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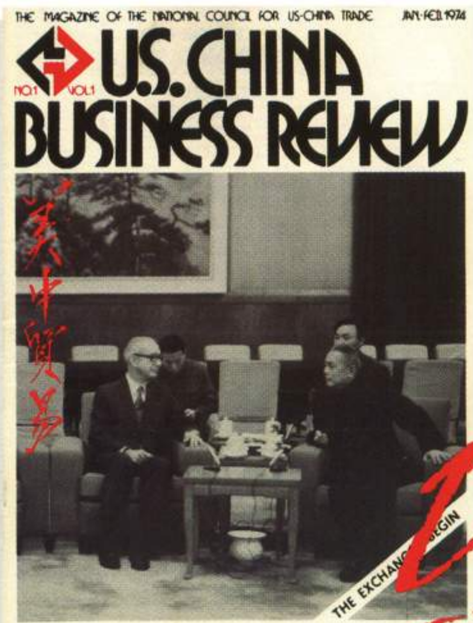
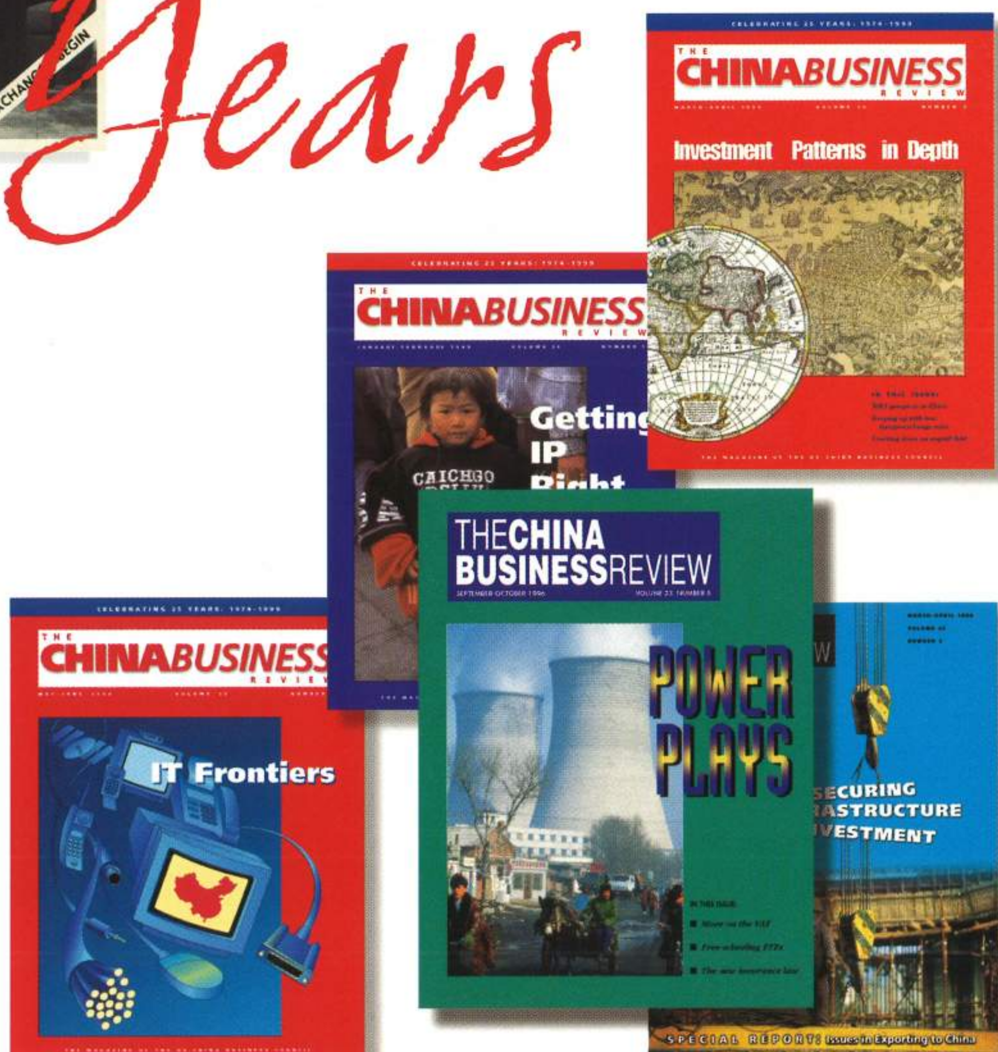
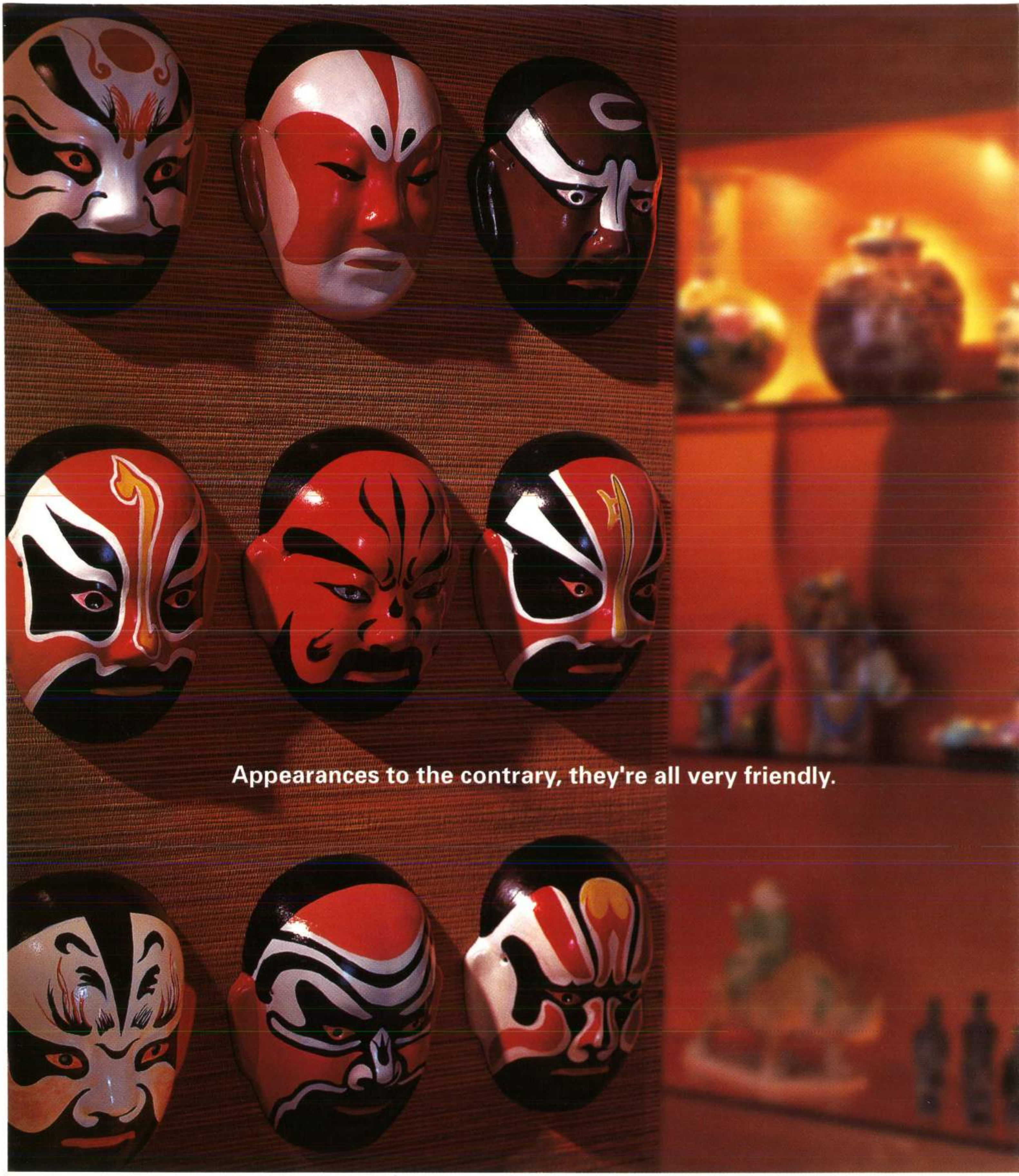


美中商貿评论

25 Years





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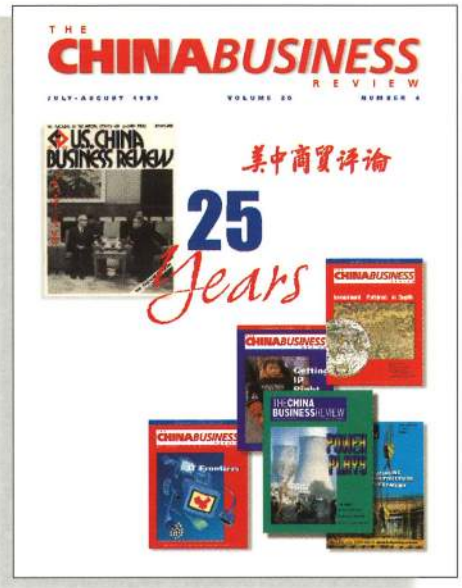

Cover design by Jon Howard

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Business As Usual

As CBR *readers are no doubt already aware, the NATO bombing of the PRC Embassy in Belgrade on May 8 set off angry demonstrations throughout China. A US special envoy has recently traveled to China to repair the damage to the bilateral relationship. But US business in China may feel a slight chill for some time. The following report is by* CBR *Assistant Editor Darlene M. Liao and is supplemented by comments delivered at The US-China Business Council's Annual Meeting by Sheila Melvin, director of the Council's Shanghai office.*

I arrived in Beijing at around 5:30 pm on May 8, after a news-less 20-hour trip from Washington. During my ride into town, I didn't notice anything out of the ordinary except for a small gathering near downtown, but nowhere near the US Embassy compound. The gathering caught the attention of my taxicab driver, but he was just as unaware of the possible reason for the gathering as I. Not until I checked into my hotel room and turned on CNN did I learn about the bombing. The next morning, I experienced my first dose of the intense demonstrations that would take place in Beijing over the next four days. Walking along Jianguomenwai Dajie on my way back to the hotel from Tiananmen Square, I ran into the starting point for the demonstrators' march to the US Embassy. The crowd was organized and calm, but once the march began, the anger of the demonstrators toward NATO, and the United States in particular, was plain to see.

Demonstrators gathered in other Chinese cities as well. While protestors in Beijing defaced the US Embassy, those in Chengdu burned the residence of the US Consul General. Demonstrations elsewhere were both more and less violent. Things were calmest in Shanghai, where local officials channeled their energies into reassuring foreigners, and foreign businesses, of their safety and of the Shanghai government's support.

Despite the demonstrations, my scheduled meetings proceeded smoothly. Only my meeting at the US Consulate in Guangzhou fell through—the US Embassy and consulates were all closed during the demonstrations and for some time after. When I reached Guangzhou on May 12, things were back to normal on the streets aside from a few posters.

Many have wondered whether the demonstrations were orchestrated by the government or were genuine outbursts by Chinese citizens. They seemed to be a bit of both. Some students were bussed into town and supposedly given free lunches. One onlooker reportedly saw students standing among the crowds, reading books and obviously disinterested in the hoopla, while other students appeared genuinely angry. Anti-NATO sentiment was high, even before the bombing occurred. Students who disapproved of the war had applied for licenses to protest when the war began, but had been turned down.

Soon after the bombing, many Chinese television stations pulled American programs off the air, with no indication of when such shows would be put back on the schedule. Protestors, meanwhile, urged citizens to boycott American consumer goods, including McDonald's, Kentucky Fried Chicken, and Coca-Cola. Some stores were targets of looting. Most Chinese consumers, however, did not heed this call; at least one KFC outlet I passed in Guangzhou, for example, was crowded with customers a week after the bombing.

What now for businesses?

In the immediate aftermath, some firms prepared to implement evacuation plans, and others scrambled to put such plans together just in case. A number of visits and meetings were canceled, and some deals were called off. Many foreign-invested companies have reported tension among their staff. Others have reported no adverse effects at all.

Sheila Melvin, of the Council's Shanghai office, reports that companies have been advised to conduct business as usual but also to undertake measures to ease tensions. Some companies, particularly those whose sales forces have encountered customers irate about the bombing, have provided salespeople with a company statement expressing sympathy for the victims' families. Many companies sent condolence letters to key PRC officials and to local employees. Other suggestions have included showing public support for China's entry into the World Trade Organization. US companies have also been advised to communicate to Chinese employees their efforts to push for normal trade relations (NTR) status, permanent NTR status, and WTO accession for China. Regular staff meetings have helped to reassure local employees of a company's commitment to China.

As US and PRC officials continue to work out their differences over the next few months, US companies are faced, not for the first time, with continuing normal business operations under a cloud of uncertainty.

"Cherish the Renminbi and Uphold its Prestige"

—A slogan on a large red banner outside a branch of the Industrial and Commercial Bank of China in Beijing, as reported to The CBR *by The US-China Business Council's Pam Baldinger.*

Slippery Counterfeiters

The Guangzhou Administration of Industry & Commerce raided shops and warehouses in southern China late last April, confiscating over 90 cases of counterfeit WD-40, a well-known brand of multipurpose lubricant. Two retailers in Guangzhou and one in Dongguan were the targets of the raid.

Hong Kong Telecom Goes Multimedia

Hong Kong Telecom has announced plans to invest at least $65 million per year to expand its broadband network. It will upgrade existing interactive TV and Internet-related services, and look for new opportunities in pay TV and other multimedia services.

Hong Kong's Space Shortage Solution

The Hong Kong government is reportedly considering building underground. A proposal calls for cities to be built inside mountain tunnels, using fiber-optic technology to store solar energy.

Case Not Closed

Last year's opening to the public of Chinese courtrooms in Beijing was only the beginning. In a bid to win public trust, courts are now required to publicize trials in advance, and any verdict issued in a closed courtroom is subject to a retrial. Not all cases will be open, however. Those involving juveniles, national security, and matters of personal privacy will remain closed.

Forbidden Foam

Every year, China uses roughly 10 billion plastic foam containers, as anyone who has had take-out in China may find unsurprising. But these containers take 200-300 years to decompose. To battle the resulting litter and pollution problems, both the production and use of plastic foam containers will be banned in China by the end of this year. Take-out restaurants have been asked to use paper, rice husks, wheat shells, and other natural fibers as substitutes.

Ni Hui Shuo Zhongwen Ma? (Do You Speak Chinese?)

According to *Ming Pao*, a major Hong Kong newspaper, the study of Chinese language worldwide has increased rapidly. In the United States, the number of Chinese-language students grew 36 percent from 1990 to 1995. In South Korea, the number of students majoring in Chinese jumped 700 percent between 1988 and 1996, while in France, the number of students learning Chinese has risen 60 percent in the last five years. Japan retains first place, however, with the largest number of Chinese-language students in the world—outside of China, of course.

TV meets PC

Microsoft Corp.'s Venus project is set to connect more Chinese households to the Internet. At under $200, the television set-top box will provide access to those unable to afford a PC. The Venus box can provide both basic computing services and access to movies. Microsoft's partners in the project are China's Legend Holdings and Hai'er Group; Taiwan's Acer Inc. and Integrated Technology Express Inc.; and Philips Electronics NV of the Netherlands.

The Fruits (and Meats) of Negotiation

The lifting of bans on US meat imports has led the National Chicken Council of the United States to predict that US poultry exports to China will rise by 10-20 percent a year. And the lifting of the ban on citrus will help reduce the lively trade in smuggled citrus, which one Sunkist executive estimates brought $30 million in illegal fruit into China in 1997 alone.

Correction and follow-up

In the last issue, we ran our annual spread of PRC economic, trade, and investment statistics. We must make a correction to the figure for urban per capita income in 1998. That figure should be ¥5,454.0 not ¥7,113.9.

THE **CHINA***BUSINESS* REVIEW

美中商贸评论

The magazine of the US-China Business Council

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Letter FROM THE PRESIDENT OF THE US-CHINA BUSINESS COUNCIL

Robert A. Kapp

The Council Speaks: Time to Get a Grip

The time has come for both nations to embark purposefully on vigorous efforts to restore a climate of cooperation and stability between the US and the PRC.

The Board of Directors of The US-China Business Council, meeting in early June, put forth a broad statement on US-China Relations, economic and commercial ties, and the World Trade Organization-permanent normal trade relations issue.

They acted after a remarkable two-month period of apparent crisis in US-China relations. This period began with the disappointing near-miss on the bilateral WTO discussion at the time of Premier Zhu's visit to the United States; continued through the shocking bombing of the Chinese Embassy in Belgrade and the very troubling outburst of popular and government animus toward the United States that ensued in China; and then careened onward with the release of the US congressional committee's report on losses of US military technology secrets to China.

As the Council's directors acted, the two countries seemed to be talking loudly to themselves *about* each other, but no longer speaking—let alone accomplishing anything positive—*with* one another.

The directors sought to remind one and all of certain fundamental features of the US-China relationship, and to sound the call for the conscious restoration of a sense of balance and civility in this critical bilateral relationship.

Ironically, only five days after the embassy bombing, a new fund created by donations from corporate members of the US-China Business Council announced its first awards to worthy Chinese and US applicants pursuing cooperative projects in the crucial field of law.

The US-China Legal Cooperation Fund, established by corporate donations as a gesture of business support for the real building-block work so critically necessary in US-China relations, announced modest grants to five wonderful projects:

- A joint symposium by the American Bar Association and the Legal Aid Foundation of the PRC on strategies for expanding and supporting the development of legal aid services in China;
- A survey and analysis of administrative law procedures in four Chinese cities, to be conducted by The Asia Foundation and the National Institute of Administration of the State Council of the PRC, aimed at supporting improvement in the fairness, predictability and openness of local administrative law enforcement in China;
- A compilation and publishing project for a comprehensive English-to-Chinese dictionary of Anglo-American law, to be conducted by the China University of Political Science and Law in cooperation with the University of Michigan School of Law;
- A symposium and comparative study of the protection of human rights and the judicial systems of the PRC, Taiwan, and Hong Kong, to be conducted by a unit of the Beijing University Law Department;
- An Administrative Law Partnership estab-

lished by the College of Law and the Maxwell School of Citizenship and Public Affairs at Syracuse University, the China National School of Administration, and the Administrative Law Research Group of the Legislation Committee of the National People's Congress of the PRC. The Partnership will assist in development of administrative laws and processes for the protection of rights of Chinese citizens, conduct pilot programs for provincial governments, and train government officials.

This first gesture by a small fund created by US corporations associated with our Council is a tangible reminder of the essential message of the Statement by the Board of Directors of the Council: the time has come for both nations to "embark purposefully on vigorous efforts to restore a climate of cooperation and stability between the US and the PRC." Business can help, but it cannot bear the burden of a stable US-China relationship alone. Governments, and lawmakers, need to contribute to the rebuilding process.

Here is the formal statement from the Council's Board of Directors:

Statement by the Board of Directors of
THE UNITED STATES-CHINA BUSINESS COUNCIL

Adopted June 8, 1999

The relationship between the United States and China is, and will be in the 21st century, critical to the well being of the American and Chinese people and of the world.

No good can come from the alienation of our two nations from one another.

In a period of heightened tension in US-China relations, The United States-China Business Council urges the governments of the United States and China to embark purposefully on vigorous efforts to restore a climate of cooperation and stability between the US and the PRC.

The interests of both nations are best served by the fullest possible expansion of economic and non-economic ties. Since the establishment of diplomatic relations between the United States and China in 1979, these ties have grown steadily, and have brought the two nations into mutually beneficial contact in many spheres. In the process, close personal and organizational relationships have developed between Americans and Chinese in education, medicine and public health, culture, business, public policy, and many other fields.

The economic and commercial relationship of China and the United States is an indispensable building block in the overall bilateral relationship.

The Council has been pleased to note that economic and commercial work between China and the United States has been shielded in significant measure from the most serious pressures in US-China relations over the past several months.

The US and China in April appeared close to final bilateral agreement on terms of China's accession to the World Trade Organization. Chinese accession to the WTO along the lines outlined in documents made available by the US government at that time would be very beneficial to the interests of both countries and to the world.

The US-China Business Council strongly hopes that negotiations between the US and China on WTO accession can resume in the near future, and that remaining issues can be promptly resolved. The Council is prepared to devote its full energies, on behalf of its member companies, to ensuring that the United States enjoys the full benefits of China's accession to the WTO.

The Council will work with other organizations, the Administration, and the many Members of Congress supportive of stable US-China relations to pass legislation eliminating the annual review of China's NTR tariff status, and establishing permanent NTR status for the PRC in conjunction with its accession to the World Trade Organization.

The Taxman at the Door

Joyce A. Peck and Sophia Xu

The party may be over for foreign enterprises as China tightens up its tax regime

In its efforts to achieve an 8 percent increase in GDP, China implemented a number of tax policies last year to boost revenues and stimulate investment in targeted sectors of the economy. The country indeed managed to maintain a reasonable rate of economic growth, in spite of Asia's financial crisis, severe floods, increasing unemployment, and a sluggish domestic economy.

Unfortunately, this maze of new tax policies has forced many foreign investors to reevaluate their tax strategies. They have been trying to identify exactly what tax changes have occurred in recent months, and what impact the changes will have on their investments in China. Many of the new tax policies had negative effects on the bottom lines of foreign investments. Thus most foreign investors are asking what, if anything, they can do to minimize the effects of an ever-changing tax regime.

Governing tax laws and taxpayers

In order to determine the impact of China's tax laws on foreign investment, it is necessary to understand the governing tax legislation and the different categories of taxpayers.

■ **Income tax** The Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (the Income Tax [IT] law) and its detailed rules of implementation (detailed rules) govern foreign taxpayers in China. Both the IT law and its detailed rules became effective July 1, 1991. The tax law defines two distinct categories of taxpayers. The first is a foreign-invested enterprise (FIE) and includes equity joint ventures, cooperative or contractual joint ventures, and wholly foreign-owned enterprises. The second category, foreign enterprises (FEs), includes management branches and representative offices, factories involved in foreign licensing arrangements, places for exploitation of natural resources, contracted project sites, and companies that provide services, such as contractors or consulting firms.

The statutory tax rate applicable to both FIEs and FEs is 33 percent of taxable income, and includes a 3 percent local tax. The 30 percent national tax can be reduced by the central government to encourage certain kinds of business activity, and the 3 percent local tax may be reduced or waived at the discretion of the local government. Withholding tax is not levied on profits remitted by an FIE to its foreign investors or on the profits remitted by second-tier companies (holding company subsidiaries) to investment holding companies.

■ **Turnover tax** On January 1, 1994, China introduced a new turnover tax system consisting of value-added tax (VAT), business tax, and consumption tax (also known as excise tax). It replaced the old system, which included the Consolidated Industrial and Commercial Tax (CICT), product tax, and the earlier version of the VAT. (The product tax and earlier version of the VAT were not levied on either FIEs or FEs, however.)

The current VAT is levied on the importation of goods, the sale of goods, and the provision of specific services such as processing and repairs. By statute, export of goods should be zero-rated. This means that any VAT paid on inputs is to be refunded, and VAT is not to be applied to exports. Until this year, however, exporters received only partial refunds, which were calculated in a number of

Joyce A. Peck, a CPA and managing director of the China Business Center of PricewaterhouseCoopers, located in New York, has advised foreign companies investing in China since 1984. Sophia Xu is a manager with PricewaterhouseCoopers in Beijing, currently on assignment at the center.

different ways—and most still receive less than the full 17 percent refund.

The amount of VAT payable is the amount of tax that a VAT payer collects from selling the finished goods—known as the "output VAT," less the input VAT—the VAT that it paid to its vendors—which is normally collected at every stage of the production and supply chain. The tax burden is eventually borne by the enduser. Since VAT is paid at each level of operation, the number of transactions should be minimized: head offices rather than their sales branches should issue invoices and collect VAT.

The VAT rate is usually 17 percent of the gross value of most products and a limited number of services. Some items, such as agricultural products and utilities, are taxed at 13 percent. Certain goods are even exempt from VAT—these include agricultural products sold by agricultural producers and imported scientific research equipment. Enterprises engaged in the production of goods with turnover of less than ¥1 million ($120,773) or companies engaged in the wholesale or retail of goods and whose annual taxable sales are less than ¥1.8 million ($217,391) are regarded as small-scale VAT payers and are subject to a rate of 6 percent. Unlike general VAT payers, small-scale payers do not receive a credit for input VAT against VAT on sales.

Business tax and VAT are mutually exclusive. Business tax is imposed on China-sourced transactions including most services, for instance transportation, construction, post and telecommunications, and finance and insurance. It is also levied on the transfer of immovable properties and intangible assets. The business tax is imposed on gross revenues and ranges from 3 to 20 percent, depending on the nature of the services. Unlike VAT, business tax is not a creditable tax, meaning that taxpayers registered for business tax cannot recover either VAT or business tax as "input tax."

Consumption tax is levied on the importation, production, and processing of 11 categories of consumable goods, including tobacco, alcoholic drinks, cosmetics, skin- and hair-care products, jewelry, fireworks, gasoline, diesel oil, tires, motorcycles, and automobiles.

