the main entrance doors to apartment developments catering to expatriates. However, such exterior doors are relatively easy to remove if not installed properly.

Most single-family homes for expatriates are surrounded by walls or fences and many multinational corporations increasingly are showing an interest in residential projects with high-tech security features. A number of high-end projects, scheduled for completion in the next two years, will include panic buttons, forced-entry detection systems for windows and doors, and infrared motion detectors. These measures likely will give these new projects a major marketing advantage.

Buildings that include both offices and apartments accessed through a common lobby also pose special security risks. The constant flow of staff and visitors to the office units makes it very difficult for security personnel to screen visitors in the lobby. Expatriates seeking residential accommodation in Shanghai would do dential complexes are under development along the Hujia Highway and in the outskirts of Jiading township. For expatriates posted to work in manufacturing plants established by Volkswagen AG, General Electric Co., and other foreign companies in or near the Jiading ETDZ, the Canadian Garden, a single-family home complex, remains a popular residential choice.

Meanwhile, foreign businesspeople working in Qingpu County near Hongqiao will soon have a number of new housing options. The entire 55 km stretch of National Highway 318 that leads from Changning into Qingpu County has been targeted by local and overseas developers for the construction of low-density, single-family homes. And new residential projects such as the New Hongqiao Asia Gardens, which fronts the highway, have begun to transform the section of Qingpu closest to the Changning district into a lower-cost, Western satellite of the Hongqiao ETDZ residential hub. Rental prices for single-family home developments near Changning generally are 20-30 percent lower than for housing in the ETDZ itself, appealing to expatriates who want to enjoy townhouse living but whose housing subsidies are insufficient to afford properties closer to the inner city.

Another Hong Kong?

In just over a decade, Shanghai has evolved from a classic hardship post into a city that is becoming increasingly hospitable to both multinational companies and their expatriate staff. The city has evolved from one in which a small group of expatriate executives lived in virtual isolation from the domestic community, to one which offers numerous housing options to expatriates in terms of rental and housing type, quality, location, and amenities. As Shanghai's reputation as a commercial center has grown, so has the availability of shopping, leisure, recreation, and athletic facilities in many commercial zones, making these areas both more attractive and more livable. With China's economy forecast to grow rapidly over the next 30 years, Shanghai's expatriate population likely will continue to expand. Though it will take many years to catch up with Hong Kong—home to over 400,000 expatriates—Shanghai is already a leading expatriate hub. 完

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best to choose other residential alternatives, if possible.

■ **Management responsiveness** Only five residential properties in Shanghai are managed directly by Hong Kong-based property consultants or joint-venture management companies. Most are managed by local property management firms, many of which have acquired a reputation for being unresponsive to tenants' needs. The role of the management team is particularly important in Shanghai, where many properties are owned by absentee landlords, so prospective tenants should be sure to ask other tenants in the complex about their experiences. Well-established international property consultants who have a solid track record managing residential property outside of China may prove more sensitive than their local counterparts to the expectations of expatriate tenants.

■ **Working condition of equipment** Before signing any lease or sale agreement, a prospective tenant should test carefully every piece of equipment supplied by the landlord, including air conditioning units, refrigerators, stoves, exhaust fans, water heaters, washing machines and dryers, toilets, and bathroom fixtures. Some of the more inexpensive housing projects, for example, have inadequate air exchange systems, leaving bedrooms, living rooms, and bathrooms without sufficient ventilation. In some units, air conditioners may have been installed improperly, with no means of draining waste water to the outside. In single-family homes, as well as apartments, the single boiler unit may provide insufficient hot water. Prospective tenants should try to ask current residents of the complex about the hot water supply and should turn on the hot water taps in several rooms simultaneously to test the hot water supply.

■ **The power supply** Prospective tenants should be sure to inquire about the power level in their potential residences. It is not uncommon to find that apartments designed for overseas sale and leasing take account of the typical Chinese family's electricity requirements, but do not have sufficient circuit capacity to run toasters, microwaves, and other appliances.

For safety reasons, househunters should check that the lighting in public corridors, lobbies, and other public areas is satisfactory. Prospective tenants also should make sure that the apartment building is equipped with emergency back-up generators and lighting systems, as sudden power brown-outs could leave tenants trapped in elevators.

■ **Construction quality and materials** Prospective tenants should be aware that the workmanship may be substandard, since developers in China receive bonuses for early completion of construction projects. Expatriates should check that all external doors and windows close properly. The plumbing and drainage systems should be checked, as plumbing leaks and clogged drains are common, even in brand-new buildings. Floors, walls, and ceilings should be level and free of cracks. Prospective tenants also should try to visit during the early evening, when other tenants are at home, to see if the walls and ceilings are adequately soundproof.

■ **Unexpected neighbors** As much of Shanghai is in the midst of urban redevelopment, new construction and development sites are springing up constantly. Prior to signing a lease for any residential property, prospective tenants may want to survey the surrounding area carefully for evidence of construction or demolition. In residential complexes under construction in the suburban fringes of Shanghai, such as the extreme southern area of the Xuhui District, an additional concern should be the presence of polluting industrial sites or garbage dumps. Potential tenants would be wise to enlist a reliable property consulting firm to perform a detailed environmental background check, since such pollution may not be apparent on casual inspection of a residential site.

—Andrew Ness

Perspectives on China and Hong Kong

China's Most Favored Nation (MFN) status was a key theme at the Council's 23rd Annual Membership Meeting, held in Washington, DC, on June 6. Much of the day's discussion centered around the fact that the US business community cannot overlook the political dimension of the overall US-China relationship.

