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Legal Cooperation Fund Makes New Grants, Builds Support For Continued Operation

The US-China Legal Cooperation Fund, founded in 1998 to bring corporate support to worthy US-China cooperative efforts in the field of law, has announced its latest round of grants. The fund has also been successful in attracting new contributions to ensure its continued operations through 2002 and beyond.

The most recent round of fund awards will support projects to study the development of the rule of law, constitutionalism, and judicial independence in China; support the first phase of a long-term academic study of the legal impact of China's World Trade Organization (WTO) accession; draft a codification system for Chinese laws to speed legal research; assist Chinese securities regulators to study US civil liability laws related to US securities regulations; support a program for teaching US law at a Chinese law school; and help the All-China Lawyers Association develop a more effective legal-ethics code. These awards signify the strong desire of the fund's trustees and supporting companies to contribute crucial resources to projects that address a wide variety of legal developments of long-term significance in China.

Member companies of the US-China Business Council continue to step forward with voluntary commitments ranging from \$2,500 to \$25,000 to replenish the fund. As originally committed support dating from 1998 is exhausted this year, the fund's continued operation depends on these new commitments. Council firms that have contributed generously to replenish the fund include ABB Inc.; American International Group, Inc.; Cargill, Incorporated; Caterpillar Inc.; The Chubb Corporation; Corning Incorporated; Eastman Kodak Company; Emerson Electric Co.; Exxon Mobil Corporation; Ford Motor Company; The GE Fund; Motorola Inc.; Payless Shoe Source; and TRW Inc.

Member company support for the US-China Legal Cooperation Fund should be made payable to The China Business Forum (501/c/3), the charitable arm of the Council. The Council extends its heartfelt thanks to the member companies that have made new, voluntary commitments to keep the US-China Legal Cooperation Fund forging ahead.

For additional information on the fund, visit its website (www.uschinallegalcoop.org), or contact Council Vice President John Foarde by telephone at 202.429.0340 ext. 249, or by e-mail at jfoarde@uschina.org.

short takes

New Home for FCS in Beijing

The US and Foreign Commercial Service (FCS) in Beijing, formerly housed in the US Embassy, moved to new quarters in February. FCS is now located at 3101 North Tower, Beijing Kerry Center, 1 Guanghua Road, Chaoyang District, Beijing, China 100020; Tel. 8610.8539.6655; Fax: 8610.8529.6558/9.

FDI to Rise in Asia

Business confidence is returning to Asia. So says A.T. Kearney's Foreign Direct Investment (FDI) Confidence Index,

compiled from a survey of CEOs, CFOs, and other top executives at Global 1,000 companies about the likelihood of investment in 60 countries over the next one to three years. China moved up from third to second place, bumping the United Kingdom from the number two spot. While Taiwan moved up four notches to nineteenth place and Hong Kong inched back into the top 25, Singapore leaped from twenty-first to thirteenth place. First-time investors also found China the third most attractive destination for their investments.

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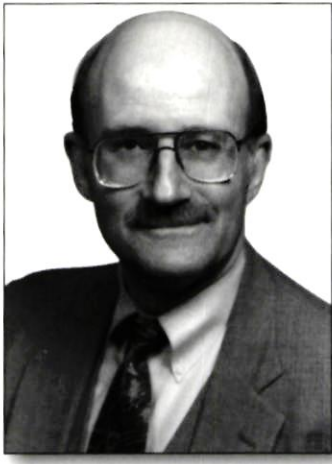
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Robert A. Kapp

We lose something important when figures like Leonard Woodcock and Arthur Hummel depart

LETTER from the President of the US-China Business Council

Farewell and Welcome

We have lost two extraordinary Americans, significant contributors to the making of modern US-China relations, in a matter of weeks. *The China Business Review* notes in this issue the passing of ambassadors Leonard F. Woodcock and Arthur W. Hummel Jr. Two eminent China specialists contribute their thoughts on these departed friends in our magazine (see p.36).

The work ambassadors Woodcock and Hummel performed for the United States in the early years of diplomatic relations with China provides food for thought to a new generation of businesspeople, legislators, and American leaders today.