Good news for taxpayers

This year brought some good news for taxpayers. The exemption of tax on imports of capital equipment had been a longstanding preferential policy for which foreign investors were eligible. In an effort to increase central-government tax revenues and eliminate smuggling, however, China revoked this treatment in April 1996. As might be expected, there was an outcry from foreign investors who were now faced with paying as much as a 35 percent tax on the value of imported capital equipment. (PRC authorities subsequently extended the tax exemption through the end of 1998.) At the beginning of 1998, however, the PRC tax authorities once again agreed to exempt import duties and VAT on capital equipment imported by FIEs.

Foreign investors should be aware, however, that to qualify for the renewed import exemptions, the foreign-invested project must satisfy a number of additional guidelines. First, the project must transfer technology. Second, the project must fall within the encouraged category or restricted category "B" list of the *Catalogue Guiding Foreign Investment in Industry*, originally released in 1995 but updated as of January 1, 1998. The imported machinery or equipment cannot be listed in China's *Catalogue of Non-exempt Commodities Imported for Foreign-invested Projects*. The items on this list are primarily office equipment and personal goods such as televisions and refrigerators. Since it may be difficult for a foreign investor to determine whether a project qualifies for the exemption, investors are encouraged to obtain up-front confirmation that their project will be eligible for import exemptions from the local Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and General Administration of Customs authorities.

Foreign investors producing goods for export were also encouraged to learn that effective January 1, 1999, the State Administration of Taxation (SAT) had increased the VAT refund rates for a large number of industrial goods. The refund rate for some export products, including electronic plant and equipment, appliances, and electronic products, is now 17 percent. Since the input VAT rate is also 17 percent, the tax is now fully recoverable for these goods.

FIEs established before January 1, 1994, were also pleased to learn that the VAT position on their export sales would remain unchanged for an additional two years. When the VAT regulations were introduced, the central government promised FIEs established before 1994 that they would not suffer an extra tax burden under the new turnover tax system. The FIEs were to pay taxes based on the new tax regime and then apply for a refund under the five-year grandfather provision, which ran from January 1, 1994, through December 12, 1998. Late last year, SAT decided to extend the exemption on exports until the end of 2000. While pre-1994 FIEs will continue to absorb input VAT on local purchases, they will not be required to pay VAT on export sales.

This year's good news for taxpayers may be outweighed by the bad, and more tax changes may be on the way.

Taxpayers have enjoyed additional relief as a result of China's ongoing effort to join the World Trade Organization (WTO). China has reduced customs duties seven times since 1992, and by the end of 1998 the average rate for import duties was approximately 17 percent. The Chinese government has promised to make even more reductions; the goal is to have the general import duty rate at 15 percent by the year 2000. In January of this year the import duties on textiles, toys, and forest products—altogether 1,014 items—were reduced by 8 percent to 78 percent.

Preferential policies in jeopardy

But all this good news may be outweighed by the bad, and if current indicators hold true, more tax changes may be on the way.

To attract foreign investment and direct foreign funds into desired industries and areas, China provides a comprehensive program of tax incentives and concessions. For example, productive FIEs that operate for over 10 years in China are eligible for tax holidays. Qualifying FIEs are exempt from income tax for two years beginning with the first profit-making year and a 50

Even though many of China's preferential tax polices are stipulated in the tax law, the local tax authorities tend to "interpret" the laws to their benefit.

percent income tax reduction for the following three years.

Reduced tax rates are offered to FIEs located in designated areas such as the Special Economic Zones (SEZs), the economic and technological development zones, the high-tech industry development zones, bonded zones, and the Shanghai Pudong New Area. The national income tax rate is reduced to either 15 percent or 24 percent in these areas. Local income tax is normally waived. SEZs are the only locations where FEs are eligible for the 15 percent tax rate.

Additional tax preferences allow a foreign investor that reinvests its share of profits in a new or existing FIE with an operating period of at least 5 years to receive a tax refund of 40 percent of the income tax it has already paid. The tax refund can be as high as 100 percent if the reinvestment is in an export-oriented or a technologically advanced FIE in China.

Earlier this year, PRC Finance Minister Xiang Huaicheng announced during a press conference that VAT and consumption taxes currently refunded by the central government to 44 of the country's development zones would be phased out over the next five years. This is in line with the original policy implemented in 1994, which allowed a five-year grace period during which these taxes were to be refunded to the investment zones. Without this grace period, central-level tax authorities would have collected these taxes, which amounted to 25 percent of VAT and 100 percent of the consumption tax payable by companies in the zones. There had, however, been speculation that SAT might grant an extension for the refunds and encourage the zones to use the revenue to attract foreign investment.

Now that SAT has decided to reclaim the tax revenues that the local tax bureaus have been permitted to retain, what will the impact be on foreign investors? Is it possible for the local tax authorities to broaden their tax base among domestic taxpayers in order to maintain or increase tax revenues? Or will they look, as in the past, to foreign investors as a reliable source of tax revenue? These questions remain to be answered by SAT authorities. FIEs are particularly concerned that they might lose the 3 percent local income tax exemption and be faced with a barrage of municipal levies.

Even though many of China's preferential tax polices are stipulated in the tax law, the local tax authorities tend to "interpret" the laws to their benefit. As a result, foreign investors are well advised to obtain up-front confirmation that their investment enterprises will qualify as productive, high-tech, or export-oriented. If the parent company's business plan calls for reinvestment of its China profits at some point in the future, the foreign investor should reach an understanding with the local tax authorities on the necessary procedures to ensure eligibility for tax rebates on the reinvested funds. In particular, to ensure maximum tax benefits, tax preferences involving "gray areas" that rely upon the interpretation of local tax authorities should always be confirmed before contracts are signed.

In spite of the preferential tax policies currently offered to foreign investors, the Chinese government has taken the position that it ultimately wants to unify the separate tax laws that currently apply to foreign and domestic firms. SAT officials have also indicated that existing tax preferences may be eliminated entirely in coastal areas, or redirected from the coast to other geographical areas that require foreign investment and technology to modernize China's infrastructure and energize faltering state-owned enterprises. The focus of preferences may also shift to specific industries. Foreign investors recognize China's need to refocus its preferential policies, but they also require consistency in the tax laws in order to operate profitably. Foreign investors have asked SAT to confirm that current preferential tax treatments for the existing FIEs will be grandfathered in the event that the Chinese government decides to eliminate preferential tax rates and holidays.

Since China has said it intends to phase out the current tax differences between FIEs, domestic enterprises, and different economic areas, investors are asking whether they can expect China to remove its preferential income tax policy overnight. If history is any indication, such a move is unlikely. Most preferential tax policies FIEs enjoy are stipulated in the IT law, which also identifies specific, designated development zones. The Chinese government recognizes that preferential tax policies have played an important role in attracting and retaining foreign investment. Even if the PRC decided today to change preferential tax policies, it could take years for such changes to take effect, since amendments to the IT Law and its detailed rules require a three-step procedure.

First, SAT and the Ministry of Finance conduct research and draft any amendments to the tax law—which drafting is most likely already under way. Next, the draft would be reviewed by the State Council before submission to the relevant departments of the Standing Committee of the National People's Congress (NPC) for discussion and revision. Third, the revised draft would require the approval of the NPC or its Standing Committee before either body were to enact the amendment. The entire process can take years to complete.

Because of the significant impact any changes to the preferential tax treatments would have on most foreign operations in China, investors are keeping a close eye on any proposed modifications to the income tax law and regulations, so as to prepare for any necessary adjustments to their business operations.

TURNOVER TAXES: THE BIG CHANGES

Since its introduction in 1994, VAT has been a hot topic in China. As transitional relief, the PRC State Council granted pre-1994 FIEs that suffered a heavier tax burden under the new turnover tax regime a tax refund for the excess tax. The grace period was to last five years beginning January 1, 1994. Enterprises established after 1994 were not eligible for the tax refund. The five-year turnover tax refund relief expired at the end of 1998; without the extension through 2000 mentioned earlier in this article, pre-1994 FIEs would no longer be able to receive any relief, even if their tax burden were greater than it would have been under the Consolidated Industrial and Commercial Tax regime.

Since 1994, the tax authorities have issued a number of rulings in an effort to explain, interpret, and clarify issues surrounding the VAT regulations and implementing rules. Since many foreign operations in China are export-oriented, the VAT treatment that has drawn the most attention and criticism from foreign investors is the constant change in the VAT rebate on exports.

According to the VAT regulations, exports of goods should be zero-rated, which means VAT should not be imposed on exports, and input VAT on the materials used to manufacture the export goods should be fully refunded. But because of widespread export fraud and the shortage of *renminbi* (RMB) available with which to pay the refunds, China lowered the VAT rebate rates in July of 1995 and again in January of 1996. For example, the rebate rate for products that should have been 17 percent was reduced to 9 percent. As a result of the reduction of the VAT rebate rate, export-oriented FIEs were forced to absorb the 8 percent non-refundable input VAT into their cost of goods sold.

Since 1998, under economic pressure from both the overseas and domestic markets, China has gradually raised the VAT rebate rates—primarily to stimulate exports. The increase in rebate rates began with textiles, the goods most affected by China's sluggish export market. The rebate rate was first raised from 9 percent to 11 percent and later to 13 percent. Rebate increases were later extended to other products such as coal, steel, cement, ships, electrical and light industrial products, aluminum, zinc, and lead. In January 1999, China raised rebate rates again. Machinery, electrical products, transportation equipment and meters were granted a full 17 percent VAT refund. The rebate rates for other products have also increased; however, the average VAT export rebate rate is still 12.56 percent, well below the statutory rebate rate.

Needless to day, the increase in the VAT rebate rates on exports is welcome news to foreign investors. There is concern, however, that the impetus for the adjustment was China's own financial slowdown and a sustained, sluggish export market in 1998 rather than a willingness to comply with the provisions of the VAT regulations. Moreover, China has not indicated how long the rebates will continue. As a result, there is a risk that China may reduce the rebate rates when the economy recovers or when it feels pressure to increase tax revenues.

A circular issued by SAT in 1994 exempts FIEs engaged in import processing or contract processing from paying import VAT—but the circular, No. 239, does not permit the refund of input VAT when the goods are exported. In an attempt to minimize VAT on products produced for export, many enterprises have undertaken contract processing.

Unfortunately, the Chinese tax authorities have announced that they are considering imposing import VAT on export processing and allowing VAT refunds upon export of the goods. In Shenzhen, many processors—primarily from Hong Kong—have complained that this adjustment will significantly increase their tax burden and that they will not be competitive in the Asian market. Aside from tax, the imposition of VAT will also hurt the cash flow of enterprises engaged in process manufacturing.

Investors are asking whether they can expect China to remove its preferential income tax policy overnight.

BUSINESS TAX WOES

Most FIEs do not encounter as many problems with business tax as they do with other turnover taxes. Nevertheless, recent changes in the application of the business tax regulations have had a major impact on their operations in China. Since business tax is a transactional tax, foreign enterprises have learned the importance of minimizing the number of transfers and eliminating the reimbursement of expenses or fees paid by the head office or a third party.

The Provisional PRC Business Tax Regulations and detailed rules, which were implemented January 1, 1994, clearly state that income from the transfer of intangible assets, including royalties, know-how, patents, and copyrights, is subject to 5 percent business tax. In the past, however, most local tax authorities did not impose the tax on the transfer of intangibles by foreign investors since the proceeds from the intangible transactions were already subject to withholding tax.

A January 1998 SAT circular called for the 5 percent business tax to be imposed on royalties related to transfers of intangibles. A separate circular clarified that the interest and rental of movable assets are not subject to business tax. US companies or companies from countries that have tax treaties with China and do not have a permanent establishment in China are now subject to a 15 percent tax: 10 percent income tax withholding plus 5 percent business tax.

Guoshuihan (98) 797, which was issued in February of 1998, clarifies that the 5 percent business tax became effective beginning January 1, 1994. As a result, local tax bureaus such as Beijing and Guangzhou are taking action to collect the tax retroactive to January 1994, which has resulted in many foreign investors having millions of dollars withheld from current royalty payments for the prior business tax liabilities. A bit of good news came in March 1998, when another circular was issued that allowed foreign investors to deduct the 5 percent business tax from the amount of royalties subject to withholding tax. Thus, the effective tax rate is reduced by 0.5 percent, that is, from 15 to 14.5 percent.

In fall 1998, the Beijing State Tax Bureau investigated the local telecommunication industry's practices with regard to the application of income tax withholding on transfers of intangibles. In particular, China's domestic laws make no distinction between payments made for application software and systems software. As long as there is a restrictive clause regarding usage, the Chinese apply income tax withholding on all payments for intangibles. Since the issuance of Circular 797, the local Beijing tax bureau is also actively investigating the application of business tax withholding on these and other payments for intangibles. Other jurisdictions are expected to enforce the collection of business tax on intangibles sooner rather than later as it will enhance local tax revenues.

The additional tax burden has an even more severe tax impact on US companies since business tax is not creditable against US tax. The additional tax burden, coupled with China's traditionally low royalty rates, is causing many foreign companies to re-think the feasibility of transferring technology to China. A strong lobbying effort is under way by many of the world's largest companies with operations in China, to try to convince the Ministry of Finance and SAT to reconsider imposing the 5 percent tax.

Customs duties

In addition to the reinstatement of the exemption of tax on imported capital goods, similar exemptions are being extended to goods imported into, and exported out of, an expanded number of designated free-trade zones, such as the Waigaoqiao Free Trade Zone in the Pudong New Area of Shanghai.

Interestingly, despite the renewed tax exemption on the import of capital goods and the effect of the Asian financial crisis on trade, China announced that its customs departments surpassed their 1998 tax revenue quotas. But the tax authorities have said that they will enhance their efforts to collect customs duties this year. As mentioned earlier, the exempt status of the processing sector may be at risk.

Is an audit in your future?

In 1998 SAT conducted a widespread tax inspection program that focused on both domestic and foreign enterprises. Targeted foreign enterprises include those with withholding responsibilities, group companies and their subsidiaries and branches, and various nonprofit entities including foreign representative offices. The areas attracting the taxman's attention include Shenzhen, Beijing, Shanghai, and the coastal cities. As a result of the tax audits, many FIEs are faced with paying significant back taxes.

Tax collection has become a big business in China. Each tax jurisdiction is given a revenue target and is "encouraged" to meet its goal. Since the Chinese tax authorities are targeting FIEs, foreign firms are asking what can be done to minimize the chances of being audited and, if audited, how they can minimize the amount of the tax, interest, and penalties that may be assessed. They have no choice but to prepare for an audit, for the penalties are more onerous than the tax—73 percent per year on the overdue tax.

Transfer-pricing activities have also come under scrutiny in China of late, so foreign investors should expect to face audits in this area as well. SAT has announced that in 1999 it will step up its efforts to conduct transfer-pricing audits to stop the tax leakage created through transfer-pricing practices. PRC tax authorities have created special audit teams to identify the companies to be targeted for transfer-pricing audits. Two practices are currently attracting the taxman: tax avoidance effected by manipulating transfer pricing, and tax avoidance achieved through thin capitalization. The primary FIE targets for transfer-pricing examination are those with the following characteristics: business dealings with related parties established in a tax haven; persistent losses; fluctuating patterns of profits and losses; profits that fluctuate greatly during and after tax holidays; losses on exports but profits on domestic sales; and profit levels that are lower than those of other companies in the same industry.

To minimize exposure to transfer-pricing audits, foreign investors should ensure that they implement a transfer-pricing policy that is in line with the policy being used in other countries in the world and that they retain adequate documentation to defend their pricing policies.

Tips for the taxpayer

It is always important for taxpayers to ensure that they have reliable financial and accounting software that allows them to comply with income- and turnover-tax administration requirements. Record-keeping is essential, as tax audits in China are extremely thorough, and providing underlying documentation a must. Given the slowdown in China's economy, the Chinese tax authorities will put more effort into strengthening tax collection, especially that of turnover and income taxes. As a result of the increased VAT rebates on exports, the tax authorities will turn a watchful eye on tax fraud related to trade activities. As in the past, foreign investors need to strengthen the administration of VAT invoices since they will be subject to heightened enforcement.

More and more, foreign investors are seeing the wisdom of self-evaluation. They are conducting internal and external tax reviews to ensure compliance with relevant tax laws. Withholding-tax compliance is always the focus of tax audits so special care should be made to ensure proper withholding for individual income tax, business tax, and corporate income tax. Last but far from least, the company's management should establish a good relationship with the local tax bureau, one that enhances mutual trust. Good relationships contribute to easier resolution of disputes.

Tough times ahead

China faces a dilemma, at least in the short term. For almost two decades, the most effective tool in attracting hard currency and high technology has been the granting of tax preferences to foreign investors. With few exceptions, these preferences are available only to foreign investors. Yet SAT has stated on numerous occasions that it intends to standardize the tax system and enhance tax collection and administration. The long-term objective is to provide equal treatment to both foreign and domestic enterprises—consistent with World Trade Organization principles of national treatment. But in the meantime, the foreign investor is struggling to comply with an ever-changing tax regime that appears to implement policy as tax revenues require.

Thus, it is essential that SAT understand the importance of both transparency and consistency in its foreign tax regime. Transparency and consistency are necessary if China is to continue to attract priority, capital-intensive projects that transfer significant technology. SAT has made impressive strides in implementing tax laws and regulations in the past decade. What foreign investors need now is assurance that the preferences included in these laws will be awarded grandfather treatment if there are subsequent changes in the statutes. Such grandfather protection was apparently agreed to by PRC negotiators in talks with the US Trade Representative in early April. SAT also needs to encourage local tax bureaus not to "interpret" the laws to their benefit. China must increase its tax base to include additional state-owned enterprises and PRC individuals. It cannot continue to look to foreign investors as automatic teller machines.

At the same time, foreign investors also need to recognize that although preferential tax treatments may not be abolished in the short term, they will not last forever. Companies must thus examine their business plans and operations. Change is inevitable and they must adapt to survive. Self-inspection of business operations and compliance with the tax laws and regulations are a necessity. China's tax authorities are stricter, better organized, and less flexible than ever. In China, being an "old friend" is no longer as important as being a good taxpayer! 完

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Green Acres

A new land law attempts to reset China's complex land-use policies

Rico Chan

A raft of new laws and regulations guiding PRC land use has entirely overhauled the system in place since 1986. The Land Administration Law of the People's Republic of China (the New Land Law), the highest legislation on land matters in China, came into effect on January 1, 1999, replacing the 1986 law. Between December 1998 and March 1999 the State Council and the Ministry of State Land and Natural Resources (MSLR) enacted the Implementing Regulations for the New Land Law and a number of other important land regulations. Completing the overhaul of China's land administration system, in April 1998 China's national land authority, the State Land Administration, was merged into the newly established MSLR.

Foreign investors naturally will ask how the new land administration system will affect their projects in China and the land-use rights they hold. They will also want to know whether it will increase land-acquisition costs and land-related environmental obligations and liabilities. Lastly, they will want to be sure that the new law will prevent cases similar to the "Beijing McDonald's case" from happening again. In that highly publicized case, the Beijing government took back a piece of prime real estate in downtown Beijing for which McDonald's had not only acquired land-use rights from its Chinese partner with the consent of the government, but on which it had already developed a successful outlet.

Preserving Farmland

Since the establishment of the PRC in 1949, ensuring the political stability of the 80 percent of the Chinese population that lives in rural areas has always topped the Chinese government's policy agenda. Prior to 1978, the appallingly low level of agricul tural productivity and exploding population growth were the main challenges to stability. But with the introduction of economic reforms and birth control policies in the late seventies to address these problems, one of the most pressing issues facing the government has become the decrease in arable land caused by rapid industrialization and urbanization. China now has 22 percent of the world's population but only 7 percent of the world's arable land. Preserving the country's farmland, therefore, has become a matter of strategic importance.

In 1986, the State Council established the State Land Administration to regulate and monitor China's land system. The same year, the National People's Congress promulgated the Land Administration Law, with the protection of arable land as its key objective. The law adopted a size-limit approval mechanism, under which different levels of local

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government, according to the land area involved, were given authority to approve the use of arable land for construction purposes. But experience has proven this size-limit approval mechanism to be intrinsically flawed. Collaborating local governments and land users easily circumvented it, and from 1985 to 1995, China lost about 60 million hectares of arable land. Faced with such an alarming situation, the central government had no choice but to restructure the land system.

LAND-TITLE SYSTEM

Although the New Land Law has introduced many changes, it has not altered the existing land-title system in China. Under this system, there are two types of land ownership: state ownership and collective ownership. There is no private land ownership under Chinese law. According to China's 1982 Constitution, all land in urban areas is owned by the state and is called state-owned land (*guoyou tudi*). All agricultural land and homesteads in the suburban and rural areas are owned by rural collectives and called collective land (*jiti tudi*). Uncultivated land in mountain and other remote areas is also stated-owned.

Commercially, land-use rights (*tudi shiyongquan*), rather than land ownership (*tudi suoyouquan*), is the relevant concept. Chinese law prohibits transferring ownership of state-owned land, but permits the Chinese government to grant, lease, or allocate land-use rights for state-owned land. For collective land, Chinese law has imposed so many restrictions that the transfer of ownership of collective land, while theoretically possible, is practically infeasible. But rural collectives may provide land-use rights and land-contracting rights (*tudi chengbao jingyingquan*) for collective land to peasants and other land users, subject to stringent legal procedures.

The 1990 Urban Land Regulations and the 1994 Urban Real Estate Law authorize local land bureaus at county and municipal levels to grant long-term land-use rights, known as granted land-use rights (*churang tudi shiyongquan*) to local and foreign land users. Granted land-use rights can be created for state-owned land only, not collective land.

To obtain granted land-use rights, the land user must sign a land-grant contract with the local land bureau and pay a substantial land-grant fee up front. The grantee will enjoy a fixed land-grant term and must use the land for the purpose specified in the land-grant contract. Prior to the expiration of the term, the government may take back the land only for reasons of public interest, and in such a case the government must compensate the grantee for the value of the unexpired term and the costs of the superstructures. The maximum term of a land grant ranges from 40 years for commercial use to 70 years for residential use.

Apart from security of tenure, the other important legal feature of granted land-use rights is marketability—that is, granted land-use rights may be transferred, leased, or mortgaged in accordance with the law and the terms of the land-grant contract.

Other types of land-use rights include allocated land-use rights (*huabo tudi shiyongquan*), which are obtained through an administrative approval by the government without the payment of a land-grant fee, and collective land-use rights, which are obtained through contracts with rural collectives. In contrast, these non-granted types of land-use rights (*feichurang tudi shiyongquan*) lack either marketability or security of tenure. Hence foreign banks normally do not accept these non-granted types of land-use rights as security for lending, particularly in limited-recourse project finance transactions. And, generally speaking, the government may take back these non-granted land-use rights at any time without any compensation. Most Chinese joint-venture parties possess only non-granted types of land-use rights, because their rights were acquired long before the creation of the land-grant system in 1990.

Chinese law prohibits transferring ownership of state-owned land, but permits the Chinese government to grant, lease, or allocate land-use rights for state-owned land.

OTHER MAJOR PRC LAND REGULATIONS ENACTED AFTER THE NEW LAND LAW

	ISSUING BODY	DATE OF ISSUE/ DATE EFFECTIVE
Measures for Examination of Master Land Use Plans at the Provincial Level	MSLR	Dec. 19, 1998
Implementing Regulations for the Law of the People's Republic of China on Administration of Land	State Council	Dec. 27, 1998/Jan. 1, 1999
Regulations for Protection of Basic Cropland	State Council	Dec. 27, 1998/Jan. 1, 1999
Announcement Concerning the Launch of New Versions of Land Certificates Commencing on January 1, 1999	MSLR	Dec. 30, 1998
Measures for the Administration of Annual Land Use Plans	MSLR	Mar. 2, 1999
Measures for the Administration of the Inspection and Submission for Approval of Land for Construction Use	MSLR	Mar. 2, 1999
Measures for Actions Concerning Idle Land	MSLR	Apr. 28, 1999

SOURCE: Rico Chan

NOTES: MSLR: Ministry of State Land and Natural Resources.

The New Land Law (Land Administration Law of the People's Republic of China) introduces changes that will require the amendment of all pre-existing provincial land regulations.

Now provincial governments may only approve land requisitions of up to 35 ha of arable land (previously 70 ha), or 70 ha of non-arable land (previously 140 ha).

TIGHTENED APPROVAL PROCEDURE

The New Land Law contains eight chapters and 86 articles, compared with seven chapters and 57 articles in the old law. Almost all of the amendments aim to establish a more effective system for protecting arable land. The first major set of changes is the tightening of the approval procedure for non-agricultural use of arable land. To this end, the New Land Law now divides land into three types: agricultural land (*nongyongdi*), construction land (*jianshe yongdi*), and unutilized land (*weiliyongdi*). Agricultural land includes farmland, forested land, grassland, and other land used for agricultural production or irrigation. Construction land includes land for construction of buildings, mining, transportation facilities, water-conservancy projects, and military purposes. Unutilized land refers to all land that is neither agricultural nor construction land—usually state-owned land in uncultivated mountain areas.