Council President Robert A. Kapp opened the meeting by reporting on the Council's healthy growth, noting that the organization's rolls "have sailed past 300." Turning to politics, Kapp noted that a congressional vote on a Resolution of Disapproval to overturn President Clinton's renewal of MFN possibly could take place before Congress' July 4 recess, but called the chances of a policy reversal extremely unlikely. Kapp urged member company representatives to lobby their members of Congress to support MFN renewal for China.

Focusing on China's views of the bilateral relationship, Harry Harding, Dean of George Washington University's Elliott School of International Affairs, characterized the Chinese perception of the US China policy as "highly skeptical." According to Harding, the prevailing view among many in the Chinese elite is that the essence of such a policy "is keeping the PRC in place." He also maintained that, contrary to the wishes of many US human rights activists, many average Chinese citizens do not welcome US influence in the PRC and are particularly upset at US pressure on China to improve its human rights record. Harding closed on a more optimistic note, though, remarking that Secretary of State Warren Christopher's recent speech—in which Christopher welcomed China as an emerging power into the international community—was a step in the right direction.

The next speaker, Pamela Baldinger, director of the Council's Hong Kong office, detailed some of the outstanding issues affecting Hong Kong's return to PRC sovereignty in July 1997. The status of Hong Kong's Legislative Council, which Beijing has vowed to disband, is perhaps the most contentious issue today, while progress has been made on complicated issues of nationality. Hong Kong residents are now awaiting the selection of a new chief executive for the Special Autonomous Region (SAR), as Hong Kong is to be called under PRC sovereignty. This decision is expected by the end of the year.

Baldinger pointed out that despite the many political uncertainties confronting Hong Kong, the territory's economy remains fundamentally strong. As the world's third-largest financial center and home to Asia's second-largest bourse, Hong Kong, she noted, is not likely to suffer from a mass exodus of expatriates anytime soon.

Rounding out the morning session, Tom Davis, chief economist of Motorola Inc., shared some lessons that his company had learned from doing business in China. Founded in 1928, Motorola had sales of $27 billion worldwide in 1995, with over $3 billion in combined sales to China and Hong Kong. Motorola currently has over 6,000 employees in China and plans to double the size of its PRC-based work force by 2000. Davis advised member companies—particularly those interested in developing a large corporate presence in China—to localize management and sourcing.

While describing Motorola's experience in China, Davis also stressed the enormous growth potential of East Asia and the electronics industry. According to Davis, the aggregate gross domestic product (GDP) for East Asia will grow by $1.8 trillion over the next decade and should total $4 trillion by 2005. Davis also predicted that the global electronics industry would experience swift growth, jumping from $1.8 trillion in 1995 to $12 trillion in 2010.

The featured luncheon speaker, former Assistant to the President for National Security Affairs to Presidents Ford and Bush General Brent Scowcroft, was forced to cancel his address because of illness. His colleague, Kevin Nealer, an associate at the Scowcroft Group, presented his own views on US-China relations and the Clinton Administration's China policy. When asked what concrete steps he would take to improve relations, Nealer suggested giving US China policy a very high priority on a sustained basis, including the initiation of a series of annual summits between US and Chinese leaders.

New Council Officers and Directors Chosen

At its June 5 meeting, the Council's Board of Directors elected Donald L. Staheli, Chairman and CEO of Continental Grain Company, to the Council's chairmanship. Staheli succeeds Maurice R. Greenberg, Chairman and CEO of American International Group, Inc., who led the Council for three years. Ambassador Carla A. Hills, Chairman and CEO of Hills & Company, was elected Vice Chairman, and Robert J. A. Fraser, Group Vice President, Hercules Incorporated, was elected Secretary-Treasurer. Vice Chairman Eugene Theroux (Baker & McKenzie), Counsel Lionel H. Olmer (Paul, Weiss, Rifkind, Wharton & Garrison) and President Robert A. Kapp will continue to serve in the positions they held last year.

The Council's general membership at its June 6 Annual Meeting elected several new Council directors to three-year terms, including Robert N. Burt, Chairman and CEO, FMC Corporation; Joseph T. Gorman, Chairman and CEO, TRW Inc.; John E. Pepper, Chairman and CEO, The Procter & Gamble Company; Frederick W. Smith, Chairman and CEO, Federal Express Corporation; William C. Steere, Jr., Chairman and CEO, Pfizer Inc.; and Gary L. Tooker, Vice Chairman of the Board and CEO, Motorola Inc.

■ Olivia H. Zhao

The following tables contain recent press reports of business contracts and negotiations exclusive of those listed in previous issues. For the most part, the accuracy of these reports is not independently confirmed by *The CBR.* Contracts denominated in foreign currencies are converted into US dollars at the most recent monthly rate quoted in the International Monetary Fund's *International Financial Statistics.*

Firms whose sales and other business arrangements with China do not normally appear in press reports may have them published in *The CBR* by sending the information to the attention of the editor.

SALES AND INVESTMENT February 15 - April 30,1996
Foreign party/Chinese party **Arrangement, value, and date reported**

Accounting and Insurance

OTHER

The Chubb Corp. (US)
Will open representative office in Beijing. 4/96.

General Accident Fire and Life Assurance Corp. PLC (UK)
Will open representative office in Shanghai. 4/96.

Sumitomo Marine & Fire Insurance Co., Ltd. (Japan)
Will donate funds to Southwestern University of Finance and Economics in Chengdu, Sichuan Province to promote insurance-related studies. $28,000. 4/96.

Tokyo Marine and Fire Insurance Co., Ltd. (Japan)
Opened representative office in Tianjin. 3/96.