Leonard Woodcock became our first ambassador to the People's Republic of China when the United States and China normalized diplomatic relations at the beginning of 1979.

Woodcock, a commanding presence in American organized labor for much of his career, was born in 1911, the year that China's imperial system of government collapsed after more than 2,000 years. Between the time of his birth and the time he presented his credentials as American ambassador in Beijing, China had been engulfed by warlordism, civil war, 14 years of Japanese invasion followed by 4 more years of all-out civil war, the victory of the Chinese Communist Party and the exhilaration of political unification, war with the United States in Korea, alliance and disillusionment with the Soviet Union, the excesses and social tragedies of the Great Leap Forward and the Cultural Revolution, the near-divine dominance of Mao Zedong, and the sudden lurch into the post-Mao reform era.

Arthur Hummel was our second ambassador to the PRC, serving from 1981 to 1985. Hummel's life took a different trajectory. Born in North China, his parents were Congregationalist missionary educators. After childhood in China and more rearing in the States, Hummel was back in China when the Pacific War broke out. That earned him internment in the famous Japanese holding camp for foreigners at Weixian in Shandong Province, from which he escaped to

join Nationalist guerrillas for the last two years of the war. By 1950 he was in the State Department, where his career led gradually through ambassadorships in Burma, Ethiopia, and Pakistan, and the department's top Asia-Pacific job, before taking him to our embassy in Beijing.

Hummel was born in the warlord era: China lacked any functional central government, foreign forces operated at will within its boundaries, and extraterritoriality ensured foreigners' immunity from Chinese law. His childhood return to the United States coincided with the Nationalist Party's partial military reunification of the country under a regime based in Nanjing, Jiangsu Province. He came of age during China's vicious civil war, and entered the State Department as the "Who Lost China?" debacle leapt from Congress to the media to the executive branch, as these things sometimes do. As a young public servant, he saw at close range how the American system could nearly devour itself over the politics of China policy. He stayed the course, and rose to the heights of American diplomatic service.

Leonard Woodcock and Arthur Hummel, from my limited acquaintance with one and longer acquaintance with the other, shared a number of characteristics that Americans of a later generation dealing with China would do well to embrace, in any forms of public service:

1 They were dignified, quiet, and economical of expression. We will, I'll wager, never meet anyone who saw Leonard or Arthur shoot from the lip.

2 They were intensely interested in China because of its intrinsic significance, as well as its implications for US policy. They "engaged" personally, deeply, and energetically with China and with Chinese people.

3 They were immune to manipulation. Listening to Arthur's clear-eyed analyses, which penetrated the fog of both American and Chinese political posturing, was one of the great pleasures of life. And Leonard Woodcock did not

ascend to leadership in organized labor and in American diplomacy by being credulous in the face of designing overseas negotiating adversaries or domestic polemicists.

4 They deeply believed that the development of productive, stable, and expanded cooperation between the United States and China was in the most basic interest of the American people and the Chinese people. This sounds like a stock cliché, but in fact it is true. Perhaps Leonard Woodcock came to this from the depth of his understanding of the needs and the dignity of laboring Americans. Arthur, I surmise from knowing him and knowing something of his China background, had as well a sense of the dignity and the hardships of the ordinary people of China that undergirded his judgment and his instincts in representing the American nation to China.

I suppose one might conclude that Leonard Woodcock had outlived his era, and that his perception of the seminal importance of stronger cooperation between the United States and China was somehow passé; that he was “out of touch,” as the saying goes. Woodcock was dismissed, incorrectly, by his successors in the labor community as being an anachronism, thanks to his writing from his sickbed in 2000:

Democracy, including rights for workers, is an evolutionary process. Isolation and containment will not promote improved rights for a people. Rather, working together and from within a society will, over time, promote improved conditions. The US-China WTO agreement will speed up the evolutionary process in China....

It is possible as well to reflect on Arthur Hummel’s lifelong involvement with China and come to either of two familiar, equally mistaken conclusions about China and our relations with the PRC.

