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THE CHINA BUSINESS REVIEW

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Autos and the WTO

China's New Foreign Investment Regime

Personal Data Privacy

Responding to Bomb Threats

VENTURE CAPITAL REPORT:

China's High-Tech Incubators

New Exit Strategies

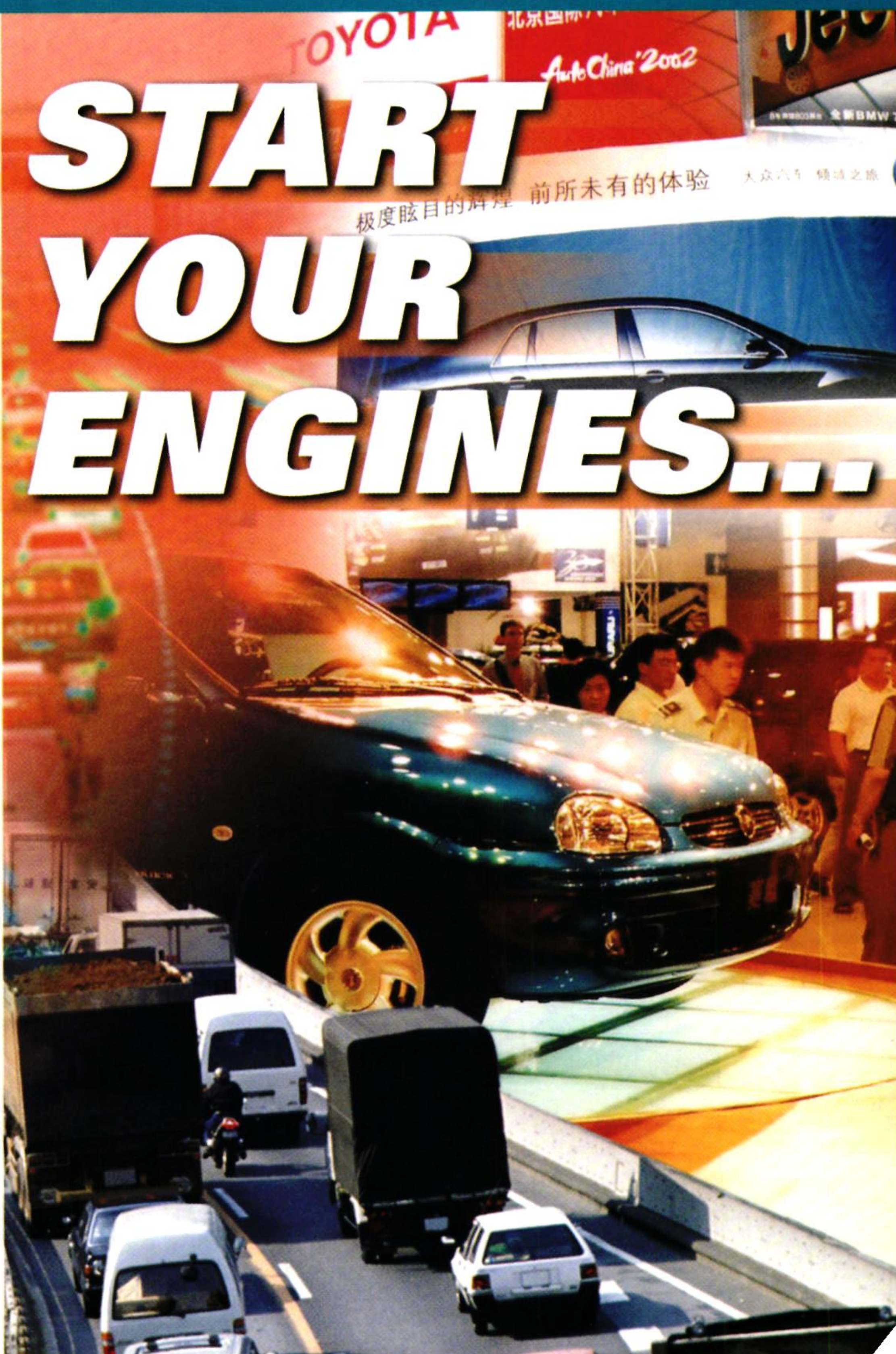

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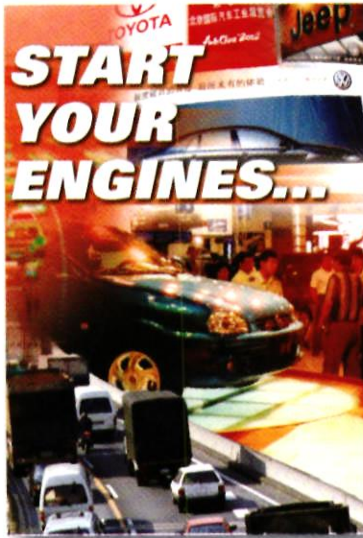
TABLE OF CONTENTS

JULY-AUGUST 2002



Cover by Greg Berger Design, Inc.

FOCUS: THE AUTO SECTOR

8 **Automakers in the Fast Lane**
Foreign and Chinese auto manufacturers are adjusting to a new market, thanks to China's WTO entry.
Wayne W. J. Xing
Plus: China's WTO Commitments Relating to Auto Investment
China's Auto-Related WTO Services Commitments
Regulatory Issues for Foreign-Invested Auto Operations

FEATURES

MANAGEMENT

18 **Responding to Bomb Threats**
Foreign investors can take some basic precautions to protect their China operations.
Bill Glenwright

INVESTMENT

22 **A New Foreign Investment Regime**
Revisions to China's regulations and catalogue governing foreign investment are a step forward in some areas, but a step back in others.
Andreas Lauffs and Andrew Tan

LEGAL ISSUES

36 **Personal Data Protection in China**
Chinese law is vague about the level of control Chinese individuals have over their personal information.
Yingxi Fu-Tomlinson

SPECIAL REPORT: VENTURE CAPITAL

26 **High-Technology Incubators: Fuel for China's New Entrepreneurship?**
Chinese government support for startups is no replacement for private venture capital.
Eric Harwit

30 **New Ways Out for Venture Capital Investors in China**
Venture capital investors require clear exit strategies from their investments, a lesson Chinese lawmakers are learning, slowly.
Allan K. A. Marson, Matthew J. McGinn, and Flora Huang
Plus: Obtaining Venture Capital for Chinese Startups

DEPARTMENTS

5 **Short Takes**
Investor confidence is up, China's private sector grows, retail and wholesale news, and more

6 **Letter from the President of the US-China Business Council**
In the Hills

40 **Trends and Issues**
China's WTO Implementation Efforts

42 **WWW.China**
China's leaders, two US government China commissions, APEC, and more

44 **China Business**

52 **Classified**

53 **Council Bulletin**

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short takes

Amcham Survey Highlights Issues for US Business in China

The American Chamber of Commerce in China's 2002 white paper identifies greater transparency in the legislative process and regulatory environment, and better law enforcement, as top issues of concern for US businesses in China. The paper, presented to both the US and PRC governments, also contains proposals for market access by sector.

Around 170 American businesses responded to this year's survey. The results reportedly show that US firms are worried about China's implementation of its World Trade Organization (WTO) commitments: Thirty-five percent are "very concerned" that China will not meet its commitments or that protectionism could increase and 25 percent report that their business plans for the next five years are closely tied to China's WTO implementation schedule. Nevertheless, US firms remain optimistic about China: more than 80 percent expect demand to grow in China and nearly 90 percent plan to expand.

Private Sector Grows

China's private sector, with 1.76 million registered enterprises, now accounts for one-third of China's GDP and employs more than 20 million people, according to press reports. In the first quarter of 2002, the private sector created nearly a third of all new jobs. In comparison, the state-owned sector accounts for 37 percent of GDP, while the remaining 30 percent comes from agriculture, collectives, and foreign-invested enterprises.

NBS Reports on China's Wholesale and Retail Markets

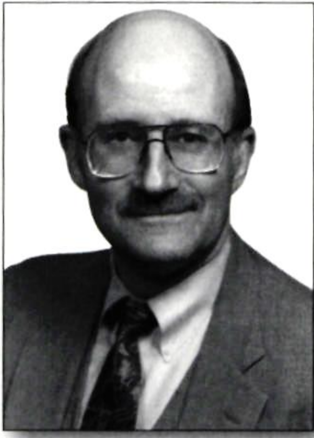
The National Bureau of Statistics (NBS) reported in March that growth in China's wholesale and retail markets was slower in 2001 than in 2000. In the wholesale market, sales of stationery, hardware and electrical equipment, communications equipment, and automobiles grew rapidly, while sales of cosmetics, jewelry, and cotton and hemp products fell sharply. In the retail market, sales of communications products, construction and decorating materials, and oil products surged, while those of electronic publications and audio visual products dropped.

China Publication Group Established

The China Publication Group, which consists of 12 major publishing, printing, and distribution companies, launched operations on April 9. The group has 5,000 employees and ¥5 billion ($604 million) in assets. The total sales revenue of its subsidiaries in 2001 reached ¥2.5 billion ($302 million).

In the September-October 2002 Issue:

Location, Location, Location


Robert A. Kapp

LETTER from the President of the US-China Business Council

In the Hills

American businesspeople, journalists, and politicians accustomed to running up and down the East China coast, from glistening boardroom to humming twenty-first-century factory floor to the front end of the airplane, should take a deep breath now and then and go west, or inland—or even just get out of town. It is a refreshing experience, in many ways invigorating, and in some ways very sobering.

I was lucky to have had that chance recently. From a speaking engagement in Tianjin, whose famous Tianjin Economic and Technological Development Area houses advanced production facilities for some of the world's most sophisticated companies, I headed to Sichuan, China's most populous province, home to 130 million people.

In the provincial capital of Chengdu, I passed through a new airport that compared splendidly with the new airports of the coastal cities. I marveled at the extent of the urban development that has swept over this inland provincial capital since the days, 15 or 20 years ago, when Sichuan was a regular stop on my China itineraries. I visited a proud business owner whose brilliantly lit five-story emporium sold *only* high-end furniture and accessories made in Spain. Then I hit the road to see things I really hadn't seen before.

And what a road. Heading north from Chengdu to Mianyang, "the road" was a gleaming, four-to-six-lane superhighway, perfectly graded and paved. When we hit 170 kilometers per hour, my eyes widened, not just out of fear, but out of a realization that, until a year or two ago, the Chengdu to Mianyang trip was a matter of endless hours and frustrations. Mianyang itself, with broad boulevards, beautifully tended public spaces, the massive Changhong Electric Co. television production facility rolling block after block through town, and a booming downtown commercial core, has been firmly "launched," no matter how far from the coast it lies.

On the other side of Mianyang, the superhighway ended, and we exited onto another road—National Highway 108, to be exact—which connects the great southwest (as far as Yunnan) to the northwest and ultimately to Beijing itself. Kilometer posts showed numbers in the 2,000+ range, the distance to the national capital. Occasionally the road could be called two-lane; most of the time it was "suck-in-your-gut" width.

Now the land heaved up; we entered the foothills of the Qinling, the great hill barrier that traditionally isolated the densely settled Sichuan Basin from the old imperial capital of Chang'an to the north (now the northwestern metropolis of Xi'an), and, indeed, from all of North China. We seemed to step back in time. The road was pitted and slow, overwhelmed with heavy trucks moving cargoes in and out of Sichuan on the only cargo route through the mountains. Country buses lurched and swayed, carrying peasants and traders from town to town, from county seat to outlying market villages, in this inaccessible region. Road maintenance was under way mile after mile—by hand. Sunburned men and women shoveled piles of river rock out onto the highway, sprinkled shovelsful of asphalt over them, and waited for the passing traffic to pack the highway surface. When overloaded trucks ruptured their springs, dozens of vehicles waited—with a good-natured patience utterly unknown in Washington, DC, I might add—to inch by the impasse. I was reminded of the first thing that used to be said about Sichuan in the last century: "*Jiaotong bubian*"—"Transportation is difficult."

The countryside was utterly gorgeous. Tiny fields of golden wheat alternated with rape or small plots of fruit trees. There were no large fields at all, no expanses of paddy, no plains of wheat, soybeans, or sorghum. The steeper mountainsides showed wild evergreen and deciduous growth. In market towns we passed warehouses where huge sacks of Chinese medicinal herbs from the mountainsides are collected and traded.

Roadside signs revealed that we had entered a region of poverty and announced programs for

local government assistance to the impoverished. Aside from our highway, roads were scarce; the hills, bigger than the Appalachians but smaller than the Rockies, stretched out in layers to the horizon. People living in them walked to town. Yet children heading home from school were vividly clothed, their school bags ornamented with cartoon animals in bright colors. I wondered if there were other children for whom bright clothes—or school itself—were impossible.

We passed through the great Jianmenguan, a breathtaking narrow pass through towering vertical rock faces. We were on "The Road to Shu," (as Sichuan was anciently called), formerly a stone track no wider than a single person, immortalized in Tang poetry as "more difficult than ascending to Heaven itself." Steam poured from the engines of overheated trucks on their way up to the pass and out of Sichuan. Then we headed down, a racing river just below the side of the road. Now steam jetted from the hissing brakes of the heavily laden trucks struggling to navigate the twists and potholes on the steep descent.

By the end of the day, we had reached our destination: Guangyuan County Seat, essentially the last stop in Sichuan. The borders of Shaanxi Province, and of Gansu Province, gateway to Central Asia, lay a few miles further up the road.

In bustling Guangyuan, I learned from the mayor and his colleagues:

- Urban construction had recently blossomed, much of it funded by investors from the uniquely entrepreneurial city of Wenzhou in the East China province of Zhejiang.
- The military plants uprooted from East and Central China and flung into the inaccessible interior by Mao Zedong in anticipation of war with the Soviet Union 35 years ago had picked up and moved out, either back east or to more accessible locations.
- I was the second American visitor to Guangyuan in memory.
- There was now a new airport, with daily flights to key Chinese cities and connections through Xi'an and Chengdu to just about everywhere.
- Everyone was excited about China's World Trade Organization (WTO) membership and hoped that it would bring opportunity to smaller and more distant communities like Guangyuan.
- Wahaha bottled water (the traveler's friend in the scorching Chinese summer) had set up a bottling plant in none other than Guangyuan itself—living proof of a bright future!

But, most staggeringly, I learned that the superhighway that had taken me from Chengdu to Mianyang in an hour and a half would be completed all the way to Guangyuan by year's end: by 2003, Chengdu would be three hours' drive from Guangyuan County Seat. And the mountain communities through which we had labored would face a different future.

On the way back to the United States, I read intently about China's rural economy and the problems it faces: declining crop prices; rising taxes and fees imposed on farmers by parasitic local-level government bodies filled with cousins and in-laws "eating imperial grain" (as they say about those paid with taxes and fees extracted from the peasants); rampant usurious lending to these peasants by bottom-rung cadres struggling to secure the money that must be sent up the administrative chain to meet tax and fee obligations; out-migration of millions of rural inhabitants unable to survive on the land and hoping for better times in the neon-lit cities and humming factories of the coastal enclaves; the difficulty of implementing centrally directed economic, political, and social reform in the face of entrenched holders of local privilege; and the potential power of modern exposé journalism. It was a reminder that much remains unsolved in this gigantic, fascinating, and sometimes incredibly lovely land.

For me, living in the world of favorite seats on 747s, busy business people, US and Chinese diplomats and government leaders, journalists and polemicists, congressional investigators, Washington trade diplomats, nongovernmental organizations, human rights campaigners, WTO trainers, and US and PRC think tanks, a couple of days on the road were more than a pleasant diversion. They were a reminder that all of us who engage with China are part of a human drama that we can only perceive in fragments, and that what we do in business and diplomacy connects to a big chunk of China's life in ways that we'll probably never fully grasp. Even so, I have a hunch we all ought to be thinking about what's happening outside of town. 完

Automakers in the Fast Lane

Wayne W. J. Xing

China's automobile market in 2001 turned in its best performance since 1994. The country churned out a total of 2.33 million non-farm motor vehicles, up 12.8 percent over 2000 (*see* Table 1). Automakers sold 2.36 million vehicles, some of which came from stockpiles, a year-on-year increase of 13.2 percent. Actual production and sales are probably even higher because these statistics, provided by the China Association of Automotive Manufacturers, came only from the 102 manufacturers licensed by the central government. In 2001, China produced 742,373 passenger cars and sold 756,609, up an impressive 20.4 and 21.1 percent, respectively, over 2000 levels.

Wayne W. J. Xing, PhD
is editor and publisher of China Business Update, a publishing and consulting firm based in Amherst, Massachusetts.

Multinational auto companies are gearing up for a more open auto market in China, but the government is reluctant to loosen its grip

The fourth wave of investment

The double-digit growth in auto production and sales last year was, in part, a result of what local analysts call the "fourth wave of investment" in China's auto sector. Negotiations between multinational companies and Chinese automakers have been intensifying since mid-2001. CEOs of leading multinationals have visited China one after another, meeting government leaders, negotiating with potential Chinese partners, and clinching new deals. BMW AG obtained government consent for a joint venture project with Brilliance China Automotive Holdings Ltd., while Hyundai Motor Co. teamed up with Dongfeng Motor Corp. through its subsidiary, Dongfeng-Yueda-Kia Motors Co. Ltd. Renault-Nissan Suisse SA started negotiations with Dongfeng on expanding cooperation in car assembly, and Daimler Chrysler AG has been talking with First Automobile Works Group Corp. (FAW) about truck manufacturing and with Dongnan (Fujian) Automobile Industry Co. about launching the Mitsubishi Lancer. In April, Hyundai signed a 30-year joint venture agreement to begin assembling cars later this year. And Volvo Truck Corp. is discussing a joint venture with China National Heavy Duty Truck Group in Jinan, Shandong.

Foreign automakers have also decided to commit additional funds to their existing investments (*see* Table 2). Volkswagen AG will add ¥14.1 billion ($1.7 billion) and PSA Peugeot Citroën will pump ¥630 million ($76.1 million) into their China joint ventures. Volkswagen recently signed an agreement to extend its joint venture agreement with Shanghai Automotive Industry (Group) Corp. (SAIC) for another 20 years and increased Shanghai Volkswagen Automotive Co. Ltd.'s registered capital from ¥4.6 billion ($555.8 million) to ¥6.3 billion ($761.2 million). DaimlerChrysler recently extended its joint venture, Beijing Jeep Corp., for another 30 years. General Motors Corp. (GM) has successfully set up its third joint ven-

Table 1
Production and Sales of Automobiles, 2001 (units)

	Production	Percent Change Over 2000	Sales	Percent Change Over 2000
Car*	**742,373**	**20.39**	**756,609**	**21.10**
Truck	**802,353**	**5.02**	**818,433**	**5.62**
Heavy	157,073	91.67	146,985	77.37
Medium	151,955	-1.17	162,747	-0.25
Light	362,823	-7.10	368,686	-7.12
Mini	130,502	-5.26	140,015	6.14
Bus	**789,714**	**14.72**	**788,623**	**14.47**
Large	11,496	44.55	11,431	47.63
Medium	48,169	34.03	47,906	33.45
Light**	246,625	4.42	246,623	4.66
Mini	483,424	18.39	482,663	17.82
Total	**2,334,440**	**12.83**	**2,363,665**	**13.17**

NOTES: * Including subcategory cars (cars classified as "light bus," such as the Geely Haoqing)
** Excluding subcategory cars
SOURCES: China Association of Automotive Manufacturers, *China Business Update (CBU)*

The key difference between the fourth wave of investment in China's auto sector and the first three waves is the emergence of significant domestic investment—not from the central government, but from private investors and regional governments.

ture through a partnership with SAIC and Liuzhou Wuling Automotive Co. Ltd., a mini-vehicle manufacturer in Guangxi. Ford Motor Co. is gearing up to introduce a series of car models once Chang'an Ford Automobile Co., Ltd. in Chongqing launches the Fiesta/Ikon later this year.

The key difference between the fourth wave of investment in China's auto sector and the first three waves is the emergence of significant domestic investment—not from the central government, but from private investors and regional governments. China's first wave of investment began in 1984 and included the establishment of Beijing Jeep Corp., Ltd. and Shanghai Volkswagen. The second wave came in the early 1990s, when FAW-Volkswagen Automotive Co., Ltd., Guangzhou Peugeot Automobile Co. Ltd., and Dongfeng-Citroën Automobile Co., Ltd. came into being. The third wave dates to the late 1990s, when GM, Honda Motor Co., Ltd., Toyota Motor Corp., and Ford secured their respective car assembly deals at Shanghai GM Automobile Co. Ltd., Guangzhou Honda Automobile Co., Ltd., Tianjin Toyota Motor Co., Ltd., and Chang'an-Ford. The past two years have seen the emergence of new Chinese car assemblers such as the Geely Group, Brilliance China, Jiangsu Nanya Automobile Co., Ltd., Yueda-Kia, and Shanghai Qirui Automobile Co.