Agricultural Commodities and Technology

CHINA'S IMPORTS

Kemira Agro Oy, a subsidiary of Kemira Oy (Finland)
Will sell compound fertilizer to China. $1.5 million. 4/96.

INVESTMENTS IN CHINA

Far East (Thailand) Group (Macao)/Hainan Province Grain Administration
Established grain-processing joint venture in Haikou to process for export grain imported from Thailand. 3/96.

Sunseeds Co. (US)/China State Seeds Group
Established Asia Sunseeds Co. joint venture to produce vegetable seeds. 3/96.

OTHER

World Bank
Will offer a loan to finance animal feed projects in 15 provinces and municipalities. $150 million. 4/96.

Abbreviations used throughout text: BOC: Bank of China; CAAC: Civil Aviation Administration of China; CNAIEC: China National Automotive Import-Export Corp.; CATIC: China National Aero-Technology Import-Export Corp.; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CNOOC: China National Offshore Oil Corp.; ETDZ: Economic and Technological Development Zone; ICBC: Industrial and Commercial Bank of China; MPT: Ministry of Posts and Telecommunications; NA: Not Available; NORINCO: China North Industries Corp.; P&T: Post and Telecommunications; PBOC: People's Bank of China; SEZ: Special Economic Zone; SINOCHEM: China National Chemicals Import-Export Corp.; SINOPEC: China National Petrochemical Corp.; SINOTRANS: China National Foreign Trade Transportation Corp.; SPC: State Planning Commission; UNDP: United Nations Development Program.

Banking and Finance

CHINA'S INVESTMENTS ABROAD

The People's Construction Bank of China
Opened representative office in Frankfurt, Germany. 3/96.

OTHER

Banque Nationale de Paris (France)
Opened a branch in Suzhou, Jiangsu Province. 4/96.

Inkombank (Russia)
Opened representative office in Beijing. 4/96.

Import and Export Bank of Japan
Will provide loan to BOC for petrochemical projects in Henan, Hubei, and Jiangsu provinces. $773 million. 3/96.

The Industrial Bank of Japan, Ltd. (Japan)
Opened a branch in Beijing. 3/96.

Chemicals, Petrochemicals, and Related Equipment

INVESTMENTS IN CHINA

Eridania Beghin-Say Group (France)/NA
Accquired a 51 percent stake in a starch plant in northeast China. $100 million. 4/96.

Mitsui Petrochemical Industries, Ltd. (Japan)/Tianjin Petrochemical
Established joint venture to produce pure terephthalic acid in Tianjin. $280 million. 4/96.

BASF AG (Germany)/Yangzi Petrochemical Corp. (Jiangsu), a unit of SINOPEC
Will establish joint venture to build a petrochemical base to produce ethylene and other products in Nanjing, Jiangsu Province. $6 billion. (Germany:50%-PRC:50%). 3/96.

DuPont China Holding Co., Ltd., a subsidiary of E.I. duPont de Nemours & Co. (US), Teijin Hong Kong Ltd., a subsidiary of Teijin Ltd. (Japan)
Established joint venture to market meta-aramid fiber products in China, Macao, and Hong Kong. (US:50%, Japan:50%). 3/96.

Os Co., Ltd. (France)/Shanghai Coke-Oven Plant
Established Shanghai Os Chemical Industry Co., Ltd. joint venture to produce hydrogen-peroxide solution. 3/96.

Technipetro (Italy), DSM N.V. (Netherlands)/Qilu Petrochemical Co. (Shandong), a unit of SINOPEC
Established joint venture in Shandong Province to produce low-concentration polyethylene. 3/96.

Toyo Engineering Corp. (Japan), ABB Lummus Crest Inc. (US)/Qilu Petrochemical Co. (Shandong), a unit of SINOPEC
Established joint venture to manufacture ethylene in Shandong Province. 3/96.

Consumer Goods

INVESTMENTS IN CHINA

The Daiei, Inc. (Japan)/Shanghai Hualian Co.
Established joint venture to open all-night convenience stores in Shanghai. 4/96.

Kimberly-Clark Corp. (US)/Beijing Economic & Technology Development Co.
Established joint venture in Beijing to produce feminine-care products for the Chinese market. 4/96.

Toshiba Corp. (Japan)/Guangdong Macro Group Co.
Established joint venture in Shunde, Guangdong Province, to manufacture air-conditioner compressors and motors. $166 million. (Japan:60%-PRC:40%). 4/96.

Carrier Corp., a unit of United Technologies Corp. (US)/Changjiang Electrical Appliances Industrial Corp. (Sichuan)
Will establish joint venture to produce air-conditioning equipment in Chengdu, Sichuan Province. $30 million. 3/96.

Shinmaywa Industry (Japan), Chatani Industry (Japan)/Shuanglu Electrical Appliances (Shanghai)
Established joint venture in Shanghai to make deep-freeze refrigeration equipment for the Chinese market and for export. $20.6 million. (Japan:51%, 5%-PRC:44%). 3/96.

Unilever PLC (UK)/Hefei Daily Use Chemical Factory (Anhui)
Established Hefei Lever Detergent Co. joint venture in Anhui Province. (UK:70%-PRC:30%). 3/96.

Kangbei Co. (Japan)/Good Boy Group (Jiangsu)
Established Kangbei-Good Boy Infant Articles Corp. joint venture to produce children's clothing in Jiangsu Province. $10.8 million. 2/96.

Electronics and Computer Software

CHINA'S IMPORTS

Fujitsu Ltd. (Japan)
Sold integrated circuit manufacturing technology and equipment to Huayue Microelectronics Co., Ltd. in Zhejiang Province. 3/96.