There are five major changes in the approval procedures for using arable land for non-agricultural purposes. First, the law significantly tightens the existing size-limit approval mechanism. Beijing has revoked the statutory power to approve land requisition (*zhengyong tudi*) previously enjoyed by county and municipal governments. Moreover, provincial governments' statutory power to approve land requisition has been cut in half. Now provincial governments may only approve land requisitions of up to 35 ha of arable land (previously 70 ha), or 70 ha of non-arable land (previously 140 ha). Requisition of larger sites must be approved by the State Council.

Second, the New Land Law has further tightened the control over basic cropland, used to produce staple and cash crops. Local governments are now required to designate no less than 80 percent of their arable land as basic cropland. Moreover, the State Council must approve all requisitions of basic cropland for construction use, regardless

THE GUILIN HUIHUA GOLF COURSE CASE

The Ministry of State Land and Natural Resources (MSLR) took its first law enforcement action six months after its creation, with the October 15, 1998 revocation of the land-use approvals for the Guilin Huihua golf course project. MSLR issued another notice on January 4, 1999, publicizing its crackdown on ten other cases of land-law violations by local governments and investors. Through these high-profile enforcement actions, MSLR is obviously sending a clear message to local governments and investors: MSLR is determined to enforce the land law and has the political support to penalize violators.

The Guilin Huihua golf course project was a Taiwan-invested joint-venture project. In 1994, the Guilin municipal government issued preliminary approvals for compulsory acquisition of about 240 hectares of agricultural land from various rural collectives for the construction of the golf course. As the total area of the land involved was far above the limit for local-level approval (3.33 ha of agricultural land), the Guilin municipal government submitted the case to the Guangxi provincial government for approval. According to the land law in force in 1994, the Guangxi provincial government only had the power to approve a land acquisition of not more than 66.67 ha of agricultural land, and hence should have submitted the case to the State Council for ultimate approval.

Instead, the Guangxi provincial government apparently collaborated with the lower-level authorities and the project owner, "splitting" the land involved into several sections, so that each section on its own would fall within the Guangxi government's approval limit. This practice, "splitting the whole into pieces (*huazheng weiling*)," had been repeatedly declared illegal by the State Council and MSLR's predecessor, the State Land Administration. But the State Land Administration lacked either an effective control mechanism or the necessary political support to enforce the statutory approval limits, particularly when the provincial governments collaborated with the lower-level authorities, as in the Guilin Huihua case. Consequently, despite repeated directives, such irregular practices have been rampant in many parts of China over the last ten years.

The Guilin Huihua case was eventually exposed during the State Land Administration's nationwide investigation of illegal land- use in 1997-98, pursuant to the Notice Concerning Further Strengthening the Administration of Land and Implementation of the Protection of Cultivated Land, promulgated by the Central Committee and the State Council on April 15, 1997. With the consent of the State Council, MSLR revoked the approval documents and local-use certificates issued by the Guangxi provincial government and the local land authorities. MSLR also ordered that the illegally granted land be restored to the collectives, and that the officials and other parties involved be penalized severely in accordance with the law.

With the promulgation of the Land Administration Law of the PRC and the establishment of MSLR, the land regime in China will be much more stringently enforced. The Guilin Huihua case also shows that illegal land acquisitions may be exposed and invalidated years after deals are closed. Foreign investors should think twice before relying on assurances from local authorities and their Chinese partners that the central government would be none the wiser about "splitting" and other ways of circumventing the law.

—Rico Chan

of the size involved. Between January and March 1999, MSLR granted preliminary approval to the land-use proposals of 33 state- and provincial-level key projects, 22 of which have already received the State Council's final approval. These 22 projects include 10 transportation projects, nine water conservancy projects, and three power projects.

Third, the New Land Law has introduced an arable land-usage conversion (*nongyongdi zhuanyong*) procedure for approval of new construction land. This, combined with the tightened size-limit approval procedure, is aimed at stopping local authorities from circumventing the law by sub-dividing large sites into smaller sites. Although the New Land Law and its Implementing Regulations are still unclear on the detailed procedures, it appears that virtually all new conversions of agricultural land into construction land must be either specifically approved by the State Council or the provincial governments, or supported by prior general approvals from these bodies.

Fourth, the New Land Law specifically requires project owners to attach the local land bureau's preliminary examination report when they submit the feasibility study of their projects for approval. Earlier regulations also contained this requirement, but it was ignored by many local governments. By reinforcing this requirement, the New Land Law now compels project owners to consult the land authorities so that they may raise objections at the feasibility study stage of construction projects.

Fifth, the legal effect of master land-use plans (*tudi liyong zongti guihua*) and annual land-use plans (*tudi liyong niandu jihua*) has been significantly enhanced. Previously, local governments and land users did not pay much attention to these plans. Experience has shown that unless adequate mechanisms are put into place to identify and monitor the country's arable land and basic cropland, merely tightening the approval limits will be ineffective. All local land-use plans (and their subsequent amendments) require the approval of the State Council or the provincial governments. The New Land Law specifically states that land-use approvals given in violation of the relevant land-use plans will be legally void.

Any land user who obtains approval to convert a plot of arable land must cultivate a new plot of arable land of the same size and quality.

Financial disincentives

The second set of major changes is the introduction of more financial disincentives to using arable land for construction purposes. Arable land has decreased rapidly over the last two decades because of the powerful financial incentives to convert arable land into construction land. Rural collectives and peasants, instead of diligently plowing and sowing year in and year out for uncertain harvests, could immediately obtain large sums of cash by (il-

Greenfield projects that need to use arable land, such as new infrastructure facilities, will incur significantly higher land costs than before.

legally) selling or leasing their farm land, which they had inherited at no cost. Real estate, manufacturing, and infrastructure projects could save on lower acquisition and development costs by using arable land in the rural and suburban—rather than urban—areas. And local governments could receive the immediate benefit of large land revenues, as well as the longer-term benefit of increased local tax revenues and local employment generated by these investment projects. Finally, corrupt government officials could find golden opportunities for graft in the conversion of arable land.

In these cheap, illegal sales of arable land, the only loser is the long term well being of the nation. The central government has recognized that unless these underlying economic factors were addressed, tightening the approval procedures alone would not succeed in changing the situation. The New Land Law therefore includes a number of measures to induce local governments to minimize the use of arable land for construction purposes and make better use of existing construction land.

The New Land Law stipulates that 30 percent of the land revenues generated from all new conversions of arable land into construction land must be surrendered to the central government. (Previously, local governments kept land revenues from all types of land.) In contrast, local governments will be allowed to keep all land revenues generated from the use of existing construction land.

Moreover, the New Land Law has doubled the costs for requisitions of arable land. It stipulates four statutory items of compensation in the requisition of arable land, namely, a land compensation fee (*tudi buchangfei*), resettlement allowance (*anzhi buzhufei*), young crops and fixtures compensation fee (*qingmiao buchangfei*), and vegetable land development fund (*xincaidi kaifa jianshi jijin*). The fees are calculated according to the average annual agricultural output of the relevant site over the three years preceding the requisition. The exact cost scales will be determined in local implementing measures, to be promulgated by the provincial people's congresses.

As a further financial disincentive, the New Land Law has strengthened the levy and collection of the new cultivation fee (*kaikenfei*). Any land user who obtains approval to convert a plot of arable land must cultivate a new plot of arable land of the same size and quality. Land users may undertake the cultivation themselves, but it is more common for users to pay a fee to local governments to do so.

As a result of the financial measures introduced by the New Land Law, greenfield projects that need to use arable land, such as new infrastructure facilities, will incur significantly higher land costs than before. Although the New Land Law has not increased the costs for using existing construction land, increased costs and tightened legal procedures for the use of arable land will soon result in increased demand for existing construction land and, consequently, higher prices. In fact, since the promulgation of the New Land Law, the Pudong New Area of Shanghai has already seen real estate prices increase.

LEGAL AND PRACTICAL IMPLICATIONS

Broadly speaking, the New Land Law has four major legal implications. First, in the short term, land acquisition for investment projects in China is likely to become more time consuming, and the risk of penalties and legal invalidity due to non-compliance is likely to be higher. In part, this is because officials, not yet familiar with the new procedures, are likely to act more cautiously in land-acquisition procedures. There have already been reports of such delays.

Second, the risk of penalties and legal invalidity will also be higher because many aspects of the law and its ancillary regulations remain ambiguous. For example, the New Land Law declares that land contracts and approvals obtained in violation of the relevant "land-use plans" will be legally invalid. The new National Master Land-Use Plan Outline (1997-2010) was promulgated by the State Council on April 19, 1999. MSLR and the State Council are currently examining provincial master land-use plans. While foreign investors and legal practitioners are familiar with the previous size-limit approval mechanism, few have much experience in dealing with land-use plans.

Third, the Implementing Regulations for the New Land Law authorize the government to lease (rather than grant) land-use rights. One basic difference between a land grant and a land lease is that a land grant would require a substantial downpayment and a "peppercorn" land-use fee annually, whereas a land lease instead calls for a higher annual rent but no huge downpayment. Experimental local land-lease regulations in Pudong and other places suggest that leased land-use rights (*chuzu tudi shiyongquan*) may not be transferred, sub-leased, or mortgaged. Although leased land-use rights lack marketability, they would be acceptable for industrial projects which require security of land tenure, but not marketability, of land-use rights. Currently, there is a heated intellectual debate under way in China as to how this annual land-lease system (*tudi nianzu zhidu*) should be developed. Foreign investors who are evaluating alternative ways to acquire land should watch for legal developments in this area.

Fourth, another subtle but important implication is that the New Land Law reaffirms the legality of contribution of land-use rights as capital. In the early 1980s, the standard method of land acquisition in joint-venture projects was through the contribution of land-use rights by Chinese parties, pursuant to the joint-venture law issued in 1979. However, since the creation of the land-grant system in 1990, the legality of such land contribution has been questioned. Though the New Land Law and its ancillary regulations confirm the legality of land contribution, they are still unclear on the legal procedures for it, such as whether specific approval by the local land bureau would be required.

Unfortunately, it is still also unclear whether this mode of land acquisition would give joint ventures a security of land tenure. This is because the land contribution would be a transaction between the investors only, albeit with the consent of the government. There would not be a land-grant or land-lease contract with the government if a joint-venture site were acquired in this way. Without a binding contract with the government, it is still legally uncertain whether a joint venture obtaining land from its Chinese partner can be asked to leave its site when the local government wants to redevelop the site. In other words, there is still no assurance that a "Beijing McDonald's" case will not arise again in the future.

Liabilities for Contaminated Land

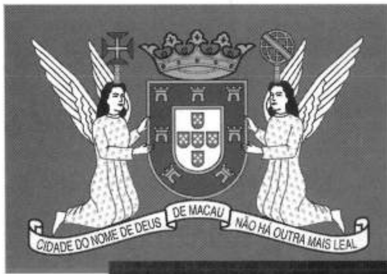
The New Land Law emphasizes environmental protection. For example, it states that one of the guiding principles in preparing master land-use plans is "the protection and improvement of the ecological environment, so as to ensure the sustainable development in land." It also requires local governments to put more effort into preventing desertification, salinization, soil erosion, and soil pollution.

Nevertheless, the New Land Law itself does not contain any provision on land-related environmental liabilities, which will continue to be regulated by general Chinese environmental regulations. Currently, Chinese environmental regulations are silent on cleanup and successor liabilities of new users for pre-existing land contamination. There is not yet any Chinese equivalent of the US Comprehensive Environmental Response, Compensation, and Liabilities Act of 1980. But the prudent view is that the new users could potentially be liable for pre-existing contamination under general Chinese civil law principles. Therefore, it is important to conduct an on-site environmental audit prior to acquisition. If contamination is revealed, investors should require the present owner to clean up the site, or alternatively, to obtain a written comfort letter, waiver, or indemnity from the present owner, the local land bureau, or the local environmental protection bureau, as appropriate.

More Options, More Pitfalls, Higher Costs

The New Land Law leaves foreign investors with mixed feelings. The good news includes the continuation of the pre-existing system of land-use rights and their legal protection, as well as the affirmation of the legality of "land leases" and "land contributions." On the other hand, the New Land Law will lead to higher land costs, a more complicated land-acquisition process, and more legal pitfalls for foreign investors, at least in the short term. But on the whole, the New Land Law and its ancillary regulations represent a significant step forward in stopping the alarming loss of arable land and developing a more rational and transparent land system in China. 完

There is still no assurance that a "Beijing McDonald's" case will not arise again in the future.



Macao Aims for a Turnaround

Darlene M. Liao

Unlike most Hong Kongers in 1997, Macao residents are optimistic about reversion to PRC rule

After 442 years of Portuguese administration, Macao returns to PRC rule on December 20, 1999, with pomp and festivities topped off by an air show featuring skydivers from around the world. Some might question why the handover of a city of only 8.1 square miles and some 430,000 residents is worth noting. The answer, in a nutshell, is that the territory will become a PRC Special Administrative Region (SAR) and thus another test case of China's "one country, two systems" model. How well the governments of Macao and China tackle Macao's economic and political challenges, and in particular how successful they are in combating Macao's pervasive organized crime network, will foretell more than just Macao's future.

A different kind of handover

Though as SARs under China's "one country, two systems" policy, Macao and Hong Kong have the same general structure—guided by the Basic Law and governed by a Chief Executive, Executive Council, and a legislature—distinct differences exist. Macao is 50 times smaller than Hong Kong, and has less than half a million residents compared to Hong Kong's 6 million. While Hong Kongers feel very strongly about being Hong Kong Chinese, very few residents of the city, located at the mouth of the Pearl River Delta 40 miles southwest of Hong Kong, consider themselves Macao Chinese. Only 3 percent of the population speaks Portuguese. Hong Kong also has a strong, mature civil service, while Macao's is young and inexperienced.

Perhaps a more important difference lies in the ease of negotiating Macao's transition. Portugal was willing to return Macao to China in 1974 (after the Portuguese revolution), whereas the British were reluctant to let go of Hong Kong. The negotiations for Macao's Joint Declaration and Basic Law were speedy in contrast to the lengthy and at times bitter negotiations over the terms of Hong Kong's handover. Another striking difference is that while Hong Kongers fought ardently to preserve the status quo, Macao residents hope that the handover will bring about change.

The PRC central government will assume control over Macao's diplomatic and military affairs on December 20. In accordance with the Sino-Portuguese Joint Declaration on the Question of Macao, signed in April 1987, the Macao SAR will be autonomous, with its own government and laws. Like Hong Kong, Macao will maintain the present political, judicial, social, cultural, and economic systems for 50 years. Portuguese and Chinese will be the official languages. Residents will continue to enjoy freedom of

Darlene M. Liao is assistant editor of The CBR. *The author wishes to thank the officials and academics with whom she met in Macao and Hong Kong and with whom she corresponded for their gracious support.*

expression, press, movement and association, and religion, among other rights protected under the Basic Law, the SAR constitution promulgated by the PRC in March 1993.

Macao's current Legislative Assembly of 23 deputies will serve until 2001, providing a degree of continuity. Seven members are appointed by the governor, eight are directly elected, and eight are selected indirectly. The Legislative Assembly is currently dominated by a pro-Beijing faction, which should further smooth the transition. The second assembly, which will serve until 2005, will be composed of 27 deputies. The third assembly and all those thereafter will be composed of 29 deputies, 12 of which will be directly elected, 10 indirectly elected, and 7 appointed by the chief executive.

The Chief Executive Selection Committee of 200 Macao residents elected 44-year-old Edmund Ho as the Macao SAR's first head. Ho is the general manager of Tai Fung Bank, chairman of the Macao Association of Banks, a member of the Standing Committee of the PRC's Ninth National People's Congress, vice president of the Macao Chamber of Commerce, and until recently a member of the Legislative Assembly. Soon after winning the May 15 election by a landslide, Ho, who has vowed to prioritize economic and public security issues, resigned from the legislature to prepare for his new post. As Chief Executive, the Macao native will appoint seven Legislative Assembly deputies and select five secretaries—a reduction from the current seven, reflecting efforts to streamline the government.

STICKING POINTS

The Sino-Portuguese Joint Liaison Group (JLG) has been facilitating exchanges and consultation between the Macao and Chinese governments. The body will cease to function ten days after handover, but until then will be busy facilitating negotiations between the two sides on two outstanding issues: nationality and the role of the People's Liberation Army (PLA) in the territory.

The Portuguese government maintains that Macao residents holding Portuguese passports on December 19 can still use these documents after the handover. While Portugal accepts dual nationality for the roughly 20 percent of the population that is affected, China does not. According to the PRC Law on Nationality in the Macao Special Administrative Region, all ethnic Chinese born in Macao will be considered citizens of China, regardless of whether they hold Portuguese passports or identity cards. Individuals of mixed Chinese and Portuguese background, however, will be able to choose between Chinese and Portuguese citizenship. Chinese citizens with Portuguese passports or right of residence in other foreign countries will not have foreign consular protection while in China or Macao. The law, approved by the Standing Committee of the National People's Congress, takes effect December 20.

The PLA question centers around the troops to be stationed in Macao after the handover. According to the Macao SAR Basic Law, the PRC government will assume responsibility for Macao's defense, and the SAR government will be responsible for security concerns. Unlike Hong Kong's Basic Law, that of Macao fails to state clearly the role of PLA troops. Beijing has said that troops would be stationed in Macao for sovereignty reasons, while some senior PRC officials have said that troops might not even be necessary.

REPOSITIONING TO ATTRACT INVESTORS

Over the past few decades, Macao's economy has undergone several facelifts. Property, banking, industry, and tourism have been the main engines driving the economy. Manufacturing, in particular, was a major contributor to Macao's 7.7 percent annual growth rate in the 1980s. But as China opened to foreign investment, Macao saw many industries relocate to China to take advantage of lower operating costs.

By the early 1990s, the Macao government, realizing that manufacturing could no longer serve as a main engine of growth, kicked off an infrastructure development program to improve the competitiveness and attractiveness of the city. Macao now boasts a modern telecommunications system, a new ferry terminal, an international airport, a container port, and a bridge linking the Macao peninsula to Taipa island, as well as land reclamation and water purification projects. Though the government has officially completed this investment campaign, other projects are in the works, including a bridge from Zhuhai, Guangdong Province, to Taipa; a convention center; a bridge between Macao and Hong Kong; a rail connection to Zhuhai and Guangzhou; and an offshore oil terminal.

Macao's gambling industry accounts for an estimated 42-60 percent of GDP and employs 30 percent of the work force.

While Macao was investing heavily in infrastructure, property developers actively built up commercial and residential housing, leading to a property glut that persists today. Macao has been recording negative economic growth along with its neighbors in the past few years. GDP contracted 6.8 percent last year, according to Macao's Census and Statistics Department (*see* Table). The government is thus pinning its hopes on tourism to boost the economy in the short term. Government efforts include enlarging tourism facilities and developing related services.

The tourism sector is dominated by Macao's world-famous gambling industry, which accounts for an estimated 42-60 percent of GDP and employs 30 percent of the work force. In an effort to reduce this heavy reliance on gambling, the government has played up Macao's cultural heritage and built a new cultural center and museum.

Though Macao may be experiencing tough economic times, it is a free port, with no regulations on imports and exports, no import duties, and smooth customs procedures. A member of the World Trade Organization, Macao trades with more than 100 economies. Its top exports are textiles, and its largest export destinations are the United States, the European Union, and Hong Kong. Macao's top imports are raw materials and semi-manufactured goods, as well as foodstuffs, beverages, and tobacco. The city imports mainly from China, Hong Kong, and Taiwan.

Macao and Hong Kong are likely to be the only free PRC ports for the forseeable future. This, along with its various investment incentives and minimal restrictions, could be a plus for Macao in attracting investors. In addition to solid infrastructure, Macao boasts an educated, skilled labor force

Finding qualified local Chinese to serve in the government will prove extremely difficult.

and moderate rents and wages. Macao also offers low tax rates; corporate profits are taxed a flat 15 percent. Companies can qualify for tax holidays, land concessions, and interest relief. For example, an interest relief scheme is in place for businesses borrowing for the purchase or construction of new industrial premises and capital equipment. Investors also benefit from Macao's lack of currency controls and debt-free economy.

China is a major investor in Macao, accounting for over 50 percent of total investment. China-based firms invested roughly $5 billion in Macao in the early 1990s. And PRC companies are major participants in Nam Van Lakes, a $2 billion land reclamation project that will double Macao's retail sector and increase the territory's total area by 20 percent.

The flip side of Macao's strong ties to China and Hong Kong, and its small, open economy, is its vulnerability to external shocks. Though the effects of the Asian crisis were not as severe in Macao as in other economies, not least because Macao has no stock market, trade and tourism were hit hard. Two-thirds of all tourists arrive in Macao via Hong Kong, so the steep decline in tourism in Hong Kong has spilled over. The city's gambling monopoly, the Macau Society for Tourism and Entertainment (STDM), recorded a nearly 20 percent drop in earnings in 1997—a serious blow to government coffers, as taxes on STDM earnings account for 25 percent of government revenue.

Tourism began to stabilize in 1998, declining only 0.7 percent. But tourists are spending less than before the crisis: in the third quarter of 1998, the average tourist spent 27 percent less than they spent in 1997.

Trade, too, caught the Asian flu. Prior to the crisis, Macao was already finding it difficult to compete with Southeast Asia's similar exports. The devaluations that took place in late 1997 only added to this difficulty. In 1998, while the value of Macao exports was down 0.3 percent, the actual volume fell 3.2 percent, revealing that companies were selling less, and at higher prices. Macao's currency, the Pataca, is pegged to the Hong Kong dollar, and thus indirectly linked to the US dollar. Macao has not devalued the Pataca. The situation is improving somewhat, however, with the slight appreciation of regional currencies.

Macao: Major Economic Indicators

	1994	1995	1996	1997	1998
Population (thousands)	403.6	415	415.9	422	430.1
Nominal GDP ($ million)	6712	7455.9	7,318.6	7,355	6,851.5
Unemployment rate	2.5	3.4	4.3	3.2	4.6
Inflation C.P.I. Growth (%)	6.3	8.6	4.8	3.5	0.2
Exports ($ million)	1906.4	2040.6	1995.6	2142.6	2135.7
Imports ($ million)	2155.8	2071.6	1999.7	2076.8	1949.8
Trade Balance ($ million)	-249.4	-31	-4.1	65.8	185.9
Pataca-Dollar exchange rate	7.96	7.968	7.966	7.975	7.979

SOURCES: Trade Information Division of IPIM (Macau Trade and Investment Promotion Institute), Census and Statistics Department of Macau

Civil service and judicial woes

As with the economy, Macao aims to make improvements in its political system. Some Macao watchers argue that too little is being done too late, especially in localizing the civil service. Though one government official interviewed maintains that the civil service is well prepared for the transition and that China agrees that localization has been a success, many academics and analysts believe otherwise.

Only after the 1974 revolution in Portugal, and the resulting change in attitudes and leadership, did the Portuguese government attempt to modernize Macao's political and administrative systems. As part of the program to facilitate the transition to PRC rule, Macao's civil servants had to choose in 1994-95 whether to stay in Macao or transfer to Portugal. Of the roughly 7,000 civil service employees, 5,000 chose to stay. But until 1997, there were no Chinese in the government. Most mid-level civil service employees or department heads, 90 percent of whom were assigned in 1998-99, thus lack both experience and authority. Many earned their positions because of their ability to speak Portuguese and their relationships with Portuguese officials.

Finding qualified local Chinese to serve in the government will prove extremely difficult. Though the Chinese make up roughly 96 percent of the population in Macao, they dominate the business sector and are unfamiliar with how the government works. How this hurdle will be overcome remains to be seen. Some analysts suggest one nontraditional solution may be to draw these businesspeople into the government to supplement the civil service. Whatever the decision, new local civil servants will need a considerable degree of training. Officials have been sent to Portugal as well as China for short-term training, but long-term training will still be necessary.

Macao's judicial system is also scrambling to get into shape for the post-handover world. The Supreme Court of Justice was not created until March 1993, and local lawyers have been poorly trained. Though Macao University graduated its first batch of lawyers in the mid-1990s, locally trained magistrates have little, if any, practical court experience. Moreover, court sessions were all held in Portuguese until recently. Courts now feature simultaneous translation between Portuguese and Mandarin Chinese.

Macao's penal code has recently been translated into Chinese, but some laws remain outdated, dating as far back as 1901. Even a high-ranking government official has acknowledged that business laws need to be modernized.

In general, the legal system is inefficient, with decisions usually taking more than a year. Contract negotiations are also lengthy; it takes three years to complete the paperwork for a typical property purchase, for example. Thus, most cases are settled out of court. On a more optimistic note, the PRC approved Macao's desire to continue to forbid the death sentence and life imprisonment after 1999.

Protecting the people

Macao is a signatory to the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social, and Cultural Rights. There is no strong push by Macao residents for democracy, however. Ng Kuok Cheong is the sole democratic member of the Legislative Assembly. Democrats voice their ideas through leaflets and their one assembly seat. Realizing that they cannot change the political system, they aim to maintain a channel through which to criticize the government publicly. But the democrats are skeptical of their chances of achieving even this much visibility. China Commercial Union members form the major core of the dominant pro-Beijing faction in the Legislative Assembly. This faction controls the media in Macao, including the *Macau Daily*, which holds 75 percent of the market share among the eight journals in Macao. The media fails to report democratic developments. Union members, moreover, urge companies to lay off pro-democratic employees.