The first is that “That was then”; that history doesn’t matter; that the China we deal with today is something new on the earth, full of unprecedented and inscrutable novelty, a *sui generis* phenomenon in world affairs and for that reason a potentially hostile and mortal challenge to America, both militarily and ideologically, that requires emergency preparations from this day forth.

The second conclusion is that, looking at China’s travails today, “China has not changed,”

as we hear over and over again. Same old tyranny; same old corruption; same old lack of stable legal institutions; same old social and political inequities; same old overtaxation of the peasants; same old folk superstitions; same old

The work of ambassadors Woodcock and Hummel provides food for thought to a new generation of businesspeople, legislators, and American leaders today.

bureaucratic opacity; same old combination of pride and hypersensitivity; same old dreams of glory; same old “rule of man” instead of rule of law. (Exactly which “China” has not changed depends on the critic: Second century BC Han Dynasty China to one, late imperial China to another, Korean War China to yet others, Great Leap Forward or Cultural Revolution China to still more.)

But neither of those conclusions by itself is right, and neither is the basis for a confident steering of the American ship of state in relation to China.

Time moves on. Elders depart. Fresh faces appear. In the year 2000, 65 percent of the members of the US House of Representatives had served only since 1992 or later; in the new House, 48 percent have been in office for six years or less. Barely half of all US Senators have been in office longer than five years. Put another way, more than a third of the members of the present Congress have been in their posts for four years or less. With new arrivals come energy, enthusiasm, and a particular kind of fire that helps the American political system to retain its vitality, on domestic and foreign policy issues alike. But a sense of how today’s decisions rest in a larger temporal framework is harder to come by.

We lose something important when figures like Leonard Woodcock and Arthur Hummel depart. We need their calmness, their skepticism of flaming rhetoric, their demonstrated ability to “count to 10 first,” their manifest self-knowledge, and their broader perspectives on what makes people, societies, and governments—American and Chinese—tick. As we welcome our new legislators and government leaders to Washington, it is worth spending a few minutes reflecting on the character of these departed friends, and hoping that our newest leaders and representatives will embody their wisdom. 完

China's Changing Skies

Elizabeth Keck

Just over two years ago, Bertrand Piccard and Brian Jones set the last remaining around-the-world aviation record by circumnavigating the globe in a hot-air balloon.

China is reforming and upgrading its air traffic management systems

It was the flight clearance from China that made this record possible. And it was the quiet, gradual change in philosophy behind the management of China's skies that made issuing this flight clearance possible.

For China, the Piccard-Jones balloon flight clearance was highly unusual. In the PRC's air traffic system, almost all airspace is owned and tightly controlled by China's military, and civil aircraft fly in dedicated airways typically 40 km wide and at predetermined altitudes. In contrast, balloons fly where the winds blow them, heedless of predesignated air routes. China's willingness to allow this flight reflects the country's efforts to improve the management of one of its

national assets—its airspace—which, in turn, is having far-reaching effects on its civil aviation system.

Outgrowing a military past

Until recently, China's military made all airspace decisions about traffic in its 1,122 civil airways. The military, which had ultimate authority over any changes in routings, flight clearances, and other routine activities, relayed these decisions to China's civil air traffic authority—the Air Traffic Management Bureau (ATMB) under the General Administration of Civil Aviation of China (CAAC). ATMB controllers, in turn, passed the messages to the civil aircraft.

This airspace-management system has functioned adequately in China's environment of low aviation activity, but at the expense of growth. China lags behind the world in all aspects of general aviation activity, such as business, helicopter, and small-aircraft operations, for a country of its GDP and geographic size. The reason is simple—no airspace is readily available for these types of operations. And in the absence of market demand, Chinese aircraft manufacturers have missed out on the chance to develop small-aircraft manufacturing capability. The long lead