Mitsubishi Electric Corp. (Japan), Mitsui & Co., Ltd. (Japan)/Beijing Stone Group Co.
Established Mitsubishi-Stone Integrated Circuits Co., Ltd. joint venture to develop and manufacture integrated circuits in Beijing. $100 million. (Japan:60%, 10%-PRC:30%). 3/96.

Oracle Corp. (US)
Will sell software to Rayes Technology Group in Shenzhen to develop China Online computer information network. $3.5 million. 3/96.

INVESTMENTS IN CHINA

Eaton Corp. (US)/Suzhou Electrical Apparatus Group Co. (Jiangsu)
Established Suzhou Cutler-Hammer Electric Co., Ltd. joint venture in Jiangsu Province to manufacture and market electrical-circuit protection devices. $25 million. (US:75%-PRC:25%). 4/96.

Harris Corp. (US)/Anshan Radio and Television Group (Liaoning)
Established Anshan-Harris Radio Equipment Co., Ltd. joint venture to produce advanced TV transmitters and FM radio transmitters in Anshan, Liaoning Province. $12 million. 4/96.

Gemplus Card International (France)/Tianjin Telephone Equipment Factory
Established Tianjin Smart Card joint venture to produce "smart cards" in Tianjin. $10 million. (France:51%-PRC:49%). 3/96.

Hitachi, Ltd. (Japan), NA (Singapore)
Established joint venture to produce semiconductor chips in Suzhou, Jiangsu Province. $18 million. (Japan:70%, Singapore:30%). 3/96.

Kyogi Co. (Japan)/Shanghai Yidian Holding (Group) Corp.
Established Shanghai Kyogi Electronics Co., Ltd. joint venture to develop new electronic elements for telecommunication equipment, computers, and household appliances. $25 million. 3/96.

NA (Israel)/China National Aero-Technology Import and Export Corp. (Beijing)
Established Catic-Azimuth Electronics Co., Ltd. joint venture to produce global positioning equipment in Beijing. $1 million. 3/96.

Toshiba Corp. (Japan), Leo Electronics Co. (Japan)
Established joint venture in Shenzhen to produce photocopier machines. $2.4 million. (Japan:90%, 10%). 3/96.

OTHER

Cheyenne Software Inc. (US)
Opened representative office in Beijing. 4/96.

Microsoft Corp. (US)/User Friend Software Co., Ltd.
Established joint venture to develop financial and managerial software. 4/96.

Hewlett-Packard Co. (US)
Opened a marketing, research, and development center in Beijing. 3/96.

Motorola Inc. (US), Apple Computer, Inc. (US)
Formed alliance to manufacture computers with Macintosh OS platform in China. 3/96.

NEC Corp. (Japan)
Formed NEC (China) Co., Ltd. in Beijing to consolidate its China investments. 3/96.

Engineering and Construction

INVESTMENTS IN CHINA

Midlantic Far East Group (US)/NA (Guizhou)
Established joint venture in Guizhou Province to build two cement plants. $30 million. (US:80%-PRC:20%). 4/96.

Otis Elevator Co., a unit of United Technologies Corp. (US)
Opened plant in Guangzhou to produce elevators and escalators. $30 million. 4/96.

ABB Asea Brown Boveri (Holding) Ltd. (Switzerland)/Beijing TJN Environmental Technology Development Co.
Established Beijing ABB District Heating Equipment Co. joint venture to produce pre-insulated district heating pipe systems. (Switzerland:75%-PRC:25%). 3/96.

Owens-Corning Fiberglas Corp. (US)/NA (Jiangsu)
Established Owens-Corning (Jiangsu) XPS Foam Co., Ltd. joint venture in Nanjing, Jiangsu Province to manufacture extruded polystyrene foam insulation products for roofing, exteriors, and cavity walls. $15 million. (US:51%-PRC:49%). 3/96.

The Siam Cement Co., Ltd. (Thailand)/Sichuan Internal Combustion Engine Industry Group (Sichuan)
Established joint venture to produce small diesel engines in Sichuan Province. $29 million. (Thailand:63%-PRC:37%). 3/96.

The Timken Co. (US)/Shandong Yantai Bearing Factory (Shandong)
Established joint venture in Yantai, Shandong Province to produce bearings. 3/96.

Environmental Technology and Equipment

OTHER

Asian Development Bank
Will provide loan to Beijing municipal government for environmental protection projects. $157 million. 4/96.

Export Credit Co. (Finland)
Will provide export credits to China to buy Finnish environmental protection technology. $25 million. 4/96.

Food and Food Processing

INVESTMENTS IN CHINA

Danone Group (France)/Hangzhou Wahaha Group Corp. (Zhejiang)
Established joint venture to produce milk beverages in Hangzhou, Zhejiang Province. (France:51%-PRC:49%). 4/96.

LG Group (S. Korea)/Hongqi Chemical Plant (Jiangsu)
Established Lianyungang LG Hongqi Chemical Co., Ltd. joint venture to produce D-Sorbitol in Lianyungang, Jiangsu Province. $20 million. (S. Korea:75%-PRC:25%). 4/96.

Grand Metropolitan PLC (UK)/Qufu Distillery (Shandong)
Established joint venture in Qufu, Shandong Province. $27 million. 3/96.

Guinness PLC (UK)/Yibin Wuliangye Distillery (Sichuan)
Will establish joint venture in Sichuan Province to make whiskey from local grains. $154 million. 3/96.

OTHER

The Haagen-Dazs Co., Inc. (US)
Opened its first retail outlet in Shanghai. 4/96.

Foreign Assistance

OTHER

Syndicate of 11 Asian and European banks, led by Singapore branch of Banque Française du Commerce Extérieur (France)
Will provide syndicated loan to China Everbright International Trust and Investment Corp. $50 million. 4/96.