Democracy is not a popular concept among Macao residents. They simply desire concrete improvements in their daily lives, according to Ng and many academics and Macao watchers. In contrast to the views of the Hong Kong people prior to the Hong Kong handover in 1997, Macao residents expect the reversion to Chinese rule to lead to such improvements.

The crime wave

Any improvement in life in Macao will surely have to include a reduction in the city's pervasive crime problems. A recent opinion poll revealed that public security is the number one concern in Macao. The general crime rate is not bad by world standards: last year, there were 1,313 crimes committed against persons and 5,789 against property. Violent crime tends to be concentrated among the triads, although one tourist was a target of a recent attack. An estimated 17-20 gang-related deaths have been recorded so far this year. These triads are battling for control of illegal activities and over shares in the struggling gambling industry, which has been suffering not only from the decline in tourism but also from negative publicity. Infighting within the strongest and most notorious triad in Macao, 14K, has heightened tension in the territory.

A number of analysts and government officials maintain that much of Macao's crime is imported. In the last three years, Hong Kong triads have tried to increase their influence in Macao. Mainland and Taiwan triads have also built a strong presence in Macao. And one government official interviewed asserts that much of the triads' firepower originates in mainland China.

Though Macao established the Operational Command Center to unite all police forces in Macao, the center has been unable to overpower the triads, estimated to outnumber police two to one. Some police collusion with triads further undermines the center's efforts. Assistance could come in the form of PRC public security forces, reportedly already stationed in Macao studying the crime situation. And the roughly 4,000 PLA troops currently guarding the waters and land around Macao have made several thousand gang-related arrests. Some Macao experts believe that triad crime will subside after reversion and that PRC rule, backed by the PLA, will serve as an effective deterrent. Others believe that the triads will temporarily ease up on the more visible criminal activities after the handover, but that feuds will continue.

Macao citizens understandably expect Edmund Ho to stop police collusion with triads and to reform the gambling industry, the battleground for organized crime. STDM's monopoly expires in 2001, and what will happen then is anyone's guess. Stanley Ho (no relation), head of STDM and the lord of the gambling industry, hopes to extend the monopoly. He argues that competition in the industry would only increase gang-related crime.

The post-handover era

Whether the Macao and PRC governments are able to tame crime will indicate, according to many observers, how well Macao will fare after 1999. The consensus is that crime will subside in the short term, boosting tourism and in turn spurring the economy. Macao hopes in particular to attract more visitors from China and Hong Kong.

Democracy is not a popular concept among Macao residents. They simply desire concrete improvements in their daily lives.

But if gambling is to continue to flourish, one analyst believes that the government must reform the industry and entertain the possibility of incorporating professional management. In its present form the gambling industry has free reign. Casinos compete by cutting prices, not by improving the quality of the service. Gambling is promoted through the regular parceling out of discounts to VIP players. No law exists to prevent this method of promotion.

The government has little choice but to rely on tourism to fuel the economy in the short term. With Macao's textiles quota scheduled to be phased out by 2004, the government is intent on building up other industries such as higher value-added processing and services. Government officials believe Macao must develop niche markets, encouraging companies to set up back office operations in Macao. A few paging companies, most notably Hutchison Telecom and Star Paging, have already relocated their bases from Hong Kong to Macao.

Reversion to PRC rule will no doubt lead to closer ties between Macao and the mainland, particularly Guangdong Province. And Macao will continue to serve as a bridge linking China to Europe via Portugal. Macao's ties with Hong Kong could strengthen, with Macao looking to the first SAR for experience, perhaps in the form of advice from the Independent Commission Against Corruption. The question is whether the PRC and Macao SAR governments can in fact turn the economy around and clean up the triads despite the PRC government's own problems with corruption and the Macao government's inexperience. Macao residents and analysts alike tend to be cautiously optimistic. 完

Council's 26th Annual Meeting Highlights Bilateral Tensions

Over 130 members attended the Council's 26th Annual Membership Meeting in Washington, DC, on June 9. Council President Robert A. Kapp made the opening remarks, and spoke briefly about the Council's year. Senator Chuck Hagel delivered the luncheon keynote address, focusing on the importance to the United States of a strong commercial relationship with China.

The morning plenary session began with Harry Harding, dean of the Elliott School of International Affairs and professor of Political Science and International Affairs at the George Washington University. Harding analyzed the recent damage done to US-China relations by the failure to sign an agreement on China's World Trade Organization accession terms during Premier Zhu Rongji's April trip to the United States; the bombing of the PRC Embassy in Belgrade by NATO forces and subsequent demonstrations in China; and the release of the report of the US House of Representatives Select Committee on US National Security and Military/Commercial Concerns with the People's Republic of China (the Cox Commission). Harding noted that, should bilateral relations fail to improve, US business could expect a more competitive bilateral relationship, in which cooperation would be more episodic. Harding pinpointed WTO negotiations and the US apology for the bombing as issues to watch.

Next, Carol Lee Hamrin, a senior China research specialist at the US Department of State, spoke in a private capacity about how the United States has traditionally viewed China. She also addressed China's domestic situation, focusing on the challenges facing the PRC government not only in guiding the transition to a market economy, but also in becoming a more accountable government.

Sheila Melvin, the director of the US-China Business Council's Shanghai office, wrapped up the morning session, presenting an on-the-ground perspective of the aftermath in China of the NATO bombing of the PRC Embassy. She compared the reactions in different Chinese cities, and discussed the social and political forces behind the protests. She also detailed the effects of the bombing on foreign businesses and the strategies used by some to deal with the situation (*see* p.4). Melvin highlighted the WTO rhetoric in China before and after the bombing, as well as the government's efforts to separate trade and politics—a new move for Beijing.

The first of the meeting's three afternoon sessions focused on investment options and featured Bonnie Y. M. Chan of Skadden, Arps, Slate, Meagher & Flom; Charles J. Conroy, of Baker & McKenzie; and Hugo Shong of International Data Group. They discussed mergers and acquisitions, joint stock companies, and venture capital investment.

Attendees of the intellectual property rights workshop heard from Preston M. Torbert of Baker & McKenzie's China Practice Group and William A. Finkelstein of PepsiCo, Inc. Torbert discussed current options to protect IPR, including civil and criminal litigation and customs authority. He focused on trademark infringement, the biggest intellectual property problem in China, and highlighted various punishments for IP infringement. Finkelstein detailed the range of IPR enforcement methods available to foreign companies.

Speaking at the workshop on US high-technology exports to China were Roger Majak of the US Department of Commerce Bureau of Export Administration, Francis C. Record of the House International Relations Committee, and Christopher Hankin of NCR Corp. The speakers discussed supercomputer exports, China's domestic supercomputer development, and end-use enforcement, particularly licensing conditions and policies.

Council Board Welcomes Eleven

The day's events were punctuated by the approval of a slate of new directors forwarded to the membership by the Council's Board of Directors at their meeting on June 8. Council Directors also named Michael R. Bonsignore, Chairman and CEO of Honeywell Inc., as the organization's chairman for 1999-2000. Bonsignore succeeds George M. C. Fisher, Chairman and CEO of the Eastman Kodak Co.

Executives joining the Council's Board include the following: Roger G. Ackerman, Chairman and CEO, Corning Incorporated; Carleton S. Fiorina, Group President, Global Service Provider Business, Lucent Technologies; Durk I. Jager, President and CEO, The Procter & Gamble Company; L. Oakley Johnson, Senior Vice President, Corporate and International Affairs, American International Group, Inc.; J. Bennett Johnston, Chairman, Johnston Development Co., LLC; Sean Maloney, Senior Vice President and Director, Sales & Marketing Group, Intel Corporation; Patrick J. Martin, Senior Vice President - Developing Markets Operations, Xerox Corporation; Terence H. Thorn, International Government Relations and Environmental Affairs, Enron International; Morton L. Topfer, Vice Chairman, Dell Computer Corporation; Henry Wallace, Group Vice President, Ford Motor Company; Lawrence B. Zahner, President, GM China Operations, General Motors Overseas Corporation.

In addition to Mr. Bonsignore, the Council's officers for the coming year include Ambassador Carla A. Hills (Hills & Co.) and Frederick W. Smith (FDX Corporation) as vice chairmen; Edgar Hotard (Praxair, Inc.) as secretary-treasurer; Larry L. Simms (Gibson, Dunn & Crutcher LLP) as counsel, and Robert A. Kapp as president.

THE

CHINA BUSINESS REVIEW

is pleased to announce that beginning with our

September-October 1999 issue,

we will be offering a new, expanded classified advertising section.

More promotional space for goods and services, positions wanted and available, prospective business opportunities, and other items of interest to *CBR* readers.

For a limited time, you can submit a FREE listing of up to 4 lines

(60 characters max.)

For all countries outside of Asia, just send your text for approval to the attention of Gregory Heslin at gheslin@uschina.org or by fax to 202.833.9027. For Asia, please send your listing to Wendy Pang at hkowp@hotmail.com or by fax to 852.2527.1516.

For companies interested in greater visibility, we will also be offering "knock-out" options at $175 per column inch. These "knock-outs" can include any b/w graphic. Length must not exceed 3 3/8 inches and must be provided in camera-ready format only, with accompanying electronic file if possible.

Please direct all inquires concerning your classified advertising listing to:
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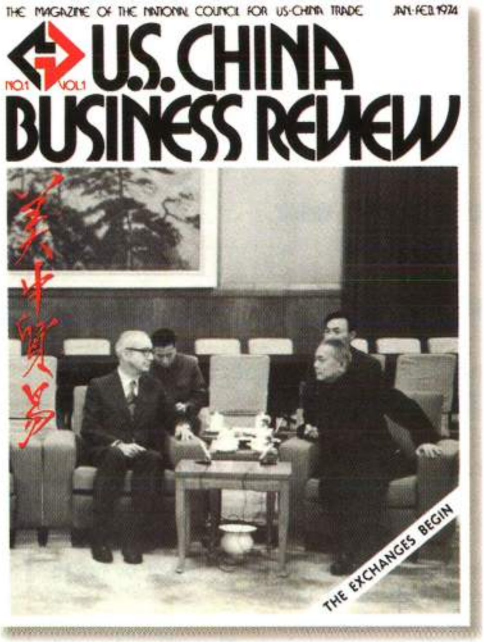


March-April 1975

FIRST AIR CARGO CHARTER BETWEEN THE US AND CHINA

September-October 1974

YOUR BUDGET IN KWANGCHOW

If you're wondering how much to budget for your stay in Kwangchow, count on spending at least $25.00 a day. This includes, as of Spring 1974, $13.00 for your room, $8.00 for meals, and $4.00 for miscellaneous personal needs. But that is a minimum. A first class evening meal alone may cost as much as $11.00, which will push up the average cost.

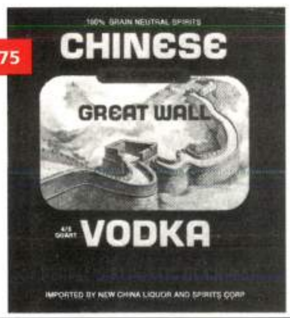
Most businessmen must factor in the cost of cables, telex, and telephone calls to their offices overseas. This adds considerably to the minimum.

In addition, many traders may take weekend trips which may cost as much as $17.00 a day or more. Personal purchases also add to the total.

A realistic budget, by one New York businessman's assessment, for two weeks at the Fair, using cable services extensively, is $2,000.

As time goes on, will China pretty much stick to chopsticks?

May-June 1975



INTERNATIONAL FLIGHTS TO CHINA

Air France
Leave Paris, Orly, Mondays only, Flight #180, at 18:10. Arrive Peking Tuesday, 18:15, via Athens and Karachi. Round trip from New York connecting with Paris flight to Peking is $936.00 (excursion rate for a minimum of 7 days and a maximum of 45 days).

PIA
Leave Karachi Thursdays and Sundays at 7:30, Flight PK 750. Arrive Peking 19:45. Round trip from New York connecting with Karachi flight is $936.00. Flight PK 704 from Kennedy International makes a good connection with PK 750 out of Karachi.

Ethiopian Airlines
Leave Addis Ababa Wednesdays, Flight #772 at 16:30. Arrive Bombay 23:50. Depart Bombay 12:50. Arrive Peking 10:20 Thursday. There are flights from London, Paris, Athens, Rome and Frankfurt to Addis Ababa.

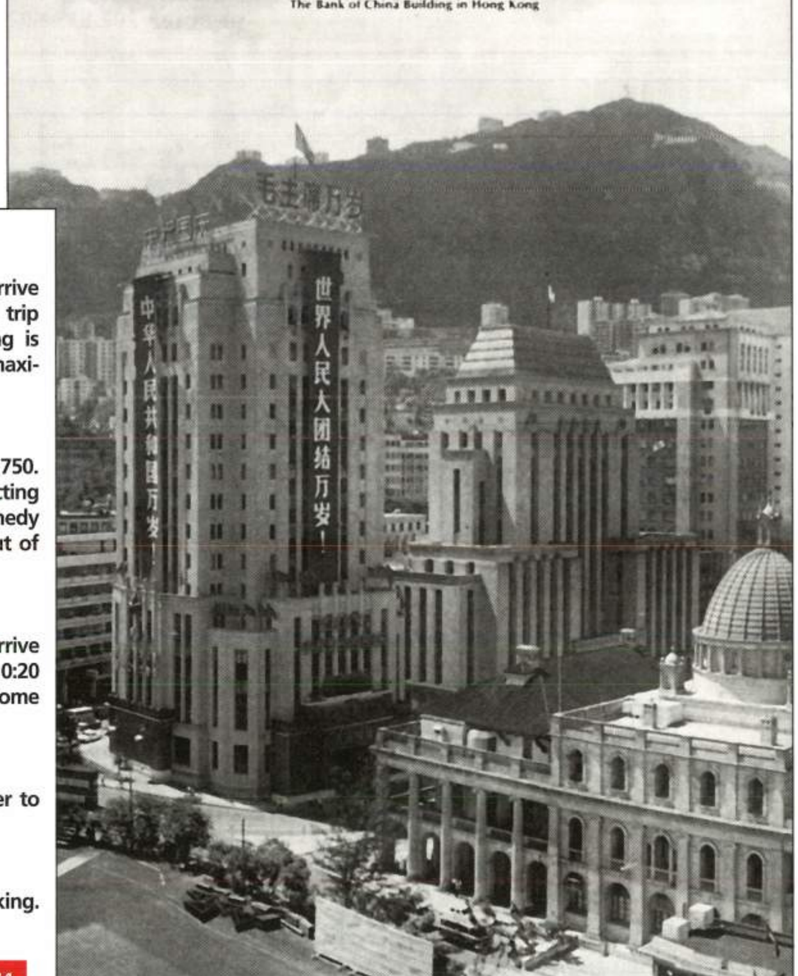
CP Air
Expected to begin service late Fall 1974 from Vancouver to Shanghai and Peking.

Japan Airlines
Expected to begin late September 1974 from Tokyo to Peking.

British Airways
Negotiations still in progress.

September-October 1974

The Bank of China Building in Hong Kong



July-August 1979

IMPACT OF MFN ON TOTAL US IMPORTS FROM THE PRC

PROJECTED US IMPORTS FROM CHINA (in million US $)

	Without MFN Low Estimate*	Without MFN High Estimate*	Counting in Impact of MFN***
1979	$ 400	$ 530	—
1980	$ 468	$ 800	$ 585–$1,040
1981	$ 548	$1,050	$ 685–$1,365
1982	$ 642	$1,350	$ 805–$1,755
1980–1982	$1,658	$3,200	$2,073–$4,160

Additional trade resulting from extension of MFN, over three years, 1980–1982;

a) $415–498 million, based on low estimate of total US imports from China ($1,658 million).

b) $800–960 million, based on high estimate of total US imports from China ($3,200 million).

*Estimated US imports from the PRC, assuming 17% growth per year.

** Estimated US imports from the PRC, assuming a rising US share of China's exports: 4% in 1979, 5% in 1980, 6% in 1981, and 7% in 1982.

*** Assuming a 25-30% increase caused by US extensions of most-favored-nation (MFN) status to the PRC.

May-June 1975

ON THE LIGHT SIDE

• An American asked the Council office if he could arrange to visit a Chinese commune or dairy. It was explained that a commune would be possible, but that dairies were rare in China. He insisted that a Chinese had mentioned something about a people's dairy. The confusion was soon cleared up: his Chinese friend had been referring to China's major newspaper, *The People's Daily*.

• An American importer said he was unconcerned about the failure of Congress to repeal the prohibition on the import of certain Chinese furs and skins, since he brings in *teddy bear skins*. "Why pay freight on stuffing?" he asks. Why, indeed.

March-April 1975

This Hsinhua Photo shows television sets for sale in a Shanghai store.

September-October 1974

GEORGE BUSH NEW US CHIEF IN PEKING

BOEING ACTS AS HOST

China recently introduced its first Boeing aircraft on domestic routes. China's personnel training at Boeing's facilities are shown here.

March-April 1974

September-October 1974

NOTICE:

Your unanswered letters or cables to Peking may be *your fault*. You must give your complete return address—*including "U.S.A."*.... This is particularly true when State names are abbreviated (such as NM, CA, or O.) or eliminated....This is an understandable difficulty. After all, would your office know whether or not "Liaoning" was a province of the PRC if the country name were omitted?

September-October 1976

ON THE DEATH OF MAO TSE-TUNG

On September 9, 1976, the day of Chairman Mao's death, Lewis Shanks and James Chen of the IDC Marketing Division of WJS, Inc., in Washington D.C., were in Peking. ..."Watching soldiers who fought alongside Mao as well as kindergarten-age children sob uncontrollably," commented the men, "is one of the most moving experiences one can imagine. Americans can never fully understand the emotion here; it is as if everyone's father died at the same time."

"As far as the volume of trade between our countries is concerned, surely it would not be less than our trade with Japan."

Vice Premier Deng Xiaoping to Secretary of Commerce, Juanita Kreps, Beijing, May 10, 1979.

1978
Sino-US trade $1.15 billion
Sino-Japanese trade $5.08 billion

All the Characters for tea in China.

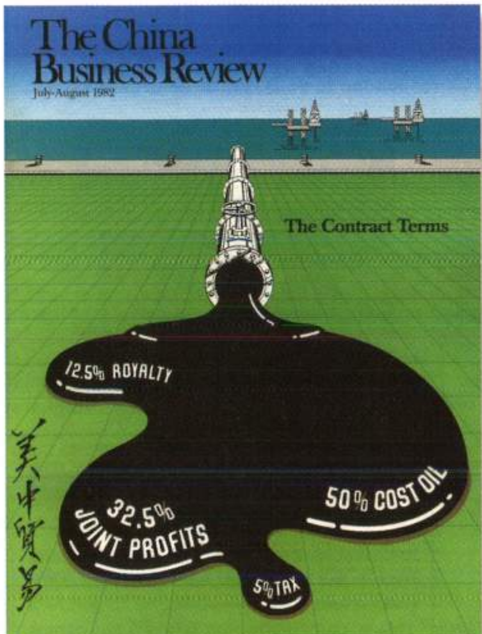
ALL THE TEA IN CHINA

"It's Harrison in Beijing. He says we've got a deal if you'll take payment in cuttlefish..."

The Way Ahead

January-February 1980

The passage and implementation of the US-China Trade Agreement were long-awaited as the pinnacle of the process of normalization of Sino-US economic relations. Yet the congressional votes on the trade agreement, which gives China most-favored nation (MFN) tariff status, were taken before half-empty galleries, and the news of the agreement's approval was buried amid signs of worsening US-Soviet relations.



1979: *"Can we come in?"*

November-December 1980

We will stress the use of existing enterprises as a base: that is to say, our major efforts will not be in building factories or in importing complete sets of equipment from foreign countries to start new factories.

—Bo Yibo

May-June 1989

1989: *"Can we afford to stay here?"*

November-December 1980

China Wire

New Year's Resolution—Down with Bureaucracy!

China's Fifth National People's Congress took shot after shot at red tape: Chairman Hua Guofeng brought up the issue several times in his main address September 7, [1980]:

Corruption "Our cadres must fight resolutely against the practice of tailoring the law to suit one's own selfish end and against bureaucrats shielding one another in wrongdoing."

Incompetence "Even if he proves really incompetent or does not apply himself to his work, he remains a cadre unless he is dismissed. How is it possible to realize modernization if such a state of affairs is not thoroughly changed?"

Criminal Activities "Leading cadres... must not shield their children or connive to cover up their criminal activities. We must wage a resolute struggle against those who take part in speculation, profiteering or other criminal offenses." (This is according to Yang Deshi, a PLA delegate to the NPC.)

March-April 1980

CHINA'S NEW SCRIP

As of April 1, China issued new foreign-exchange certificates, equivalent in value to yuan, which are now the only form of currency foreigners can use in China. Available in denominations of 50, 10, 5, 1, and 0.10 yuan, this new scrip may have been issued to stem a rising black market in foreign currencies in the PRC.

March-April 1984

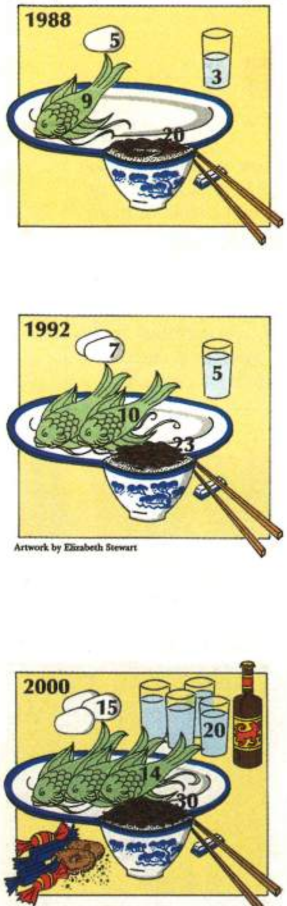
A BEIJING BUDGET: THE FIRST YEAR

	Bare Bones	Average	Deluxe
Equipment, Maintenance, & Supplies	2,700	6,400	12,000
Expatriate Salaries & Benefits	25,000	67,500	120,000
Entertainment	2,000	5,000	10,000
Duties, Customs, & Fees	200	500	800
Office Assistants	—	5,600	14,800
Postage, Shipping, & Freight	2,700	4,000	7,500
Rent & Electricity	17,500	33,000	100,000
Telephone & Telex	3,500	8,000	17,000
Transportation (local)	3,500	4,500	6,000
Travel (in China)	2,400	4,500	10,000
Miscellaneous	500	1,000	1,900
TOTAL:	60,000	140,000	300,000

Chart compiled by Scott D. Seligman

China's Changing Diet

(annual per capita consumption in kilograms)



Artwork by Elizabeth Stewart

Source: National Center for Rural Technology and Ministry of Agriculture's Vegetable Basket Plan

US INVESTMENT COMPARED TO TOTAL FOREIGN INVESTMENT IN CHINA

Number of Projects 1979-86

	US	All countries	US %
Equity joint ventures	219	3,213	6.8
Contractual joint ventures	53	4,383	1.2
Offshore oil	24	41	61.0
Wholly foreign-owned enterprises	7	138	5.1
Total	304	7,775	3.9

Contracted Value 1979-85 (million $)

	US	All countries	US %
Equity joint ventures	265.08	3,411.68	7.8
Contractual joint ventures	890.00	8,210.09	10.8
Offshore oil	960.00	2,782.50	34.5
Wholly foreign-owned enterprises	5.42	516.99	1.0
Compensation trade	54.54	1,253.72	4.4
Other	0	485.73	0
Total	2,175.04	16,660.71	13.0

SOURCE: *US Joint Ventures in China: A Progress Report*, prepared for the Foreign Commercial Service of the US Embassy in Beijing by The National Council for US-China Trade.

The increase in China's urban population during the decade of the 1980's alone will be greater than the entire population of the United States.

September-October 1989

A guide to China's current business environment

The climate has changed for foreign business in China. Here's a roundup of what companies may encounter in coming months.