Thanks to China's World Trade Organization (WTO) terms of accession, the new wave of investment in the country's automotive sector will cover a wide spectrum of auto products,

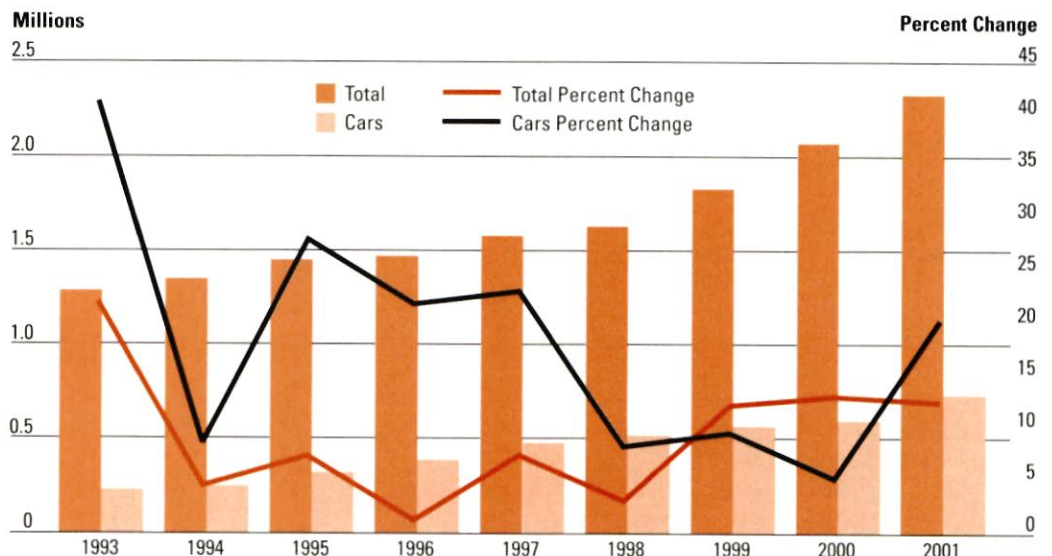
China's WTO Commitments Relating to Auto Investment

According to the WTO Report of the Working Party on the Accession of China, with regard to foreign investment in the motor vehicle sector, China agreed to:

- Amend the 1994 Automotive Industry Policy to ensure compatibility with WTO rules and principles and to phase out the following two subsidy measures: loan and foreign currency priorities based on export performance, and preferential tariff rates based on percentage of local content.
- Eliminate, two years after accession, all measures applicable to motor vehicle producers that restrict the categories, types, or models of vehicle they can produce.
- Allow provincial governments to approve foreign investments in motor vehicle manufacturing of up to $60 million one year after accession, $90 million after two years, and $150 million after four years—up from the present $30 million cap.
- Remove the 50 percent foreign equity investment limit for engine manufacturing joint ventures.
- Unify laws and regulations with regard to both domestic and imported motor vehicles and auto parts so that imported products enjoy the same treatment as similar domestic products.

—*Wayne W. J. Xing*

Automobile Production in China, 1993–2001



NOTE: Car production data in 2001 include subcategory cars
SOURCE: *CBU*

from passenger cars and heavy-duty vehicles to farm trucks and motorcycles. Multinational auto manufacturers will introduce platforms instead of individual vehicle models. More important, new areas of investment will open up in sales, distribution, and after-sales services, including auto financing and insurance. Auto companies are already branching out into new markets in China: Ford's Hertz rental car division opened offices in Beijing, Guangzhou, and Shanghai in April. Volkswagen Finance, General Motors Acceptance Corp., and Ford Motor Credit Co. have all set up offices in China and are waiting for new regulations to guide the licensing process.

Meanwhile, foreign investors are beginning to see medium-sized and small domestic companies as attractive partners because they are less bureaucratic and less burdened by overstaffing and debt.

Through this new round of investment, the Chinese auto market is becoming the front line of global competition for heavyweight international players. But multinationals will also face local players that are launching models, targeted at Chinese consumers, that are competitive in terms of both cost and versatility.

Through this new round of investment, the Chinese auto market is becoming the front line of global competition for heavyweight international players. But multinationals will also face local players that are launching models, targeted at Chinese consumers, that are competitive in terms of both cost and versatility.

Table 2
Major Car Assembly Projects in China, 2002

Company	Foreign Partner(s)	Products	Capacity (units)
FAW-Volkswagen Automotive Co., Ltd.	Volkswagen AG	Jetta, Bora, Audi	200,000
Dongfeng Motor Corp.	PSA Peugeot Citroën SpA Nissan Motor Co., Ltd.	ZX/Fookang, Picasso Fengshen (Bluebird)	150,000 30,000
Shanghai Automotive Industry (Group) Corp. (SAIC)	Volkswagen General Motors Corp.	Santana, Passat, Polo Buick Century, GL8, Sail	450,000 150,000
Tianjin Automotive Industrial (Group) Co., Ltd.	Daihatsu Motor Co., Ltd. Toyota Motor Corp.	Charade, Charade 2000 NBCV	150,000 30,000
Guangzhou Honda Automobile Co., Ltd.	Honda Motor Co., Ltd.	Accord, Odyssey	75,000
Chang'an Suzuki Automobile Co., Ltd.	Suzuki Motor Corp. Ford Motor Co.	Alto, Swift Fiesta/Ikon	150,000 30,000
Geely Group	—	Haoqing, Merrie, Ulio	200,000
SAIC-Qirui Automobile Co., Ltd.	—	Chery	50,000
Guizhou Aviation Industry Group	(Subaru) Fuji Heavy Industries Ltd.	Skylark	50,000
Yuejin Auto Group Corp.	Fiat SpA —	Palio Eagle/Unique	30,000 30,000
FAW Hainan Motor Co.	Mazda Motor Corp.	323/Premacy	50,000
Jiangsu Yueda Group Co., Ltd.	Hyundai/Kia Motors	Pride	30,000
Brilliance China Automotive Holdings Ltd.	—	Zhonghua	30,000
Shanghai JMStar Group	—	Meilu	30,000
Hafei Auto Manufacturing Co.	—	Baili, Saima	30,000
Jiangxi Changhe Suzuki Automobile Co., Ltd.	Suzuki Motor Corp.	Beidouxing (WagonR)	30,000
Xi'an Qinchuan Automotive Co. Ltd.	—	Flyer	30,000
Total			**2,005,000**

SOURCE: *CBU*

Though the passenger-car market in particular has changed from a sellers' to a buyers' market over the last decade, many of China's more than 100 original-equipment manufacturers lack economies of scale.

WTO commitments in the auto sector

Global automakers have some reason for optimism about the effect of China's WTO entry on their business in China. China has committed, in its WTO protocol of accession, to reduce tariffs on cars, buses, and trucks gradually over the next few years—by more than half in many cases (*see* Table 3). China will cut tariffs on more than 160 auto parts and components from an average of 25 percent in 2001 to 10 percent by July 1, 2006.

China also committed to increase its import quotas on motor vehicle products by 15 percent annually, based on quota values in 2000, and eliminate import quotas entirely on January 1, 2005 (*see* Table 4). For motor vehicles and parts, the quota value for 2002 will be close to $8 billion. China will also eliminate import licenses for engines in 2003; motorcycles, trucks, and buses in 2004; and passenger vehicles in 2005 (*see* Table 5).

China agreed, in the Report of the Working Party on the Accession of the PRC (Working Party Report), to comply with the WTO Agreement on Trade-Related Investment Measures (TRIMs) upon entry to the WTO. Under TRIMs, China cannot subsidize export performance or require that companies use locally produced parts and components, restrict the types of vehicles produced, or maintain separate regulations for domestic and imported products, among other requirements (*see* p.10).

Also of concern for auto manufacturers, China agreed to confer the right to trade on for-

Table 3
Scheduled WTO-Mandated Tariffs for Cars, Buses, and Trucks (percent)

Cars Engine Size	2001 Jan.1	2002 Jan.1	2003 Jan.1	2004 Jan.1	2005 Jan.1	2006 Jan. 1	2006 July 1
Less than 3 liters	70	43.85	38.2	34.2	30.0	28	25
3 liters and up	80	50.70	43.0	37.6	30.3	28	25
Buses Number of seats							
30 and up	45	37.5	33.3	29.2	25		
20-29	60	47.5	40.0	32.5	25		
10-19	65	47.5	40.0	32.5	25		
10-19 (diesel)	65	38.4	32.9	27.5	25		
Gasoline Trucks Gross vehicle weight (GVW)							
8 tons and up	30	30.0	25.0	23.3	20		
5-8 tons	40	30.0	25.0	23.0	20		
Less than 5 tons	50	37.5	33.3	29.2	25		
Diesel Trucks GVW							
20 tons and up	30	21.0	18	15.0	15		
14-20 tons	30	24.0	22	20.0	20		
5-14 tons	40	30.0	25	23.3	20		
Less than 5 tons	50	37.5	30	29.2	25		

SOURCE: World Trade Organization Protocol on the Accession of the People's Republic of China (Protocol of Accession)

eign individuals and enterprises, regardless of whether they are registered in China (*see The CBR*, January-February 2002, p.16).

China is also required to open certain services markets that will have a significant impact on the auto sector. These include distribution, financing, insurance, road transportation, storage and warehousing, maintenance and repair, and rental and leasing. WTO terms will generally permit wholly foreign-owned subsidiaries in these areas by 2005 (*see* below).

An inefficient auto market

Despite the fact that China's auto industry has come a long way since the mid-1980s, when the government decided to invite multinationals to establish joint venture manufacturing facilities in China, officials still need to address major problems. Most domestic manufacturers are unsure what to expect or how to adjust to the gradual implementation of China's WTO concessions. China's drastic reduction of import tariffs at the beginning of this year and increase in import quotas for 2002 surprised government agencies and auto enterprises. For example, Tianjin Automotive Industrial (Group) Co., Ltd.'s sudden decision in early January to reduce the price of its cars by 20 percent in response to tariff cuts created a domino effect of price cuts by almost all players.

Tianjin Automotive Industrial (Group) Co., Ltd.'s sudden decision in early January to reduce the price of its cars by 20 percent in response to tariff cuts created a domino effect of price cuts by almost all players.

China's Auto-Related WTO Services Commitments

According to the WTO Report of the Working Party on the Accession of China, China agreed to phase in the following commitments in services that will affect the auto industry.

Distribution services

Within one year of China's WTO entry, foreign service suppliers may establish joint ventures to engage in the commission and wholesale business of imported and domestically made products, including automotive products. Within two years, foreign majority ownership will be permitted and no geographic or quantitative restrictions will apply, except those controlled by scheduled quota. Within three years, no restrictions will apply (except for designated products such as crude oil).

Also within one year of accession, foreign service suppliers may provide retail services in the form of joint ventures in designated cities, with foreign equity shares capped at 49 percent. Within two years, foreign partners may have majority equity shares. However, joint venture chain stores that retail motor vehicles and number more than 30 cannot be majority foreign-owned until five years after China's WTO entry.

Financial services

Nonbank foreign financial institutions were permitted to provide motor vehicle financing service upon China's WTO accession, but as *The CBR* went to press, rules specifically governing auto finance had yet to be released.

Insurance

Foreign nonlife insurers can establish branches or joint ventures with 51 percent foreign equity upon accession and wholly foreign-owned subsidiaries within two years. But foreign insurance institutions cannot engage in statutory insurance business—third-party auto liability insurance and driver and operator liability for buses and other commercial vehicles.

Road transportation services

Foreign road transportation providers can set up joint ventures with foreign equity shares of no more than 49 percent upon accession. They can form majority ownerships within one year and wholly foreign-owned subsidiaries within three years.

Storage and warehousing

Storage and warehousing companies can operate only in the form of joint ventures upon accession, with foreign investment not to exceed 49 percent. They can establish majority ownership within one year and wholly foreign-owned subsidiaries within three years.

Maintenance and repair

Foreign maintenance and repair service companies can form joint ventures upon accession, majority ownership within one year, and wholly foreign-owned subsidiaries within three years.

Rental and leasing

Foreign rental and leasing service companies can form joint ventures upon accession, majority ownerships within one year, and wholly foreign-owned subsidiaries within three years. Such service suppliers must have global assets of at least $5 million.

—Wayne W. J. Xing

The absolute number of families that can afford to buy a car—anywhere from 3 to 5 million—though small in percentage terms, is large enough to sustain rapid growth in the auto market.

The government acknowledged in its recent 10th Five-Year Plan for the Development of the Automotive Industry (2001-05) that China's auto market is still highly fragmented. Though the passenger-car market in particular has changed from a sellers' to a buyers' market over the last decade, many of China's more than 100 original-equipment manufacturers (OEMs) lack economies of scale. Most Chinese OEMs have weak capabilities in new product development and invariably have their own parts supply systems. But these parts suppliers, which are barely able to meet their own economies of scale, charge higher prices than imports and are unable to develop new products to meet OEM demand. Except for a few early birds in the Chinese auto market, most auto enterprises are faced with poor or no returns on their investment.

These problems are the results of both macroeconomic and microeconomic deficiencies. Until recently, the central government controlled China's auto industry with an extensive and strict planning and project-approval system. Paradoxically, such tight central-government control failed to curb repetitive investments by different branches of the central and local gov-

Regulatory Issues for Foreign-Invested Auto Operations

As China revises its automobile-related legislation to comply with World Trade Organization (WTO) requirements, foreign investors must navigate new requirements and procedures. Below are a few of the major regulatory issues currently facing foreign investors.

Import quotas

The regulatory process for import quota allocation continues to lack transparency. Though China's 2002 auto quota amounts were in line with its WTO commitments, authorities are reportedly delaying the issuance of quota allocation amounts to qualified applicants in an attempt to keep imports down.

From August 2002, foreign-invested minority joint venture (JV) enterprises may apply for 2003 quotas directly, and quotas should be allocated before the end of October. Specific questions for foreign-invested enterprises (FIEs) include how to ensure that Chinese authorities distribute the full quota amount each year. Foreign investors are also unsure whether the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) will refuse to grant quotas if an FIE lacks trading rights documentation, despite the fact that China has yet to issue procedures on how to obtain such documentation.

Standards

As in other sectors, China has crafted unique and incomplete standards for the auto sector that present new problems for importers. The existing domestic testing standards will be mandatory for all imports beginning May 1, 2003; reportedly, all imports, even though they meet accepted global standards, will have to be tested again in China—a costly proposition. Moreover, the lack of a comprehensive auto and auto-parts standards regime means that China is introducing new requirements in a piecemeal manner.

Trading rights and distribution

All auto JVs with minority foreign ownership will be entitled to trading rights on December 11, 2002, according to China's WTO commitments. It is unclear whether qualified FIEs will need to re-register for trading rights or if such rights will be automatically included in their business scopes. Nor is it clear whether FIEs with trading rights will have to distribute through a separate entity once distribution rights are phased in over the next couple of years. If companies can establish new distribution companies as minority joint ventures *and* begin to import goods from December 11, then FIEs must see rules as soon as possible. If PRC regulators do not resolve these issues by August, FIEs will face difficulty in applying for quotas, and importers will have to purchase quota rights on the secondary market in 2003.

TRIMs and localization

In the past, China had a rule requiring that auto parts imported for vehicle assembly (knocked-down vehicles) be charged at the same tariff rate as completed (built-up) vehicles if the imported content exceeded 40 percent of the assembled vehicle. The rule was seldom applied; assemblers in China negotiated separate deal-specific localization commitments with their Chinese partners. Regulators are apparently redrafting the rule in an attempt to meet provisions in the WTO Agreement on Trade-Related Investment Measures (TRIMs) that prohibit localization policies, while maintaining a threshold beyond which knocked-down vehicles will be assessed at the built-up rate for imported content.

Auto financing

Auto companies were working closely with the People's Bank of China (PBOC) in early 2002 to produce nonbank foreign financial company rules that they hoped would not replicate the high capital requirements contained in the general rules for foreign financial companies.

Separately, recent media reports indicate that PBOC is planning several revisions to existing rules governing auto loans: a reduction in minimum down payments from 20 percent of the purchase price to 10 percent; an extension of maximum loan lengths from five years to eight years; a broadening of the range of interest rates that companies may charge from 30 percent above and 10 percent below PBOC-set rates to 50 percent above and 30 percent below; and the removal of the requirement that borrowers have their household registered in the place of purchase.

—US-China Business Council staff

Faced with overcapacity and cutthroat competition, auto enterprises must adjust their product and organizational structures to improve efficiency if they are to meet rising market demand.

ernments for a simple reason: high tariffs protected the market from imports. Local governments, meanwhile, blocked vehicles made in other parts of China, making auto assembly highly profitable. Even worse, investment decisions were and still are often made by officials who are not responsible for project operations. Public funds therefore go to the construction of assembly facilities, leading not only to overcapacity but also to many unfinished and idle manufacturing operations. Interestingly, most joint ventures have also benefited from this government protection.

China's domestic manufacturers also suffer from poor management. General managers at state-owned enterprises are normally appointed by higher-level bureaucrats. These general managers thus tend to be more concerned with their political performance than the profitability of their enterprises. For joint ventures, the mandated 50-50 equity share split between foreign and Chinese partners has resulted in inefficient decision-making.

Table 4
Import Quotas on Motor Vehicle Products ($ million)

Description	2000	2002	2003	2004	2005
Motor vehicles and parts	6,000	7,935	9,125	10,494	No quota
Motorcycles and parts	286	376	432	497	No quota
Cranes and chassis	88	116	133	153	No quota

SOURCE: Protocol of Accession

A vast consumer base

China has 1.3 billion people—and more than 300 million families—and is therefore the world's largest potential auto market. Currently the country's per capita GDP is low by international standards, and the majority of Chinese families are preoccupied by issues such as housing, medical care, and their child's education. Nevertheless, the absolute number of families that can afford to buy a car—anywhere from 3 to 5 million—though small in percentage terms, is large enough to sustain rapid growth in the auto market. If the consumer environment for cars improves significantly, through the reduction or elimination of excessive taxes and fees, operational restrictions, and red tape in vehicle purchases and registrations, such purchasing power may translate into high auto sales.

Industry restructuring

Faced with overcapacity and cutthroat competition, auto enterprises must adjust their product and organizational structures to improve efficiency if they are to meet rising market demand. China's WTO entry offers a good opportunity to reorganize the auto sector, and the government is expected to facilitate such a reorganization soon. For example, FAW, China's largest auto group, has reportedly signed a letter of intent to acquire Tianjin Automotive Industrial (Group), Toyota's partner in China.

In addition, the government's official, if gradual, withdrawal from direct enterprise man-

Table 5
Timetable for Elimination of Import Licenses on Motor Vehicles and Engines

Passenger vehicles	2005
Buses	2004
Trucks (diesel)	2004
Trucks (gasoline, under 5 tons)	2004
Motorcycles	2004
Engines	2003

SOURCE: Protocol of Accession

The WTO's biggest impact on the auto sector may be the sudden realization, on the part of both the government and the industry, that it is in the industry's best long-term interest to shorten the phase-in periods to which China agreed in its WTO commitments.

agement and control will help create room for an open market to develop under conditions of equal and fair competition. Regional and corporate protectionism, favoritism, and corrupt practices will, ideally, diminish. All of these new developments may offer the best chances for domestic OEMs and suppliers to reorganize their assets through mergers and acquisitions. The low cost of labor in China will help well-managed domestic enterprises and joint ventures to become successful vis-à-vis imports.

Equity controls and national industry

The biggest issue currently facing the Chinese auto sector is the future of equity control in auto assembly operations. China's WTO commitments do not include a timetable to eliminate equity controls in auto assembly facilities, and the Chinese government is expected to limit foreign equity ownership to no more than 50 percent for some time to come. Multinational automakers with joint venture facilities in China have expressed their readiness to buy out their Chinese partners and will increasingly pressure the government to lift the cap on foreign ownership.

By maintaining equity controls in vehicle joint ventures, China's decisionmakers aim to protect the national auto industry. Their definition of a national auto industry seems to include the following: 50 percent equity share ownership, a majority of parts and components supplied locally, independent new product development, and an equal say in management control. But such a definition goes against WTO principles and the trend of globalization in the auto industry. In essence, this is government-controlled competition and is by definition unfair (*see* p.14).