World Bank
Will supply credit to finance poverty alleviation project in Shanxi Province. $100 million. 3/96.

World Bank
Will supply credit to an elementary education project. $100 million. 3/96.

World Bank
Will provide loan for construction of a sewage system in Shanghai. $250 million. 3/96.

Medical Equipment and Devices

INVESTMENTS IN CHINA

General Electric (USA) China Co., Ltd., a subsidiary of General Electric Co. (US)/Haiying Enterprise Group (Jiangsu), a subsidiary of China State Shipbuilding Corp.
Established GE-Haiying Medical Equipment Co., Ltd. joint venture to manufacture color ultrasound equipment. $7 million. 4/96.

General Electric Co. (US)/Xinan Medical Equipment Factory (Sichuan)
Established GE Medical Systems (Xinan) Co., Ltd. to develop, manufacture, install, and service x-ray equipment in Sichuan Province. $6 million. (US:75%-PRC:25%). 3/96.

Metals, Minerals, and Mining

INVESTMENTS IN CHINA

Alumax International, a subsidiary of Alumax Inc. (US)/Yunnan Aluminum Processing Factory (Yunnan)
Established Yunnan Xinmeilu Aluminum Foil Co. joint venture to produce cast aluminum foil in Kunming, Yunnan Province. $70 million. (US:57%-PRC:43%).

Kaiser Aluminum Corp., a subsidiary of Maxxam, Inc. (US)/Chengdu Guangda Aluminum Co. (Sichuan)
Established Chengdu Kaiser Aluminum Co., Ltd. joint venture in Chengdu, Sichuan Province, to produce aluminum for the construction industry. $4.1 million. 4/96.

Reynolds Metals Co. (US)
Acquired a 32 percent share in Bohai Aluminum Industries Ltd. in Hebei Province. $45.8 million. 4/96.

United Development (Israel)/China National Non-Ferrous Metals Industry Corp., Government of Heilongjiang Province, Government of Harbin City (Heilongjiang)
Established United North-East Aluminum joint venture in Harbin, Heilongjiang Province, to process aluminum for use in

the beverage, construction, and automotive sectors. $430 million. (Israel:50%-PRC:50%). 4/96.

Kaiser Aluminum Corp., a subsidiary of Maxxam, Inc. (US)/NA (Guizhou)
Established Guizhou Kaiser Aluminum Co. joint venture in Guiyang, Guizhou Province. $5.4 million. 3/96.

Kennametal Inc. (US)
Established wholly owned subsidiary in Pudong, Shanghai to produce metal-cutting tools. $19 million. 3/96.

Messer Griesheim (Germany)/Changchen Special Steel (Sichuan)
Established joint-venture industrial gas plant in Jiangyou, Sichuan Province, to supply steel industry. $25 million. 3/96.

Petroleum, Natural Gas, and Related Equipment

CHINA'S IMPORTS

Dresser-Rand Turbo Products Division, a unit of Dresser Industries, Inc. (US)
Will supply a fluid catalytic cracking unit and auxiliary support equipment for SINOPEC's new Shanghai Oil Refinery. $7 million. 4/96.

Gaz de France (France)
Awarded contract to build a liquefied natural gas plant in Pudong, Shanghai. $48.7 million. 4/96.

Dresser-Rand Turbo Products Division, a unit of Dresser Industries, Inc. (US)
Will sell model 3M8 compressor to Dalian Petrochemical Co., a SINOPEC unit in Liaoning Province, for wet gas service at its refinery. 3/96.

Ishii Iron Works (Japan)
Awarded contract to build two liquefied petroleum gas storage terminals and related facilities near Shenzhen. $50 million. 3/96.

INVESTMENTS IN CHINA

Triton Energy Corp. (US)/CNOOC
Will jointly explore for oil in the South China Sea, 90 miles southeast of Hong Kong. 3/96.

OTHER

Esso China Upstream Ltd., an affiliate of Exxon Corp. (US)
Was granted exploration rights to two large blocks in Tarim Basin in Xinjiang Uygur Autonomous Region. 3/96.

Pharmaceuticals

INVESTMENTS IN CHINA

Pasteur Merieux Serums et Vaccins, a subsidiary of Institut Merieux International (France)/Shenzhen Kangtai Biological Products Co., Ltd. (Guangdong)
Established Shenzhen Pasteur Merieux Biological Products Co., Ltd. joint venture in Guangdong Province to develop and market vaccines for the Chinese market. 4/96.

Watson Pharmaceuticals (US)/Changzhou No.4 Pharmaceutical Factory (Jiangsu)
Established Changzhou Watson Pharmaceutical joint venture in Changzhou, Jiangsu Province to produce pharmaceuticals for export. (US:87.5%-PRC:12.5%). 3/96.

Watson Pharmaceuticals (US)/Changzhou No.4 Pharmaceutical Factory (Jiangsu)
Established Changzhou Siyao Pharmaceutical joint venture in Changzhou, Jiangsu Province to provide raw materials to the new Changzhou Watson Pharmaceuticals joint venture. (US:25%-PRC:75%). 3/96.

Rhône-Poulenc SA (France)/Ministry of Public Health
Established Beijing Rhône-Poulenc Rorer Pharmaceutical joint venture to produce antibiotics and anti-inflammatory drugs. $30 million. (France:90%-PRC:10%). 2/96.

OTHER

Roche Holding Ltd. (Switzerland)
Established Roche (China) Investment Ltd. in Beijing to coordinate its enterprises in China. 4/96.