- Preoccupied bureaucracy
- Increased official interference
- Greater Party and trade union role
- Continued propaganda
- Less reliable statistics
- Slow sales
- More import controls
- Emphasis on force majeure clauses
- Reappearance of lending
- Regional differences
- Decreased transparency
- Economics will drive politics

November-December 1989

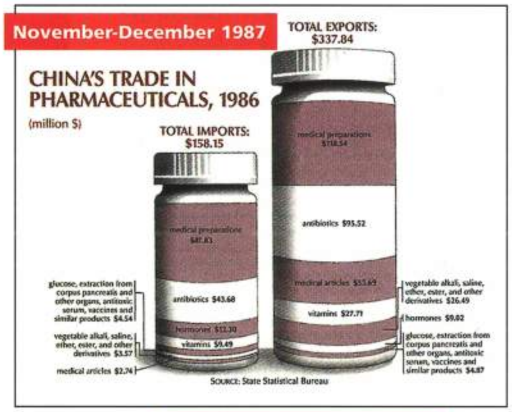
20 Potential Pitfalls that Every Company Should Know About

1. Voting
2. Capital Contribution
3. Obstacles to Attracting Foreign Management
4. Management Roles
5. Lending to Joint Ventures
6. Control by the Ministry of Foreign Economic Relations and Trade
7. Feasibility Study Costs
8. Access to Raw Materials
9. Labor Problems
10. Domestic Sales versus Exports
11. Profits and Pricing
12. Foreign Exchange Regulations
13. Protecting Industrial Property Rights
14. Early Termination
15. Recognizing Intangible Value
16. Dispute Resolution
17. Governing Law and Sovereign Immunity
18. The Threat of Expropriation or Confiscation
19. Tax Treatment
20. Profit Distribution

November-December 1987

CHINA'S TRADE IN PHARMACEUTICALS, 1986

(million $)



SOURCE: State Statistical Bureau

November-December 1985

THE TYPICAL BUSINESS EXPATRIATE IN CHINA

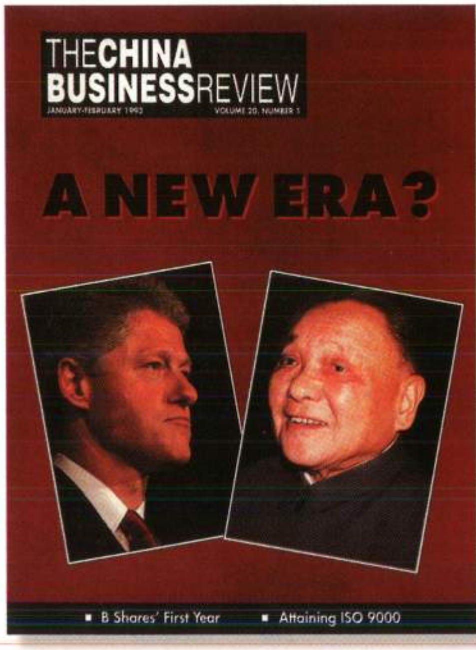
Base salary	$52,700
plus:	
Foreign service premium (15%)	7,905
Hardship allowance (25%)	13,175
Per diem for goods and services	8,500
	$82,280
minus:	
Housing deduction	9,490
Federal income tax deduction*	7,630
	$65,160

* Assumes executive has a spouse and two children

July-August 1989

EDITOR'S NOTE

The responses [to Tiananmen] vary widely, as companies find themselves affected differently depending on the nature, duration, and scale of their China business, as well as the region in which it is conducted. Some have found their work disrupted; others have operated smoothly throughout the turmoil, but virtually every company must now undertake a major reassessment of the China business environment.



November-December 1991

After Tiananmen, Pudong was seized upon by the central leadership as a way to demonstrate that China was still open and pursuing reforms.

March-April 1994

New Year's Big Bang

The far-reaching banking and tax changes China implemented on January 1 created havoc for many foreign businesses in China. The official and swap rates were unified at ¥8.71/$1 and banks ceased issuing foreign exchange certificates (FEC)...prompting mass confusion as foreigners rushed to open renminbi bank accounts....

March-April 1990

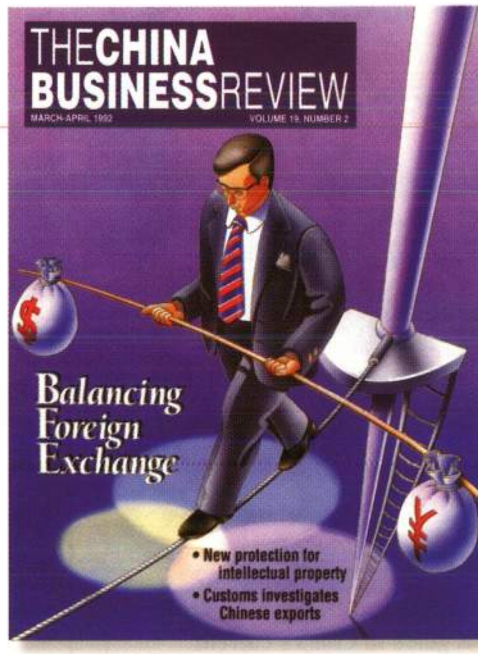
Chinese officials have improved their understanding of international tax and business practices at a rate nothing short of miraculous.

September-October 1992

TABLE II

FIE Wages by Region

Region	Wage
Guangdong	¥845
Beijing/Shanghai	549
Other coastal locations	614
Northeast and inland	322
National average	549

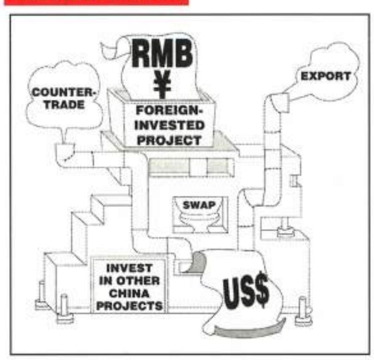


March-April 1992

Chinese Securities Markets Issue Foreign "B" Shares

Following record gains in 1991, both the Shanghai and Shenzhen securities exchanges took a further step toward marketization recently by issuing special shares for foreign investors. The Shenzhen exchange acted first, when China Southern Glass issued 16 million B shares at $5.30/share in December....The Shanghai Vacuum Electronic Device Corp. issued its stock to foreigners in January...the one million B shares with face value of ¥100 were sold at ¥420/share.

March-April 1992



March-April 1994

Expatriates face long waiting lists and high prices in Beijing

March-April 1999

The Kodak Deal

As the first foreign firm to take significant advantage of a vehicle introduced under China's 1994 Company Law, Kodak has invested in two newly formed joint-stock limited companies: Kodak (China) Co. Ltd. and Kodak (Wuxi) Co. Ltd.…Kodak owns approximately 80 percent of the shares of Kodak (China) and 70 percent of the shares of Kodak (Wuxi)….As the controlling shareholder, Kodak will lead the management and operation of the companies, which will manufacture, market, distribute, sell, and support Kodak products throughout China.

May-June 1999

GITIC's bankruptcy has ushered in a new era of foreign lending in China

July-August 1997

A supermarket clerk handles a McCormick product display in Shanghai. *Photo courtesy of Catherine Gelb*

March-April 1998

Hong Kong Election Sets Precedent

Voters in the Hong Kong Special Administrative Region (SAR) made history by participating in the election of the Legislative Council (LegCo) on May 24. The election marked the first time that any part of the People's Republic of China has held multiparty elections for the upper levels of government. A record 53 percent of the electorate braved torrential thunderstorms and flooding to cast ballots, returning to the legislature 18 pro-democracy advocates elected in 1995 and ousted last year when China installed the provisional legislature. The LegCo election was nothing if not unique. The electorate was given inducements to vote, including election souvenir cards, which could be redeemed for a discount at a local clothing store.

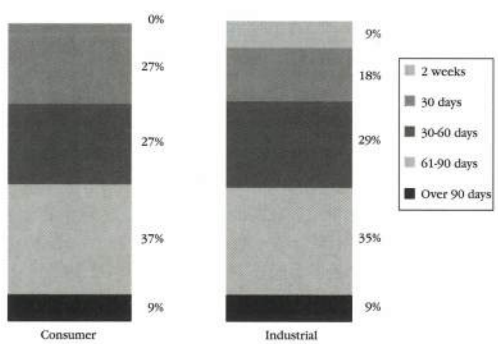
March-April 1998

China is sure to feel the repercussions, for better or for worse, of Asia's financial downturn

September-October 1998

Figure 3
Average Accounts Receivable of Respondents

Percent of respondents



SOURCE: US-China Business Council

March-April 1998

Who's Plugged In?

The number of Internet surfers in China is on the rise, having reached more than 600,000 in 1997 from 40,000 in mid-1995. And a recent survey of 1,802 computer users in China found that the majority of computer users are between the ages of 21-30. Monthly income ranged from RMB400-RMB1,000 ($48-$121) for 58 percent of the respondents, and RMB1,000-RMB2,000 ($121-$241) for 32 percent of the respondents. Accesses to the World Wide Web accounted for more than three-quarters of China's Internet data flow. The survey was jointly conducted by ComputerWorld, China Science and Technology Network, ChinaNet, China Education and Research Network, and Golden Bridge Network.

A Snapshot of China in 1997

Around town… (¥8.28=$1)

can of Coca-Cola	¥2.5-¥3
base subway fare	¥2
eggs (1 kg)	¥5
Colgate toothpaste (1 tube)	¥3.9
apples (1 kg)	¥4
scoop of Haagen-Dazs ice cream (in Shanghai)	¥23
large Pizza Hut pizza	¥58-¥76
5 km taxi ride (in Shanghai)	¥14

…in Hong Kong… (HK$7.8=$1)

can of Coca-Cola	HK$2.3
base subway fare	HK$4
eggs (1 kg)	HK$15
Colgate toothpaste (1 tube)	HK$7.4
apples (1 kg)	HK$4.7
scoop of Haagen-Dazs ice cream	HK$24
large Pizza Hut pizza	HK$78-HK$112
5 km taxi ride	HK$30

…in the factory

air conditioners	8.5 million units	(25%)*
bicycles	27.0 million units	(-11%)
cars	485,200 units	(24%)
color TVs	26.4 million units	(15%)
electric fans	72.7 million units	(-17%)
silk	74,570 tons	(-10%)
steel	107.6 million tons	(7%)
stereo equipment	13.4 million units	(48%)

Paging the PRC

Darryl Sterling

China has the potential to become the most advanced paging market in the world

At first glance, China appears to be a risky market for wireless messaging businesses. The Asian financial crisis has tightened the reins on previously robust developing regional economies, and China's economy has also slowed, with a notable dropoff in consumer spending. China's telecommunications industry has not been immune from the monetary squeeze. Despite recent indications that China may be moving ahead with telecom liberalization, the government's current ban on Chinese-Chinese-Foreign (CCF) joint ventures highlights the strength of conservative forces in the regulation of the Chinese telecommunications industry.

Even so, progress on the separation of business from state will improve the outlook for equipment manufacturers as Chinese paging companies become more business-oriented. Despite 1998 predictions from Motorola Inc. and Glenayre Technologies Inc.—the "Big Two" paging infrastructure vendors—indicating that adverse business conditions would soften orders for paging infrastructure, the Chinese paging market is still out-performing those of many other Asian countries.

Market demand is driving the growth of the paging industry and other high-tech business segments. Advanced paging technologies, such as ReFLEX, may become the primary means for Chinese subscribers to access communications media like the Internet (*see* p.35). ReFLEX is a two-way paging system that allows paging devices to send messages to and receive messages from paging networks. With tens of thousands of radio paging transmitters deployed nationwide, and a current paging penetration level of 4.65 percent, China has the potential to be the dominant paging market in the world. In addition, because it uses second-generation advanced paging architecture and because of national and regional interest in developing this sector, China has the opportunity to become the most advanced messaging market in the world.

China, India, and Brazil together represent approximately 40 percent of the world's population and paging subscribers, but could eventually make up as much as 65 percent of the global paging market. Even though these countries have relatively low paging penetration levels, they could add millions of subscribers to the global total. Thus, trends in these markets will dictate the future of paging technologies.

Darryl Sterling is an industry analyst for paging and wireless messaging services at the Yankee Group, a Boston-based consulting firm. This article is adapted from a February 1999 Yankee Group report, Let One Thousand Transmitters Bloom: Paging Reaches the Chinese Populace.

Growth Spurt

Despite the impact of the Asian financial crisis, China is leading the world in the deployment of paging networks. China has contracted $291.9 million in advanced messaging infrastructure contracts since 1995, accounting for 16 percent of the $1.8 billion in total global paging investments. In 1998, Chinese paging infrastructure investment was estimated at more than 50 percent of the global total.

As in other markets, service providers in China initially concentrate on providing coverage in selected metro or regional areas before expanding networks into less populated ones. The Special Economic Zones (SEZs), with traditional one-way paging architecture, were among the first markets in China to upgrade to advanced paging architecture. However, since the introduction of such paging technologies in 1996, Chinese paging contracts have spread to many interior provinces.

Advanced paging infrastructure has followed a systematic buildout in China. From 1994 to 1995, infrastructure was deployed in strategically located and influential cities, such as Beijing, Kunming, Fuzhou, Quanzhou, and Ningbo. In 1996, the network reached cities in the interior provinces, including Chengdu, Harbin, and Nanning. By 1997, the networks were being extended to outlying cities and provinces to fortify coverage in strategic provinces. Multi-year buildouts have occurred in coastal provinces, including Liaoning, Hebei, Shandong, Zhejiang, Fujian, and Guangdong. A number of infrastructure contracts signed in Hong Kong before July 1997 are extensions to the mainland's wireless messaging initiative.

China's ravenous appetite for paging infrastructure is reflected in the numbers. The Ministry of Information Industry (MII, formerly the Ministry of Posts and Telecommunications), has reported staggering growth in the number of units in service, from 2.2 million in 1992 to 25.4 million in 1996. This constitutes a compound annual growth rate (CAGR) of 83.8 percent for its "mother ship" paging entity, China Telecom. According to the Yankee Group and MII, China—with roughly 72 million units in service at year-end 1998—has dethroned the United States (with an estimated 48.3 million subscribers) as the world's number-one paging market.

At the current rate of growth, the Chinese market may reach nearly 120.3 million units in service by 2003. This forecast is based on the following assumptions: that China Telecom's 66 percent market share will taper off to 56.8 percent by 2003 as the government rationalizes the entity; that China will experience a slight increase in overall economic growth through 2003; and that units in service will see a 17.7 percent CAGR from 1997 to 2003.

Such growth would only represent a 9.3 percent penetration rate for the country, however. Considering paging penetration levels in other Asian economies—Hong Kong at 8.0 percent and Singapore at 41.3 percent, as of year-end 1998—the forecast for rapid growth in the numbers of subscribers in China is easy to justify.

Since the liberalization of the paging industry in 1993, China has reported more than 3,000 paging operators. Of these operators, only about 350 host more than 3,000 service units on their networks. The dominant service providers control 80.9 percent of the market. According to Chinese sources, China Telecom alone owns 66 percent of the entire industry (*see* Figure).

China—with roughly 72 million units in service at year-end 1998—has dethroned the United States as the world's number-one paging market.

Increasing Capacity

Yankee Group research indicates that the service mix for paging is approximately 64 percent numeric and 36 percent text messaging. But what is most revealing is the strong growth of text messaging, and Chinese-character messaging in particular. According to one carrier in Shanghai, Chinese-character messaging as a percentage of total text messaging grew from 5.5 percent in 1993 to 23.1 percent in 1997.

Closer analysis of this data shows that the CAGR for Chinese-character messaging subscribers was 3.4 times the CAGR for alphanumeric messaging subscribers during the same period. With the 17.7 percent estimated industry CAGR through 2003, and the proportion of Chinese character messaging in the service mix increasing, text messaging will clearly be a driving force in China's paging market.

Indeed, messaging throughput will be a swelling problem for Chinese paging operators, as Chinese character transmissions require more capacity than standard alphanumeric or romanized messages. Considering that operators in other Chinese-speaking paging markets have reported Chinese messaging in excess of 50 percent of network transmission—including Hong Kong, where character messaging is estimated as 70-80 percent of network traffic—China should focus on planning capacity growth to meet potential market demand. Though some providers may be skeptical about the current need for the extensive capacity offered by FLEX architecture in comparison with traditional paging networks, the ability to add capacity with FLEX technologies provides value in the medium and long terms.

Low Revenues Hinder Competition

Intense competition and the race to gain subscribers have taken their toll on the market: the average revenue per unit (ARPU) in China is ¥43.5 ($5.25). At this price point, it will be very difficult for any one service provider to make a profit without economies of scale. If MII considers the preservation of a liberalized paging market to be more important than high revenues, there is even more pressure for paging operators to establish such economies of scale.

Although reduced government subsidies for China Telecom may eventually result in truer business cost structures and may minimize the current price deflation (which would allow paging carriers to compete at more reasonable service prices), major paging carriers, such as Shanghai Guo Mai, continue to lower rather than raise prices. This trend indicates that it may be some time before free-market factors actually take effect.

Low ARPU for smaller carriers—which may own network infrastructure but must use spectrum allocated to bigger carriers—translates into a low valuation for these paging businesses. As a result, it is difficult for these operators to obtain financing to build the infrastructure needed to compete with the larger service providers. This makes them easy targets for acquisition or ex-

The image resolution needed to display Chinese characters on paging devices suggests a market for larger screens.

tinction. In this type of competitive environment, larger carriers—excluding China Telecom—should be primarily concerned with obtaining smaller carriers offering certain frequency bands and coverage where the larger carriers do not offer service. The aim of this strategy is to build nationwide coverage to compete with China Telecom, or to offer roaming services. This is especially important if the newly formed MII makes it more difficult for carriers to acquire additional spectrum.

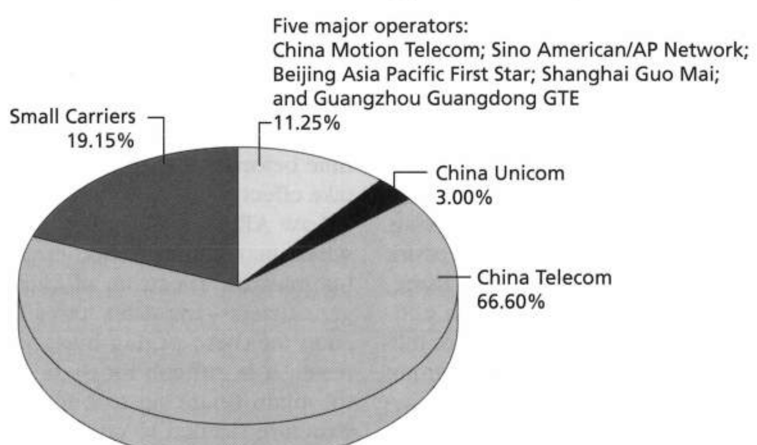
Pluses of Paging

Market expansion to date in China has been consumer driven. China's wireline infrastructure has grown from 6.8 million installed lines in 1990 to 55 million by the end of 1996, representing a penetration of only 4.46 percent. In fact, wireline penetration in metropolitan areas was 26.1 percent at year-end 1997, and hit 27.7 percent by the end of 1998. With such limited telephone access, the role of the pager as a notification device increases in value, especially because it is wireless. Limited access to traditional communications services has made Chinese people creative about how to use wireless services.

Paging affords Chinese individuals an independent, private line of communications, which not only can be quickly and easily deployed, but can be activated remotely. The affordability of the service also makes paging appealing—common device and service package deals, including a Motorola Advisor LX32 or a Motorola Scriptor 228 pager and one year of service, were ¥1,500 ($181.18) and ¥980 ($118.37), respectively, in mid-1997. The annual price for subsequent years of service was ¥600 ($72.47). In comparison, mobile phone service averages ¥50 ($6.04) per month and ¥0.4 ($0.05) per minute. Public phone service charges for local calls are ¥1 ($0.12) per 5 minutes. The high cost of setting up a wireless phone account, coupled with the cost of a wireless phone handset—which can easily cost five to six times more than a paging device—puts mobile phone service out of reach for a significant portion of the population. Thus, paging has the potential to become popular and widespread across China.

Another distinguishing characteristic of the Chinese market is the time frame in which people are expected to respond to pages. In the United States, for example, when a page is sent, in most cases an immediate response is expected from the paging subscriber. However, in China, response time is affected by the relatively low availability of telephones. Because of these limitations, paging messages may not always be time critical, which makes the pure notification function of wireless messaging less important. In such cases, information beyond just a number, such as a text message, offers more value and functionality to paging subscribers. This points out another reason why use of text messaging will soar: more methods of Chinese and romanized messaging inputs are sure to become available, and paging users will take advantage of any new ability to respond to messages within a shortened time frame.

China's Dominant Paging Operators in 1998



SOURCE: The Yankee Group

Chinese Characters: More Capacity, Bigger Screens

The Chinese paging industry should allocate resources now to creating direct messaging input methods so that when the populace is ready to use paging technology extensively, appropriate products and systems are in place. The Chinese paging sector has viewed two-way paging technology favorably, in part because ReFLEX network architecture utilizes spectrum more efficiently, a necessity for the higher capacity requirements of Chinese-character messaging. More important, confirmed delivery and two-way devices offer a wireless messaging input method by design. (To date, the Yankee Group has not heard of any spectrum allocations for new networks for confirmed delivery or two-way paging services in China.)

In this scenario, the benefits of initiating mobile text messages go far beyond just paging, extending to the Internet and an ability to send and receive e-mail at any time. The Internet is one input method which will be a medium- to long-term driver for the growth of the paging industry. The Internet will eventually be a ubiquitous messaging platform in the market, accessed through wireless messaging technologies.

Once two-way services arrive in the market, certain improvements should be made to messaging devices to create more demand for call-and-response or interactive messaging services. The image resolution needed to display Chinese characters on paging devices suggests a market for larger screens. It would be a challenge to incorporate an adequate display and character input method in a traditional-sized paging device. Motorola's licensing of the FLEX protocol decoder chipset solutions in December 1998 to Korea-based Samsung Electronics signals that advanced messaging technologies may be embedded in a number of consumer products worldwide. These screens are designed to display more text, and the devices already include character input methods that can be adapted for use in Chinese paging devices.

Besides language, there are three major issues that have the potential to affect the deployment of equipment and services in the paging industry in China: local equipment vendors (LEVs); Internet facilities; and cellular or PCS (a shorter range cellular technology) cannibalization.

Supporting Local Industry

The telecommunications industry is a major component of the PRC government's ongoing industrial restructuring plan. As Chinese companies have the resources and engineering expertise to manufacture wireless network architecture, China can use the paging industry to develop wireless engineering expertise and create jobs for LEVs.

China's support of LEVs may play a role in the structure and future competition for supply of paging infrastructure. The government believes that LEVs can supply paging architecture of acceptable quality at low prices to support market expansion. When purchasing paging architecture, especially for the largest paging operators, the quality of the product versus the cost is a serious consideration. The larger and more complicated paging networks become, the more difficult they are to maintain. And since, to date, these LEVs have had the most success providing paging equipment to smaller operators who lack the financial resources to upgrade to or build out Motorola or Glenayre equipment, LEV products have yet to be thoroughly tested in a network environment with high volumes of messaging.

However, there are other benefits to using LEVs. Paging networks will have to become more complicated to meet the messaging demand in the Chinese market, and consequently will require more sophisticated network managers.

It is only a matter of time before Chinese engineers develop their own expertise in manufacturing paging infrastructure.

With localized operations and customer service, and the ability to establish a number of different service sites with less difficulty than foreign equipment vendors, LEVs will represent another reason for China's paging operators to buy Chinese.

It is only a matter of time before Chinese engineers develop their own expertise in manufacturing paging infrastructure. In 10 years, LEVs may even be able to challenge the technological supremacy of Motorola and Glenayre in the Chinese market and in the rest of

Paging Technologies

Paging messages are transmitted over paging networks in data formats known as protocols. A protocol is a type of language, or set of rules, that allows information to flow over a network through the airwaves and connect with a pager. These rules dictate capacity, latency (the time it takes for a message to be delivered from point A to point B), signaling speed, pager battery life, and data integrity. There are several different types of paging protocols: Post Office Code Standardization Advisory Group (POCSAG), Golay, European Radio Message System (ERMES), and FLEX. POCSAG and ERMES are considered traditional, less-sophisticated forms of paging architecture, while FLEX is considered the advanced form (and is referred to as such throughout this box and the main article).

There are three types of the more advanced FLEX-based protocols: FLEX, ReFLEX, and InFLEXion. FLEX is a standard for one-way high-speed paging. ReFLEX and InFLEXion are both two-way paging technologies. One-way means that the network can only transmit information in simulcast on an outbound channel to the paging device. ReFLEX is a two-way paging standard that allows for an inbound, or reverse, channel with the outbound channel. ReFLEX is a version of the FLEX protocol that incorporates a 25 megahertz (ReFLEX25) or 50 MHz (ReFLEX50) inbound channel. It is important to note that spectrum must be allocated by the government for the inbound channel to each carrier that deploys ReFLEX architecture. InFLEXion is the protocol for an analog voice paging system that allows the transmission and storage of voice messages. With InFLEXion, paging subscribers can access voice messages through their paging device.

Because of the frequency-reuse advantages of ReFLEX, carriers can provide higher-value products to subscribers at lower prices than is the case for one-way networks. ReFLEX and InFLEXion networks are also less expensive from an opportunity cost perspective. This is because a message on a purely FLEX network is sent out in simulcast, using every transmitter site in a given region of service, while the ReFLEX network knows the location of the pager, and sends the message only to the transmitters that are near the pager. Thus, ReFLEX network architecture uses significantly less network capacity than FLEX, and the increased available capacity allows paging companies to offer services at lower prices. The ability of the carrier to provide an inexpensive service is important because paging subscribers have traditionally been price sensitive.

The bandwidth efficiencies of ReFLEX and InFLEXion architecture do not come without a price, however. The need to incorporate both transmitters and receivers in paging units, along with specialized software applications, increases the cost of the devices.