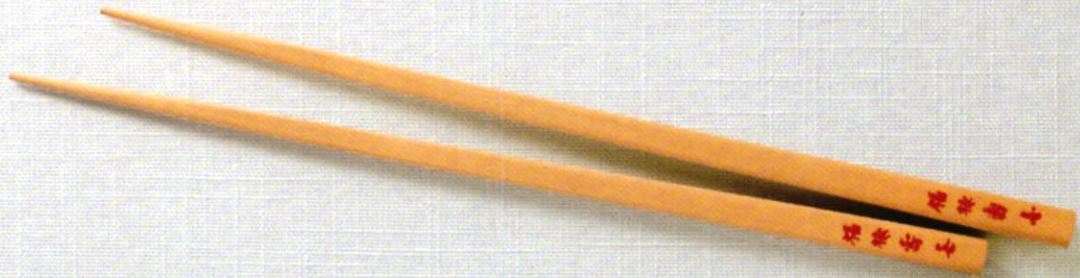


Elizabeth Keck

is the US Federal Aviation Administration (FAA) senior representative in Beijing. The opinions in this article are those of the author, not the FAA.

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MOVING at the SPEED of BUSINESS

time needed for flight clearances also prevents operators from changing routes to take advantage of favorable winds, thus hindering fuel efficiency and increasing ticket costs.

The PLA turned over 26 major civil air routes to CAAC last July, bringing the total number of airways under CAAC control to 29. CAAC has full power to manage all flights that use these main arteries, including sequencing arrivals and departures.

New policies improve coordination and safety

Fortunately, as air traffic has increased in recent years, Chinese aviation leaders have begun to modernize the airspace-management system to allow aviation activity in China to expand. The steps they have taken are opening opportunities in the general aviation field for the first time.

At the core of these modernization efforts is a shift in China's airspace-usage policy. In the past, China gave military missions top priority. This meant delays for civilian airlines anytime military aircraft wanted to fly. Military controllers also controlled military aircraft no matter where

they flew, increasing the difficulty of ensuring that civil and military aircraft were being kept far enough apart.

China's new civil-military coordination principle gives priority to civil aviation to ensure optimal civil operations, while providing concurrent consideration for military flights. The principle further states that military and civil air traffic coordination must also meet the requirements of other flight activities, such as general aviation and sport flights. Such a policy, in practice, means that peacetime military missions should be organized and coordinated so as to reduce disruptions of regular airline operations.

China's aviation leaders have set up a structure to coordinate airspace demands between civil and military users at national, regional, and local levels. The State Air Traffic Control Commission (SATCC), a State Council level organization headed by a deputy director responsible to a vice premier, coordinates aviation at the national level. SATCC is an administrative body made up of executives from some 13 Chinese government organizations involved in air traffic control, including CAAC and the People's Liberation Army (PLA), Air Force, and Navy, among other organizations. This body develops national airspace policy and resolves conflicts over airspace usage that cannot be solved at the local and regional level.

Below SATCC is the Regional Air Traffic Control Commission (RATCC). RATCC is made up

Fasten Your Seatbelt: China Improves Safety Oversight

After a series of accidents resulted in some 400 deaths in the early 1990s, China had one of the worst aviation safety reputations in the world. To their credit, China's safety leaders tackled this problem aggressively, with the result that China had no accidents for more than 30 months, from late 1994 to May 1997. China's 10-year safety record is currently 1.9 hull losses per million departures (based on hull losses of Western-built aircraft). This compares to a worldwide rate of 1.2 hull losses per million departures.

A key reason cited for China's success in dramatically cutting its accident rate was Order 77, an administrative control on pilot promotions the General Administration of Civil Aviation of China (CAAC) imposed in 1993—a year before the accident-free streak began. CAAC had discovered that rapid expansion had pressured airlines to promote pilots with insufficient flight experience to captain too quickly. Order 77 requires pilots to fly a minimum number of hours (based on plane size) before they can be promoted to captain. Its requirements are even stricter than those set by the International Civil Aviation Organization and the US Federal Aviation Administration (FAA).

At the same time, CAAC moved to give its safety oversight system more teeth. In the early 1990s, CAAC's safety system was the one that China had inherited from the Soviet Union and was based on the premise that all elements of the aviation system—airlines, catering, airports, and air traffic control—were under central control. However, reforms undertaken in the 1980s, which included splitting up the airlines and allowing the establishment of regional airlines, brought out the weakness of that model. Officials realized they needed a new safety regulatory system that could effectively control the safety standards of many airlines scattered around the country.