Ports and Shipping

INVESTMENTS IN CHINA

Port of Singapore Authority (Singapore), Jurong Town Corp. (Singapore), Sembawang Maritime Ltd. (Singapore), AIG Asian Infrastructure Fund LP, a part of American International Group, Inc. (US)
Established Singapore-Dalian Port Investment Pte. Ltd. joint venture to build a container terminal in the Port of Dalian, Liaoning Province. $480 million. (Singapore:70.6%, 9.8%, 9.8%, US:9.8%). 4/96.

OTHER

Bremer Lagerhaus Gesellschaft (Germany)
Will provide direct container services between Shanghai and the German ports of Bremen and Bremerhaven. 4/96.

Department of Transport (UK)/Ministry of Communications
Signed shipping agreement. 4/96.

Port of Vancouver (Canada)/Port of Guangzhou (Guangdong)
Signed sister port agreement. 4/96.

Suttons International Ltd. (UK)
Opened a tank-container operation to handle chemical shipments in China. 3/96.

Power Generation Equipment

CHINA'S IMPORTS

Mitsubishi Electric Corp. (Japan)
Awarded contract to provide electrical equipment for Ertan Hydropower Project in Sichuan Province. $55 million. 4/96.

Fragema, a unit of Framatome SA (France)
Awarded China Nuclear Energy Industry contract to supply components for Qinshan nuclear plant near Shanghai. $10 million. 3/96.

Mitsui & Co., Ltd. (Japan), General Electric Co. (US)
Awarded contract to supply steam turbines, equipment, and services for the 700MW Qitahe Thermal Energy and Environmental Improvement Project in Heilongjiang Province. $85 million. 3/96.

INVESTMENTS IN CHINA

Babcock-Hitachi K.K. (Japan), ITOCHU Corp. (Japan)/Dongfang Boiler Co., Ltd. (Sichuan)
Established Babcock-Hitachi Dongfang Boiler Co., Ltd. joint venture in Zhejiang Province to produce efficient boilers for domestic thermal power plants. $10 million. (Japan:45%, 5%-PRC:50%). 3/96.

Property Management and Development

INVESTMENTS IN CHINA

DBS Land (Singapore)/China Overseas Land, Shanghai Foreign Construction Co., Shanghai Yongye Real Estate Stock
Established joint venture to build Hai Li Garden commercial and residential housing project. $60 million. (Singapore:30%-PRC:55%, 10%, 5%). 4/96.

Shui On (Hong Kong)/Zhong Hong Group (Shanghai)
Established joint venture to develop Rainbow City housing complex in Shanghai. $650 million. 4/96.

OTHER

ITT Sheraton Corp. (US)
Awarded contract to manage two upscale hotels in Guangzhou and Dongguan, Guangdong Province. 3/96.

Shangri-La International Hotels, Inc. (US)
Will open Shangri-La Beihai Hotel in Guangxi Province, Shangri-La Changchun Hotel in Jilin Province, and Traders Hotel Shenyang in Liaoning Province. 3/96.

Telecommunications

CHINA'S IMPORTS

NEC Corp. (Japan)
Awarded MPT contract to provide SDH microwave systems for a public communications line connecting Guangzhou, Guangdong Province and Nanning, Guangxi Province. 4/96.

Siemens AG (Germany)
Will sell digital data network equipment to the cities of Daqing, Harbin, Qiqihar, and Qitaihe in Heilongjiang Province. $4.5 million. 4/96.

Motorola Inc. (US)
Won contracts to supply cellular telephone networks for system expansion in Beijing, Shanghai, and Sichuan Province. $82 million. 3/96.

Oy Nokia AB/Nokia Group (Finland)
Won Guangzhou Railways Corp. contract to supply SDH optical transmission and network equipment for high-speed line in Guangdong Province. 3/96.

Motorola Inc. (US)
Will sell FLEX paging systems to P&T administrations of Hunan, Shaanxi, and Hainan provinces. $13 million. 3/96.

Motorola Inc. (US)
Awarded MPT contract to supply TACS equipment and services to Hangzhou Communications Equipment Factory to provide cellular telephone service to one million people in Zhejiang Province. $225 million. 2/96.

INVESTMENTS IN CHINA

GTE Corp. (US)/Guangzhou Guangtong Resources Co. (Guangdong)
Established wireless telecommunications joint venture in Guangzhou. $28 million. 4/96.

Oy Nokia AB/Nokia Group (Finland)/China National P&T Industry Corp.
Established Beijing-Nokia Mobile Telecommunications Ltd. joint venture to produce digital and analog cellular phones in Beijing. $29 million. (Finland:50%-PRC:50%). 4/96.

Star TV, a unit of News Corp. (Australia), Today's Asia Ltd. (Hong Kong), China Wise International Ltd. (Hong Kong)
Established Phoenix Satellite Television Co. joint venture to distribute and market television channels in China. $60 million. (Australia:45%, Hong Kong:45%, 10%). 3/96.

TA Orient Telecom Investment, a subsidiary of TelecomAsia Public Co., Ltd. (Thailand)/Chongqing Communication Equipment Factory (Sichuan)
Established joint venture in Sichuan Province to manufacture decoders, multi-layer PC boards, and other telecommunications equipment. $40 million. (Thailand:49%-PRC:51%). 3/96.

OTHER

GTE Corp. (US)
Opened representative office in Beijing. 4/96.

Xpedite Systems, Inc. (US)/China Far East Data Communications (Beijing)
Will install a fax broadcast system in Beijing and incorporate it into Xpedite's worldwide fax network. 4/96.

Australian Government
Will provide loan to improve rural telephone networks in Shanxi Province. $7.4 million. 3/96.

PictureTel Corp. (US)
Opened liaison office in Beijing. 3/96.