Given China's large population and market, rich resources, and abundant and competitive labor force, a fair and competitive national auto industry is surely possible. Multinationals readily point out that, even if they were to have 100 percent equity ownership of their PRC manufacturing facilities, they would be just as much a part of the Chinese auto industry as domestic firms. Even more important, China's market, if open to equal competition, will have ample room for some domestic automakers to emerge as global players—though it is still too early to tell which companies will prove successful.

The openness and global competition that WTO membership will bring are creating new companies and will likely force many existing companies out of the market entirely. The WTO's biggest impact on the auto sector may be the sudden realization, on the part of both the government and the industry, that it is in the industry's best long-term interest to shorten the phase-in periods to which China agreed in its WTO commitments, as protection will continue to undermine the strength of domestic enterprises (including joint ventures). Those that hope to survive the inevitable competition must act today as if it were already 2006, when tariffs will be 25 percent or less for motor vehicles and 10 percent for auto parts.

China's auto industry will not disappear because the country has joined the WTO. Indeed, two veteran Japanese auto executives who currently manage OEM joint ventures in China recently expressed their confidence in the emergence of a national Chinese auto industry. "I remember," said one of them, "that when we started to make cars in Japan, nobody believed that we could develop a Japanese auto industry." 完

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RESPONDING TO BOMB THREATS

BILL GLENWRIGHT

Companies operating in China would do well to establish plans and train staff to deal with bomb threats

Bill Glenwright
is division manager, Risk Management, with Hill & Associates, based in Shanghai.

Compared to many Western and Asian countries, China is a relatively safe place to conduct business. The level of crime and threats directed against foreigners residing in or visiting China remains relatively low.

Nevertheless, bombs have become a more common weapon of choice in security incidents in recent years. Though Chinese authorities usually discourage press coverage of these events to avoid poor publicity and prevent copycat incidents, since September 11, 2001 and the advent of the war on terrorism, officials have become more open about the true number of bomb attacks in the country.

In most cases, bombers' motivations are personal, such as spurned love or revenge. For example, in March 2000 a Shanxi man, despondent over his ex-wife's remarriage, broke in on the wedding festivities with explosives strapped to his body, killing himself and 36 others. In other cases—such as the spate of 22 bombings that killed five people in southern China in November 2001—the motive is unclear. In December, bombings or attempted bombings with unclear motives occurred in Fujian, Guangdong, Guangxi, Hubei, and Liaoning.

Despite the authorities' attempts to clamp down on the market for illegal explosives, it remains relatively easy to obtain detonators and explosives within China. The country's huge and poorly regulated mining industry offers easy access to commercial-grade explosives, and chemicals widely available for agricultural use can also be used to make explosives. Evidence from a number of recent court cases shows that people are manufacturing homemade explosives for use in mining operations. Indeed, the wave of bombings in late 2001 occurred despite a three-month government campaign to stem the illicit sale of commercial explosives and firearms.

Economic hardships generate frustration, particularly among those laid off from state-owned enterprises, and as the numbers of unemployed continue to rise, more people will likely resort to crime to generate money. This trend will be particularly troublesome for companies operating in the "rust-belt" of northeastern China, where many of the newly unemployed are

demobilized military personnel, most of whom have good weapons training and at least a rudimentary grasp of improvised explosive devices.

Last year marked a slight change in the types of entities targeted by bomb threats and attacks within China. Two large foreign enterprises were targeted: Carrefour, which suffered two attacks, and McDonald's Corp. Another target was Huawei Technologies Co. Ltd., a major Chinese company. The authorities have not officially put forward a motive for these attacks, but Hill & Associates, which has consulted on several similar cases, suspects most of them were likely related to extortion. The number of extortion-related threats and attacks on foreign multinational corporations in China—attacks that include product contamination—is rising. Extortionists seem to be targeting enterprises that they believe can pay ransoms.

Dealing with bomb threats

Because they are increasingly the targets of bomb threats, companies in China would do well to start with a few basic building blocks. To prevent bombings and prepare staff for what to do in case the company receives a threat, companies should:

- **Form a crisis management team**

Companies should designate an in-house crisis management team (CMT), usually made up of senior management, which will convene if the company receives a threatening phone call or letter. The team's job is to evaluate the threat and to decide on an appropriate response.

To establish an organized response to potential bomb threats, companies must set up detailed contingency plans and train senior management, employees tasked with leading their colleagues to safety (wardens), and employees who may need to search the premises to assist the CMT in evaluating the veracity of a threat (search team).

- **Control access to company premises**

To achieve the best level of general security, firms must try to ensure that only authorized personnel and invited guests access company premises. They can do this using physical barriers such as doors and partitions; electronic barriers such as identification badge systems and perimeter intruder detection systems; procedural measures such as visitor logs and having employees clock in and out; and human measures, including guards and receptionists who check identification.

Companies should designate an in-house crisis management team (CMT), usually made up of senior management, which will convene if the company receives a threatening phone call or letter.

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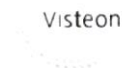

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The CMT should use three factors to assess the credibility of most bomb threats: the level of detailed knowledge about the facility contained in the threat, the technical competence of the device, and the caller's motivation or reason for carrying out the act.

Within company premises it is essential that, where possible, only vetted employees have access to working areas and back-of-house operations. Visitors and salespersons should be confined to meeting rooms near reception areas whenever possible. Trusted staff, such as executive assistants, should at all times escort visitors to meetings with senior management in working areas. These basic steps will not only help reduce incidents of petty theft and loss of proprietary information, but will also minimize the chance of someone placing a suspicious object on the premises.

- **Stress the importance of good housekeeping**

A clean-desk policy and general office and premises cleanliness not only project a professional image, but have the added benefit of allowing staff to search their work areas quickly to identify suspicious objects. The ability to search an area quickly is essential to determining the credibility of a bomb threat.

- **Establish lines of communication**

As stated earlier, revenge is a common motive for attacks in China, and former partners or spouses sometimes threaten revenge when relationships break down. Thus, companies have a duty to ensure that employees can communicate any threats they have received to their employer, so that the employer can take appropriate security measures to ensure employees' safety on company premises. Should the employee be unable to resolve such situations himself or herself, it may be necessary to involve the Public Security Bureau (PSB). (Threats from disgruntled current or former employees are less common in China than in the United States, but do occur sporadically.)

- **Treat written and telephoned bomb threats differently**

Written messages are usually associated with general threats and extortion attempts, but a company may occasionally receive a written warning of a specific explosive device. Never ignore such warnings. Companies should establish procedures that instruct employees who receive a written bomb threat to handle it carefully, make sure that it is touched by as few people as possible, and place it in a ziplock bag—to preserve the envelope or any other accompanying materials as evidence. Such procedures also apply to any other written criminal demands, such as ransom notes or warnings of product contamination.

But the vast majority of bomb threats are made by telephone. Most calls fall into one of two categories. In the first, the caller has certain knowledge that a bomb has been, or will be, placed and wants to minimize personal injury or property damage by alerting persons at the target area. In this case, the caller is likely to be the bomber or an accomplice. Alternatively, the caller wants to disrupt normal activity and cause inconvenience. In most such cases, the caller has not actually placed a bomb, but sometimes has placed a simulated bomb. Often this type of caller is an employee or former employee of the targeted organization.

- **Distribute a bomb threat checklist**

The employee receiving the call should note the caller's comments on a bomb threat checklist. Such a checklist should include questions to ask and boxes to tick regarding voice, manner of speech, and background noise, as well as space to write down exactly what was said. The firm's in-house CMT then uses this information to evaluate the call and interviews the person who took the call to get his or her impressions and additional details.

Threat classifications

CMTs can usually classify bomb threats as "genuine," "non-specific," or "hoax." The CMT should use three factors to assess the credibility of most bomb threats: the level of detailed knowledge about the facility contained in the threat, the technical competence of the device, and the caller's motivation or reason for carrying out the act. In evaluating the threat, the CMT essentially judges the credibility of the threat—a process in which there are no absolutes. When weighing probabilities, the CMT would be wise to err on the side of caution.

If the CMT decides that a bomb threat warning is a hoax, normal business operations may continue without alerting employees. If the CMT decides that a bomb threat warning is non-specific, it may order a search of the building before making any decision regarding evacuation to try to confirm whether the call is genuine or a hoax. If the CMT decides that a bomb threat warning is genuine, it should order an evacuation of the premises. If there is enough time before the stated time of detonation, the CMT may order a post-evacuation search to find the suspect device and give a bomb squad an opportunity to defuse it.

The following criteria are designed to assist the CMT to decide quickly which action to take. If in doubt, the CMT should order an evacuation.

Searching before an evacuation

- Always conduct a search of the escape routes prior to evacuation.
- If the caller mentions a specific floor and location, search that area to confirm that a suspicious object is present or to rule out a hoax.
- Avoid evacuation, if possible, as injuries may occur even if the evacuation is conducted in an orderly manner.

Evacuating

- Evacuate immediately if the threat is considered genuine.
- Evacuate when the caller is credible and indicates the precise location of the device, and a search finds the described device.
- Evacuate if the caller is credible, and there is not enough time before the expected detonation to conduct a search.

Searching after an evacuation

- Only bomb squads and those escorting them should conduct searches—no one else needs to enter the building.
- Do not enter the building if less than 15 minutes remain until the alleged detonation time.

Conducting business in China typically does not pose problems from a security perspective, but the number of companies that have been targeted by extortionists and hoax phone callers has risen in recent years.

When to call the authorities

Contacting PRC authorities immediately after a company receives a threat is not always the best course of action, because PSB officials often demand that the organization evacuate its premises immediately. Given that the majority of threatening phone calls originate from callers intent on disrupting business operations—often former or current employees—evacuation only leads such callers to believe that they can successfully achieve their objectives. Nevertheless, companies should still take such calls seriously and convene the CMT. Generally, a company should call in the PSB if it discovers a suspicious device or has decided to evacuate because of a genuine threat. In such cases, the company should also notify other tenants and building management.

An ounce of prevention...

Conducting business in China typically does not pose problems from a security perspective, but the number of companies that have been targeted by extortionists and hoax phone callers has risen in recent years.

Sensible firms will set up contingency plans to manage their responses, rather than simply react to a crisis. These plans should include checklists, details of specific duties based on employee position (from receptionist to CEO), contact sheets for both internal and external communications, evacuation routes, warden areas, warden charts showing who is responsible for leading employees to assembly points, roll call lists, and search techniques. Plans alone are not enough, however; companies should support them with comprehensive training.

Companies with such plans in place have found them to be cost effective, especially when compared with the lost productivity and poor company image that follows an unnecessary evacuation. In one instance, a firm in the banking sector lost about $320,000 on Treasury operations when a hoax call led to an evacuation. After developing a specific contingency plan to address this shortcoming and training staff at all levels, the firm received a number of threatening phone calls. In all but one case, these calls were correctly classified as hoaxes, and no productivity was lost. In one case, the firm determined the call to be non-specific and ordered an evacuation, opting to err on the side of caution. No device was found or activated.

Organizations with a long-term, high-profile presence in China will no doubt continue to monitor the security situation within the country. Organizations that are thinking ahead will develop contingency plans that take into account any emerging patterns in which major multinational and mainland companies find themselves the targets of both actual bombings and hoaxes. 完

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A NEW FOREIGN INVESTMENT REGIME

ANDREAS LAUFFS AND ANDREW TAN

China's new foreign investment rules open more sectors to outside competition

Andreas Lauffs and **Andrew Tan**
are partners with Baker & McKenzie, Hong Kong.

China's recent revisions to its regulatory regime governing foreign investment broaden the scope of foreign investment opportunities and ease approval requirements for a number of industries, particularly those in manufacturing. The new regime, brought about largely as a result of the country's December 2001 World Trade Organization (WTO) entry and national plans for economic development, is less transparent than the previous one and certain aspects of it may contradict China's WTO commitments regarding export subsidies and trade in services.

The Regulations Guiding the Direction of Foreign Investment (Guiding Regulations) and the Catalogue Guiding Foreign Investment in Industry (Catalogue) outline which foreign investment projects can be approved by local or central authorities, which projects enjoy preferential tax treatment, and which projects are off-limits to foreign investment. The State Development Planning Commission (SDPC), State Economic and Trade Commission (SETC), and Ministry of Foreign Trade and Economic Cooperation (MOFTEC) enacted the Guiding Regulations and Catalogue on April 1, 2002, replacing previous versions issued in 1995 and 1997, respectively.

Structural changes

The Guiding Regulations and Catalogue maintain the longstanding categorization of industry projects as "encouraged," "restricted," and "prohibited," with any unlisted industry falling into the "permitted" category. Unlike the previous regime, the new rules no longer divide the category of restricted investment into two groups (A and B), which differ in approval requirements and available tax benefits. The Catalogue now includes an appendix that outlines the scheduled liberalization of ownership requirements in some industries, reflecting China's WTO commitments.

Project approval and exceptions

The primary distinction among the three non-prohibited categories of investment is the level of government authority required for project approval: central, provincial, and local (*see* Table). The relevant approval authority for a particular project suggested by the table merely presents a general rule. Exceptions to these approval requirements apply to certain service industries that are subject to China's WTO liberalization commitments.

The Catalogue is also subject to any other industry-specific laws or administrative regulations that may impose separate approval procedures or requirements. Based on current industry-specific regulations, foreign investments in, for example, distribution, financial services, and telecommunications, would require approval from the applicable central authority in charge of that industry, regardless of the size of the investment.

Changes to the encouraged category

The number of industries in the encouraged category has increased from 186 to 262. Notable additions include the integrated circuit design sector, software development and production, certain computer system and peripheral production, automobile manufacturing, and wholesale and retail sales of ordinary goods (by implication, all goods except those specifically listed in the wholesale and retail section of the Catalogue and its appendix). All of these industries were originally in either the restricted B or permitted categories.

In addition, the new Guiding Regulations provide that any foreign investment project listed in the Catalogue Guiding Foreign Investment in the Dominant Industries of the Central and Western Regions, issued by SDPC, SETC, and MOFTEC, is considered encouraged and would enjoy the relevant privileges. The

The number of industries in the encouraged category has increased from 186 to 262. Notable additions include the integrated circuit design sector, software development and production, certain computer system and peripheral production, automobile manufacturing, and wholesale and retail sales of ordinary goods.

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Industries that have moved from the restricted to the permitted category include certain home appliance manufacturing and the manufacture and sale of gold and silver jewelry. The operation and management of telecommunications services, which used to be prohibited to foreign investment, is among the industries that have joined the restricted category.

central and western regions also encourage projects, such as cotton weaving and the development, construction, and operation of scenic spots and related facilities, that fall within the restricted or permitted categories in the coastal regions.

Only encouraged investment projects may be exempted from customs duties and import-level value-added tax on their imports of capital equipment, unless the imported equipment falls under the Catalogue of Imported Goods for Foreign Investment Projects Ineligible for Tax Exemption, issued in December 1997 by the General Administration of Customs. Such non-exempt goods under this catalogue are generally those that Chinese authorities consider to be in excess supply in China, such as television sets, camcorders, and videotape recorders. Previously, investments in the restricted B category—which has been eliminated in the current Catalogue—also enjoyed these duty and tax exemptions. Industries that were previously in the restricted B category but are not in the new encouraged category, such as import and export businesses, will no longer receive these benefits.

According to the Catalogue, any business in the permitted category that exports 100 percent of its finished products is considered an encouraged investment and enjoys the relevant tax exemptions. However, these exemptions arguably violate the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement), which restricts export subsidies. Indeed, the WTO, early this year, ruled that a similar US tax exemption under the US Foreign Sales Corporation Scheme, which provides preferential tax treatment for export business, violated the SCM Agreement.

Changes to the restricted category

The new and consolidated restricted category has shrunk from 112 to 75 industries and—with the elimination of the restricted B category—no longer requires projects with total investment of less than $30 million to receive central-level approval, with certain exceptions such as trade in services. Industries that have moved from the restricted to the permitted category include certain home appliance manufacturing and the manufacture and sale of gold and silver jewelry. The operation and management of telecommunications services, which used to be prohibited to

General Approval Authority for Foreign Investment Projects

Investment Category	Total Investment	Approval Required
Encouraged (not subject to "state comprehensive balancing"*)	More than $30 million	Provincial authority **
	$30 million or less	Local authority according to applicable rules
Encouraged (subject to "state comprehensive balancing")	$100 million or more	State Council
	Between $30 million and $100 million	Ministry of Foreign Trade and Economic Cooperation (MOFTEC)
	$30 million or less	Local authority according to applicable rules
Permitted	$100 million or more	State Council
	Between $30 million and $100 million	MOFTEC
	$30 million or less	Local authority according to applicable rules
Restricted	$100 million or more	State Council
	Between $30 million and $100 million	MOFTEC
	$30 million or less	Provincial authority
Prohibited	No approval allowed	

NOTES: * According to the Notice on Issues Relevant to Expanding the Local Examination and Approval Authority for Encouraged Foreign Investment Projects Which Do Not Require Overall Balancing by the State (December 1999, the Notice). Projects subject to state comprehensive balancing are usually those that require investment from the state; have an impact on the national economy, the people's livelihood, or the distribution of productive forces; relate to land use and require the examination of the State Council; or require state import quotas. Examples of such projects include the manufacture of urban railway transport equipment or civil aircraft.

** The provincial authority cannot delegate approval authority to lower-level authorities. This is not a new restriction: the Notice prohibited further delegation of authority for encouraged projects not subject to state comprehensive balancing and the previous Catalogue Guiding Foreign Investment in Industry prohibited further delegation of authority for restricted projects.

The revised Catalogue, unlike its predecessor, mentions some industries in up to four different sections—companies will need to work with government officials to resolve these inconsistencies.

foreign investment, is among the industries that have joined the restricted category. Some food-processing industries, such as the processing of oils and fats, moved from the permitted to the restricted category. The new Catalogue still allows companies in restricted industries that export 70 percent of their products to fall under the permitted category, subject to separate approval. This does not violate the WTO Agreement on Subsidies and Countervailing Measures because the permitted category does not offer tax benefits, but rather provides companies with a more relaxed approval regime.

Changes to the prohibited category

The prohibited category now includes 34 industries, up from 31 in the previous catalogue. Some industries, such as the production and publication of audiovisual products and electronic publications, have been shifted from the restricted to the prohibited category. Industries appearing for the first time in the prohibited category include the production and development of genetically modified seeds—an economically sensitive sector for China—and the publication, import, and general distribution of books, newspapers, and periodicals—a politically sensitive sector for China.

Trade in services

Foreign investors in trade in services may still need to refer to separate regulations to determine the approval level and any other approval or qualification requirements that apply to their projects, regardless of the project's total investment size and its Catalogue category. Article 12 of the Guiding Regulations, which did not appear in the previous version, says that "foreign investment projects in trade in services areas to be gradually opened should be examined and approved in accordance with the relevant national regulations." In many instances, these separate regulations require central-government approval.

Furthermore, although the Catalogue appears more concessionary than China's WTO liberalization commitments in certain trade in services areas, including retailing through chain stores, MOFTEC officials have stated informally that this appearance is unintended. In such cases, it is not clear whether China's WTO accession documents or the Catalogue would govern.

A mixed blessing

The revised Catalogue provides more practical value for manufacturers than for service providers. The encouraged category, which provides duty and tax exemptions, lists more production industries than before and certain large manufacturing projects no longer require central approval. But because most service providers in encouraged industries do not require heavy investment in capital equipment, the duty and tax exemptions available on imported equipment affect them less.

Though the revised Catalogue reflects significant commitments that China made to the WTO regarding expanded foreign investment in certain industries, including financial services and telecommunications, it nevertheless apparently contradicts WTO commitments on export subsidies and trade in services. The revised Catalogue is also somewhat less transparent than the previous version, and, as a result, the effort and cost of establishing certain businesses in China may rise. For example, the revised Catalogue, unlike its predecessor, mentions some industries in up to four different sections—companies will need to work with government officials to resolve these inconsistencies. In addition, the Catalogue continues to use ambiguous terms that have appeared in previous versions, such as "precious" and "fine" to describe poultry and aquaculture stock.

Unless the PRC government decides to alter its general foreign investment regime significantly, investors should not expect major revisions to the Catalogue. Instead, they will find it necessary to look to separate industry-specific regulations as the means by which China will make regulatory changes to fulfill its WTO liberalization commitments. 完

HIGH-TECHNOLOGY INCUBATORS: FUEL FOR CHINA'S NEW ENTREPRENEURSHIP?