—Darryl Sterling

When cost and the call completion rate are important factors in choosing a wireless communications service, paging becomes more attractive.

world. Furthermore, with the assistance of Hong Kong and Taiwan, whose firms may be granted favorable terms for entering the Chinese market, engineering talent may mature more quickly than is currently expected.

The Internet's Impact

Will two-way paging ever become a mainstream Internet-access technology in China? Just as the government has invested aggressively in advanced paging architecture, it has also taken the initiative to deploy the fiber optic and ATM (asynchronous transfer mode) infrastructure to fuel data messaging and Internet growth. The gateways used to interconnect paging networks with the Internet, and the applications deployed by major US companies to facilitate access to Internet services and content, make paging a viable wireless Internet technology.

Wireless messaging service could become a critical tool in China. Whereas the Internet provides a common messaging platform, paging provides last-mile connectivity to the enduser that is both less expensive and easier to deploy. PageMart Wireless, a top-ten US paging carrier, has marketed its vision that "every human, car and machine will have a wireless Internet address for the exchange of data." This suggests that the future of paging will include Internet and messaging technologies. The routing of data through wireless networks in an Internet protocol (IP) and the use of IP-addressing schemes will bring a new era of messaging compatibility and standards that will facilitate inter-network operations. This will provide the flexibility to adjust to whatever the market may demand.

The development of wireless messaging transfer protocol (WMtp) was a major step in synthesizing Internet and paging technologies beyond just providing an interconnection gateway. WMtp is an IP-based protocol created by Glenayre that is used in a paging carrier's inter-switch network. Since WMtp is based on a TCP/IP standard for network interconnection, it can be used to transmit data to base stations using various communication media, including two-way satellite (VSAT) or data networks. Even though gateway equipment is still needed for translating data transmissions between networks, it signifies the standardization of paging technology around an IP format.

Cellular Cannibals?

Historically, in the Asian region as well as in markets around the world, paging has been viewed as a less expensive substitute for or complementary service to voice communications. With the introduction of low-priced PCS, paging services are now faced with competitive pressures not only from wireless voice but also from alternative short messaging services (SMS). This competition has eaten away at the base of Asian paging subscribers, and subsequently national and regional paging penetration rates. But in the era of advanced paging services, two-way wireless text messaging services will compete with wireless voice on value instead of just price. SMS will play a limited role in PCS until integration of a flexible input method (including Chinese character messaging) with a key pad occurs. Even so, the relationship of wireless messaging to wireless voice will be similar to the one that exists between desktop computers and wireline phones.

A Chinese wireless user must consider the cost-value trade-off between paging and wireless phone services. Not only is wireless phone service in China comparatively expensive, but the difference in price at the device level, with mobile phones averaging ¥3,550 ($428.80), and as high as ¥5,680 ($686.08), is also a factor. This, combined with a call completion rate as low as 40 percent in certain Chinese cities, makes mobile phone service a less favorable option. Pages, on the other hand, are estimated to reach their destination in a matter of seconds and have a low call drop rate. When cost and the call completion rate are important factors in considering and choosing a wireless communications service, paging becomes more attractive.

Multi-frequency Technology and Region-wide Roaming

The mainland has a unique incentive and opportunity to standardize a framework for an Asia-wide roaming environment for paging. But only a few Chinese paging carriers licensed on certain frequencies have the financial resources and support to expand their coverage beyond a specific market. This means Chinese consumers have to be very careful about choosing their paging service provider if they are interested in taking advantage of the technological innovations offered by advanced paging architectures. If the larger paging carriers that build advanced architecture offer superior paging service, the smaller carriers will be unable to compete, and, as a result, will ultimately become low-price, local-only competitors.

However, since no spectrum has yet been allocated by MII for a reverse channel for two-way messaging technology, the government will have to prioritize its communications initia-

Affordability of Wireless Communications Services

	Urban Population	Rural Population
Percent of total population	22%	78%
Per capita income (RMB)	5,140	2,080
Annual paging service price as a percentage of income	11%	28%
Annual paging service price as a percentage of income (at 100 minutes of use)	21%	51%
Minimum public phone price for local call as a percentage of income (at 100 minutes of use)	4%	11%

SOURCE: The Yankee Group

tives. In any event, China has a number of opportunities to modernize its culture using state-of-the-art communications equipment.

Moreover, as China is the largest paging market in the world, its resolution of multi-frequency issues will open the door for Asian regional standards based on advanced paging technology. Paging carriers throughout the region will then have incentives to build infrastructure and abide by the Asian standards in order to keep the door open for inter-regional paging business.

A multi-frequency paging solution will allow a given pager to scan several pre-specified frequencies in any market in which it roams, and then, if the proper frequency is in operation, transmit messages. From a strictly technological perspective, if a few contiguous frequencies are used or can be made available for paging in all Asian countries, then region-wide paging service is a distinct possibility. In fact, one of the greatest disincentives to a pan-Asian multi-frequency paging environment is that it will require each subscriber to purchase a new device able to scan the standard frequencies. Regardless, the rollout of advanced paging networks provides an opportunity to experiment with these kinds of services.

China's need for a nationwide multi-frequency roaming solution is already driving innovation in the field. In 1998, Motorola's advanced messaging switch passed China Telecom's stringent tests. The advanced switch set new records for high-speed processing of pages and other features, resulting in cost saving opportunities for the carrier.

Part of the reason why this concept of a multi-frequency paging environment is most applicable in the China market is because the government would like as many people as possible to have access to its backbone paging infrastructure. In a multi-frequency environment, it is possible to share network capacity and facilities. The concept of sharing advanced network facilities between carriers was fathered in the strategic alliance between PageMart and Metrocall announced in October 1998, whereby Metrocall will install its own transmitters (outbound) network frequency and PageMart will provide a network receiver (inbound) solution.

Because coverage is patchy and isolated, and number portability is limited, there is a growing demand for roaming capability. Carriers such as China United Telecommunications Corp. (Unicom) are offering national service with roaming capability, but this initiative was a part of its original network buildout and design. Unicom was also one of the first carriers to offer nationwide numbers to bypass high domestic long-distance tariffs. But before China spends too much time conceptualizing an Asian multi-frequency roaming universe, an enhanced service solution needs to be developed to manage cross-network roaming for inter-carrier management and billing purposes. This solution will provide the greatest value to a regional roaming alliance.

Paging the Future

Judging from the dollar amount of China's investment in advanced messaging architecture and the recent high growth patterns of units in service, China is on course to be a premier global paging market. However, part of the reason that China has been able to take advantage of paging technology is the timing of its commitment to the market—the country has been able to plan network buildouts and to receive the full benefit of second-generation FLEX family architecture. As a result, China will have more flexibility in adjusting to future trends in wireless messaging.

By investing in this type of technology, China as a whole will reap a number of benefits that are both internal and external to the paging industry. With paging technology embedded in existing computing devices, as well as the introduction of two-way paging units, China will fuel the growth of its own industry in two separate market segments. The development of the paging industry also creates an unusual opportunity to improve the nation's wireless engineering capability, thereby creating employment in a high-tech industry that can move China to the forefront of high-tech innovations in the future. Paging can be used to complement the government's other initiatives in promoting the use of technology. And as a dominant Asian country with modern paging facilities, China can take the lead in encouraging and organizing the effort to develop a national and regional multi-frequency roaming solution. The Chinese paging industry is, indeed, booming. 完

Hype Versus Hope for E-Commerce in China

Daniel H. Rosen

If e-commerce is to realize its potential in China, the country must address five areas crucial to its development

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What are the prospects for e-commerce in China? The view from technology companies and investors keen to export the US Internet boom to a huge new marketplace is one of enthusiasm: the ranks of the Chinese computer literate are swelling, and tighter electronic linkage to global supply chains may foster export growth.

Beneath all the hype, however, a wired China—just like a wired anywhere—depends on certain fundamentals. In the United States, there has been less attention to these fundamentals, partly because they are already in place, and partly on the grounds that the Internet itself provides a sort of "universal acid" that can eat through all obstacles. In China nothing about e-commerce is a foregone conclusion.

In anticipation of the discussions on e-commerce likely to take place at the World Trade Organization (WTO) Ministerial meeting in Seattle, a group of researchers at IIE—Sue F. Eckert, Dr. Catherine L. Mann, and Daniel H. Rosen—developed a framework for analyzing the economic and policy implications of electronic commerce for an East Asian economy. Their research focused on five "umbrella" structures that must be in place in order for electronic commerce to develop and mature in a given economy: a competitive telecommunications environment; a payments network; adequate trust in privacy and security; an encompassing legal infrastructure; and the completion of certain government-specific tasks.

That these foundations are necessary should come as no surprise. When telecom charges are too high people do not go on-line. Low credit-card penetration and unlimited credit-card liability stop e-commerce cold. Without privacy, people are nervous about leaving evidence trails for tax collectors and revealing purchasing habits, and firms won't risk a cyber-assault on their proprietary data. When few of the contenders have legal systems covering consumer protection or contract enforcement, the debate over who will be the "strategic e-commerce hub" seems silly. Finally, the Microsoft Corp. antitrust case in the United States reminds us that unless government adopts a pro-competitive stance, the Internet can be cornered like any other marketplace.

A critical appraisal of the fundamentals in no way diminishes the hundreds of announcements of Chinese and Western firms plowing ahead into niches of the e-commerce market in China—Motorola Inc.'s cable modems, Microsoft's Venus project, Cisco Systems's routers, and the venture capital of an army of anonymous investors funneling resources to Chinese entrepreneurs in a tangle of indirect ways. By tearing down intra-provincial trade barriers, these commercial agents of change, teamed with like-minded Chinese, are reshaping the foundations of the PRC market, re-educating bureaucrats where possible and shunting them out of the way where it is not. They have infected local entrepreneurs with a powerful obsession: the rational pursuit of return on investment through innovation. The "fundamentals" in this article complement—rather than contradict—the efforts of cutting-edge companies. That said, it is worth considering China's status to date in assembling the foundations necessary for e-commerce to flourish.

Telecom hurdles

It is no secret that telecom costs remain an impediment to the development of e-commerce in China. According to the China Internet Consumer Report, a late 1998 survey that can be found at *www.chinaonline.com*, 71 percent of the users interviewed cited cost and speed as the key hurdles to extended and more frequent online activity. In Shanghai today, basic Internet access runs ¥16 ($1.93) per hour during the daytime, in addition to the one-time registration fee of ¥100 ($12.08). Those hours add up quickly. A survey conducted by the China Computer Association revealed that regular Beijing Internet users spend an average of 35 percent of their take-home salaries on Internet access charges.

As in other countries, Internet access is subsidized for many college students in China, a useful tool for acclimatizing tomorrow's netizens to the ways of the Web. But after graduation most students fall back into a prohibitively pricey market. Especially during these transitional years, online commerce must be not just comparable to traditional commerce, but must provide even lower transaction costs to induce people to invest time learning something new. Indeed, it is the learning that takes place online that supports the innovation, new ideas, products, and other deliverables that promise increased productivity.

The question is whether telecom costs will fall—and the quality of service rise—*enough* to facilitate e-commerce uptake in China in the coming years. The answer lies in competition, not government edict. In this market, competition could come from two directions: greater openness to foreign investment in basic and value-added services, and greater domestic competition in parallel networks, such as cable and wireless. Buildout of the existing network to meet targets set by the Ministry of Information Industry (MII) without pressure from competition will not succeed in spurring e-commerce, if the experiences of other countries are much indication. Hence, many developing countries, including China, are willing to include the Pro-Competitive Regulatory Principles of the WTO's Negotiating Group on Basic Telecoms (NGBT) in their international commercial commitments.

The WTO accession terms China and the United States are negotiating could bolster both investment and competition. But ongoing collusion between PRC regulators and China Telecom seems to indicate that they are bent on keeping out what they see as destructive competition. Many foreign telecom service providers fear that China's telecom service sector will remain rigged even if China were to comply with WTO obligations. Foreign firms may succeed in developing niche markets—along lines similar to AT&T's joint venture with the Shanghai Posts and Telecommunications (P&T) Administration, which may provide Internet telephony only in Pudong—but not the broader market. Zhang Chunjiang, director of the Telecom Administration Department at MII, has repeatedly called unauthorized provision of Internet telephony a danger to the state, and has accused foreign firms of "colluding with domestic Internet telephone operators," thus drawing a thick line around foreign participation.

Domestic competition in alternative networks seems more promising. Entrepreneurs are developing a cable-based alternative to China Telecom in Shanghai and offering Internet-based cut-rate fax traffic in Fujian Province. The State Administration of Radio, Film, and Television will reportedly form a third national telecom company—Cable Television Network—to compete with China Telecom and Unicom, the country's only other official telecom company (*see The CBR*, May-June 1999, p.20). The tide could yet be turned, but such providers are building powerful domestic constituencies of industries whose international competitiveness depends on a more dynamic telecom environment. And as with basic telecom in the past, foreign firms will be quietly involved behind the scenes with the money, technology, and, most important, the management know-how to make these value-added services work despite MII's threats. The only question is whether these companies will suffer efficiency losses as a result of having to function within a far-from-transparent system.

The payments network

Online shoppers in China often browse through a sales website only to find they must pay by mail or walk down the block to provide payment in person. This makes e-commerce more time-consuming, more costly, and less predictable than a traditional purchase. And it is a sure way to kill the prospects for Internet business.

There are many problems related to the creation of an online payment system, foremost of which is the low penetration of credit (or debit) cards in China. One recent survey by a Beijing-based market research company found that only 20 percent of respondents aged 18-30 in four major Chinese cities owned credit cards. The People's Bank of China is encouraging Chinese commercial banks to begin providing consumer credit services by late 1999, particularly credit-card services and debit cards. According to David Wolf, managing director of consulting firm Claydon Gescher Associates in Beijing, 90 percent of credit cards issued in China currently cannot be used on the Internet, presumably because of government anxieties about cross-border capital flows and obligations.

China, like Taiwan, seems intent on developing a state-managed stored-value card for online commercial uses. Shielded from competition because of its likely dual use as an identification or social service card, such a card is unlikely to meet the needs of e-commerce. Moreover, even in economies that have multiple credit-card issuers, a less-than-competitive market will dissuade card issuers from providing card users with a limit to liability in case of loss, online or otherwise. And for most Chinese the prospect of unlimited liability from using a card online, over a network to which the government has access, is a powerful disincentive.

The PRC's closed capital account is a problem for Chinese businesses as well as consumers. One great advantage of the Internet marketplace is that a larger market means greater efficiency, with more choices, more information, and more perfect competition leading to more efficient outcomes for firms and consumers alike. But restrictions on the flow of capital into and out of China effectively cancel these efficiencies. Chinese consumers wishing to purchase a competitively priced lathe made in Malaysia and Chinese exporters trying to fill an order from Peoria will both lose if they must submit to clumsier financial controls before the transaction can be completed. This has prompted many Asian firms faced with such problems to drop the country tag (for example, ".cn" or ".tw") from their ".com" and set up a sales front in California (in which jurisdiction tax revenues therefore accrue) rather than wait for domestic conditions to evolve.

Creating Privacy and Security

Analysis of this third e-commerce umbrella focuses on three issues: certification and electronic identifiers; security and encryption; and privacy. Most US Internet users are happily unaware of the nitty-gritty battles fought over these issues, and so too are their counterparts in China. But how these privacy and security questions are resolved will be key to the successful emergence of e-commerce in China over the next three to five years.

Certification and electronic identifiers are tools for ensuring that what you see is what you get in the ever-changing digital fog of the Web. They are also essential to making sure the customer, and only the customer, can legally bind himself or herself in online contracts. Consumers want to know that the website to which they send a credit card number is legitimate, for example. And without adequate security and encryption, firms stick with costly electronic data interchange (EDI) systems indefinitely—a far cry from the opportunities of open electronic commerce over the Internet (ECI). Finally, even with sufficient encryption standards, some regulators want to peer into people's electronic goings-on for various purposes, and this loss of privacy can have a chilling effect on commerce. In China, MII is trying to require that even the sidewalk cyber-cafés provide a detailed register of the identities of Internet users, a demand as disconcerting as it is impossible to enforce. Nevertheless, China is trying to design a window on e-commerce transmissions for the authorities to peer through.

China's low rates of tax compliance present another immediate problem that is less pressing in more compliant economies: if going online means leaving an accounting trail for government revenue seekers to follow, then China's scrappy entrepreneurs will avoid doing so. Such are the wages of an opportunistic tax environment.

China has yet to settle upon an official national model for managing digital certification and identification. As in other Asian economies, such as Taiwan, the government plays a more central role in these activities than in the United States, where letting the private sector lead is a must. Absent the kind of adventurous capital markets that power the private sector in the West, such accommodations may be an appropriate second best, though they may inhibit the performance of those very capital markets.

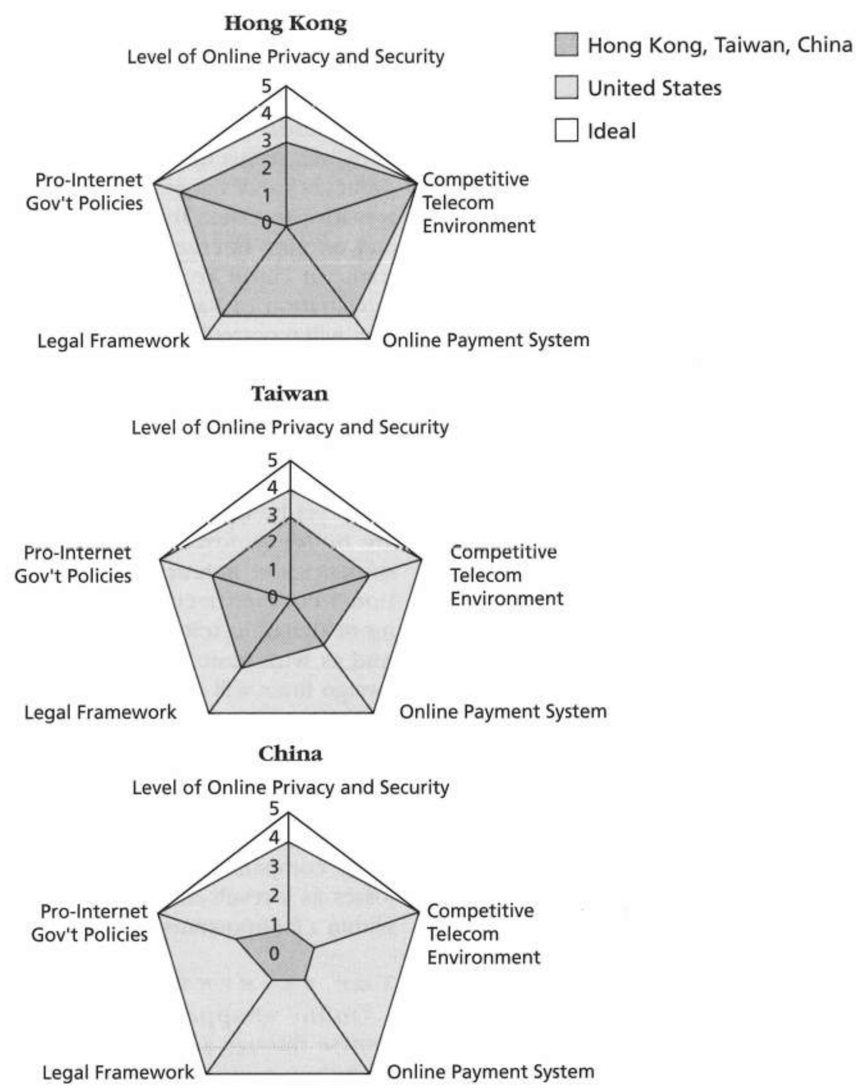
As with so many aspects of economic liberalization in China, Shanghai is leading the way in e-commerce. As its first e-commerce priority, the city aims to establish both a digital certificate authority (CA) and an identifier-key entrusting center (KE) in the second half of 1999. These entities are meant to provide assurance of the identity of buyers and sellers, and a neutral depository for encryption codes used in online transactions, respectively, important steps designed to encourage rapid e-commerce uptake.

The bottom line is that the privacy and security umbrella is only showing promise in China's more sophisticated cities, amplifying the gap between those cities and the vast bulk of the rest of China. Difficulties might emerge for e-commerce in China if people in the leading cities find it easier to trade abroad over the Internet than to trade with a neighboring province. One expected response will be heavy-handed government attempts to distort trade patterns. But the November 1999 WTO Ministerial in Seattle will likely declare such efforts to be traditional trade barriers (as it has on a temporary basis already), effectively prohibiting them.

An Encompassing Legal Infrastructure

In many economies, the challenge of fitting e-commerce with a legal infrastructure is largely a matter of making

E-Commerce Environments Compared



SOURCE: Daniel H. Rosen

NOTE: These figures are based on the author's observations and are illustrative only. They do not represent an empirical deduction of policy reform in each economy.

old laws governing traditional commerce compatible with e-commerce. That often entails merely dropping the word "paper" or adding the words "or electronic equivalent" to an existing law or regulation. In China, those old laws often do not exist. Important areas need wholly new legislation to facilitate the e-commerce market—or a traditional market, for that matter. Business-to-consumer e-commerce requires attention to protecting consumer welfare and interests, something that has not gotten as much attention as producer interests in China. Consumer protection law is in its infancy in the PRC, and has a long way to go before it is able to handle many potentially common online commercial crimes. Still more work is needed to ensure adequate enforcement.

Much of the business-to-business gain inherent in e-commerce derives from vastly expanding the possibilities for price and quality competition in supplier arrangements, and then making it possible to link up supply chains tightly, though they change regularly. Individual relationships (*guanxi*) have in part been stand-ins for adequate legal and contract predictability in China in recent years. In the anonymous business-to-business world of the Internet, such personal relationships are rarer. Thus, a normal legal system is paramount. Furthermore, China's defense against Internet security breaches has been ad hoc, and badly needs a more formal legal basis for prosecution. Delegates to the National People's Congress have called the lack of applicable legislation "the leading problem for e-commerce," which is not surprising given that other reports suggest as many as 95 percent of all computers in China linked to the Internet have been hacked into.

Government Challenges

The final umbrella in this framework consists of a set of special tasks for government. In the West, the Internet in general and opportunities for e-commerce specifically have been developed under the banner of private-sector leadership—government only gets involved where there's no other choice. Other maxims for government involvement include technology neutrality and maintenance of system flexibility. Though Chinese authorities, like many Asian regulators, presume a more activist role for government than thought ideal in the West, they may under-provide key elements, such as competition policy, that truly are the purview of the state.

First and foremost, it is the role of government to offer clear principles if not a mandate for private-sector investment in e-commerce. If central authorities do not give the thumbs-up, then entrepreneurs must invest too much scarce seed money hedging against the risk of future shut-down. In China, central authorities have yet to provide much clarity. It has been almost four years since China created an International Electronic Commerce Center in early 1996, but MII is just now planning a framework to draft standards and conditions for the electronic commerce industry.

According to an e-commerce official in Shanghai, "The Chinese government hasn't got any formal plan for [e-commerce]. There are many ministries in Beijing. That means many quarrels. The People's Bank of China, MII, MOFTEC, and others have different plans for e-commerce. The Beijing local government also has its own plan. It is difficult for all of them to sit on the same bench. It needs time."

While the central-level situation stalls, he continues, progressive local authorities may be able to give private investors sufficient comfort to make the benefits of e-commerce a reality in some areas. "It is different in Shanghai. The Shanghai municipal government has the power to integrate various forces together. The central government supports Shanghai's e-commerce implementation. I'm sure Shanghai will be the most successful e-commerce application area in China."

Another key move for government is to put in place a pro-competitive regulatory regime. While this is as true in the traditional marketplace as it is in cyberspace, the virgin quality of Internet commerce means China has more to lose from failing to provide for competition online because the traditional marketplace is already riven with anticompetitive practices. For example, will policy support the rights of an innovative value-added Internet service provider against the market power of a China Telecom—or let it be squashed? Today the e-commerce regulatory authority, MII, retains a controlling interest in China Telecom. Experience around the world has shown that when regulators are owners, competitive outcomes are rare. Happily then, MII plans to divest itself of its China Telecom holdings later in 1999; unhappily the party assuming the shares is none other than the Ministry of Finance, which will control e-commerce credit-card usage policies.

With China's cities already well-wired but e-commerce regimes not yet in place, businesses and consumers will increasingly rely on services protected under foreign legal systems.

The Chinese government must resolve its conundrums about Internet content and social agendas. It must devise a tax policy for Internet transactions that lures more firms into the tax base instead of driving them to a preoccupation with tax avoidance. The security standard must surely come about through government action in China, never mind that private firms might be sufficient to provide solutions in the advanced US market. These are only the most important of a host of special tasks government must address in order to advance e-commerce in China.

Do Five Umbrellas Equal Progress?

Given the analysis of these five sets of fundamental issues, what is the forecast for e-commerce in China? First, though China has a long way to go, so do all the other economies of the region. Even more-advanced Hong Kong and Taiwan seem to be struggling to make progress across the broad front of policy areas simultaneously (*see* Figure).