Textiles and Apparel

CHINA'S IMPORTS

Ems-Inventa (Switzerland)
Will supply engineering and processing technology to a polyester staple fiber complex in Zhejiang Province. $17.5 million. 2/96.

Transportation

CHINA'S INVESTMENTS ABROAD

CAAC
Will purchase 36 percent stake in Dragonair. $256 million. 4/96.

CITIC Pacific (Hong Kong), a unit of CITIC
Raised its stake in Cathay Pacific from 10 percent to 25 percent. $815 million. 4/96.

INVESTMENTS IN CHINA

AB SKF (Sweden)/China National Railway Locomotive & Rolling Stock Industry Corp.
Established Beijing Nankou SKF Railway Bearings Co., Ltd. joint venture to produce bearings for railway cars and locomotives in Beijing. 4/96.

AlliedSignal, Inc. (US)/Kaiping Polyester Enterprises Corp. (Guangdong)
Established two joint ventures in Guangdong Province to produce industrial polyester fabric and fibers for use in motor vehicles. $29 million. (US:70%-PRC:30%). 4/96.

Daewoo Corp. (S. Korea)/China No.1 Automobile Group Corp. (Jilin), Shandong Automobile Industrial Corp. (Shandong), Yantai Economic and Technological Development Zone (Shandong)
Established automobile products joint venture in Yantai, Shandong Province. $950 million. 4/96.

Lemforder Metallwerke, a unit of ZF (Germany)/NA (Shanghai)
Established joint venture in Pudong, Shanghai to produce auto components. $30 million. (Germany:51%-PRC:49%). 4/96.

Packard Electric Division, a unit of General Motors Corp. (US)
Will establish Delphi Packard Electric Guangzhou wholly owned manufacturing base and customer service center in Guangzhou. 4/96.

Sammitra Motor Group (Thailand), Nissan Motor Co. (Japan)/CITIC, NA (Henan)
Established joint venture in Zhengzhou, Henan Province, to produce pickup trucks. $30 million. (Thailand:25%, Japan:5%-PRC:35%, 35%). 4/96.

T&N PLC (UK), Teikoku (Japan)/Anqing Piston Ring Co. (Anhui)
Established joint venture to build a plant to produce piston rings in Anhui Province. $30 million. 4/96.

T&N PLC (UK)/Nanchang Air Cylinder Gasket Factory (Jiangxi)
Established joint venture to build a plant in Nanchang, Jiangxi Province to produce gaskets. $4.5 million. (UK:70%-PRC:30%). 4/96.

T&N PLC (UK)/NA (Hubei)
Established joint venture to build a plant in Wuhan, Jiangxi Province to produce brake pads and brake-shoe assemblies. $4.7 million. (UK:70%-PRC:30%). 4/96.

Tenneco Automotive, a division of Tenneco Inc. (US)/Jinzhou Automotive (Liaoning)
Established Dalian Walker Gillet Muffler Co., Ltd. joint venture in Liaoning Province to manufacture mufflers. $5 million. 4/96.

Delphi Automotive Systems, a subsidiary of General Motors Corp. (US)/Wanda Group (Zhejiang)
Established Shajinuo Steering Gear Co., Ltd. joint venture to produce steering gears for commercial vehicles. $26.2 million. (US:60%-PRC:40%). 3/96.

Sumitomo Electric Industries, Ltd. (Japan)/Tianjin Zhonghuan Electric & Machine-electric Components, Tianjin Jinzhu Wiring Systems, NA
Established Tianjin Jinzhu Wiring System Components joint venture in Tianjin to produce wire harness equipment for vehicles. $2.3 million. (Japan:60%-PRC:20%, 10%, 10%). 3/96.

OTHER

General Motors Corp. (US)/Qinghua University (Beijing)
Established GM-Qinghua Technology Institute in Beijing. 4/96.

Lockheed Martin Corp. (US)
Opened representative office in Beijing. 4/96.

Northwest Airlines (US)/Air China
Will form joint operation and marketing alliance. 4/96.

Bombardier Aerospace Group, a unit of Bombardier Inc. (Canada)
Will operate executive air charter service from Zhuhai, Guangdong Province. 3/96.

World Bank
Will provide loan for highway construction in Shaanxi Province. $210 million. 3/96.

Miscellaneous

INVESTMENTS IN CHINA

ITOCHU Corp. (Japan), Dai-Ichi Kangyo Bank, Ltd. (Japan), CRC Research Institute (Japan)/International Trade Research Institute
Established Beijing Wujia Economic Consulting Co. joint venture to help foreign businesses invest in China. 3/96.

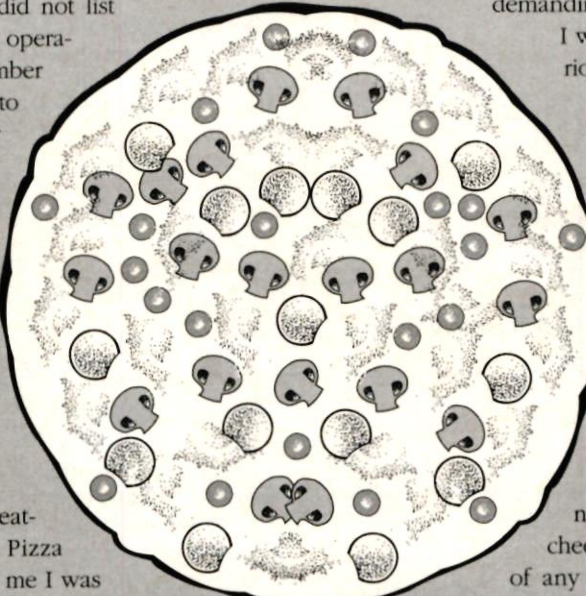
OTHER

Saint Rose College (US)/China Youth College for Political Science (Beijing)
Signed agreement to co-train graduate business students. 3/96.