ERIC HARWIT

China's high-technology incubators are providing crucial assistance to young and old companies alike, but government involvement is limiting their potential

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He thanks Stanford University's Stanford Project on Regions of Innovation and Entrepreneurship and China's Torch Program for assistance in arranging this article's research interviews, and the Fulbright Program for fieldwork funding support.

Zhu Shi'an walks quickly as he leads a visitor toward a building being remodeled to house part of one of Beijing's newest high-technology business incubators. "In this older entry portion of the building, we are in many ways in the 1960s," he says. But opening a connecting door to the refurbished incubator section, he declares, "Now we are moving into the new century." The incubator's goal: to help transform the rundown facilities of state-owned conglomerate Beinei Group into a productive part of the nation's economy.

China has founded more than 130 high-tech business incubators since opening its first in 1987, according to statistics from the Torch High-Technology Industry Development Center, under the Ministry of Science and Technology (MOST). The ventures are sprinkled among office buildings, universities, and established state-owned enterprises (SOEs), such as Beinei, that are in dire need of new business models.

Most incubators provide companies with low-cost office space and strategic advice on issues such as management and financing, and most are government-owned. Some target rapidly growing industries such as biotechnology, microelectronics, software, and telecommunications and seek to attract Chinese students returning from overseas and international investors. But how effective are these institutions—can they be a tool to energize Chinese entrepreneurship with vitally needed managerial guidance, capital, and institutional support?

The Western experience

As with many aspects of their modernization drive, Chinese planners looked to foreign models in their efforts to reform an economy dominated by publicly owned enterprises. In North America, the number of business incubators grew from 12 in 1980 to more than 800 in 2001. According to the US-based National Business Incubation Association (NBIA), publicly supported incubators create jobs at a cost of about $1,100 per new job, whereas other public

job-creation mechanisms can cost more than $10,000 per new job. And the NBIA claims that 87 percent of firms that "graduate" from incubators are still in business today. Independent studies done at Purdue University and Ohio University in the mid-1990s found that incubators contributed to both job creation and the survival of new businesses in the United States.

In contrast to the American model, in which some 25 percent of incubators are for-profit, most Chinese incubators, organized under MOST's umbrella Torch Program, are nonprofit. Only a handful of Chinese incubators are privately owned, though most incubated companies are in private hands. Indeed, Chinese incubators face the difficult task of assisting and guiding private entrepreneurs in a society that until a decade ago looked with great suspicion on those trying to build their own company.

Characteristics and roles of incubators

A typical Chinese incubator consists of one or several floors of a publicly owned office building. Incoming tenants are screened for their business plans, market potential, and fit with the incubator's industry specialization, among other factors. According to interviews with Torch Program officials and incubator managers, acceptance rates range from 20 to 70 percent and often depend on available building space.

The primary attraction to many tenants is the low rent, which can be 50 percent or more below market rates. Rents for admitted companies usually rise over a three-to-four year period, to encourage companies to become self-sufficient and eventually graduate. Tenants receive other infrastructure discounts, such as subsidized telecommunication network access and use of community meeting rooms.

Other features found in incubators reflect a Western model: staff provide companies with advice on management practices and loan applications and give low-cost or free legal and accounting aid. Perhaps most important for the fledgling companies is potential—though limited—access to venture capital (VC) funding. As discussed below, this part of the equation has become the most vital—and yet most nettlesome—for new companies.

Table 1 summarizes some of the key national statistics for incubators. As of 2000, about 37 percent of China's 21,000 high-tech companies in development areas were housed in incubators. The average size of an incubated company—about 17 employees working in about 350 square meters (m^2) of office space—has remained fairly stable over the past seven years. Total income for tenant companies has risen more than tenfold, and the average revenue per company has gone from about ¥1 million ($120,000) to ¥2.3 million (nearly $280,000). According to Chinese officials, however, few of these companies actually earn profits during the incubation phase, and only one-third or fewer of them graduate after the flexible and often non-contractually binding limit of three or four years. Others either terminate their business or linger on in the incubator. Claimed failure rates range from as low as 10 percent for electronics equipment manufacturers to as high as 90 percent for Internet or biotechnology-related startups.

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In the past seven years, the total number of incubators in China has doubled, but the average number of tenant companies per incubator has risen from 19 to about 59. This has posed problems for some incubators that cannot meet the demand for management support. For example, at Jinghai Hi-tech Business Incubator Co., Ltd. in Beijing (one of the country's few incubators in private hands), manager (and Qinghua University MBA graduate) Yang Yanqiu has only enough time to devote her full attention to helping the five most promising—and potentially profitable—of her incubator's 32 companies. Jinghai has taken up to 50 percent equity stakes in some of these chosen companies. Most of the incubator's other enterprises, however, receive little targeted aid from Yang and her handful of assistants. Yet even this minimal level of attention surpasses that devoted to tenants of the typical state-owned incubator. Most managers of these outfits have backgrounds in government work, so they can offer little practical management advice.

The typical ownership structure of China's incubators gives rise to other problems. Government incubators often take little or no equity stake in the incubated companies and thus have little motivation to generate profits by helping their tenants succeed. Nevertheless, they do excel at providing mainly non-financial aid to small, high-tech enterprises that can find little other administrative support. Moreover, as discussed below, some government incubators have started to take financial interests in hosted companies on an experimental basis, indicating some movement toward greater profit incentives for incubator managers.

Types of incubators

A closer look at the various types of Chinese incubators—those focused on universities, returned overseas students, and SOEs—highlights the ways they and their hosted enterprises are prepared to contribute to China's high-tech economy.

- **University incubators**

Many of China's major universities have used incubators to channel academic and scientific

The Beinei Group's incubator has become a model of sorts for other SOE incubators. As of late 2001, it hosted some 15 companies that employed about 400 workers, and occupied nearly 10 percent of Beinei's old internal combustion engine plant.

talent into the business world. Beijing's Qinghua University and Shanghai's Fudan University provide useful cases of such interaction.

Qinghua founded its incubator, dubbed "Pioneer Park," in August 1999. With nearly 40 companies as of late 2001, the innovation center is part of a larger university science park. Because of space limitations, the incubator was selective, accepting only 20 to 30 percent of applicant companies. Fudan University founded its Yangpu incubator, which now has some 150 companies, in an area bordering its Shanghai campus in 1997.

The university incubators' obvious advantages include ready sources of faculty and students. Professors in specialized fields, such as those in the university's business school faculty, regularly hold sessions for the tenant companies and lecture on accounting, tax rules, and management practices.

Qinghua's incubator typically recruits recent graduates—several companies interviewed in 2001 claimed each employee had a Qinghua degree. Former students founded most of the companies, with two or three companies led by returned overseas students.

Qinghua's faculty used to act as consultants, rather than company employees. In late 2001, however, the university began to discourage faculty members from taking too much time from their teaching duties to participate in company activities. Fudan's policy was that faculty members should spend at least 80 percent of their time in education efforts, but one computer science professor at the Shanghai incubator said he spent 95 percent of his time doing company work. With typical university salaries at Fudan ranging from about ¥2,000 to ¥3,000 ($240 to $360) per month, the higher-paying work at private companies is tempting.

- **Returned overseas student incubators**

In Beijing, the Haidian Pioneer Park's returned student facility, founded in 1997, houses 140 companies, most of which focus on information technology. Returned students average 30 to 40 years old, and most have a PhD and 6 to 12 months of overseas work experience. Up to 80 percent of returned students possess either foreign passports or foreign resident rights, mainly in the United States, Canada, or Australia.

Returned students are attracted primarily by the opportunity to found their own companies, a prospect many find difficult abroad. Language and lifestyle issues also attract students back to the PRC. The Pioneer Park offers free rent for 60 m^2 of office space during a company's first year and discounts on rent for the next two years; provides standard legal, loan, and managerial advice and assistance with photocopying, faxing, and other clerical work; and helps resolve housing and childcare-related issues.

The biggest barrier, even for returned students at the Haidian facility, is generating sufficient startup capital. Pioneer Park officials complain that they could not offer financial assistance or take a financial stake in any of the promising companies under their purview. They pointed out, however, that returned students bring back as much as ¥300,000-¥400,000 ($36,000-$48,000) of their own seed money and can use this to cover many startup costs. Few of the companies, however, are able to attract overseas VC funding.

- **SOE incubators**

Incubators focusing on, or even operating within, SOEs represent a novel way to tackle this most difficult institution in China's economy. Though SOE incubators are found in only about a dozen enterprises nationwide, they are based in key corporations such as Capital Iron and Steel Co. and Beijing Chemical Plant. Beijing's Biomedical Hi-Tech Incubator Co., Ltd. provides in-house laboratory equipment for scientists

Table 1
Growth of High-Technology Incubators, 1994-2000

	1994	1995	1996	1997	1998	1999	2000
Number of Incubators in China	73	73	80	100	100	110	131
Number of Tenant Companies	1,390	1,854	2,476	2,670	4,138	5,293	7,693
Average Number of Tenant Companies per Incubator	19	25	31	27	41	48	59
Total Employees in Tenant Companies	NA	NA	NA	45,600	68,975	91,600	128,776
Average Number of Employees per Tenant Company	NA	NA	NA	17.1	16.7	17.3	16.7
Total Income of Tenant Companies (¥ billion)	1.48	2.42	3.63	4.08	6.07	9.58	17.88
Average Income per Tenant Company (¥ million)	1.06	1.31	1.47	1.53	1.47	1.81	2.32
Number of Companies Graduating	NA	174	284	177	491	618	836

NOTE: NA=Not available
SOURCES: *Statistics on China Torch Program*, 1994-1999 and *National Science and Technology Industrial Parks of China*, 2000. Both reports are published by the Torch High-Technology Industry Development Center, Ministry of Science and Technology, Beijing.

from SOE pharmaceutical companies as far away as Guangdong.

The Beinei Group's incubator has become a model of sorts for other SOE incubators. As of late 2001, it hosted some 15 companies that employed about 400 workers, and occupied nearly 10 percent of Beinei's old internal combustion engine plant.

As production at Beinei fell in the late 1990s, plant space, equipment, and workers became available to new, private companies. Most of the incubated enterprises, such as those making medical equipment or automated road-toll collection machines, are well suited for the buildings formerly used by abandoned Beinei production lines. Of the 400 workers, about 200 are former Beinei employees.

For SOEs, then, incubators can solve several problems: they absorb excess labor, use dormant space, and, in the case of Beinei, potentially provide revenue to the host SOE, which can take an ownership stake in the incubator. Beinei Group owns about half of its resident incubator, and the incubator in turn has equity stakes in several enterprises. Unlike the traditional model, however, companies are not encouraged to graduate—rather, they are encouraged to stay and generate revenues for the for-profit incubator. New companies come in as the incubator renovates dilapidated buildings, allowing managers such as Zhu Shi'an to boast about his innovation center's achievements.

Despite this success, the incubator's impact on Beinei's operations remains minimal to date compared to the SOE's engine plant, which currently employs several thousand workers and staff. Zhu's goal is to have 50 to 60 companies in his incubator by 2007.

Venture capital and profit motivation

Among the 12 incubators visited in Beijing and Shanghai in late 2001, a universal complaint was the scarcity of VC for new private companies (*see* p.33). In Shanghai (home to about 20 incubators) the municipal Shanghai Venture Capital Co. offers a total of ¥600 million ($72 million), and Beijing Municipality (with about 30 incubators) has between ¥500 million ($60 million) and ¥800 million ($96 million). Of Shanghai's fund, ¥150 million ($18 million) was channeled to one organization, Jiaotong University's Shanghai Withub Incubator, which was perhaps the only Chinese incubator to team a fixed VC management company with the incubator itself. Of Withub's 15 companies in late 2001, however, only three software companies had benefited from VC investment.

Because most VC funds are linked to government coffers, incubators or private companies able to obtain funds felt a distinct obligation to avoid "losing" the resources; one Withub manager noted that an incubator that misuses government money could become a target of official criticism. As a result, such VC funding lacks the air of risk it possesses in the West, and, according to one incubator manager, is scarcely more than a loan in many cases. One manager said that conservative Chinese government venture funds cannot accept the Western idea of only 10 to 20 percent of VC-funded companies succeeding.

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Private and overseas VC has managed to infiltrate China's entrepreneurial system through some of the more innovative incubators. Beijing's private Jinghai Group, owner of the Jinghai incubator, supplies VC directly to the best of its enterprises, based primarily on growth of company revenue and profit projections. Shanghai's China Internet Incubation Center (CIIC), a largely privately backed incubator that takes larger-than-normal equity positions of 30 to 60 percent in incubatees, encourages small companies to seek overseas funding. During the Internet boom of early 2000, CIIC claims that one of its companies, an Internet auction site called auctiondown.com, raised $500,000 from an American VC firm. The start-up company, however, operated for less than one year.

Qinghua University's incubator has also opened itself to foreign investment, and as of late 2001, had attracted ¥40 million-¥50 million ($4.8 million-$6.0 million) from Taiwan and Singapore investors. These funds gave the overseas investors a 25 percent equity stake in the incubator itself, but the money was targeted at four of the most promising companies at the innovation center. The incubator itself holds as much as a 10 percent equity stake in these select four enterprises.

Struggling for independence

With nearly all of China's incubators and VC in public hands, risk aversion seems to be strong in just the area where innovation could flourish. Enterprises face increasingly crowded facilities with little managerial guidance and financial support.

The profit motive may yet become a strong incentive, not just for the tenant startups but also for the incubators themselves. With incubators like Jinghai, CIIC, Qinghua, and even Beinei taking greater financial stakes in their enterprises, successful incubators may eventually attract ever stronger management teams and help small companies grow more quickly. As long as the state takes a major role in operating and financing incubators, though, the enterprises will lack the full risk and reward benefits that private capital flows can offer. 完

NEW WAYS OUT FOR VENTURE CAPITAL INVESTORS IN CHINA

ALLAN K. A. MARSON, MATTHEW J. MCGINN, AND FLORA HUANG

Recent legislation has opened new exit options, but murkiness persists

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Chinese foreign-investment regulations permit only limited ways to dispose of investments for cash returns—exit strategies—because they were designed to favor long-term direct investors that wish to engage in a particular business in China. Venture capitalists are reluctant to commit funds to companies, however, when effective exit strategies are unavailable. Recent changes in law and policy relating to public offerings by foreign-invested enterprises (FIEs) and foreign venture capital investment are coalescing to suggest new exit strategies. Foremost among these developments has been the September 2001 release of the Provisional Regulations for the Establishment of Foreign-Invested Venture Investment Enterprises (Venture Capital Regulations), promulgated by the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), the Ministry of Science and Technology (MOST), and the State Administration of Industry and Commerce. The most notable feature of the Venture Capital Regulations is their stated intention to establish and perfect China's venture capital industry—an acknowledgement that such an industry does, in fact, exist in China for Chinese technology startups looking for venture funding (*see* p.33).

Exit strategies with Chinese characteristics

The vast majority of FIEs are established as limited liability companies in the form of wholly foreign-owned enterprises (WFOEs) or equity or cooperative joint ventures (JVs) with Chinese investors. Exit strategies have been rudimentary and cumbersome, limited mainly to the assignment of equity interests or liquidation of the company. Chinese regulations also permit the formation of cooperative JVs without legal person status. Since no independent legal vehicle is formed in such a JV, the cooperative relationship can be severed according to contractual terms without formal liquidation proceedings. Cooperative JVs have rarely been approved in recent years except for certain natural-resource and hotel-development projects, however.

MOFTEC or a local entity designated by MOFTEC (Approval Authority) must approve all changes in the ownership structure of a JV or WFOE, including a merger or the assignment of an interest to an affiliated company. To assign an interest in an equity JV, the assigning party must also obtain the unanimous consent of its JV partners. Equity JV partners who are not party to the assignment have a preemptive right to purchase the interest. Moreover, if state-owned assets are injected into the JV, relevant regulations require an evalutation organization authorized under PRC law to appraise state-owned assets to value the JV's assets in order to set a floor for the assignment price. Investors must also navigate a maze of approvals and procedures to liquidate a JV or WFOE. Policy considerations, such as preservation of local employment levels, may sometimes affect the Approval Authority's willingness to grant the necessary approvals.

Foreign investors in JVs sometimes attempt to circumvent the consent and preemptive rights of other investors by including buy-out or assignment clauses in the formation documents. Such clauses usually state that all investors will be deemed to consent to an assignment made under the clause and will take all actions required to obtain the Approval Authority's approval of the assignment. Similarly, the formation documents could include a variety of clauses affecting exit options that are common in other countries, such as "drag-along" rights (which enable a shareholder to force other shareholders to join in the sale of a company at the same price, terms, and conditions as other sellers), "tag-along" rights (which allow shareholders to join a transaction when another shareholder sells its stake), or put options (which give a shareholder the right to sell all or part of its stake at a specified price within a specified time).

The Approval Authority reviews the formation documents prior to the establishment of a JV, however, and will likely reject any clauses that limit its right to approve an assignment of an interest in the JV or any substantial restructuring of the JV. Alternatively, the Approval Authority may accept the clause but require the investors to add a statement that the actions contemplated are subject to its approval. Even if accepted, the validity of deemed consent clauses and statements requiring later approval from the Approval Authority have rarely been tested in China's courts; it is not clear that they can be enforced effectively.

Some foreign investors enter into side agreements with their Chinese counterparts committing the parties to exit strategies that are not able to pass muster with the Approval Authority. Various Approval Authorities have confirmed that any agreement affecting the rights and obligations of the investors or the structure of the JV requires approval to be effective in China, thus calling into question the enforceability of such side agreements.

Most venture capitalists, who generally contemplate an exit within five to seven years, have used an offshore vehicle to hold their interest in a JV or WFOE in China. Though the Approval Authority must still approve the purchase or establishment of a JV or WFOE, the offshore vehicle offers flexible exit options, including a possible public offering and listing on a market attractive to venture capitalists, such as NASDAQ or the Growth Enterprise Market of the Stock Exchange of Hong Kong.

Listing an offshore vehicle whose shareholders are Chinese or whose main operation and assets are in China nonetheless may fall under the jurisdiction of the China Securities Regulatory Commission (CSRC). In 1997, the State Council issued the Notice on Further Strengthening the Administration of the Listing and Issuing of Shares Overseas (1997 Notice) to protect state-owned assets from being sold off indirectly to overseas investors at a discount by increasing the requirements for reporting to, and obtaining approval from, Chinese authorities. Under Article 1 of the 1997 Notice, the listing of an offshore company that is controlled by "Chinese capital" is subject to CSRC supervision, and the controlling shareholder must report to CSRC. The term "Chinese capital" is not defined, but the 1997 Notice applies both to public offerings of Chinese-funded companies registered overseas with mainland assets and to the transfer of mainland company assets to offshore, privately held, Chinese-funded companies through acquisition, share swap, assignment, or any other methods with an ultimate goal of listing overseas.

Aside from these requirements, the offshore vehicle must comply with the requirements of the foreign stock exchange (and regulatory authority, such as the Securities and Exchange Commission in the case of a US listing) before it can list its shares abroad. The 1997 Notice was confirmed in a notice issued by CRSC on June 9, 2000.

A domestic public offering in China has not been a realistic alternative for FIEs to date. Recent MOFTEC and CSRC notices offer hope, but to make a public offering, a JV or WFOE must not only meet general requirements that apply to all Chinese companies—for instance, conversion into a share-issuing entity—but also meet certain requirements applicable only to FIEs.

Exit through public offering of a Chinese vehicle

A domestic public offering in China has not been a realistic alternative for FIEs to date. Recent MOFTEC and CSRC notices offer hope, but

Rather encouragingly, the Venture Capital Regulations state that a foreign-invested venture investment enterprise may be established as a cooperative JV without legal person status—apparently intending that the flexibility offered by that investment vehicle might serve as a surrogate for the partnership vehicles available in other countries.

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1 Requirements applying to Chinese companies

Only a joint-stock company—a share-issuing company established under the PRC Company Law—currently may issue shares in China and may apply for a public offering of A or B shares on a Chinese stock exchange. In the past, Chinese companies turned to the B-share market for financing because it was exempt from the quota system that until recently controlled the A-share market. Under the quota system, the central government set a fixed number of shares that could be issued in the A-share market each year. CSRC then allocated this quota to local governments, which distributed the quota among state-owned enterprises under their control. As a consequence, few private companies were listed.