As it has done when faced with other challenges, CAAC sent teams to other countries to study safety oversight models. Eventually, CAAC decided on an organizational framework similar to that found in the United States—a three-tiered system, with safety policies and regulations developed at the national level and implemented at the regional and local levels.

The CAAC Flight Standards Department implemented this reform in three phases. First it studied safety regulations for commercial aviation operations, commonly known in other

countries as "Part 121" regulations. Then it drafted the China Civil Aviation Regulation Part 121, known as CCAR121, and finally devised a plan to put it into effect. Before enacting the regulation, however, CAAC decided to try it out on China's three largest airlines. Then CAAC could modify the regulation based on practical experience before issuing the final version.

Safety trials...

The trial phase, which took place in 1997 and 1998, proved difficult. China's airlines, which had been following safety systems derived from the centrally planned economy model, were reluctant to try the new safety measures required by CCAR121. However, in addition to pressure from CAAC, these airlines were coming under pressure from aviation safety regulators in Canada, the United States, and Australia, who were finding maintenance and operations safety problems on Chinese flights landing in those countries.

CAAC leadership first educated both its inspectors and airline staff on the new safety standards and the process for applying them to airline operations. Since this safety regulatory concept was new in China, CAAC initially

of representatives from the PLA Theater Control Unit and CAAC Regional Administration ATMB officials. This organization coordinates airspace usage within a region and is typically involved in major changes in airspace allocated for civil use, such as occurred when the new Pudong International Airport opened in Shanghai.

At the local level, airspace usage is coordinated in real time. PLA Regional Control Units and CAAC provincial administrations, and PLA Airport Control Units and local CAAC air traffic control facilities, interact daily by telephone, telex, and fax.

A significant outcome of this new airspace management policy was that the PLA turned over 26 major civil air routes to CAAC last July, bringing the total number of airways under CAAC control to 29. CAAC has full power to manage all flights that use these main arteries, including sequencing arrivals and departures. Furthermore, all military flights using these air routes are also under ATMB control.

In addition to turning over routes to CAAC, SATCC also has been improving the safety of existing air routes—especially at intersections between corridors—by opening separate corridors for air traffic going in different directions. In the past, aircraft were stacked vertically based on the direction they were flying. Now discussions mention transferring more airways to CAAC and opening up some low-altitude airspace, up to

500 m (1,640 ft), for helicopters and small planes.

Though better communication between ATMB and PLA controllers at all levels has resulted in major improvements in recent years, flexibility remains limited. Business and other types of small aircraft wishing to fly across China must apply for flight clearances two weeks in advance. Passenger airlines with designated frequencies are still unable to change routings at the last minute to take advantage of favorable winds.

When the unexpected occurs, CAAC sometimes has difficulty coordinating flight clearances. In one recent case, the aircraft wing of an international air carrier's plane was damaged when the Shanghai airport ground crew accidentally towed it into a light pole. Although the carrier quickly located a replacement aircraft in Manila, the plane could not depart for Shanghai until the following morning, which was the earliest officials in the CAAC dispatch office were confident they could reach PLA border-monitoring facilities in southern China to alert them of the new flight.

Modernizing air traffic control

This gradual change in China's airspace-management system, along with its growing traffic, is driving the country's air-traffic control modernization program. With full control over 29 air

turned to outside training and worked with the FAA and The Boeing Co. At the same time, CAAC recognized that China needed in-country training capability, so it hired instructors and developed a flight standards training curriculum.

CAAC then encouraged the three airlines to hire US consultants with expertise in airline safety oversight systems. With coaching from these consultants, the airlines for the first time wrote a series of operations manuals designed to provide a more systematic and comprehensive safety program for the airline. Once these manuals were written, they were submitted to CAAC's new operations, maintenance, and cabin-safety inspectors, who reviewed them to make sure they met the safety standards in CCAR121.

Once the manuals were approved, the airlines had to demonstrate implementation to CAAC. CAAC sent inspectors to the airlines where they observed maintenance procedures, dispatch operations, and other areas critical to flight safety. Inspectors also observed in-flight operations. Finally, the airlines conducted on-the-ground evacuation exercises to demonstrate flight crew emergency training. After

completing this rigorous review, the three airlines were awarded new operating certificates verifying their compliance with the new CCAR121. CAAC Flight Standards officials issued the final regulation in May 1999, after revising the regulation based on the lessons learned in the trial phase.