With China's cities already well-wired but e-commerce regimes not yet in place, businesses and consumers will increasingly rely on services protected under foreign legal systems. They will use payment vehicles set up by foreign companies, turn to foreign capital markets and venture capitalists to nurture innovation, and fight to plug into foreign firms' EDI networks instead of setting up their own.

Continued on page 49

Why China Went for WTO

Institutional arguments go some if not all of the way in explaining China's WTO change of heart

Yong Wang

Negotiations on China's accession to the General Agreement on Tariffs and Trade (GATT) and its successor organization, the World Trade Organization (WTO), have lasted for 13 years, the longest accession process on record. The Chinese side jokes that the wait has turned black hair to white and accuses some WTO members of trying to impose unacceptable conditions on China. In contrast, developed nations—most prominently the United States—claim that what they want are only "commercially viable" terms, and that China has dragged its feet in opening markets.

In early 1999, however, negotiations appeared to make great progress. China committed to unprecedented liberalization and to wrapping up remaining issues as soon as possible. As many correctly point out, Chinese concessions in the first few months of 1999 far exceeded those made over the last several years. If the negative effects of the Asian financial crisis on China's economy are taken into account, the concessions seem even more astounding.

Thus, two key questions present themselves to most observers: first, why was China's WTO bidding process so slow, previous to this year? And second, why has China now become so eager to speed up the negotiations? The answers to these questions undoubtedly have implications for the debate on China's WTO membership within the United States.

Much of the research to date has focused on explaining the sluggish pace of China's accession negotiations, placing much of the blame on the impacts of the end of the Cold War, the crackdown in Tiananmen Square, and rapid economic growth in China. Before 1989, the strategic interests of the United States vis-à-vis the Soviet Union, combined with the perception that China's reforms indicated a move toward capitalism, prompted the United States and other Western countries to look favorably on China's membership in the GATT. But the events of the late 1980s fundamentally changed the tenor of China-US relations. Moreover, as China has grown into a major trading power, Western countries have come to see China's bid for WTO membership as a key opportunity to extract market-access concessions from the country.

Yet the research on China's WTO policymaking process has been relatively thin, especially research into the bureaucratic politics surrounding the negotiations. In fact, personal interviews with Chinese economic officials reveal that bureaucratic politics goes a long way toward answering both of these questions.

Scattered Power Structure

China's traditional power structure, established during the central-planning era, divided administration of all aspects of the economy among different agencies. Liberalizing trade regulations thus requires depriving these economic agencies of their powers and interests, or at least reducing their authority substantially. The GATT Uruguay Round agreements, especially the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Investment Measures (TRIMs), require liberalization not only in the trade of goods but also in services and investment. As a result, an even larger number of economic agencies in the Chinese cen-

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tral government have found themselves drawn into the negotiations for WTO membership.

The PRC bureaucracy is characterized by overlapping jurisdictions, a result, in part, of its sheer size. Before the launch of the government restructuring in 1998, there were more than 40 ministries, commissions, and agencies, and more than half were directly related to economic and industrial affairs. For example, the State Council Commission on Tariffs (affiliated with the State Economic and Trade Commission, or SETC) and the General Administration of Customs together took responsibility for tariffs, but they had to consult with other agencies when setting new rates. In other words, they had to deal with pressures from other government agencies that wanted to protect domestic industries. The power to determine quotas was divided between the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and the State Planning Commission (SPC). MOFTEC was in charge of export quotas, while SPC took care of import quotas.

But these were only the agencies concerned with trade in goods—trade in services is even more closely protected and has proven to be the most difficult area of negotiations. The negotiations over market access in telecommunications services, for example, involve the industry's traditionally protectionist regulator, the Ministry of Information Industry (formerly the Ministry of Posts and Telecommunications) and other relevant agencies.

The way in which industrial policy is formulated presents another obstacle to bureaucratic agreement. To harmonize industrial policy on automobiles with WTO norms would affect the interests of the now-downgraded Ministry of Machine-Building Industry's Department of Automotive Industry (in charge of project approval and production planning); SPC's Department of Machinery, Electronics, Textiles, and Light Industry (which had project approval authority and was responsible for the biggest state-owned auto makers); the Ministry of Finance; and other ministries and local governments in charge of smaller auto factories. Even within the same agency, there could be several departments with disparate views. For instance, within SPC, the Department of Long-Term Planning and Industrial Policy had different views and interests from the Department of Machinery, Electronics, Textiles, and Light Industry.

MOFTEC is the country's chief negotiating body on WTO, but only a few issues fall under its direct authority. Thus, the ministry has had no choice but to focus first on policy coordination with other economic agencies. Of course, all of the relevant economic agencies do not have an equal say in the negotiations because they hold different administrative ranks. Among them, SPC (now known as the State Development Planning Commission [SDPC]) and SETC enjoy a higher rank. Both of them are supraministerial agencies assigned to oversee, coordinate, or even direct the other agencies. With such a scattered and unbalanced power structure, the pace of China's accession to the WTO would be understandably influenced, if not determined outright, by whether the supraministerial agencies—mainly SDPC and SETC—support the trade liberalization measures, and whether they are both able and willing to coordinate policy among those industrial ministries.

Coordination Difficulties: Loss of the Center

In the labyrinth of bureaucratic politics in China, one routine bureaucratic process is the building of consensus among agencies with different policy agendas, known as policy coordination (*xietiao zhengce*). Some Chinese officials who have experienced such efforts have called this process ineffective, joking that "coordination" means nothing.

Nevertheless, Chinese officials have attempted policy coordination regarding the WTO accession process. In 1986, China established a GATT policy-coordination body, the State Council Interministerial Coordination Group on GATT Negotiations (*Guowuyuan Guan Shui Ji Maoyi Zong Xieding Tanpan Buji Xietiao Xiaozu*). State Councilor Zhang Jingfu was the first director of this group. The vice directors included the minister of foreign trade, the minister of foreign affairs, and the general director of Customs. The group members included vice ministers or vice chairmen of other relevant ministries and commissions. In 1988, the group was renamed the State Council Committee on Interministerial Coordination on GATT (*Guowuyuan Guan Shui Ji Maoyi Zong Xieding Bu Ji Xietiao Weiyuan Hui*), with Vice Premier Tian Jiyun as chairman. In this committee, there were several vice-chairman-level agencies (*fuzuzhang danwei*); SETC (established in 1993) was subsequently added.

Even within the same PRC agency there could be disparate views on WTO-related liberalization.

The member agencies of this committee included the Ministry of Finance, the Ministry of Machine-Building Industry, the Ministry of Posts and Telecommunications, the Ministry of Textile Industry (restructured as the General Association of Textile Industry in 1993), the State Council Office of Import and Export of Mechanical and Electronic Products, and other relevant agencies. A vice minister from each agency was present at committee sessions.

According to its mandate, this interministerial coordination committee was to coordinate policy on issues related to GATT/WTO. Prior to its dissolution in late 1998, the committee found itself unable to play this role, for several reasons. For one, it was not a standing agency but only a temporary vehicle for consultations, and as such lacked a secretariat with staff support. Because of the difficulties involved merely in calling a meeting, its sessions were usually short, when they occurred at all. As a consequence, the committee was unable to serve as a platform for consensus-building among the various agencies.

Second, it was extremely unusual that SPC, at the time the most powerful supraministrial player, was excluded from the list of vice chairman-level agencies. One explanation for SPC's absence is that as the institutional representative of China's central-planning tradition, SPC foresaw that adjustment to GATT norms would result in the loss of its regulatory power over the economy. But without the participation of SPC, coordinating policy would be extremely difficult.

Third, the other supraministerial agency, SETC, was weak in both reputation and bureaucratic power before the 1998 government restructuring (though even after restructuring, its authority has expanded less than anticipated). Established with the support of then-Vice Premier Zhu Rongji, SETC was assigned to oversee the routine operation of the economy. SETC represented Beijing's ef-

In Geneva, MOFTEC went to great lengths to put at ease otherwise wary participants from other PRC agencies, in the hopes that they would improve their offers at the negotiating table.

forts to macro-manage the developing market-oriented economy.

As a relatively new agency, however, SETC found it difficult to play the role of policy coordinator. Senior leaders thus suggested a new mechanism under which SETC would coordinate policy on trade in services (non-tariff items), and MOFTEC would build consensus on goods trade (tariff items). This new mechanism did not work well either. Some analysts have said that other agencies did not respect SETC and instead complained that it was a duplicative and unnecessary institution. Under such circumstances, MOFTEC took the risky step of arranging its own policy-coordination mechanism.

MOFTEC: COORDINATOR IN ACTION

As China's chief representative in the WTO negotiations, MOFTEC has been one of the most important forces in promoting trade liberalization. Though frequently accused of being motivated by self-interest, MOFTEC insists that it is working in China's long-run national interest. Its commitment to early membership in WTO is based primarily on the following points.

First, the international community is wary of China's rising international stature. A commitment to WTO will send a strong political message that China is willing to play the trade game by international rules, and it will help persuade the world that China's rise is an opportunity rather than a danger.

Second, agreements among WTO members regarding trade liberalization will multiply and expand in coming years no matter the Chinese attitude toward membership. If it does not join the trade body, the country will be left out of the mainstream of the global economy. Without liberalization, China will not fully share the benefits of the free capital movements of multinational corporations. Thus, MOFTEC argues, it is imperative for China to become a WTO member as soon as possible.

Third, protectionism in the form of high tariff and non-tariff barriers benefits specific industries, but imposes high indirect costs on the economy as a whole. These costs are reducing the country's ability to catch up, much less keep pace, with accelerating globalization. The country's industrial monopolies and only recently reduced high telecom rates are often cited as evidence of these high costs.

Fourth, only after WTO entry can China effectively protest the protectionist measures and unfair dumping charges frequently imposed on Chinese exports by its trading partners. Some experts who argue for a delay in WTO membership say that the country can gain the benefits of WTO through bilateral most favored nation (MFN) arrangements. The MOFTEC team counters that only the WTO multilateral trade dispute mechanism can help China fight discriminatory treatment, and only membership can qualify the country for the benefits of phased-in textile trade liberalization.

Fifth, China's pervasive smuggling problem actually makes the country's high tariffs ineffective. Thus, to assess accurately the costs of lowering tariffs in specific industries, smuggling must be taken into account. For example, though 40,000 passenger cars are smuggled into China every year, the automobile industry has not only survived but also has improved its competitiveness. This shows that lower tariff rates are not necessarily destructive.

In multilateral negotiations with the China Working Party in Geneva, MOFTEC went to great lengths to put at ease otherwise wary participants from other PRC agencies, in the hopes that they would improve their offers at the negotiating table. Despite these efforts, however, progress on China's WTO accession remained slow.

One reason for the failure of MOFTEC's coordination efforts was the large gap that exists between MOFTEC and other PRC economic agencies in the level of understanding of trade-liberalization issues. MOFTEC is exposed to the latest trends in the international economy and world trade, and hopes the country can adapt to these developments. But the industrial and economic agencies face the domestic problems of import competition and unemployment. These agencies inevitably expect greater protection from international competition. In the end, policy coordination was so slow that it seemed that only the intervention of the top leadership could break the deadlock.

BREAKING THE DEADLOCK

In the complicated world of Chinese bureaucratic politics, support for policy changes from the highest levels of leadership is often critical. With Premier Zhu Rongji at the helm of the negotiations, the Chinese top leadership presently supports greater concessions in exchange for gaining WTO membership this year. MOFTEC appears to have the upper hand, at least for now.

After 1994, a general consensus to delay WTO membership had formed across different industrial sectors and in public opinion. Difficulties reforming state-owned enterprises and popular worries about the consequences of the large inflows of foreign direct investment made the top leadership reluctant to oppose this consensus. Despite some progress, China's WTO policy floated on a sea of bureaucratic politics. After the onset of the Asian financial crisis in 1997, some analysts concluded that China must be cautious in opening its markets, because of the risks of greater international exposure. The prospects for China's WTO membership seemed to dim.

But to the surprise of many, the top leadership decided to intervene directly in the negotiations in early 1999. Because of changes in a number of political and economic circumstances, Beijing decided to change course, setting a schedule for certain market-oriented reforms. As these reforms progress, the leadership has recognized, WTO commitments will be helpful in pushing them along. In addition, the PRC government restructuring altered the major economic agencies' positions on WTO membership. There was also a change in the priorities on the leadership's agenda of economic issues as the need to boost exports and foreign investment became urgent. International pressures also played a role.

Though Premier Zhu Rongji is most visible in the WTO negotiations, the decision to speed up negotiations has obviously been supported by the entire leadership. China's change of heart reflects calculations based on the following considerations, according to interviews with Chinese officials:

■ By the end of 1999, the WTO will launch a new round of multilateral trade negotiations. If China does not enter this year, review of China's application could be delayed until 2005. If China goes back to negotiations after a new round of WTO trade talks, China will pay a much higher admission fee in terms of economic adjustment.

■ Taiwan as an independent tariff territory has almost completed its negotiations with WTO members. Though China insists that it should enter WTO before Taiwan, it is very possible that Taiwan will obtain membership first. This will imply a "Two China" reality, and make the reunification question even more complicated than it is now.

■ WTO membership would help China ease frictions with the United States over the huge trade imbalance. Otherwise, with the pending US presidential election in 2000, China faces a deterioration in the overall trade relationship. Though unlikely, a trade war is not beyond the realm of possibility from the Chinese perspective. WTO membership is thus necessary to help stabilize US-China relations.

■ China has been experiencing an economic downturn triggered both by the Asian financial crisis and domestic economic reforms. China's promise not to devalue its currency, though politically advantageous and widely praised for ensuring Asian regional stability, has placed additional strain on already struggling PRC exporters. More important, foreign direct investment has slowed, and measures to stimulate the economy have been less effective than expected. According to some estimates, China's economy must grow at least 6 percent per year in order to cope with unemployment pressures. Chinese leaders are hoping that a WTO deal will raise foreign investors' confidence in China as a destination for investment, thereby giving a much-needed boost to the country's economy. According to some PRC officials, this is the most important consideration.

■ The reforms in the first year of Zhu's premiership strengthened his power base. One of the most important of these was the central-government restructuring, aimed at crafting a government structure more suited to a market economy. This restructuring has greatly reduced institutional opposition to further trade liberalization. Half of all central-government cadres were laid off, and the lucky survivors had to relinquish many of their regulatory powers. The number of State Council ministries, commissions, and agencies was reduced from 41 to 29. Almost all of the industrial ministries became bureaus within SETC, the economic oversight agency. Former ministries covering the machinery industry, the metallurgical industry, the coal industry, the petroleum industry, the chemical industry, the textile industry, light industry, and the Ministry of Internal Trade, as well as four specialized state-run companies, were subsumed under SETC. SDPC has been relegated to a focus on mid-term and long-term macromanagement, and no longer regulates trade quotas. However, the restructuring appears not to have weakened SDPC as much as expected.

Political risks

Though political and economic risks remain high, most analysts agree that the government's decision is a good one for China. Nonetheless, the short-term risks are obvious. Should China's far-reaching commitments lead to its accession this year, imports of industrial and agricultural goods will increase dramatically, and the market share for state-owned enterprises will probably shrink for some time. The number of unemployed workers will increase in some important industries, particularly in politically crucial sectors such as agriculture, high technology, and heavy industry. Service industries such as insurance and distribution will face harsh competition from international companies.

And, though the government restructuring eliminates some opposition, resistance is sure to come from local governments and industrial sectors with a strong state-owned presence. These two entities will bear the heaviest burden of WTO-induced adjustment in the domestic economy. The extent of the damage from these short-term effects will depend on what measures the government adopts to control the worst of the adjustment, and how successfully the job loss caused by trade liberalization is offset by work opportunities generated from expanded foreign investment. But over the long term, the nation should benefit from a more competitive state-owned economy.

Should the WTO effort falter, Zhu faces some political risks of his own. The recent, if short-term, difficulties that have arisen between the United States and China over the bilateral WTO agreement have made him an easier target for opponents of his reform measures. Considering the political environment in the United States, the possibility also exists that the US Congress will refuse to support China's WTO membership. A failure to join WTO would do even more harm to Zhu's political reputation.

China and the United States will both be losers if China fails to gain WTO membership this year.

The recent NATO bombing of the Chinese embassy in Belgrade caused nationwide indignation in the PRC. The changed political mood with regard to NATO and the United States will inevitably constrain the Chinese leadership's maneuvering on WTO. But PRC officials at different levels stated publicly after the bombing that China would not waver from its economic reform and liberalization policies. Nor has Beijing backed away from its intention to seek WTO membership as soon as possible. But the unending economic slowdown and strong bureaucratic objections to the most recent and far-reaching commitments Zhu made during his visit to the United States in April have taken their toll. PRC analysts are suggesting that for these reasons, US negotiators may find themselves constrained politically in their attempts to extract more concessions from China. For their part, US negotiators must maintain the April 8 commitments and gain at least a few additional concessions, otherwise the US Trade Representative will have trouble explaining to domestic forces skeptical of any agreement why the earlier deal was insufficient.

China and the United States will both be losers if China fails to gain WTO membership this year. But analysts on both sides of the Pacific agree that the United States will be the bigger loser of the two, in almost every respect. With or without WTO, China's market-oriented reforms will continue. China can enjoy most of the benefits of WTO treaties through a series of bilateral MFN arrangements, and it can obtain technology transfers from other, non-US markets with more favorable commercial policies, most notably looser export controls. American business and political interests in China, meanwhile, will continue along their present paths of frustration. 完

The Foreign Companies in China Yearbook 1998

London: The Commercial Intelligence Service, 1998. 171 pp. $465 softcover.

The Foreign Companies in Hong Kong Yearbook 1998

London: The Commercial Intelligence Service, 1998. 276 pp. $465 softcover.

Foreign companies often seek lists of companies doing business in China. They may want to know about potential customers and competitors, map out their supply chains, or look for contacts in other foreign companies to share experiences or ask for advice. In such cases, *The Foreign Companies* yearbooks for China and Hong Kong are a great resource

These yearbooks consist of an alphabetical list of foreign companies with their contact information, including street and email addresses, telephone and facsimile numbers, and names of key contacts. The directories also provide, where available, additional information useful for further understanding the company or for benchmarking. The information includes industrial classifications, notes on specific products or services offered, national affiliation, number of employees, date of establishment, and annual turnover. The fact that not all of this information is available for each company in the directory tempers the usefulness of this information for benchmarking, however.

Two of the three indexes are extremely helpful. Both the industry classification and the nationality/trade affiliation indexes make it easy to find specific information.

Given the rapid changes in staff and frequent reorganizations of China operations, these directories will be useful only to the extent that they are updated regularly. The Hong Kong directory was published in June 1998 and the China directory was published in July 1998, but the 1999 hardcover editions may now be ordered online (www.businessmonitor.com) for $390 each. Packages including a hard copy and a searchable CD-ROM are available for $690 per country.

—Iain K. McDaniels

Iain K. McDaniels is deputy director of the US-China Business Council's Beijing office.

East Asia: The Road to Recovery

Washington, DC: The World Bank, 1998. 170 pp. $25 softcover.

In *East Asia: The Road to Recovery*, the World Bank explores the Asian crisis in detail, from the hidden roots to possible solutions. The book begins with a thorough overview of the crisis, examining the miracle of East Asian growth, the causes of the crisis, and the situation as of mid-1998. A chapter on trade focuses on East Asia's reliance on exports, examines the effects of the crisis on the region's trade, and concludes with a few policy recommendations, such as trade credits for stricken countries and lower trade barriers. Structural weaknesses that brought about the crisis, the actions being taken to address these weak spots, and the difficulties of banking and corporate sector reform are also discussed.

The bank's analysis departs from the ordinary in that it devotes significant time and space to consideration of social and environmental costs of the crisis. Chapter 5 discusses various policies governments can undertake to minimize social pain, and, above all, ensure minimum consumption levels for their poorest citizens. Suggesting that much of East Asia's growth was fueled by natural resource exploitation, Chapter 6 shows how the underlying structural causes of the crisis have also contributed to environmental deterioration and proposes policies to improve the environment as the region recovers.

The book concludes that governments must promote policies that will encourage corporate and banking sector reform, restore growth in aggregate demand, and improve regulatory frameworks. Until recovery is substantially under way, governments must also take action to maintain social stability, and guarantee minimum levels of well-being among vulnerable groups and access to public services such as education. According to the authors, all of these will help restore capital inflows, the quickest way to economic growth

Boxes, such as those explaining the fiscal costs of bank restructuring and early warning signs in Korea, illustrate policies, successful and otherwise, from countries around the world, especially those that have faced similar crises in recent years. A plethora of charts and tables, such as those showing intra-regional exports by country or poverty projections, provide statistics that help readers understand the scope of the crisis

Nevertheless, the book remains heavy on detail and statistics and peppered with jargon. While it seems to be aimed primarily at academics and government policy-makers, businesspeople may find chapters on trade, finance, and corporations, as well as the information contained in the graphs and charts, useful. Moreover, the policy recommendations may give businesses an idea of what to expect from governments in the next few years.

—Virginia A. Hulme

Virginia A. Hulme is assistant editor of The CBR.

China's Unfinished Economic Revolution

By Nicholas R. Lardy. Washington, DC: Brookings Institution, 1998. 240 pp. $44.95 hardcover, $18.95 softcover.

In *China's Unfinished Economic Revolution*, Nicholas Lardy lays out a strong case in support of the argument that China must successfully resolve its financial woes before it can move into a fully functioning market-based economy. Lardy's argument is a familiar one to those who have followed the gradual opening of the Chinese market. To summarize briefly (and at the risk of oversimplifying), he argues that the gradual nature of China's reforms over the last two decades has led to an increase in the indebtedness of China's state-owned enterprises (SOEs). SOEs have had to shoulder the nation's social welfare burden in part because the government lacks the resources to provide social services itself. At the same time, the PRC government has stopped nearly all subsidies and other forms of support to state enterprises, leaving only preferential access to credit. Thus, the bulk of SOE debt is held by state-owned banks, also the repository of China's unmatched level of household savings. These savings have been funneled back to inefficient state enterprises rather than into more productive non-state firms

The banks' inability to recoup the bulk of their loans from state firms has seriously undermined the health of the banking system. To solve these interlocking problems, Lardy recommends an acceleration of three main branches of reform. He calls for stepped up closure of bankrupt state firms; further improvement of tax collection, both to provide the government with essential tax revenues and to ease its reliance on bond issues as a source of revenue; and recapitalization and restructuring of the banking system. This restructuring would involve allowing the formation of private banks and, eventually, entry of foreign financial institutions into the PRC market.

Leaving aside the book's central argument, the study is also valuable for its overview of China's economic and financial frailties. The collection, in one volume, of data on all of China's major financial institutions—both their structure and performance throughout the reform era—is an indispensable reference. But the careful analysis of the performance of this sector in the context of overall economic development is equally important. And Lardy addresses issues relevant not just to economists, but also to foreign businesses: he fits China's World Trade Organization accession progress into the broader context of PRC economic reform, to cite just one example.

Where *China's Unfinished Economic Revolution* may draw more heat, however, is over the author's contention that the situation is urgent. Some would counter that the sky has yet to fall, despite the strains of Asia's slowdown and the PRC's close ties to Hong Kong's battered currency and economy. From some analysts' perspectives, China has borne up admirably during the Asian economic slowdown. Many praise the recent steps the country has taken to strengthen regulatory mechanisms, restructure the central bank, and move toward a loan-reclassification system that would acknowledge the extent of the bad loans on the books of PRC banks. But Lardy is not alone in warning that China's economic slowdown, and recent fiscal stimulus measures, are further straining the banks.

Thus, though the degree of urgency may be a point of debate, it is difficult to dispute Lardy's conclusions and policy recommendations. If his analysis is correct, China's failure to deal aggressively with financial sector reform will undermine not only the future of China's economy, but also the nation's social and political stability. If China is unable to pull its economy out of the current slowdown, the rising unemployment, falling consumer confidence, and widespread discontent over corruption have the potential to derail all that the country has achieved to date.

—*Catherine Gelb*

Catherine Gelb is editor of The CBR.

PRC Corporate Secretarial Practice Manual

By Colin Ng and partners. Hong Kong: Sweet & Maxwell Asia, 1998. $389, looseleaf.

Corporate Secretarial Practice Manual is a thorough guide to corporate practices in the PRC. Aimed at company secretaries, directors, lawyers, accountants, and managers, this tome is a practical guide and an everyday reference tool. The authors describe China's administration, legal system, and government, and give specific information on setting up different types of foreign-invested businesses in China. The manual also gives details about corporate identity and governance, financial and accounting systems, financing, dispute resolution, and company dissolution. Finally, it contains the full English text of the 1993 Company Law, the 1985 Foreign Economic Contract Law, the 1993 Law of Accounting, and the 1991 Income Tax Law for Foreign Invested Enterprises.

The manual is well-organized and made to last—it is presented in a sturdy looseleaf binder with sections separated by laminated tabs. Graphs, tables, and—most practical—sample forms and letters (in both English and Chinese versions, when available) appear where relevant. The manual ends with a 20-page index, leaving no doubt that the authors have made every effort to make the volume as user-friendly as possible.