Although CSRC abolished the quota system last year, a company must still apply to CSRC before listing A shares and must meet the following requirements to qualify for listing:

- The share capital of the company after a public offering must be at least ¥50 million ($6.05 million);
- The nominal value of the share capital subscribed by the company's sponsors must be at least ¥30 million ($3.63 million) and must represent at least 35 percent of the company's registered capital;
- The company must publicly float at least 25 percent of its share capital (reduced to 10 percent for companies with registered capital of ¥400 million [$48.38 million] or more);
- Prior to listing, the company must have more than 1,000 shareholders holding shares with a nominal value of ¥1,000 ($121) or more, for a minimum total value of at least ¥10 million ($1.21 million); and
- The company must have made profits in each of the last three years. Where a JV or WFOE is restructured into a joint-stock company, it has not yet been settled whether profits earned prior to the restructuring will count toward this requirement.

Because emerging companies will be unable to satisfy most of the above requirements, a domestic listing on China's A-share market is not a feasible exit strategy for most venture-capital-backed startups in China. Although there has been much discussion regarding the establishment of a second board on the Shenzhen Stock Exchange for emerging companies in China, CSRC has yet to settle on a startup date.

2 Converting to a FISC

To qualify for a public offering, a JV or WFOE must convert itself into a foreign-invested joint-stock company (FISC). A FISC may issue both A and B shares and there are no rules that prevent a FISC from accessing foreign capital markets in the same manner as wholly Chinese-owned joint-stock companies. MOFTEC's 1995 Provisional Regulations on Several Issues Concerning the Establishment of Joint-Stock Limited Companies with Foreign Investment guide such conversions. Among its requirements are profitability for the three years preceding the conversion and minimum registered capital of at least ¥30 million ($3.63 million). FISC shareholders suffer fewer constraints on the transfer of shares than do investors in a JV or WFOE, but central MOFTEC approval is required to establish a FISC, and few FISCs have been established except where a public offering is contemplated or operational requirements mandate a FISC.

3 FISC requirements

In addition to the requirements for all Chinese companies, a FISC must meet the following requirements to issue shares to the public:

- It must pass the joint annual inspection conducted by various local government departments, such as the local administration for industry and commerce and the tax bureau, for three successive years preceding its listing application.
- Its scope of business must comply with the Regulation Guiding Foreign Investment Direction and the Catalogue Guiding Foreign Investment in Industry (*see* p.22).
- The foreign investor must hold at least 10 percent of the total issued shares after the listing.
- For a FISC in which the Chinese investor must be the controlling shareholder (including having relative control) or in which the Chinese investor must hold a specific proportion of shares (as prescribed by the relevant regulations), the Chi-

nese investor must remain the controlling shareholder or maintain its specific proportion of shareholding after the listing.

- FISCs must comply with the listing requirements generally applicable to Chinese joint-stock companies.

In May 2001, MOFTEC issued the Notice Concerning Issues Relating to Foreign-Invested Companies Limited by Shares (MOFTEC Notice), which set out the skeletal framework for FIEs to apply for MOFTEC's approval to list on China's domestic stock exchanges. In October 2001, MOFTEC and CSRC jointly issued the Notice Setting Out Certain Opinions on Relevant Issues of Listed Companies with Foreign Investment (Listing Opinions), which confirmed that FISCs may issue both A and B shares, subject to compliance with general rules on share issue and listing. While the Listing Opinions represent a significant change in government policy and a needed clarification of rules governing FISC listings, they will be of limited practical effect for most venture-capital-backed companies until the board for emerging growth companies is established.

Venture capital regulations

The Venture Capital Regulations, issued at about the same time as the MOFTEC Notice and

Obtaining Venture Capital for Chinese Startups

According to a report prepared by the International Finance Corp., China had roughly 92 venture capital (VC) "funds" in 2000 with $1.2 billion under management, of which about $300 million had been invested at home and abroad. VC funds in China are generally established in the form of limited liability or stock companies, as the country lacks a national limited-partnership law. The Beijing municipal government has passed its own limited partnership law, however, and permits VC funds established within the Zhongguancun High and New Technology Development Zone in the form of limited partnerships. In addition, foreign-invested VC funds can take the form of non-legal-person cooperative joint ventures, which resemble limited partnerships in some respects.

One alternative for entrepreneurs in China is to obtain venture funding from professionally managed VC funds established by local governments in China. For instance, an entrepreneur in Shanghai can seek funding from NewMargin Venture Capital Co., Ltd., a fund formed by the State Development Planning Commission, the State Economic and Trade Commission, the Chinese Academy of Sciences, and Shanghai Alliance Investment Ltd., the investment arm of the Shanghai municipal government. In some cases, the disbursement of funds may actually be made from the C-Tech Fund, a Cayman Islands limited partnership, managed by NewMargin Venture Capital Management Co., Ltd. The C-Tech Fund was raised from the same group of investors, plus several Hong Kong-based public companies. Both the $22 million NewMargin and the $88 million C-Tech Fund are managed out of Shanghai.

Chinese entrepreneurs looking to start a company in Beijing's Zhongguancun could seek investment from Beijing Centek Venture Capital Co. Ltd., a venture fund and incubator formed by the Ministry of Science and Technology, the Qinghua Science Park Development Center, and Beijing Centergate Technologies Holding Co. Ltd. Centek's investors include several state-owned enterprises (SOEs) and some of China's leading information technology (IT) companies such as the Founder Group, the Legend Group (China's largest PC maker), and the Stone Group (China's largest privately owned IT company).

Startups in China can also attempt to obtain funding from Chinese corporate investors such as Legend Capital, a Legend subsidiary. In some cases, the startup may obtain venture capital from an offshore corporate venturing subsidiary of a Chinese corporation. For instance, the Vantone Group, a privately owned conglomerate in China, established a Silicon Valley-based subsidiary to invest in emerging technology companies in China and abroad.

An entrepreneur in China may be able to use his affiliation with a Chinese university to obtain funding. For instance, an entrepreneur studying at Qinghua University could seek investment from Beijing Qinghua Venture Capital Co., Ltd. This VC fund was established by the Qinghua University Enterprise Group and raised funds from a number of China's largest SOEs. In some cases, V2V Ventures, an offshore fund that received an $8 million investment from the Qinghua University Enterprise Group, may co-invest along with the Qinghua fund. The fund's name—V2V or "Valley-to-Village"—reflects its objective of creating a bridge between Silicon Valley (the fund is managed out of V2V's offices in Fremont, California) and Zhongguancun ("*cun*" means "village" in Chinese).

Startups in China can also seek funding from foreign venture capitalists or corporate investors such as Acer Technology Ventures, AsiaTech Ventures Ltd., ChinaVest, Crimson Ventures, H&Q Asia Pacific, The Goldman Sachs Group Inc., Intel Capital, JP Morgan Partners, Softbank Investment Corp., Vertex Venture Holdings, Walden International, Warburg Pincus LLC, or WI Harper Group, to name just a few that are active in China. These VC firms are based in Hong Kong Special Administrative Region (SAR); Silicon Valley in California; Singapore; and Taipei, Taiwan, but in some cases have representative offices in China to engage in fundraising activities in China, find more clients, and help nurture their China-based portfolio companies. Foreign venture capitalists generally prefer to invest in Chinese startups indirectly through offshore special-purpose companies, though corporate investors are seemingly less averse to investing directly in Chinese startups.

Chinese startups can obtain funding from foreign-invested VC funds and incubators in China. The first US corporation to establish a VC fund in China was Boston-based International Data Group (IDG). IDG's wholly foreign-owned IDG Technology Venture Investment, Inc. has invested $100 million in 65 companies in China, including NASDAQ-listed Sohu.com, Hong Kong-listed Kingdee Software, Bonson Information Technology Ltd. (sold earlier this year to AsiaInfo Holdings, Inc. for $47.3 million in cash and stock), and Sharkwave Asia Pacific (sold to Tom.com for $14.9 million in stock). Another source is China eLabs, an incubator joint venture established by the Boston Consulting Group and Shanghai-based NewMargin, with additional investment from Deutsche Bank AG. Several Chinese VC funds have been formed as joint ventures between Chinese SOEs, the Singapore and Hong Kong SAR governments, and privately owned enterprises in Singapore and Hong Kong SAR.

—A. K. A. Marson, M. J. McGinn, and F. Huang

> **The opening of China's markets to public offerings by FIEs and FIE listings on the domestic securities exchanges offers interesting new options.**

the Listing Opinions, allow onshore venture-capital funds to take the form of foreign-invested venture investment enterprises (FIVIEs). Rather encouragingly, the Venture Capital Regulations state that a FIVIE may be established as a cooperative JV without legal person status—apparently intending that the flexibility offered by that investment vehicle might serve as a surrogate for the partnership vehicles available in other countries.

The Venture Capital Regulations refer only to FIVIEs established as limited liability companies or cooperative JVs without legal-person status, effectively limiting FIVIEs to JV or WFOE status. The regulations contain no provisions for a FIVIE FISC, ruling out the public offering of shares in a FIVIE and thereby effectively limiting this means of providing liquidity to public offerings of the companies in which the FIVIE invests. The consent and approval requirements that apply to JV and WFOE exits also apply to exits from FIVIEs.

Further, Article 5(1) of the Venture Capital Regulations requires that at least one foreign investor meeting certain minimum capital and management experience requirements and having the "capacity to bear risk" contribute at least 3 percent of the FIVIE's capital. The Article 5(1) investor is referred to as the "principally liable investor," suggesting a similarity to the general partner in an offshore fund. Article 21 limits exit from the FIVIE by prohibiting the Article 5(1) investor from withdrawing from the FIVIE unless there is "true need" to do so. ("True need" is not defined and opens the door for the Approval Authority to use its own standard of legitimate business need.) In such a case, a new investor must assume the Article 5(1) investor's responsibilities and obligations. The Article 5(1) investor's exit options are limited by this requirement to find a replacement investor.

Article 20 of the Venture Capital Regulations lists several exit mechanisms for companies in which a FIVIE invests (Invested Company), which may include JVs, WFOEs, or FISCs:

- **Assigning equity in an Invested Company to another enterprise or individual**

Under Article 23 of the Venture Capital Regulations, investments by a FIVIE and other foreign investors "in general" shall be at least 25 percent of the registered capital of the Invested Company, which will be treated as an FIE. Article 26 confirms that assignment of an interest in an FIE requires approval. Article 25 adds the further condition that a FIVIE may not assign its interest in an Invested Company until it has paid its scheduled capital contribution in full, which is also true of transfers of an interest in any FIE.

- **Entering into an equity redemption agreement with the Invested Company**

This exit mechanism represents a departure from prior law. Article 149 of the Company Law prohibits a company from redeeming its shares except to cancel such shares or in connection with a reduction of share capital or a merger. This new mechanism opens the possibility that a FIVIE may include redemption in the Invested Company's formation documents as a form of leverage to force management of the Invested Company to deal with the FIVIE's desired exit, potentially forcing a sale of the Invested Company. The Venture Capital Regulations state that the Approval Authority will formulate specific measures for redemptions, but it has yet to do so. In the meantime, investors will probably be forced to rely on informal opinions from Chinese officials to resolve this conflict between the Venture Capital Regulations and the Company Law.

The specific mention of applying to list on a domestic or foreign stock market as an exit strategy is interesting in that it confirms the policy expressed in the MOFTEC Notice and Listing Opinions to encourage FIEs to list their shares. As noted, FIVIE and foreign investment "in general" must total at least 25 percent of the registered capital of an Invested Company. It is not clear how Article 23 will be reconciled with the Listing Opinions, which state that upon a public offering the shares held by foreign investors must not drop below 10 percent of the total share capital. If the FIVIE is the sole foreign investor, must it maintain at least a 10 percent interest in the Invested Company? Will it be permitted to hold less than a 25 percent interest in the Invested Company?

- **Other methods permitted by Chinese laws and regulations**

The catch-all "other methods permitted by Chinese laws and regulations" holds out the possibility of future legislation specifically authorizing "drag-along" or "tag-along" rights or other contractual rights commonly used outside of China.

Marking the unmarked exits

Although the Venture Capital Regulations are a step in the right direction, they allow only limited exit strategies for venture-capital investors, and problems remain for those strategies that the regulations do provide. The opening of China's markets to public offerings by FIEs and FIE listings on the domestic securities exchanges offers interesting new options. Though the direction is clear, the current profit, annual inspection, minimum capitalization, and other requirements imposed by China's corporate and securities laws still constitute substantial obstacles for venture capital investors. 完

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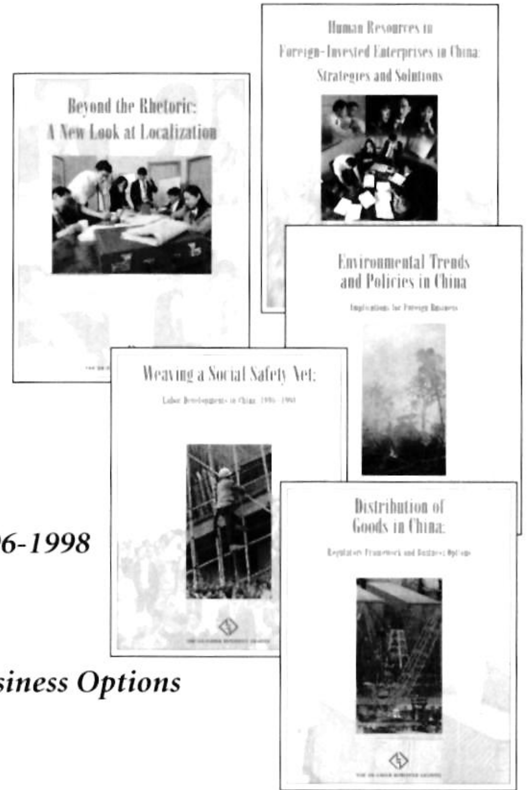

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PERSONAL DATA PROTECTION IN CHINA

YINGXI FU-TOMLINSON

Officials and citizens are becoming increasingly concerned about protecting personal data, but the law and current practice in China remain vague

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Suppose your company is in the mail order business in China. You plan to offer rewards and gifts in exchange for your prospective customers' personal information, including age, gender, and income. You would like to analyze the data, target your mail-order catalogues to selected individuals, and sell some of the data to other companies. But first, you must ask: Do Chinese regulations permit this type of collection and use of personal data for commercial purposes?

Or, say you have just purchased an apartment in China, which, as is typical, comes without any appliances or even sinks, faucets, or fixtures. Soon, you are inundated with solicitations from various contractors who are eager to fit out your apartment. Subsequently, you discover that it is customary for real estate developers to sell buyers' contact information to multiple contractors for a percentage of the contractors' contract price. You wonder: Does this fall beyond China's legal limitations on the transmission of personal data for commercial purposes?

Unlike US or EU laws, current Chinese law is vague regarding the protection of, and even the definition of, personal data (*geren ziliao*). Nonetheless, popular awareness of the need for protection is on the rise. Legal commentators and practitioners alike debate whether personal data is protected in China based on certain existing legislation, including the Constitution of the People's Republic of China (the Constitution), the General Principles of Civil Law of the People's Republic of China (the Civil Law) and certain of its Supreme People's Court interpretations, and various regulations regarding information technology.

Privacy and personal data

Part of the reason the law is vague may be because the term privacy (*yingsi*) in the Chinese language and in the mind of the average Chinese citizen has a rather negative connotation. It is often associated with an act involving moral turpitude or socially unacceptable behavior, the

public exposure of which would likely damage a person's reputation or social standing. Indeed, most of the published cases on infringement of privacy involve the unjust exposure or false accusation of such behavior. Cases that have come before the Chinese courts have included false public accusations by a defendant that a plaintiff plagiarized; that a plaintiff's son was a thief; that a plaintiff was molested by her father as a child; and even one case in which a defendant published an "investigative report" characterizing the plaintiff as a "whore, midget, [and] ghost."

Yet privacy advocates in China, recognizing the importance of the concept, have argued for either the enactment of new regulations specifically designed to protect personal data or the expansion of the term privacy to include personal data explicitly. They argue that personal data subject to protection should include personal history and background, income level, address, telephone number, occupation, marital status, and physical attributes (including weight, height, and health condition)—most of which is specifically protected in many industrialized countries. Indeed, Chinese privacy advocates look to EU, Japanese, and US laws on the protection of privacy as models, including those that limit the circumstances under which personal data may be collected, the types of personal data that may be collected, and the transmission and transfer of personal data. Advocates also argue for stricter disclosure requirements for the potential use, security, and confidentiality of personal data.

Protection under the Constitution

At least in theory, the Constitution protects certain "lawful interests" (*hefa quanli*) of citizens. Article 38 states that a citizen's "personal dignity" (*renge zunyan*) is a lawful interest, but the Constitution does not further define what constitutes personal dignity. Most PRC legal scholars accept that personal dignity should include a person's privacy and, therefore, that the Constitution should protect privacy. Nonetheless, even if privacy is a lawful interest, without specific legislation it is unclear whether personal data is considered private information and should thus be protected under privacy clauses.

There are many reasons that development of a clearer legal framework for privacy protection has been slow in China, the most important being that initiating legal actions and seeking remedies on the basis of constitutional rights are not the norm in China. Nevertheless, a recent court case in Shandong regarding a citizen's right to education under the Constitution exemplifies the potential application of the Constitution to a private cause of action, including the right to protect privacy. In the case, the plaintiff asked the court for a civil remedy after the defendant used the plaintiff's higher-education entry exam results as his own on a school application. The Supreme People's Court, in a reply to the Shandong lower court's request for clarification, stated that the defendant infringed upon the plaintiff's right to education under the Constitution by infringing upon the plaintiff's right to her name, and that the defendant should therefore bear civil liability. Based on the reply of the Supreme People's Court, the lower court granted the plaintiff monetary damage in the amount of ¥100,000 ($12,100), a meager amount to pay for the wrong-doing, but an important step forward in the protection of individual rights.

Part of the reason the law is vague may be because the term privacy *(yingsi)* in the Chinese language and in the mind of the average Chinese citizen has a rather negative connotation. It is often associated with an act involving moral turpitude or socially unacceptable behavior, the public exposure of which would likely damage a person's reputation or social standing.

Protection under the Civil Law

The Civil Law provides a somewhat more direct protection of privacy. Article 101 protects personal dignity and the "right of reputation" (*mingyu qun*) of an individual, though it does not define these terms. However, the Supreme People's Court in 1988 interpreted personal reputation and personal dignity to include privacy and reiterated the same in one of its opinions in 1993.

Although the Supreme People's Court repeatedly refers to the protection of privacy in its interpretation of the Civil Law and has concluded that privacy is protected under the Civil Law, it has yet to define privacy. Consequently, it is unclear whether the Civil Law protects personal data as a matter of privacy. Even if the Civil Law recognizes that personal data is protected, it does not provide clear criteria for when courts may grant remedies for infringement. Potential remedies include cessation of infringement, public apology, or monetary reward (the granting of which requires proof of monetary damage on the part of the plaintiff). But, according to published cases, no court in China has granted a civil remedy in a case involving the protection of personal data.

Protection under Internet-related regulations

The Internet has brought the privacy issue to the forefront, as privacy advocates have urged authorities to promulgate regulations specifically to protect the rights of Internet users. In recent years, PRC government authorities have issued several regulations on the use of computers and the Internet, all of which prohibit the use of the Internet to damage "state security," "social interest," "citizens' lawful interest," and "privacy," without defining these terms. In the absence of standard definitions of these terms, PRC authorities will inevitably enforce the regulations in-

Individuals have started to resort to courts for remedies, making claims based on untested theories. In one case, an individual sued a mail order company in northern China for "being bombarded by junk mail," claiming that the junk mail caused him mental anguish.

consistently, sometimes too strictly and other times too leniently. Furthermore, the regulations do not state whether, or to what extent, the collection, use, and transmission of personal data is an infringement of privacy, nor do the rules spell out the relevant legal remedies.

A 2000 Ministry of Information Industry regulation regarding Internet bulletin-board services is more specific than any other PRC regulation on the protection of confidential "personal information" (*geren xinxi*—the terms personal data and personal information are generally used interchangeably in China). Article 12 of the Rules Concerning the Administration of the Provision of Internet Bulletin Board Services requires service providers to keep users' personal information confidential and not to disclose such personal information to any third party without the consent of the user, unless such disclosure is required by law. It further authorizes administrative authorities to "correct" an unauthorized disclosure and allows users to seek "compensation" from bulletin-board service providers.