Pizza to Go

My mission parameters were clearly delineated as they came down from the central command unit of *The China Business Review*: you are to seek out and sample a home-delivery pizza during your stay in Guangzhou for the city's April Trade Fair. The task seemed simple enough. I was staying at the China Garden Hotel, only a stone's throw away from the Trade Fair. Millions of foreigners were descending on Guangzhou at the time, so the pizza places were sure to be packed to maximum levels.

As it turns out, the task was not so simple. The phone book in my hotel room did not list nearby restaurants and the hotel operator gave me a disconnected number for the local Pizza Hut. I resorted to "calling information," which, for no apparent reason, means dialing "114," the reverse of the "411" number dialed in the United States. I asked again for Pizza Hut contact information, but the operator gave me the same number I'd just tried. This was clearly going nowhere, so I descended five floors and enlisted the front desk's help.



After the *fuwuyuan* tried repeatedly without success to locate Pizza Hut by phone, the desk staff told me I was wasting my time and to walk to the pizza place across the street. At this point I was getting hungry, but did not want to abort the main mission of ordering a pizza by phone. I decided that *CBR* Central Command might be just as pleased at the prospect of learning about the options at Joe Eagle's Pizza, though. Pizza Hut bakes fantastic pizza throughout the world, but Joe Eagle's presented a new adventure. My stomach got the best of me and I went across the street, which was no easy feat during the heady days of the Trade Fair.

Joe Eagle's (or, translated literally, "Eagle General") in Guangzhou proved to be an interesting blend of Eastern and Western cuisine, with a Chinese buffet to one side and a fast-food counter front-and-center. The Chinese buffet offered staples like rice, eggs, and spinach, but the main attraction was the Western food. Some of the fine fare on the Western menu included steak brisket, burgers, hot dogs, mango pudding, soup, brioche, chicken wings, and the ever-popular orange and lemon squash drinks. Pizza was clearly the mainstay. The choices were intriguing: Pizza Peccatorq (shrimp, squid, garoupa), Pizza Regina (mushrooms, beef, anchovies), Pizza Capricciosa (mushrooms, salami, and anchovies), Hawaiian Pizza (pineapple, chicken, and salami), and my personal favorite—Pizza Mixed Fruit (with no description given of the toppings).

Like pizza parlors in the United States, Joe Eagle's let customers add pizza toppings to suit their individual tastes. These toppings included the usual onions, pepperoni, green peppers, and ham, but there were also some unusual additions like shrimp. At ¥48 per pizza ($5.78), I had hoped the pizza might be better than the average Chinese meal. Having just arrived from Sichuan Province, home of some of the best food in China, this was a fairly demanding request.

I was sorely tempted to try the mysterious Pizza with Mixed Fruit, but settled on a plain cheese pizza with mushrooms since I was sharing the meal with one of my more pizza-conservative colleagues. The pizza was ready in 15 minutes or so, and before long I returned to the hotel carrying the hot box and feeling somewhat proud of having achieved my mission.

Pam and I eagerly plowed into the first slices but, sadly, I have to report that Joe Eagle's was not up to snuff. Far from it. The cheese reminded us more of tofu than of any dairy product we'd ever encountered and the crust contained enough dough for three loaves of bread. The whole works could have benefited from another 10 minutes or more in the oven. About the only ingredients remotely similar to a US pizza were the mushrooms, which were perfect. I don't recall the tomato sauce; it's quite possible there wasn't any at all.

While a survey size of one is probably not statistically significant and individual tastes vary, I can see why Joe Eagle's didn't pack in the foreigners, even during such a busy fortnight. General Joe needs to visit the pizza motherland, or at least take a look at Pizza Hut around the corner. I'm not sure what we ate that night, but I don't think it would classify as pizza. But the menu, on closer scrutiny, revealed a few clues: the Hawaiian Pizza translated as "Airforce Pineapple Pizza"; while the Pizza Peccatorq really read "Navy Pizza." I guess old Joe figured he only had to please military mouths.

—Daniel Martin

Daniel Martin, head of the Council's investment program, will be checking out the pizza situation at the University of Virginia this fall.

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Here are a few of the reasons why: There's the 700 room Portman Shangri-la Hotel for your five-star guests ... 472 deluxe apartments for longer-term residence ... 25,000 square meters of prime office space ... our two-level Retail Plaza to shop or sell from ... the Centre Theatre that seats one thousand and has become the new home of the performing arts in Shanghai ... and finally 4,000 square meters of exhibition hall space if you want to put on a show of your own.

Compare our great city to others you may know ... and compare Shanghai Centre to the best they have to offer.

We're confident we can match their tempo and yours, too.

SHANGHAI CENTRE

A joint venture of
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SHANGRI-LA ASIA LIMITED

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How can you read the Chinese market if you don't know the difference between these characters?

There is actually no difference other than the calligraphy; both characters mean the same word - business. But only those who know Chinese culture well will appreciate the subtleties behind these writings.It takes time to understand China. And in business, there's a lot more to understand than language. HongkongBank has been in China for over 130 years. Long enough to gain market insights and do business with confidence.Firmly rooted in Asia we have branches and representative offices in 10 major cities across China. All offering you comprehensive services and professional advice.With the strength of our global network and indepth understanding of this unique market, HongkongBank can help you to read between the lines when doing business in China.For more information, please contact HongkongBank China Services Ltd at tel : 2822 2652 fax : 2868 1646.

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