Nevertheless, some useful information has been omitted. For instance, though the manual lists the steps that must be taken to establish a representative office, it omits contact information for the government bodies involved. A list of these entities and their contact information would be a welcome addition. But perhaps the greatest danger to the usefulness of this volume lies in the frequent legal changes affecting business in China. To overcome this disadvantage, the publishers have included two updates in the price of the book.

—Virginia A. Hulme

Virginia A. Hulme is assistant editor of The CBR.

Taiwan: A New History

Murray A. Rubenstein, editor. Armonk, NY: M. E. Sharpe, 1999. 520 pp. $69.95 hardcover, $27.95 softcover.

Taiwan: A New History is primarily a socioeconomic textbook covering major issues in Taiwan's history, with a focus on politics and economics. It begins with a discussion of the geography of the island, moves on to Fujian's economic and trade situation during the late Ming Dynasty, discusses Taiwan's colonial status under Dutch and Chinese rule—with a fascinating chapter on Taiwan as a Japanese colony—and ends with several chapters on Nationalist Taiwan. Scattered throughout are chapters on aboriginal politics and Taiwan's literature and religion.

The book locates modern Taiwan's roots in Japan's half-century of colonial rule, devoting nearly half of its analysis to that period. Economics, politics, and trade in the Taiwan region are also explored thoroughly. Focusing primarily on methods of government used by colonial and local rulers, chapters on the pre-Japanese history of the island include an interesting chapter on local families' rise to power and wealth. The information on aboriginal politics is particularly useful, since this topic is rarely addressed in discussions of Taiwan's political climate. But the chapters on religion and literature, though interesting, lie outside the book's general theme of politics, economics, and trade.

While this is not a book that lends itself to cover-to-cover reading, *Taiwan: A New History* is an excellent resource for those who want to know more about a particular period of Taiwan's history. The most useful chapters for an understanding of modern Taiwan are the ones on aboriginal politics, the Japanese occupation, and the 1996 elections. The clear prose is written for an academic audience, and the information contained therein is exhaustively researched. —*Lissa Michalak*

Lissa Michalak is the publications assistant at The CBR.

WWW.CHINA

Headhunting, Contract Law, and HKETO Online

www.zhaopin.com Zhaopin, run by recruiting firm Alliance Consulting Ltd., is an employment service website for China. Job-seekers can post resumes and browse job listings for free, while employers can post information about their company and job openings. Companies posting job openings must pay between ¥1,000-10,000 ($121-1,208), depending on the number of postings and the length of time posted. The site also features information on interviewing, advertising, and human resources.

www.surfchina.com Utah-based SurfChina.com's China portal site contains links to information about Chinese society, culture, business, politics, and news, and other topics. The site has a search engine, but its most unique feature is its statistics service. Visitors can order any China-related statistic (prices are posted online), for delivery within two weeks.

www2.mozcom.com/~w_hansen/Home.html *Katshegne: Politics of Contemporary China* is a good site for anyone confused by China's government structure. The site not only contains information on China's executive, civilian, and military organizations, but also posts the biographies of dozens of China's top leaders. On this site, visitors can find links to other sources of information on China and Chinese politics.

www.hongkong.org/home.html The new website of the Hong Kong Economic and Trade Offices in New York, Washington, and San Francisco posts information on their services and publications. It also features links to the Hong Kong government's official site and reports on investment, trade, and finance. Visitors may sign up for free e-mail updates.

www.cclaw.net This new site contains the third draft of the English version of the PRC Contract Law passed by the National People's Congress last March. The final English version and a bilingual hard copy were expected to be posted on the site in June. Maintained by Babelcom, which provides services to companies doing business with China, the site will in future host a forum for discussion about issues and case studies related to the law.

www.stanford.edu/~fravel/chinafp/toc.htm Maintained by a PhD student at Stanford University, this site features links to sites dealing with Chinese policy on security, trade, human rights, and bilateral relations. The section on US-China relations contains information from both the Chinese and US official points of view, press and academic reports, and subsections on WTO membership and technology transfer.

www.teda.gov.cn Visitors to the website of Tianjin Economic Development Area can find a wealth of information about investing, working, and living in TEDA. An investment guide and information on preferential policies, laws, and services in the area can also be accessed for free.

www.middlebury.edu/SouthChinaSea/scs-institutions.html Part of the Asian WWW Virtual Library and run by a political science professor at Middlebury College, this site focuses on political, environmental, and energy issues in the South China Sea. It contains links to online publications and databases, maps and images, and government and non-government organizations and institutions.

http://usaengage.org/resources/Chinareference.html The site of USA*ENGAGE, a coalition of US business and agriculture, carries links to content-rich sites on all sides of the debate on whether to engage China or isolate it. Most of the site focuses on WTO issues.

—*Virginia A. Hulme*

Hype Versus Hope
Continued from page 41

While China will enjoy extensive commercial benefits from these activities, it will fail to benefit from the web's full potential.

The possibility exists that China may not develop e-commerce as rapidly as its neighbors, whether as a trade-off for tighter social control or simply as a result of bumbling. Economically, it is important that China's most dynamic centers of commerce, such as Shanghai, not be tethered to the slowest common denominator. So far, so good in this regard, as central authorities seem content to allow provinces to chip away at parts of MII's empire where imperative for the sake of competitiveness. But even in these advanced cities, major capital formation and investment in the post-Asian financial crisis environment will require greater formalization of this de facto permissiveness. If that is not forthcoming, then Singapore, Hong Kong, and Taipei will each benefit from anxieties about Chinese special interests.

But China's real comparative advantage vis-à-vis these economies is its great hinterland brimming with low-cost labor. Integrating these resources with global demand through wider use of business-to-business and business-to-consumer e-commerce is the real challenge for China, not just competing in the contest for a fourth or fifth Asian financial center where one would probably suffice. And expanding electronic networks to draw the Chinese hinterlands into global supply chains—both to produce for abroad and to buy from abroad—will require private investment and innovation.

It remains to be seen whether big-ticket Chinese government demonstration initiatives in e-commerce are capable of jump-starting interest among wary private investors. As long as the government does not turn to blocking new competition as a way to subsidize its initiatives (as happens in the traditional marketplace), then such efforts will not do much harm. But the real innovation and investment will happen elsewhere, often at the provincial level and often with foreign help and know-how. In the first quarter of 1999 alone, the Guangxi and Shandong P&T administrations both separately unveiled major expansions of local Internet access systems using traditional and alternative network buildouts. In both cases the hardware is from Cisco Systems, which is investing $100 million in a China-based, Chinese-staffed service to back up such sales.

One world? Or one world plus China?

Are the technologists justified in contending that the fundamentals inevitably will come up to speed in China? From a rational economic perspective, yes. It is impossible to dispute the evidence that basic economic indicators, such as total factor productivity growth and gross domestic product, will lag in economies that fail to change their ways in order to provide the foundations for e-commerce. A threshold has been passed, and too many of China's benchmark competitors in the global economy are already making these changes. But China is different in this regard: the structural adjustment it faces has the potential to threaten social stability significantly. Thus, from an even broader perspective, Chinese leaders might be forgiven their penchant for sacrificing some marginal economic gains in a way that leaders in Taiwan or Hong Kong need not contemplate.

On the other hand, if stability is the Holy Grail, then consider that social stability can be enhanced by rapid innovation and new job creation related to the economic integration and growth promised by the Internet. Chinese citizens may be frustrated less by rapid domestic reform than by the knowledge the Japanese, Koreans, and Vietnamese are all progressing more rapidly on the technological front.

But ultimately China differs in another regard too: its market is an order of magnitude larger than that of its largest East Asian neighbors. In the traditional marketplace, therefore, the timeframe acceptable in a strategic business plan for China has been longer than for other economies. This partly explains the enthusiasm of so many cutting-edge e-commerce businesses for China despite lagging fundamentals. Strategic factors such as market size appear just important enough to offset the Chinese sluggishness. Internet commerce is indeed the horseman of globalization that pundits claim will leave no sovereign border impenetrable. The only caveat is that China can keep him at bay a little longer than other citadels, should it want to. 完

Julie Walton and Lissa Michalak

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 *March 15 - May 15, 1999*

Foreign or Hong Kong party/Chinese party — **Arrangement, value, and date reported**

Accounting and Insurance

INVESTMENTS IN CHINA

Assurex International (US)/Shanghai Ximco Consultants
Established partnership to provide commercial insurance. 4/99.

OTHER

Chubb Group of Insurance, a unit of The Chubb Corp. (US)
Received approval to form joint ventures to sell insurance. 4/99.

John Hancock Mutual Life Insurance Co. (US)
Received approval to form a joint venture to sell insurance. 4/99.

Prudential Corp. (UK)
Received approval to form joint ventures to sell insurance. 4/99.

OTHER

ING Insurance (the Netherlands)/Jiaotong University (Shanghai)
Will develop an insurance training program for Chinese businesses. 4/99.

Sun Life Assurance Co. (Canada)
Received approval to open office in Chongqing. 4/99.

Agricultural Commodities and Technology

CHINA'S INVESTMENTS ABROAD

Sammitr Group (Thailand)/China First Tractor & Construction Machinery Corp. (NA)
Set up joint venture in Thailand to manufacture tractors. (Thailand:50%-PRC:50%). $6 million. 3/99.

Abbreviations used throughout text: ADB: Asian Development Bank; 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.; CNPC: China National Petroleum & Gas Corp. ETDZ: Economic and Technological Development Zone; ICBC: Industrial and Commercial Bank of China; MII: Ministry of Information Industry; NA: Not Available; NORINCO: China North Industries Corp.; P&T: Posts 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; UNICOM: China United Telecommunications Corp.

INVESTMENTS IN CHINA

New Holland N.V. (the Netherlands)/Harbin Manufacturing Plant (Heilongjiang)
Will manufacture agricultural tractors in the 100-180 horsepower range for sale in China. (the Netherlands:70%-PRC:30%). 3/99.

Banking and Finance

OTHER

ABN AMRO Bank (the Netherlands)
Received approval to open a branch office in Beijing and to conduct RMB business in Shanghai. 4/99.

The Royal Bank of Canada
Closed its Shanghai branch. 4/99.

Citigroup (US)
Received permission to open a representative office in Chengdu, Sichuan Province. 3/99.

Citigroup (US)
Received approval to conduct RMB services at its Shenzhen branch. 3/99.

Tokyo-Mitsubishi Bank (Japan)
Received approval to offer RMB services at its Shenzhen branch. 3/99.

Chemicals, Petrochemicals, and Related Equipment

CHINA'S IMPORTS

Canpotex Ltd. (Canada)
Will deliver potash fertilizer to Sinochem. $50 million. 4/99.

INVESTMENTS IN CHINA

American Carbon Industries (US)/Tanggang Chemical Co. (NA)
Formed joint venture to produce hard liquid pitch, carbon oil, and industrial naphthalene. $30 million. 4/99.

OTHER

Bayer AG (Germany)
Will provide grant to Tongji University in Shanghai to conduct chemical development research. $168,000. 3/99.

Electronics and Computer Software

CHINA'S IMPORTS

Golden Fortune Investments Ltd. (Canada)
Will provide Nanjing Orient Railway Communication Equipment Co. Ltd. with a minimum of 7,500 wireless routers over three years. 5/99.

INVESTMENTS IN CHINA

EDUVERSE Accelerated Learning Systems Inc. (US)/Xin Hai Technology Development Ltd. (Beijing)
Announced it would launch Mandarin version of its free ESL program in June. 5/99.

Golden Fortune Investments Ltd. (Canada)/Nanjing Orient Communications Equipment Factory (Jiangsu)
Formed joint venture to manufacture and market Internet connectivity equipment. 4/99.

Intermost Holdings Corp. (US)/Yinwen Book Import and Export Co. (Shanghai)
Will cooperate to develop an online bookstore of Chinese titles. 4/99.

Pearl Oriental Holdings Ltd. (Hong Kong)/Sanjiu Import & Export Corp. (Guangdong)
Formed joint venture to manufacture and market hospital-management software. (Hong Kong:60%-PRC:40%). 4/99.

OTHER

Iomega Corp. (US)/Xuntong Electronics (Shanghai)
Xuntong will act as sole distributor for Iomega's products in China. 3/99.

Oracle Co. (US)/Dongda Alpine (Shanghai)
Formed partnership to market and distribute Oracle's products in China. 3/99.

Thakral Corp. (Singapore)
Acquired 60% stake in Guangdong-based Zhonglu Intelligent Audio & Video Co. $130,000. 3/99.

Trigem (S. Korea)/Government of Shenyang Municipality (Liaoning)
Will manufacture personal computers with an annual capacity of 1 million units. (S. Korea:50%-PRC:50%). 3/99.

Xerox Corp. (US)/Tsinghua Ziguang (Tianjin)
Will cooperate on research and development of drawing and inkspray instruments. 3/99.

OTHER

MQ Software (US)
Opened representative office in Beijing. 4/99.

AXYN Corp.(US)
Opened representative office in Shanghai. 3/99.

Engineering and Construction

CHINA'S IMPORTS

IHC Holland, a unit of IHC Caland (the Netherlands)
Will provide dredging equipment to the Ministry of Water Resources. $125 million. 4/99.

CHINA'S INVESTMENTS ABROAD

Sama Group (Egypt)/Tianjin Cement Industry Design and Research Institute
Tianjin Cement will assist Sama Group in upgrading its cement production facility in Egypt. $2.3 million. 4/99.

China Electric Power Import & Export Corp., China International Water & Electric Corp.
Won contracts to build dams for Peru's electric power network. 3/99.

INVESTMENTS IN CHINA

TRACO (US)/Lingyun Group Limited Co. (Hubei)
Will manufacture and market aluminum and vinyl windows and doors for residential and commercial projects. 3/99.

OTHER

ALYA International Inc. (Canada)
Opened sales and technical office in Beijing. 3/99.

Environmental Technology and Equipment

CHINA'S IMPORTS

Pollution Research and Control Corp. (US)
Will provide 25 urban air-quality monitoring devices to the State Environmental Protection Administration. $10 million. 3/99.

OTHER

ADB
Approved loan for water treatment plant development in Chengdu, Sichuan Province. $48 million. 4/99.

Government of France/Government of the PRC
Granted loan to build the Shanghai Longxi Water Treatment Plant. $24.5 million. 3/99.

Food and Food Processing

CHINA'S IMPORTS

Lance, Inc. (US)
Lance will become exclusive supplier of a range of snack foods to China Peregrine Food Corp., a 70% US joint venture with the Ministry of Agriculture. 4/99.

INVESTMENTS IN CHINA

Lion Nathan (Australia)
Received license to brew and distribute Beck's beer in China. 4/99.

President Enterprises Corp. (Taiwan)/NA (Jiangsu)
Set up soy sauce manufacturing facility in Kunshan, Jiangsu Province. 4/99.

The Coca-Cola Co. (US)
Opened a new bottling plant in Chengdu, Sichuan Province, its 23rd in China. $30 million. 3/99.

Prudential Portfolio Managers Ventures (UK)/Xi'an Seastar Modern Drinks Co. (Shaanxi)
Will upgrade equipment and introduce four new fruit-juice bottling lines at the Xi'an production facility. $12 million. 3/99.

British First Triumph Co. (UK)/NA (Hubei)
Set up a joint venture to produce Britvic soft drinks in China. $15 million. 4/99.

Machinery and Machine Tools

INVESTMENTS IN CHINA

Nuodeberger AB (Germany)
Set up wholly foreign-owned rock-crushing equipment manufacturing plant in Tianjin. 3/99.

Medical Equipment and Devices

INVESTMENTS IN CHINA

AMDL, Inc. (US)/Beijing Medical & Pharmaceutical General Corp.
Formed joint venture to manufacture and market early detection diagnostic tests. 3/99.

US-China Industrial Exchange, Inc. (US)
Will supply the China National Instruments Import & Export Corp. with medical equipment for various hospitals. $30 million. 3/99.

Metals, Minerals, and Mining

CHINA'S IMPORTS

Kvaerner Metals Services Division (UK)
Will design and supply rod outlet equipment for Xingtai Iron and Steel Co., Hebei Province. $2.4 million. 3/99.

CHINA'S INVESTMENTS ABROAD

Government of the PRC
Will provide loan to the Government of Ukraine to reconstruct the Kryvorizhstal and Azovstal mining and metallurgical mills. $142.7 million. 3/99.

Miscellaneous

INVESTMENTS IN CHINA

P. MAN Group (Canada)/Yunnan International Education Exchange Association
Will establish a joint-venture college in Kunming, Yunnan Province. $5.4 million. 4/99.

Commercial Concepts, Inc. (US)/Beijing Huatai Trading Co. Ltd.
Formed joint-venture trading company to acquire, warehouse, and ship goods manufactured in China. 3/99.

OTHER

The News Corporation Ltd. (Australia)
Opened representative office in Beijing. 3/99.

Government of Russia/Government of the PRC
Russia will repair 10 Chinese submarines. 3/99.

Packaging, Pulp, and Paper

INVESTMENTS IN CHINA

Dransfield China Paper Corp. (Hong Kong)/Jiangmen Sugarcane Chemical Factory (Jiangsu)
Will manufacture tissue paper and de-inked pulp in Jiangsu Province. 3/99.

Petroleum, Natural Gas, and Related Equipment

INVESTMENTS IN CHINA

Bethune International Group (Canada)/Government of Ningxia Hui Autonomous Region
Will build an urban natural gas grid in Yinchuan, Ningxia Hui Autonomous Region. $9.8 million. 4/99.

Enron Corp. (US)/CNPC
Will build and operate a 745 km onshore natural gas pipeline from Chongqing Municipality to Wuhan, Hubei Province. (US:50%-PRC:50%). $400 million. 3/99.

Santa Fe Energy Resources (US)/CNOOC
Signed two production-sharing contracts with rights to explore two hydrocarbon blocks of the South China Sea. 3/99.

Pharmaceuticals

INVESTMENTS IN CHINA

BASF AG (Germany)/China Northeast Pharmaceutical General Factory (Hebei)
Established joint-venture vitamin production plant with an annual capacity of 2,600 units. (Germany:70%-PRC:30%). 3/99.

Hemofarm (Yugoslavia)/NA
Will establish a pharmaceutical manufacturing plant in Jinan, Shandong Province. (Yugoslavia:51%-PRC:49%). 3/99.

Ports and Shipping

CHINA'S EXPORTS

China Ocean Shipping Co.
Will build and sell three RORO (roll-on, roll-off) ships to Jacobs Holding of the United Kingdom. $20 million. 3/99.

CHINA'S IMPORTS

Advanced Polymer Sciences Inc. (US)
Will be responsible for coating all cargo tanks and slop tanks on two oil tankers currently under construction in China. $3.5 million. 4/99.

OTHER

The World Bank
Approved loan for a container transport project to facilitate overland movement of seaborne containers. $71 million. 3/99.

Power Generation Equipment

CHINA'S IMPORTS

ABB Worldwide (Switzerland)
Will build power converter stations for the Three Gorges dam project. $340 million. 4/99.

Shell Solar Energy, a unit of Royal/Dutch Shell Group (the Netherlands)
Will install 70,000-80,000 solar energy panels in new residential properties in Beijing. $25 million. 4/99.

Siemens AG (Germany)
Will build a transformer station in Changzhou, Jiangsu Province. $80 million. 4/99.

INVESTMENTS IN CHINA

Marubeni Corp. (Japan); Sithe China Holdings Ltd., a joint venture between American International Group, Inc. (US), Sithe Energies (US), and Singapore Investment Corp.
Will build, own, and operate coal-fired power plant in Chibi, Hubei Province. (Japan:25%-US:75%). $454 million. 3/99.

OTHER

Citigroup (US)
Will provide loan to China Construction Bank to finance equipment for a power plant in Shandong Province. $76 million. 3/99.

Property Management and Development

INVESTMENTS IN CHINA

Parsons Corp., URS Greiner Corp. (US)/Guangdong Provincial Architectural Design Institute
Will cooperate to design the main terminal of the New Guangzhou Baiyun International Airport in Guangdong Province. $7.4 million. 4/99.

Dessen International (US)/NA (Shanghai)
Will build 100 American-style homes in Shanghai. 3/99.

Telecommunications

CHINA'S IMPORTS

Oy Nokia AB (Finland)
Will supply base station controllers and base stations for the expansion of local GSM cellular telephone network in Zhejiang Province. $30 million. 5/99.

Glenayre Technologies Inc. (US)
Will develop a stock-market information paging system for Fujian Telecom Paging Co., Ltd. $3 million. 4/99.

Keycorp Ltd. (Australia)
Will supply the Guangzhou branch of China Telecom with 300 self-service telephone billing terminals. 4/99.

Oy Nokia AB (Finland)
Will deliver GSM 900 equipment, including mobile switching centers, home location registers, and base station controllers, to the Anhui, Gansu, and Inner Mongolia branches of UNICOM. $40 million. 4/99.

Datum Inc. (US)
Will provide rubidium and GPS timing equipment to UNICOM. $1 million. 3/99.

Glenayre Technologies Inc. (US)
Will provide the Chongqing branch of China Telecom with modular voice processing systems. 3/99.

Internet Cable Co. (US)
Will design, install, and operate a broadband Internet access system for Shangri-La Vacation & Exchange. 3/99.

Lucent Technologies (US)
Will provide CDMA equipment to Guangdong Cellular Telecommunications Co. to increase the number of base stations. 3/99.

Motorola Inc. (US)
Will provide the Hunan P&T Administration with standard GSM equipment. $100 million. 3/99.

Motorola Inc. (US)
Will supply the Beijing P&T Administration with CDMA cellular equipment for 35 new base stations. 3/99.

Motorola Inc. (US)
Will expand the GSM system for UNICOM. $160 million. 3/99.

Nortel Networks (Canada)
Will provide the Ministry of Railways with digital information management systems for freight transportation. $20 million. 3/99.

Oy Nokia AB (Finland)
Will supply base stations and related equipment to the Taiyuan P&T Bureau, Shanxi Province. $50 million. 3/99.

INVESTMENTS IN CHINA

Asia Media Communications (US)/Beijing Telecom
Will manufacture and market set-top Internet connection boxes. 4/99.

Fisher Television Co., Inc. (US)/China National Commercial Foreign Trade Corp.
Formed joint venture to develop broadcast satellite services in China. 4/99.

Lucent Technologies (US)/China Telecom, Shanghai P&T Administration
Launched joint venture in Shanghai's Pudong New Area to manufacture and market software for PRC telecommunication networks. $29.8 million. 4/99.

MSU Corp. (UK)/Shanghai Thakral Co.
Will manufacture and distribute Internet television set-top boxes. 4/99.

Transcom International Ltd. (Australia)/Xinhua News Agency
Set up joint venture to provide long-distance phone service between Australia and the PRC. (Australia:75%-PRC:25%). 4/99

AT&T (US)/Shanghai Information and Investment Co., Shanghai P&T Administration
Will cooperate to provide Internet-based telephone services in Shanghai's Pudong New Area. 3/99.

Textiles and Apparel

INVESTMENTS IN CHINA

BBA Industrial Group (UK)
Will build and operate a wholly owned adhesive-bond cloth production plant in Tianjin. $50 million. 3/99.

Transportation

CHINA'S IMPORTS

Atlantis Aerospace Corp. (Canada)
Will supply China Eastern Airlines with flight training devices. 3/99.

Lockheed Martin Corp. (US)
Will install air traffic control equipment for CAAC. 3/99.

CHINA'S INVESTMENTS ABROAD

Henan International Economic and Technical Corp.
Will rehabilitate 200 km highway in Zambia for the Zambian Ministry of Works and Supply. $4 million. 4/99.

INVESTMENTS IN CHINA

General Motors Corp. (US)
Received approval to open its first automotive-parts distribution warehouse. $3.4 million. 4/99.

Toyota (Japan)/Sichuan Passenger Vehicle Manufacturing Group
Established joint venture to manufacture interior frames for passenger automobiles. $6.5 million. 4/99.

Agusta Aerospace SpA (Italy)/China National Aero-technology Import & Export Corp. of Shenzhen
Will develop transmission systems for five-ton helicopters. $27.8 million. 3/99.

Bombadier Power Corp. (Canada)/Sifang Rail Corp.
Will form joint venture to manufacture passenger rail cars with an annual capacity of 500 cars. $550 million. 3/99.

OTHER

All Nippon Airways (Japan)/China Eastern Airlines
Established code-sharing agreement. 3/99.

Philips-Stock United Group (the Netherlands)
Approved loan to the Chengdu Shuangliu Airport to import airport equipment and upgrade technology. $35 million. 3/99.

The World Bank
Approved loan for projects in Anshan, Fuxin, and Shenyang, Liaoning Province, to ease the flow of traffic. $150 million. 3/99.

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From September 19 to January 2, the National Gallery of Art will display wide range of archeological objects discovered in China during the last 25 years.

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In notes for the catalogue that will accompany the show, Kodak Chairman and CEO George Fisher summarizes what the hands that formed these objects seem to tell us:

"Look," they insist. "We were not so different. We were complicated, too. We aspired to leave our children something invaluable, their children some worthy record. And we did. We infused our bronze with fluent fire."

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