Precautionary measures for personal data collectors

Though current laws and regulations do not address the issue of personal data specifically, companies that collect, use, or transmit personal data may want to undertake some protective measures voluntarily. For example, in the hypothetical mail order case described above, the data collector arguably can freely collect, transmit, and use personal data that he or she has collected, but may wish to take some precautionary measures to fend off potential claims of privacy infringement. The data collector can include a statement in direct mail, newspaper, magazine, lucky-draw, or Internet data-collection forms stating that the data provider, by submitting information on the data collector's forms, is providing his or her personal data voluntarily and permits the data collector to use the data for marketing or commercial purposes. Or, if a data collector will not disclose or transfer the personal data to a third party without the prior consent of the data provider, a statement may be made to that effect. These statements could potentially eliminate certain required elements of causes of action based on infringement of privacy.

Companies using the Internet to collect, use, or transmit personal data should, in addition to including the statements mentioned above, take particular care to assess and utilize data protection technologies to maintain the confidentiality

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of the personal data collected. In addition, all employers should take necessary measures to maintain the confidentiality of employees' personal data. These measures include limiting access to employees' personal data on a need-to-know basis and requiring those with access to such data to sign a confidentiality agreement.

Protection for individuals

Individuals in China can also be more assertive in demanding better protection of their personal data. For example, because current laws and regulations are not specific regarding personal data protection, individuals can insist on contract provisions addressing data protection. In the hypothetical apartment purchase described above, the buyer can create, in the sales contract, a contractual obligation on the part of the developer not to disclose any information about the buyer or transaction to a third party.

Individuals have also started to resort to courts for remedies, making claims based on untested theories. In one case, an individual sued a mail-order company in northern China for "being bombarded by junk mail," claiming that the junk mail caused him mental anguish. Although the court held that the plaintiff could not prove that he suffered any damage and eventually dismissed the case, the plaintiff's action demonstrates the increasing willingness of individuals to resort to courts for remedy.

Local privacy before national

Privacy advocates are urging authorities to craft new legislation to regulate the collection, use, and transmission of personal data, but such legislation is unlikely to come quickly at the national level. In the meantime, China's laws and regulations remain murky regarding the protection of personal data. They also reflect an unbalanced allocation of power between the state and the individual; the laws impose stringent privacy-protection measures on the private sector but not on the state. Indeed, some Internet-related regulations require Internet service providers to keep—and when requested, turn over to the state—certain information regarding the users (account numbers, connecting time, Internet addresses and domain names, telephone numbers) that the service providers cannot disclose to third parties.

Nonetheless, some local governments may, as a part of an effort to "internationalize" their cities, develop effective local regulations to protect privacy. And as ordinary citizens become more aware of the need for personal data protection, they may invoke certain provisions in the Constitution, the Civil Law, and Internet-related regulations. As a result, multinational companies doing business in China that rely on the collection and use of personal data should consider taking voluntary protective measures—and keep track of legal developments. 完

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China's WTO Implementation Efforts

Highlights of PRC efforts to implement its World Trade Organization commitments and related examples of China's foreign trade and investment liberalization during the period March–May 2002

General overview

A raft of new and amended laws have brought many areas of China's trade and investment regimes into compliance with World Trade Organization (WTO) commitments and demonstrate the seriousness with which the Chinese government has approached WTO implementation efforts. China's Ministry of Foreign Trade and Economic Cooperation (MOFTEC) announced in May 2002 that more than 2,300 laws and regulations had been amended to comply with WTO rules and 830 abolished since the country joined the world trade body on December 11, 2001.

Despite progress in passing new laws, China continues to have difficulty implementing WTO terms in a number of areas. Among the problems companies hope Chinese officials will address in coming months are new regulations that are inconsistent with WTO obligations; uneven or inadequate transparency; missed quota allocation deadlines; high prudential requirements in services; and entrenched bureaucratic opposition to the implementation of WTO-consistent rules.

Chinese trade officials and other WTO members are now hammering out final procedures and schedules for China's 2002 transitional review mechanism (TRM) at the WTO in Geneva. China agreed in its accession protocol to undergo a special TRM, under which the WTO's 16 subsidiary bodies and committees will review the country's progress on implementation each year for eight years, with a final review 10 years after accession. The upcoming TRM will in all likelihood examine the progress and the problems that have marked the first months of China's adjustment to the WTO-defined trading regime. The procedures adopted in this first annual TRM will have an important effect on the business communities' evaluation of China's WTO compliance over the next decade.

The following sections highlight China's implementation in the trade and investment arenas and on rule-of-law-related issues; and detail local government developments and US and PRC efforts at WTO-related education and training.

I. Import and export policies

- **Tariff reductions**

As of June 2002, China had yet to eliminate tariffs on certain semiconductor and telecommunications equipment inputs bound for the domestic market—such tariffs must be eliminated under the terms of the Information Technology Agreement (ITA).

- **Antidumping and safeguards**

US companies that are involved in antidumping cases introduced prior to China's WTO entry report continual improvement in the handling of cases by MOFTEC and State Economic and Trade Commission (SETC) officials. Companies are reserving final judgment, however, until after the PRC issues preliminary margin decisions. China is also exhibiting an increasing willingness to use its antidumping laws to protect vulnerable industries.

- **Quota allocations**

China has delayed allocation of 2002 quotas in several industries, claiming that its December 2001 WTO entry did not allow enough time to process 2002 quotas. In a number of sectors where quotas have recently been allocated, inconsistent and opaque administrative practices by Chinese authorities continue to hamper imports. China's own rules on quotas require application procedures for the allocation of 2003 quotas to begin this summer.

- **Standards and inspection**

China took steps in the first quarter of 2002 to alleviate international concern over its regulation of agricultural genetically modified organism (GMO) products. The rules in the original form would have all but shut out importers of GMO goods, which would have included most US soybean products. PRC authorities established a temporary certification process in March that has facilitated the resumption of PRC soybean purchases from US exporters through at least December 20, when the temporary permits expire.

II. Investment-related measures

- **Investment project status**

China's revised Catalogue Guiding Foreign Investment in Industry and Regulation on Guiding Foreign Investment Direction, both of which took effect on April 1, generally conform to China's WTO commitments but do not detail business scope or either geographic or quantitative commitments. Though the catalogue encourages development of new and high-technology agricultural products, it now explicitly prohibits foreign investment in the genetically modified crop development and seed business (*See* p. 22).

- **Air express**

Several announcements by the State Postal Bureau (China Post) and its supervisory agency, the Ministry of Information Industry (MII), threaten to restrict the business of international express delivery companies in China severely. China Post has proposed a domestic monopoly for delivery of mail under 500 grams. At the same time, the PRC has required foreign express services firms to register with China Post for "entrustment" so that they can carry packages *over* 500 grams. A prompt and satisfactory resolution of this situation is imperative, given China's commitment not to "roll back" any aspects of its commercial environment as they obtained at the time of PRC accession to the WTO.

- **Banking**

A number of foreign banks have received licenses for operations liberalized under China's WTO commitments. Foreign investment in foreign currency services was allowed upon PRC accession nationwide, and foreign or joint venture banks including Bank of East Asia, Citibank, Hang Seng, HSBC, Standard Chartered, and Xiamen International Bank have received licenses. The right to offer renminbi lending to foreign companies and individuals has been extended beyond the pilot programs in Guangdong and Shanghai to Dalian in Liaoning, and Tianjin.

- **Insurance**

China's Administrative Regulations on Foreign Insurance Companies call for extremely high capital requirements, which foreign companies view as onerous. It also remains unclear how the requirements apply to branches, especially of firms already established in the market.

In a positive development, licenses for life insurance operations were granted in Beijing (to American International Group, Inc.) and Tianjin (to Sun Life Everbright Life Insurance Co. Ltd.), more than a year ahead of WTO commitments to open these two cities.

III. Local government developments

- **Government reshuffling**

Although many local governments, particularly those of the major coastal cities, have embraced WTO liberalization, local officials in a number of regions have pointed to difficulties in implementing WTO requirements, in part because of severe shortages of trained staff. The government is also facing significant personnel changes in coming months that could slow implementation efforts. Nevertheless, central-level officials are reportedly pressuring local counterparts heavily to push through new rules in order to comply with WTO requirements.

- **Shenzhen to pilot implementation of WTO commitments**

Shenzhen Mayor Yu Youjun announced in early March that Shenzhen had central-government approval to accelerate the implementation of China's WTO commitments in 16 services sectors, including accounting, legal, consulting, and financial services; securities; logistics; and tourism. Other economic zones may imitate Shenzhen in order to heighten their competitive edge over less well-positioned competitors.

IV. Rule of law

- **Intellectual property rights: Pharmaceuticals, software**

Chinese authorities have circulated a draft law to foreign pharmaceutical manufacturers regarding protection of clinical trial data used in the drug approval process. Software registration rules to protect copyright have been amended to even out the treatment of domestic and imported software. Despite these moves, there has been little improvement in enforcement of China's intellectual property rights protection regime.

V. Capacity building

- **Council meetings, programs expand**

US-China Business Council staff has continued to travel throughout China representing members' concerns and assisting with WTO training efforts. The Council has completed the latest phase of its cooperative program with the Shanghai WTO Affairs Consulting Center, the leading WTO research center in China, to produce a series of digital videoconferences (DVCs) with simultaneous translations on WTO-related topics. The DVCs feature US experts and a Chinese audience drawn from government, academia, and the media.

- **New WTO affairs centers around China**

Guangdong, Jiangsu, and Zhejiang provinces, Shanghai, and Beijing have all opened WTO consulting centers in recent months and the Wuhan municipal government is expected to open a similar center soon. The full scope and impact of these centers' activities has not yet become clear.

- **WTO training by foreign, PRC institutions**

Boston and Harvard universities are among a number of US academic institutions that have launched programs to train PRC officials and state-owned enterprise managers about the WTO. China's own management training firms and educational institutions are conducting programs nationwide as well.

—US-China Business Council staff

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www.xinhuanet.com/english/whomore.htm

The Economic and Commercial Counselor's Office of the PRC Embassy

in Washington, DC, relaunched its website in October 2001. The revamped site includes contact information for the office's various departments including general goods trade, inspection and quarantine, and law. The site also includes a historical overview of bilateral trade, up-to-date commercial news briefs, contact information for major trade fairs in China, and a short list of PRC supplier companies. Some areas of the site are still under construction.
www.chinacommercial.org

Beijing 2008

is the official website of the Beijing Organizing Committee for the Olympic Games. This site details Beijing's comprehensive preparation plans for the Olympics in 2008, including the renovation of cultural sites within the city limits and surrounding areas, environmental clean-up efforts ("Green Beijing"), and the construction of sports venues and an athlete's village. The site also posts press releases, information on government and corporate relations, and profiles of Chinese athletes.
www.beijing-2008.org/eolympic/eindex.shtm

Chinamarket,

run by China's Ministry of Foreign Trade and Economic Cooperation (MOFTEC), is designed much like Yahoo in format and style, but focuses on categorizing nearly all aspects of the Chinese economy. It features a bidding platform, investment guides, translated laws, regional information, current events and news, and a section on Chinese companies, all for no charge. This last section offers detailed information on a wide variety of products made in China, company profiles, and industry-specific directories of firms. Chinamarket also contains links to other MOFTEC-sponsored sites, such as Techfair China and China Invest.
www.chinamarket.com.cn/E/

World Bank Development Prospects...

is a World Bank website offering analysis on the global prospects for economic growth, trade, financial flows, and primary commodities. The website addresses the impact of global economic trends on developing countries, offers price histories, and includes forecasts for major agricultural, energy, and metal commodities. The website also provides useful links and information on global economic development publications and free monthly standardized reports for commodities.
www.worldbank.org/prospects/

...China Development Gateway...

is jointly run by the World Bank and the China Internet Information Center. The site offers brief descriptions of China's government, society, economic statistics, western regions, and legislation. The site also provides links to travel information, investment opportunities, development editorials, and other sites on topics such as education and the environment.
www.chinagate.com.cn

...and FDI Xchange

is an e-mail alert service run by the World Bank Group's Multilateral Investment Guarantee Agency. E-mail alerts include information about investment opportunities and market and regulatory conditions. Recipients can tailor their alerts by region, sector, and type of investment. FDI Xchange draws information from investment and trade promotion agencies, professional firms, chambers of commerce and business associations, and of course the World Bank and International Monetary Fund. The service is free.
www.fdixchange.com

Asia-Pacific Economic Cooperation (APEC) 2002, Mexico

will feature more than 100 APEC-related meetings this year, culminating in the leaders and ministerial meetings in October. The official site includes an events schedule page and information on the organizing committee. Visitors can also find background on APEC initiatives, general information about Mexico, and links to Mexican government ministries and private institutions.
www.apec2002.org.mx

The Congressional-Executive Commission on China

(CECC) was established under the October 2000 permanent Normal Trade Relations legislation to explore rule-of-law and human rights issues in China. Though the CECC website is currently under construction, visitors can find press releases, a calendar of upcoming events, and listings of CECC congressional members and staff. The site also posts witness and member statements from CECC hearings and forums.
www.cecc.gov

The US-China Commission

(USCC, previously known as the US-China Security Review Commission) was created by the October 2000 National Defense Authorization Act to examine the national security aspects of US trade with China. In addition to background information on the commission, the USCC website posts written and oral transcripts from past hearings, which have covered such issues as export controls, strategic perceptions, and World Trade Organization compliance. Visitors will also find a page of articles and translations taken primarily from Chinese academic sources addressing Chinese security, economic, and governance issues, and PRC views of the United States.
www.uscc.gov

The China Village Elections Project,

run by the Carter Center, is a website dedicated to developing democracy in China through grassroots campaigning in local village elections. The website documents the progress the organization has made in China since 1996 in supervising village elections and contains links to other organizations committed to China's democratization, official reports and laws regarding village elections, and news releases. The Carter Center also sponsors a Chinese-language website, **www.chinarural.org**, that monitors village elections.
www.cartercenter.org/peaceprograms/china.asp

ehouse for Expats

is a real estate guide for expatriates looking to rent an apartment or a villa in the Beijing metro area. In addition to information on rates, the website allows visitors to search for apartments by size and neighborhood and villa development name. The website provides information on how to rent an apartment and finance the purchase of a home, a contact list of home movers, and a guide to living in Beijing, including links to international schools, visa services, entertainment, and sightseeing tips.
http://ehouse.5i5j.com

Websites in Chinese

China Copyright Information Web

was set up in 1999 by the Chinese Center for Copyright Protection. The website contains free information on various topics and industries related to copyrighting, including specialized links for authors, musicians, and filmmakers. The site also includes free information regarding the use of copyrights and the payment of royalties, and provides copyrighting services. Also worth a visit are the site's articles on registering computer software, recent government legislation, and foreign copyright protection.
www.ccopyright.com.cn

China Environment and Development Information Web,

sponsored by the Environment and Development Research Institute, aims to provide detailed information on environmental trends as they relate to the PRC economy. Visitors can find links to news and descriptions of government reports on pollution levels and characteristics. The site also offers information on urbanization, agriculture, population, natural resources, and environmental technology and environmental groups, and posts book reviews and an events calendar. This site is available in a nearly identical English version.
www.enviroinfo.org.cn/

—Drake Weisert and Collins Alt

Drake Weisert is assistant editor of *The CBR.*
Collins Alt is a *CBR* research assistant.

China Business

Sales and Investment

MARCH 16 – MAY 15, 2002

Compiled by Collins Alt and Richard Burns

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.

Accounting and Insurance

INVESTMENTS IN CHINA

Legend Group Ltd. (Hong Kong)/AI Software Co. Ltd.

Will form joint venture to develop insurance IT solutions. (Hong Kong:70%-PRC:30%). $2.8 million. 04/02.

Sun Life Assurance Company of Canada, China Everbright Group Ltd., a subsidiary of Everbright Group (Hong Kong)

Will form joint venture, Guangda Yongming Life Insurance Co., Ltd., to offer insurance products in Tianjin. 04/02.

OTHER

Aegon NV (the Netherlands)/CNOOC

Won approval from CIRC to form a life insurance joint venture in China. (the Netherlands:50%-PRC:50%). 04/02.

CPA Australia

Opened office in Beijing. 03/02.

PricewaterhouseCoopers (US)

Will merge with the mainland China and Hong Kong branches of Andersen Worldwide. 03/02.

Samsung Life Insurance Co., Ltd., a subsidiary of the Samsung Group (South Korea), Ping'An Insurance Co., Ltd. (Hong Kong)

Will jointly provide insurance policies and tourist services for PRC citizens visiting South Korea during the World Cup 2002. 03/02.

Advertising and Public Relations

INVESTMENTS IN CHINA

OgilvyOne Worldwide, a subsidiary of WPP Group plc (UK)

Will purchase 60% of BrandOne Advertising Co., Ltd. of Beijing. 04/02.

OTHER

AOL Time Warner Inc. (US)

Appointed Hai Run International Advertising Co. of Beijing as exclusive advertising-sales representative for AOL's 24-hour Mandarin-language channel, CETV. 04/02.

Agricultural Commodities and Technology

INVESTMENTS IN CHINA

First Dragoncom Agro-Strategy Holdings Ltd. (Hong Kong)/Qinghua International Technology Transfer Center (Shenzhen), a division of Qinghua University

Will form joint venture research center to develop agricultural technology. (Hong Kong:70%-PRC:30%). $8.5 million. 04/02.

OTHER

European Union

Launched small-scale farming project in Sichuan. 03/02.

Banking and Finance

CHINA'S IMPORTS

Financial Telecom Ltd. (Hong Kong), a subsidiary of Reed Elsevier plc (UK)

Won distributorship from Bank of China Group (Hong Kong) for real-time financial quotation data feeds in China. 04/02.

Money Gram Systems, Inc., a subsidiary of Travelers Express Money Gram Inc. (US)

Won contract from ICBC to start a global outward money transfer service in Shanghai. 04/02.

CHINA'S INVESTMENTS ABROAD

BOC

Will acquire online brokerage, Hutchison CSFBdirect, a joint venture of Hutchison Whampoa Ltd. (Hong Kong) and Credit Suisse First Boston Ltd., a subsidiary of Credit Suisse Group (Switzerland). 03/02.

Abbreviations used throughout text: ABC: Agricultural Bank of China; ADB: Asian Development Bank; BOC: Bank of China; CAAC: General Administration of Civil Aviation of China; CATV: cable television; CCB: China Construction Bank; CCTV: China Central Television; CDB: China Development Bank; CDMA: code division multiple access; CEIEC: China National Electronics Import and Export Corp.; China Mobile: China Mobile Communications Corp.; China Netcom: China Netcom Corp. Ltd.; China Railcom: China Railway Communications Co., Ltd.; China Telecom: China Telecommunications Group Corp.; China Unicom: China United Telecommunications Corp.; CIRC: China Insurance Regulatory Commission; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CNOOC: China National Offshore Oil Corp.; CNPC: China National Petroleum & Gas Corp.; COSCO: China Ocean Shipping Co.; ETDZ: economic and technological development zone; ICBC: Industrial and Commercial Bank of China; MII: Ministry of Information Industry; MOFTEC: Ministry of Foreign Trade and Economic Cooperation; MOU: memorandum of understanding; NA: Not Available; NORINCO: China North Industries Corp.; P&T: Post and Telecommunications; PBOC: People's Bank of China; PetroChina: PetroChina Co., Ltd.; RMB: Renminbi; SARFT: State Administration of Radio, Film, and Television; SEZ: Special Economic Zone; SINOCHEM: China National Chemicals Import-Export Corp.; SINOPEC: China National Petrochemical Corp.; SINOTRANS: China National Foreign Trade Transportation Corp.; SDPC: State Development Planning Commission; UNDP: United Nations Development Program; WFOE: Wholly foreign-owned enterprise

Xinhua Financial Network (Beijing)
Will acquire DigiStock Korea Ltd. (South Korea) to deliver integrated information products and services to South Korean investors. 03/02.

INVESTMENTS IN CHINA

CASH Financial Services Group Ltd. (Hong Kong)/Liaoning Securities Co., Ltd.
Will form joint venture, CASH Liaoning Investment Consultant Ltd., to offer investment consulting services in China. 04/02.

Korean Exchange and Securities Holding Co. (South Korea)/Zhongxin Industrial Investment Co., Ltd. (Shanghai)
Will form joint venture, Zhongxin Future Investment and Management Co., Ltd., to sponsor high-tech investments. 04/02.

OTHER

Bank of Tokyo-Mitsubishi Ltd., a subsidiary of Mitsubishi-Tokyo Financial Group (Japan)
Won license to conduct RMB business in Dalian, Liaoning, with foreign institutions and firms. 04/02.

Citibank NA, a subsidiary of Citigroup Inc. (US)/China Galaxy Securities Co., Ltd. (Beijing)
Will cooperate on securities services, information sharing, training, and product development in China. 04/02.

Hang Seng Bank, a subsidiary of HSBC Holdings plc (UK)
Won approval from PBOC to conduct RMB business in Shanghai. 04/02.

Hong Kong and Shanghai Banking Corp., a subsidiary of HSBC Holdings plc (UK)
Won license to provide foreign exchange services to Chinese citizens and companies. 04/02.

Industrial Bank of Japan
Won license to conduct RMB business in Dalian, Liaoning, with foreign institutions and firms. 04/02.

UBS Warburg Asia Ltd., a subsidiary of Swiss Bank Corp./CDB
Will cooperate to manage and dispose CDB equity assets from debt-for-equity projects. 04/02.

Xiamen International Bank, a joint venture of Fujian International Trust and Investment Corp., Xiamen Construction and Development Corp., Min Xin Holdings, ICBC, ADB, the Long-Term Credit Bank of Japan, and the Sino Finance Group (US)
Won license to provide foreign exchange services to Chinese citizens and companies. 04/02.

Citibank NA, a subsidiary of Citigroup Inc. (US)
Won license to provide foreign exchange services for Chinese citizens and companies. 03/02.

Financial Telecom Ltd. (Hong Kong), a subsidiary of Reed Elsevier plc (UK)
Will provide financial data and reports to Shanghai Net Bank Ltd. 03/02.

Macquarie Bank Ltd. (Australia)/CCB
Signed mortgage-servicing agreement under which Macquarie will help CCB process loan applications and carry out post-settlement services. 03/02.

Principal Financial Group Inc. (US)
Will advise China's National Social Security Fund on stock market investment. 03/02.

Tokai Tokyo Securites Co., Ltd. (Japan)/Guotai Junan Securities Co., Ltd. (Shanghai)
Will form alliance to sell Chinese stocks in Japan and raise funds for Chinese and Japanese firms. 03/02.

Western Union Financial Services, Inc., a subsidiary of First Data Corp. (US)
Announced five-year contract extension with ABC to 2006. 03/02.

Chemicals, Petrochemicals, and Related Equipment

CHINA'S IMPORTS

Suez SA (France)
Won 50-year effluent management contract from Shanghai Chemical Industrial Park. $529 million. 03/02.

INVESTMENTS IN CHINA

BOC Group plc (UK)/Sinopec Yangzi Petrochemical Corp., a subsidiary of Sinopec
Will form joint venture to manufacture industrial gases and chemicals in Nanjing, Jiangsu. $100 million. 04/02.

Eastman Chemical Co. (US)/Sinopec Qilu Petrochemical Co., a subsidiary of Sinopec
Will form joint venture, Zibo Qilu Eastman Specialty Ltd., to produce Texanol ester alcohol and TXIB plasticizer in Shandong. 04/02.

Asahi Kasei Corp. (Japan), E.I. du Pont de Nemours & Co. (US)
Will form joint venture to manufacture and market polyacetal in Jiangsu. (Japan:50%-US:50%). $32 million. 03/02.

Bestex Corp. Sdn. Bhd., a subsidiary of Scientex Inc. Bhd. (Malaysia)
Will fully acquire Scientex Resources Co., Ltd. of Shanghai to manufacture competitive stretch film. $250,000. 03/02.

Samyoung Chemical Co., Ltd. (South Korea)
Will build plant to manufacture capacitor film and packing materials in Dalian, Liaoning. $35 million. 03/02.

Consumer Goods

INVESTMENTS IN CHINA

Canon Inc. (Japan)
Will set up three WFOEs in Jiangsu: Canon Suzhou Co., Canon Optical Co., and Canon Copier Suzhou Office Machines Co. $500 million. 04/02.

OTHER

Pricesmart Inc. (US)/South Commerce Group (Guangxi)
Will cooperate to set up Nanning Smart Shopping Center in Guangxi. 04/02.

Electronics and Computer Software

CHINA'S IMPORTS

AsiaInfo Holdings, Inc. (US)
Won contract from China Netcom to provide AICBS and AIOBS billing software. 04/02.

Communication Intelligence Corp. (US)
Won contract from the Nanjing Agriculture Bureau of Jiangsu for biometric electronic signature and office automation tools. 04/02.

DataDirect Networks Inc. (US)
Won contract from Sobey Digital Technology Co. Ltd. of Guangdong for Silicon Storage Appliances. 04/02.

IFS AB (Sweden)
Won contract from the Three Gorges Project Co. to implement business systems applications. $1 million. 04/02.

Mediasolv.com Inc. (US)
Licensed CA-Legend Software Co., Ltd. of Beijing, a joint venture between Computer Associates International, Inc. (US) and Legend Group (Hong Kong), to market Mediasolv's bizOA technologies in China. 04/02.

MTI Technology Corp. (US)
Won contract from China Hualu Information Industry Co., Ltd. to market MTI data storage systems in China. 04/02.

Oy Elcoteq AB (Finland)
Won contract from Thinker Technology Co., Ltd. of Guangdong to provide printed circuitboard assemblies. 03/02.

Sun Microsystems Inc. (US)
Will license its StarSuite™ software for distribution by China Software Network Technology and Service Shareholdings Co., Ltd.; China Redflag Software Co., Ltd.; and Beijing Gongchuang Kaiyuan Software Shareholdings Co., Ltd. 03/02.

CHINA'S INVESTMENTS ABROAD

Sichuan Changhong Electronics Group
Will build a TV manufacturing plant in Indonesia with annual capacity of 180,000 units. 03/02.

INVESTMENTS IN CHINA

Matsushita Electric Works Ltd. (Japan)/Liaoning No. 2 Radio Factory Group Ltd.
Will form joint venture, Dalian Matsushita Electric Works Ltd., to manufacture electric carpet components. (Japan:65%-PRC:35%). $455,000. 05/02.

AI Asia, Ltd. (Hong Kong), a subsidiary of The Hartcourt Companies, Inc. (US)
Will acquire 100% of the economic proceeds of Kangrun Jia Yuan Technology Ltd. of Beijing. 04/02.

KEC Corp. (South Korea)
Will build a 5-inch integrated circuit wafer factory, with annual capacity of 20,000 units, in Jiangsu. 04/02.

Microsoft Corp. (US)/Shanghai Alliance Investment Co., Ltd.
Will form joint venture, Shanghai Wicresoft Co., Ltd., to outsource software services and develop proprietary applications products. 04/02.

Nanker Corp. (Taiwan)
Will build WFOE 8-inch integrated circuit wafer factory in Zhuhai, Guangdong. $255 million. 04/02.

The Nippon Electronics Corp. (Japan)/Shanghai General Electronics Co., Ltd.
Will form joint venture to manufacture LCD screens in Shanghai. (Japan:25%-PRC:75%). $850 million. 04/02.

Panda Software SL (Spain)/Shanghai Founder Yanzhong Science & Technology Group Co.
Will form joint venture to market Panda's antivirus computer products in China. (Spain:49%-PRC:51%). 04/02.

Powerware Corp. (US)
Will set up WFOE in Shanghai to manufacture and market uninterrupted power supply equipment in China. $10 million. 04/02.

Sumitomo Corp. (Japan)
Purchased a 0.38% stake of TCL Holdings Co. of Guangdong. $763,000. 04/02.

Toshiba Corp. (Japan)
Purchased a 2% stake in TCL Holdings Co. of Guangdong. $3.8 million. 04/02.

WBL Corp. Ltd. (Singapore), Xirlink Inc. (US)
Will form joint venture, Suzhou Wearnes Xirlink Electric Co., Ltd., to develop and market digital imaging, telecommunications, and other electronic products. $10 million. 04/02.

Ferrotec Corp.; Toshiba Ceramics Co., Ltd.; Mitsui & Co., Ltd. (Japan)
Will form joint venture to manufacture 8-inch wafers in Shanghai. $145 million. 03/02.

Founder Holdings Ltd. (Hong Kong)
Will form WFOE, Beijing Founder Century Information System Co., Ltd., to market electronic hardware and software products. $4.8 million. 03/02.

OTHER

Carnegie Mellon University (US)/Beijing Liyouhe IT Co., Ltd.
Will cooperate to set up a software R&D academy in Beijing. 04/02.

English Language Learning Instruction System Group (US)/New Oriental School (Beijing)
Will cooperate to market ELLIS educational products in China. 04/02.

General Electric Co. (US)
Will set up R&D center in Pudong Zhangjiang High-Tech Zone, Shanghai. 04/02.

Hitachi Ltd. (Japan)
Will merge two existing joint ventures in Shanghai, Shanghai Hitachi Household Appliance Co., Ltd. and Shanghai Hitachi Electric Home Appliance Co., Ltd. 04/02.

Intel Corp. (US)/Langchao Electronic Information Industry Co., Ltd. (Beijing)
Will cooperate to establish a network storage research center. 04/02.

Matsushita Electric Industrial Co., Ltd. (Japan)/TCL Holdings Co. (Guangdong)
Will cooperate to boost sales of Matsushita's products in China. 04/02.

Semiconductor Manufacturing International Corp. (Taiwan)/Huaxia Semiconductor Manufacturing Co. (Beijing)
Will form a strategic alliance to develop 8-inch wafers in Beijing. 04/02.

ChipMOS Technologies Ltd. (Bermuda), a subsidiary of Taiwan Mosel Vitelic Group
Will establish an integrated circuit testing and assembly facility in Shanghai Qingpu Industrial Zone. 03/02.

Ingram Micro China Ltd., a subsidiary of Ingram Micro Inc.(US)/Langchao Electronic Information Industry Co., Ltd. (Beijing)
Will form strategic alliance to distribute Langchao servers in China. 03/02.

Oracle Corp. (US)
Will set up a software R&D center in Shenzhen. 03/02.

Engineering and Construction

CHINA'S IMPORTS

Trevi SpA (Italy)
Won contract from CNPC to provide technology for construction of a drilling plant. $2.6 million. 05/02.

Trevi SpA (Italy)
Won contract from Sinopec to provide a top drive drilling system. $457,000. 05/02.

CMC SpA (Italy)
Won contract from the Government of Yunnan to develop tunnels for a water supply project. $35.7 million. 04/02.

Grupo Dragados SA (Spain)
Won contract from Xi'an Natural Gas Co. to construct a natural gas supply network in Shaanxi. $26.2 million. 04/02.

Carsem Inc. (US)
Won contract from Suzhou Industrial Park to construct a semiconductor factory in Suzhou. 03/02.

Nippon Steel Corp. (Japan)
Will license its high-tension steel frame technology to Beijing New Building Materials Co., Ltd. 03/02.

Shimao Group (Hong Kong)
Won contract from the Shanghai Municipal Hongkou District People's Government to redevelop Shanghai North Bund area. $1.2 billion. 03/02.

INVESTMENTS IN CHINA

Volvo Construction Equipment SA, a subsidiary of AB Volvo (Sweden)
Will set up WFOE to manufacture construction equipment in Shanghai. $15 million. 04/02.

Environmental Technology and Equipment

CHINA'S IMPORTS

Creative Energy Solutions Holdings Ltd. (Hong Kong)
Won contract from Beijing Property Association's Public Heating Committee to provide retrofitting services for 250 public heating units. $12.1 million. 04/02.

INVESTMENTS IN CHINA

Shinryo Engineering Co., Ltd. (Japan)/Guangdong Changqing Group
Will form joint venture to manufacture and sell energy-saving valves in Guangdong. $30 million. 03/02.

OTHER

Government of the Netherlands/Government of the PRC
Will implement project to reduce the emissions of greenhouse gases in rural China. 04/02.

Novo Group (Finland)/Changjiang Water Resource Commission
Will jointly build a flood protection system, including a flood modeling IT system, for the Changjiang valley. 03/02.

Food and Food Processing

CHINA'S IMPORTS

Elecster Oyj (Finland)
Won contract from Wandashan Group Dairy Co., Ltd. of Heilongjiang to provide a foodstuff packaging line. $3.6 million. 05/02.

Suez SA (France)
Won contract from the city of Chongqing to supply and manage a drinking water system. $134 million. 04/02.

CHINA'S INVESTMENTS ABROAD

Sanyo Whisbih Group (Taiwan)/Qingdao Beer Co., Ltd. (Shandong)
Will form joint venture to brew beer in southern Taiwan. (Taiwan:60%-PRC:40%). $43 million. 03/02.

INVESTMENTS IN CHINA

Interbrew SA (Belgium)/Zhujiang Beer Group (Guangdong)
Will set up Zhujiang Joint Stock Co. to brew beer in China. (Belgium:25%-PRC:75%). 04/02.

Nestle Group (Switzerland)/Sichuan Haoji Co., Ltd.
Will form joint venture to produce chicken soup and other food products in Chengdu, Sichuan. (Switzerland:60%-PRC:40%). 04/02.

Want Want Holdings Ltd. (Singapore), Channel Tea Co. (Virgin Islands)
Will form joint venture to operate fast food restaurants, pubs, and tea houses in China. (Singapore:50%, Virgin Islands:50%). $2.5 million. 04/02.

OTHER

McDonald's Corp. (US)/Shanghai Pudong Development Bank
Will jointly issue smartcards for use in Beijing area McDonald's locations. 04/02.

Medical Equipment and Devices

CHINA'S EXPORTS

Chongqing Haifu Technology Co., Ltd.
Won contract from Churchill Hospital at Oxford University, UK, to provide High Intensity Focused Ultrasound knives. 03/02.

CHINA'S IMPORTS

Occupational & Medical Innovations Ltd. (Australia)
Will license manufacturing rights for OMI's Safety Scalpel to Wuxi Xinda Medical Device Co., Ltd. of Jiangsu. 04/02.

INVESTMENTS IN CHINA

Top Glove Corp. Bhd. (Malaysia), Hadsyn Latex Co., Ltd. (Thailand)/Zhangjiagang Medical Glove Co., Ltd. (Jiangsu)
Will form joint venture, Top Glove (Zhangjiagang) Co., Ltd., to manufacture PVC medical gloves. (Malaysia:55%, Thailand 15%-PRC:30%). $3 million. 05/02.

Metals, Minerals, and Mining

CHINA'S IMPORTS

Nippon Steel Corp., NKK Corp. (Japan)
Won contract from the PRC Ministry of Railways to supply 12,000 tons of heavy rail. 04/02.

INVESTMENTS IN CHINA

SGL Carbon AG (Germany), Tokai Carbon Co. (Japan)
Will form joint venture to manufacture and market graphite electrodes in China. (Germany:51%, Japan:49%). 04/02.

Unisteel Technology Ltd. (Singapore)
Set up wholly foreign-owned subsidiary, Unisteel Fastening Systems Co., Ltd., to manufacture precision fasteners. $5 million. 04/02.

Composite Technology Corp. (US)/Jiangsu Far East Group Co., Ltd.
Will form joint venture, Jiangsu Far East CTC Co., Ltd., to manufacture and sell Composite Technology's proprietary composite materials products in China. 03/02.

OTHER

Hebei Hua'Ao Mining Development Co., Ltd., a subsidiary of Griffin Mining Ltd. (UK)
Won license from the Government of Hebei to mine the Caijiaying zinc-gold deposit. 03/02.

Miscellaneous

CHINA'S IMPORTS

Severnaya Verf Shipyard (Russia)
Won contract from the Navy of the PRC for two Project 956-EM destroyers. $1.4 billion. 03/02.

INVESTMENTS IN CHINA

AIG Group (US)
Will construct a biochemical garbage disposal plant in Shanghai. $21 million. 04/02.

GE Plastics, a subsidiary of General Electric Co. (US)
Will purchase Zhongshan Plastech Sunsheet Co., Ltd. of Guangdong. 04/02.

Sony Music Entertainment Inc., a subsidiary of Sony Corp. (Japan)/Shanghai Epic Music Entertainment Co.
Will form joint venture to distribute Sony's music in China. (Japan:49%-PRC:51%). $30 million. 04/02.

Sun Television Cybernetworks Holdings Ltd. (Hong Kong)
Will buy management control of Jingwen Record Co. of Beijing. $11.5 million. 04/02.

eBay Inc. (US)
Acquired 33% of EachNet.com of Shanghai. $30 million. 03/02.

OTHER

Boston Consulting Group (US)
Announced it will double its staff in China in the next three years. 04/02.

Global Financial Group (US)
Will set up high-tech venture capital fund in China. $96 million. 04/02.

Messe Frankfurt GmbH (Germany)
Will open exhibition hall in Shanghai. 04/02.

Star Group Ltd. (Hong Kong), a subsidiary of News Corp. Ltd. (Australia)
Will begin broadcast of 24-hour Mandarin-language channel, Xing Kong Wei Shi, in southern China. 04/02.

California Fitness Corp. (US)
Will open fitness centers in Beijing and Shanghai. 03/02.

Packaging, Pulp, and Paper

CHINA'S IMPORTS

Stake Technology Ltd. (US)
Will license Pacitec Inc. (US) to market StakeTech pulping system in China. $4 million. 04/02.

CHINA'S INVESTMENTS ABROAD

Huaguang Forest Co., Ltd.
Will purchase the New Zealand east-coast timberland operations of Rayonier Inc. (US). $63.5 million. 04/02.

Petroleum, Natural Gas, and Related Equipment

CHINA'S EXPORTS

China Petroleum Engineering & Construction Corp., a subsidiary of CNPC
Won contract from Pak-Arab Refinery Co., Ltd., to build an oil product pipeline in Pakistan with an annual capacity of 12 million tons. $317 million. 03/02.

CHINA'S IMPORTS

Burlington Resources Inc. (US)
Won contract from the Government of Sichuan to develop natural gas and serve as operator for the Chuanzhong Block oilfields in Sichuan. 05/02.

Halliburton Co. (US)
Won contract from CNPC to provide fracturing equipment to CNPC's Huabei, Tuha, and Liaohe oil fields. 04/02.

Government of Oman
Won 1-year contract extensions from Sinochem and Unipec for purchase of 34,000 barrels of oil daily. 03/02.

Largo Vista Group Ltd. (US)
Won contract from the municipal government of Zunyi, Guizhou, to build a liquefied petroleum gas pipline and station. $241,000. 03/02.

CHINA'S INVESTMENTS ABROAD

CNPC
Will purchase a 50% stake in Mazoon Petrogas (BVI) Ltd. in Oman. $50 million. 05/02.

PetroChina
Will purchase six oilfields in Indonesia from Devon Energy Corp. (US). $216 million. 04/02.

INVESTMENTS IN CHINA

Hong Kong & China Gas Co. (Hong Kong)/Wuhan Gas Fueled Heat Generation Co. Ltd. (Hubei)
Will form joint venture to supply natural gas to households and industries in Wuhan, Hubei. $210 million. 05/02.

Royal Dutch/Shell Group (the Netherlands)/Government of Shandong
Will form joint venture to market oil products and upgrade technology in Shandong. (the Netherlands:70%-PRC:30%). $20 million. 05/02.

Exxon Mobil Corp. (US), Royal Dutch/Shell Group (the Netherlands)
ExxonMobil purchased part of Royal Dutch/Shell's 45% stake in the West-East gas pipeline project. 03/02.

Xinao Gas Holdings Ltd. (Hong Kong)/Shanghai Yanxin Enterprise Investment Co., Ltd.
Will form joint venture, Yancheng Xinao Gas Co., Ltd., to operate a piped gas distribution business in China. (Hong Kong:80%-PRC:20%). $14.5 million. 03/02.

OTHER

Canadian International Development Agency
Won contract from MOFTEC to accelerate the commercial development of China's coal bed methane reserves through testing. $6.1 million. 03/02.

Pertamina (Indonesia)/PetroChina
Will cooperate in offshore and onshore oil exploration in Indonesia. 03/02.

Pharmaceuticals

CHINA'S IMPORTS

Healthpoint Ltd. (US)
Will license Schmidt Scientific Taiwan Ltd. to manufacture and market Healthpoint's infection prevention products in China. 03/02.

INVESTMENTS IN CHINA

Goldtex International (Hong Kong)
Will purchase a controlling stake of Hubei Biocause Pharmaceutical Co., Ltd. $35 million. 05/02.

Viral Genetics Inc., New York International Commerce Group Inc. (US)
Will form joint venture to secure PRC government approval and distribute Viral Genetics's therapeutic treatments in China. 04/02.

Ports and Shipping

CHINA'S EXPORTS

Government of the PRC
Won contract from the Government of Pakistan to assist in construction of a deep-sea port in Gwadar, Pakistan. 03/02.

CHINA'S IMPORTS

Barcelona Port Authority (Spain)
Won contract from Ningbo Port Authority of Zhejiang to build a logistics complex. 04/02.

INVESTMENTS IN CHINA

Jumbo Shipping NV (the Netherlands)/China Shipping Group (Shanghai)
Will form joint venture, China Shipping Jumbo Heavy Lift Co., Ltd., to assist international contractors with large industrial projects. 04/02.

Sagawa Express Co., Sumitomo Corp. (Japan)/Shanghai Dazhong Transportation Group
Will form joint venture to offer cargo delivery services. (Japan:49%-PRC:51%). $67.7 million. 04/02.

OTHER

Nippon Yasen Kabushiki Kaisha (Japan)/COSCO
Will form a strategic logistics alliance to integrate mainland and international shipping markets. 04/02.

Evergreen Marine Corp. Ltd. (Taiwan), CMA-CGM SA (France)
Will share port slots to service Chinese shipping routes. 03/02.

FedEx Corp., Eastman Kodak Co. (US)
Will cooperate to offer express delivery services for Kodak Express stores in China. 03/02.

Power Generation Equipment

CHINA'S EXPORTS

CT Harbin Power Engineering Co., Ltd. (Heilongjiang)
Won contract from the Government of Vietnam to engineer and construct the 100MW Cao Ngan Power Station. $85 million. 05/02.

China National Machinery and Equipment Import and Export Corp., Shandong Power Construction
Won contract from the Nigerian Ministry of Power and Steel to build two gas-fired power plants with total capacity of 670MW. $390 million. 03/02.

CHINA'S IMPORTS

Daelim Industry Co., Ltd. (South Korea)
Won contract from BASF-YPC, a joint venture of BASF AG (Germany) and Sinopec, to build a thermoelectric power plant in Jiangsu. $130 million. 03/02.

INVESTMENTS IN CHINA

ABB AB (Sweden)
Will increase investment in joint venture, Chongqing ABB Transformer Co., Ltd. $10 million. 04/02.

Property Management and Development

INVESTMENTS IN CHINA

Accor SA (France)
Purchased Zenith Hotels International (Hong Kong), including its 11 hotels in mainland China. 04/02.

Genesis Technology Group, Inc. (US)
Will acquire Beijing Zhongxin Sunray Real Estate Development Co., Ltd. 04/02.

Swire Pacific Ltd. (Hong Kong)/Guangzhou Daily Group
Will form joint venture to develop property in Guangzhou. (Hong Kong:55%-PRC:45%). $483 million. 04/02.

Ruili Science-tech Group (Australia)/Sichuan Baoyuan Co., Ltd.
Will form joint venture hospital in Chengdu, Sichuan. 03/02.

Sun Hung Kai Properties Ltd. (Hong Kong)
Will construct commercial project in Pudong, Shanghai. $385 million. 03/02.

Telecommunications

CHINA'S EXPORTS

Zhongxing Telecom Electronics Corp. (Shenzhen)
Won contract from Zambia Telecom to provide GSM equipment and power supply products. $18.5 million. 04/02.

CHINA'S IMPORTS

Airspan Networks Inc. (US)
Signed a distribution agreement with Guangzhou Jinpeng Group Co., Ltd. 05/02.

AsiaInfo Holdings, Inc. (US)
Won contract from Tianjin Telecom, a subsidiary of China Telecom, to provide network management products. 05/02.

AsiaInfo Holdings, Inc. (US)
Won contract from Shandong Telecom, a subsidiary of China Telecom, to provide OSS solutions. 05/02.

AsiaInfo Holdings, Inc. (US)
Won contract from Inner Mongolia Telecom, a subsidiary of China Telecom, to provide AsiaInfo's messaging product. 05/02.

Cambridge Broadband Ltd. (UK)
Won contract from Beijing D&G Telecommunications Equipment Co., Ltd. to set up a fixed wireless broadband system. $12.5 million. 05/02.

Nanjing Ericsson Panda Communications Co., Ltd., a joint venture between LM Ericsson AB (Sweden) and Nanjing Panda Electronics Co., Ltd.
Won contract from China Unicom to expand Unicom's CDMA network. $55 million. 05/02.

Shanghai Bell, a joint venture of Alcatel SA (France)
Won contract from Zhejiang Telecom, a subsidiary of China Telecom, to provide 80,000 subscriber lines. 05/02.

Alcatel SA (France)
Won contract from Guangxi Telecom, a subsidiary of China Telecom, to supply access, edge, and core data networking portfolios. 04/02.

Cisco Systems Inc. (US)
Won contract from China Railcom to expand its Internet backbone network. 04/02.

LM Ericsson AB (Sweden)
Won contract from China Telecom for next-generation network pilot equipment. 04/02.

Openwave Systems Inc. (US)
Won contract from China Unicom to provide software for instant message and other non-voice services. 04/02.

Oy Nokia AB (Finland)
Won contract from Zhejiang Mobile Communications Co. to expand Zhejiang Mobile Communication's GSM network. $85 million. 04/02.

Oy Nokia AB (Finland)
Won contract from Guangdong Telecom, a subsidiary of China Telecom, to expand Guangdong Telecom's broadband DSL network. 04/02.

Oy Nokia AB (Finland)
Won contract from Jixi Telecommunications Bureau of Heilongjiang to provide broadband access. 04/02.

Shanghai Bell, a joint venture of Alcatel SA (France)
Won contract from China Telecom to deploy voice-over-Internet Protocol (VoIP) next-generation network in Shanghai and Beijing. 04/02.

Sybase Inc. (US)
Won contract from China Telecom to provide Sybase's Adaptive Server Enterprise to reengineer local network management systems. $2 million. 04/02.

Vodatel Networks Holdings Ltd. (Macao)
Won contract from Guangxi Telecom, a subsidiary of China Telecom, to restructure Guangxi ATM/Frame Relay and DDN. $3.55 million. 04/02.

Bonson Technology Co., Ltd., a subsidiary of AsiaInfo Holdings Inc. (US)
Won contract from Guangxi Mobile, a subsidiary of China Mobile, to deploy integrated OSS solution. $3.9 million. 03/02.

China Broadband Corp. (US)
Won contract from Chengdu CCS Optical Fiber Corp., a joint venture of Corning Inc. (US) and Chengdu Putian Cable Co., Ltd., to provide data and Internet services. 03/02.

Nortel Networks Ltd. (Canada)
Won contract from China Telecom to provide next-generation VoIP in China. 03/02.

Marconi plc (UK)
Won contract from the PRC Ministry of Railways to build a communications system in Liaoning. 03/02.

Tellabs Inc.(US)
Won contract from Zhejiang Unicom, a subsidiary of China Unicom, to install a voice-quality enhancement system for mobile networks. 03/02.

UTStarcom Inc. (US)
Won contract from the Government of Shandong to deploy IP-based PAS™ city-wide wireless access in six cities. $18 million. 03/02.

Vodatel Networks Holdings Ltd. (Macao)
Won contract from Hunan China Telecom, a subsidiary of China Telecom, to integrate and upgrade DDN and Frame Relay/ATM networks in Hunan. $2.6 million. 03/02.

INVESTMENTS IN CHINA

Alcatel SA (France)
Will invest $9 million in NewMargin Ventures of Shanghai, a venture capital firm supporting Chinese telecom startups. 04/02.

DVN Holdings Ltd. (Hong Kong)/Jiangsu Hongtu High Technology Corp.
Will form joint venture, Jiangsu Hong Tian Broadband Communications Ltd., to develop digital cable services. (Hong Kong:50%-PRC:50%). $11 million. 04/02.

STM Corp. (US)/Datang Telecom Technology Co., Ltd. (Beijing)
Will form joint venture to construct a satellite communication network and to market telecom solutions. 03/02.

OTHER

European Union/Government of the PRC
Will cooperate to fund IT development projects in China. $3.1 million. 04/02.

interWAVE Communications International Ltd. (US)/Eastern Communications Co. Ltd. (Zhejiang)
Signed OEM agreement to form strategic alliance to develop third-generation technology and telecom infrastructures. 04/02.

ITXC Corp. (US)
Will carry calls for China Mobile via the Internet. 04/02.

LG Telecom, a subsidiary of the LG Group (South Korea)/China Mobile
Will establish mobile roaming services in South Korea for Chinese citizens during the World Cup. 04/02.

SK Group (South Korea)/China Unicom
Will establish mobile roaming services in South Korea for Chinese citizens during the World Cup. 04/02.

Sony Ericsson Mobile Communications Co., Ltd., a joint venture of LM Ericsson AB (Sweden) and Sony Corp. (Japan)
Will set up a subsidiary in Beijing to distribute mobile phones. 04/02.

AT&T Corp. (US)/China Telecom, Shanghai Information Investment Inc.
Began operations of joint venture, Shanghai Symphony Telecommunications Co., Ltd., to offer data transmission connection services. (US:25%-PRC:75%). 03/02.

BT Ignite Co., a subsidiary of BT Group plc (UK)/Central Internet Digital Center Co., Ltd. (Beijing)
Will cooperate to provide telecom services and technology and solutions programs in China. 03/02.

CommWorks Corp., a subsidiary of 3Com Corp. (US)/Eastern Communications Co., Ltd. (Zhejiang)
Will cooperate to deliver Internet protocol products to Chinese service providers. 03/02.

ILOG SA (France)
Will open Beijing office to provide interface suite JTGO3.0 to monitor telecom networks in real time. 03/02.

Motorola Inc. (US)/Eastern Communications Co., Ltd. (Zhejiang)
Signed MOU to cooperate in mobile communications development. 03/02.

NTT Communications, a subsidiary of NTT Corp. (Japan)/Beijing Telecom Corp.
Launched IP virtual private network news service in China. 03/02.

Wireless Online, Inc. (US)/Shanghai Datang Mobile Communications Equipment Co.
Will form strategic alliance to market Wireless Online's ClearBeam® smart antenna systems in China. 03/02.

Textiles and Apparel

OTHER

Pranda Jewelry plc (Thailand)
Will open factory and shops in Guangzhou to market jewelry in southern China. $1.15 million. 03/02.

Transportation

CHINA'S EXPORTS

American Automobile Network Holdings (US)
Purchased the worldwide manufacturing and distribution rights of vehicles built by Tianjin Automobile Industry Import & Export Corp. 04/02.

Dalian Locomotive Plant
Won contract from the Government of Iraq for fifty DF10FI locomotives. 04/02.

Chengdu Aircraft Industry Co., Ltd., a subsidiary of China Aviation Industry Corp. I.
Won contract from Dassault Aviation SA (France) to manufacture components of the F2000EX aircraft fuselage. 03/02.

CHINA'S IMPORTS

Airbus SAS (France)
Won contract from China Eastern Airlines Co., Ltd. for twenty A320 passenger jets. $800 million. 04/02.

Alstom SA (France, UK)
Won contract from Nanjing Metro Co., Ltd. for 20 trains. $141 million. 04/02.

Eaton Corp. (US)
Licensed distributorship of Eaton products to Dandong Shuguang Axle Co. Ltd. of Liaoning. 04/02.

Honda Turkey, a subsidiary of Honda Motor Co. (Japan)
Won contract from the China National Metal and Mineral Import and Export Corp. for 1,000 Honda Civics. $11 million. 04/02.

Raytheon Co. (US)
Won contract from CAAC to supply and install two monopulse secondary surveillance radars. 03/02.

Siemens Traction Equipment Ltd. Zhuzhou, a joint venture of Siemens AG (Germany) and Zhuzhou Electrical Locomotive Works (Hunan)
Won contract from Shanghai MRT Pearl Line Development Co., Ltd. to provide 28 six-part underground trains. (Germany:80%-PRC:20%). $270 million. 03/02.

INVESTMENTS IN CHINA

Hutchison Whampoa Ltd. (Hong Kong), Pirelli SpA (Italy)/Qingdao Huanghai Rubber Group
Will form joint venture tire factory in Qingdao, Shandong. $72 million. 05/02.

Aichi Steel Corp., an affiliate of Toyota Motor Corp. (Japan)/Shanghai Automotive Industry Group
Will form joint venture to manufacture automobile parts in China. 04/02.

Airports de Paris Group (France)
Will purchase 9.9% of Beijing Capital International Airport Co., Ltd. 04/02.

American Sate-Lite Manufacturing Co. (US), Hella KG Hueck & Co. (Germany)
Will form joint venture, Sate-Lite Bike Lighting Co., Ltd., in Shunde, Guangdong, to manufacture bicycle and motorcycle lights. (US:50%, Germany:50%). 04/02.

APM Automotive Holdings Bhd. (Malaysia)/Hefei Winking Asset Co., Ltd. (Anhui)
Will form joint venture to manufacture car seats for distribution in China. (Malaysia:60%-PRC:40%). $5 million. 04/02.

Moscow Science and Technology Joint-Stock Co. (Russia)/Shenyang Locomotive Carshop
Will form joint venture to manufacture subway cars. $40 million. 04/02.

Nissan Motor Co. (Japan)

Will purchase the 25% stake of Zhengzhou Nissan Motor Co., Ltd. owned by Sammitr Motor Co. (Thailand), a joint venture between Nissan, Sammitr, and Dongfeng Motor Corp. of Hubei. (Japan:30%-PRC:70%). 04/02.

NSK Ltd. (Japan), Timken Co. (US)

Will form a joint venture to manufacture ball bearings for automobiles. (Japan:50%, US:50%). $16 million. 04/02.

SIA Engineering Co. Ltd., a subsidiary of Singapore Airlines Ltd.

Will purchase 25% of Guangzhou Aircraft Maintenance Co. Ltd. 04/02.

Yamaha Corp. (Japan)

Will establish a Chinese subsidiary to purchase Chinese motorcycle parts for export. $3.62 million. 04/02.

Yokohama Rubber Co., Ltd. (Japan)

Will increase its stake from 45% to 80% in Hangzhou Yokohama Tire Co., Ltd., a joint venture between YHI Group (Singapore) and Hangzhou Rubber Group of Zhejiang. (Japan:80%, Singapore:10%-PRC:10%). $12 million. 04/02.

Kia Motors Corp., a subsidiary of Hyundai Motors Co. (South Korea)/Yueda Group (Jiangsu), Dongfeng Motor Corp. (Hubei)

Will form new joint venture, Dongfeng-Yueda Kia Motors Co., Ltd., to manufacture cars in Jiangsu. (South Korea:50%-PRC:50%). 03/02.

Mando Climate Control Corp. (South Korea)/Jianghuai Automotive Chassis Co., Ltd. (Anhui)

Will form joint venture to produce air conditioners and heating systems for automobiles. (South Korea:50%-PRC:50%). 03/02.

MG Rover Group Ltd. (UK), Brilliance China Automotive Holdings Ltd. (Hong Kong)

Will form joint venture to develop and manufacture automobiles in China. (UK:50%-Hong Kong:50%). 03/02.

Nissan Motor Co., Ltd. (Japan)/Dongfeng Automotive Group (Hubei)

In talks to form a joint venture to manufacture and sell subcompact automobiles in China. 03/02.

OTHER

Daewoo Motor Co., a subsidiary of the Daewoo Group (South Korea)

Will begin manufacturing trucks at its joint venture with Guilin Auto Industry Group, Guilin Daewoo Bus Co., Ltd., in Guangxi. 04/02.

Japan Airlines Co., Ltd./China Cargo Airlines Ltd., a subsidiary of China Eastern Airlines Co., Ltd.

Will share space on cargo flights between Shanghai and Tokyo. 04/02.

Volkswagen AG (Germany)/Shanghai Automotive Industry Corp.

Will extend their car-manufacturing joint venture in China by 20 years to 2029. 04/02.

Suwa Co., Ltd., Isuzu Motors Ltd. (Japan)/Huanghe Xuanfeng Co. (Henan)

Began construction of car manufacturing plant in Henan. 03/02.

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Council Bulletin

Event Wrap-Up

Council Hosts Gala Dinner

The US-China Business Council hosted its Biennial Gala in Washington, DC, on the evening of June 5. Almost 400 member company executives and representatives, distinguished government officials and academics, and their guests attended the event. After Council President Robert A. Kapp read opening remarks by outgoing Council Chair Frederick W. Smith and attendees watched a videotaped welcome from incoming Chair Philip M. Condit, the Council recognized Senator Dianne Feinstein (D-CA) and Representative David Dreier (R-CA) for their work in support of stable US-PRC commercial relations. After dinner, Representative Donald Manzullo (R-IL) introduced the US-China Interparliamentary Exchange program, an endeavor that allows members of the PRC National People's Congress and the US Congress an opportunity to observe their respective institutions. US-China Interparliamentary Exchange Chair Zeng Jianhui also addressed the audience, thanking the business community for its continued support.

At the end of the evening, Council President Kapp gave a brief update on the US-China Legal Cooperation Fund, which provides grants to support US-China projects in the field of law.

(From left to right)
US Representative Donald Manzullo and Honorable Zeng Jianhui, PRC National People's Congress

US Senator Dianne Feinstein

US Representative David Dreier

US-China Business Council members at the Biennial Gala in Washington, DC, on June 5.

Event Wrap-Up

Council Holds 29th Annual Membership Meeting

More than 100 member company representatives participated in the Council's 29th Annual Membership Meeting on June 6 in Washington, DC. The program included two panel discussions, one on the current business climate and the other on how best to take advantage of new opportunities that are arising from China's World Trade Organization (WTO) entry.

The first panel featured Joe Studwell of *China Economic Quarterly*, who gave a presentation on China's current economic and financial health; Stoyan Tenev of the International Finance Corp. and Joel Schmidt of Alliant Energy International, who discussed China's emerging private sector; and Daniel K. H. Chao from Bechtel Enterprises, Inc., who briefed the conference on commercial openings in information technology, power, and transportation infrastructures in the run-up to the Beijing 2008 Olympics.

During the second panel, Iain McDaniels of the Council's Shanghai office spoke about government affairs strategies; Robert J. Easton of Accenture Co. Ltd. discussed sales and distribution networks; and Rudy Schlais, recently of General Motors Corp., talked about China's auto sector.

Council Co-hosts Dinner for PRC Vice President Hu Jintao

The National Committee on US-China Relations in cooperation with the US-China Business Council, America-China Forum, Asia Society, Committee of 100, Council on Foreign Relations, United States Chamber of Commerce, and US-China Policy Foundation, hosted a dinner honoring PRC Vice President Hu Jintao on May 1. Some of the more senior officials accompanying Hu included Vice Minister of Foreign Affairs Li Zhaoxing; Vice Commissioner of the State Development Planning Commission Liu Jiang; PRC Ambassador Yang Jiechi; Vice Chief of the Administrative Office, Central Committee of the Chinese Communist Party (CCP), Ling Jihua; Vice Minister of Science and Technology Li Xueyong; Vice Minister of Foreign Trade and Economic Cooperation Ma Xiuhong; and Vice Chief of Policy Office, Central Committee of the CCP, Zheng Xinli. The vice president addressed the audience and media following dinner.

Washington

June

Issues Luncheon: The AIDS Crisis in China: Considerations for US Companies Featured Bates Gill, senior fellow in Foreign Policy Studies and director, Center for Northeast Asian Policy Studies, The Brookings Institution and Amar Bhat, director, Asia and Pacific, Office of Global Health Affairs, US Department of Health and Human Services.

Quarterly WTO Working Group Briefing: USTR's WTO Compliance Work with China Featured Charles Freeman, deputy assistant US Trade Representative for China, and USTR colleagues.

May

Workshop on China's Chemical Sector Featured Sigmund Floyd, president of Valushar and former general manager of Rohm & Haas's joint venture in Shanghai.

Issues Luncheon: Recent congressional staff trip to China Featured Grant Aldonas, undersecretary for international trade, US Department of Commerce; Tim Reif, minority chief trade counsel, House Ways and Means Trade Subcommittee; and Mike Castellano, tax/trade counsel, Office of Congressman Sander Levin.

Beijing

June

Meeting: Current Trends in China Featured Sidney Rittenberg, Sr., president, Rittenberg Associates, Inc., and visiting professor of Asian Studies, Pacific Lutheran University.

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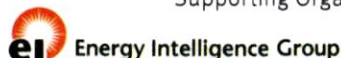

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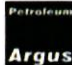

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