Since then, China's 23 other airlines have been going through the same rigorous review as the first three. Most significantly, in contrast to with three years ago, Chinese airline executives today strongly endorse this new safety oversight system and are working hard to implement it at their airlines.

...lead to more improvements

This initiative has in turn led to follow-on investments at some airlines. Soon after undergoing this inspection, China Southern Airlines Co., Ltd. invested in a new state-of-the-art operations center, provided by US-based Sabre Inc., that enables it to plan and track its flights more efficiently.

Another notable CAAC initiative has been to improve the English-language skills of the country's pilots. The need for better English-language capability came to the fore with the

introduction of Boeing and Airbus Industrie aircraft, which use English for their audio flight control commands. In addition, air traffic service providers in other countries raised concerns about Chinese pilots who did not understand English flying into their airspace. CAAC, again using its new safety regulatory model, issued a regulation requiring pilots born after 1954 to pass English proficiency tests or face restrictions on flying international flights and on training for operating larger aircraft. At the same time, CAAC hired a US contractor to develop an English-language training program and develop a national English-language testing system for pilots.

This initiative also has resulted in more communication between the cockpit and passengers. Four years ago, Chinese pilots rarely gave in-flight passenger briefings. Today, Chinese pilots now regularly come on the air after the aircraft lifts off to brief passengers in both Chinese and English. While a well-trained pilot is more important than one who speaks English, these reassuring announcements are another indicator of the positive changes under way in China's aviation system.

— Elizabeth Keck

traffic routes, ATMB can now begin to utilize air-traffic-flow control and management techniques to increase the usage and efficiency of aircraft operating in these air routes. ATMB is now seeking assistance to improve this capability through exchange programs with the US Federal Aviation Administration (FAA) and other organizations.

Chinese air traffic control facilities, also scheduled for modernization, are organized along the same principles found in most coun-

ATMB has also been investing in a major technology modernization program that has included purchases of radar surveillance equipment for major airports and airways, installation of more navigation equipment, and construction of communications networks. This effort has made China one of the largest markets for air traffic control equipment in the world.

tries. ATMB has divided the country's airspace into manageable blocks and designates various facilities to cover different altitudes. ATMB has 27 area control centers (ACCs) that control high-altitude traffic (above 6,600 m), and 37 facilities that manage low- and medium-altitude traffic (below 6,600 m). ATMB operates four terminal-control facilities that sequence traffic coming into its busiest airports: Beijing, Shanghai, and Guangzhou and Shenzhen in Guangdong Province. It has air traffic towers at some 130 airports to control aircraft that are arriving, departing, and on the ground. Airports that also serve the military, like the airport in Kunming, Yunnan Province, also have PLA-run towers that control military traffic landing there.

ATMB's long-term plan is to increase the number of terminal operations as traffic grows, but to decrease its high-altitude ACCs to 10 and its medium- and low-altitude control operations to 24. This consolidation is needed because aircraft now fly much faster than they did 50 years ago. Flying over a country with 27 ACCs means that pilots must constantly change radio frequencies—sometimes as often as every 10 minutes—so they can stay in touch with the controllers in charge of the various pieces of airspace through which they are flying.

The ACC consolidation project is also now one of China's most high-profile procurements. Three companies, Raytheon Co., Lockheed Martin Corp., and French-based Airsys ATM SA competed for the contract to build a center in Beijing, followed by centers in Shanghai and Guangzhou. ATMB announced in January 2001 that it intended to select Airsys and began business negotiations. The estimated value of the initial con-

tract is about \$100 million. Competition for this bid was tough, as the winner of the initial contract is expected to receive the follow-on contract for the other seven centers. Each center is expected to have about 50 controller work stations.

If the ACC competition had taken place in the United States, the FAA would have selected one contractor for all 10 centers. Until recently that was not expected to happen in China, which during the past 50 years practiced a policy of procuring from multiple vendors to ensure it was not dependent on one outside source. This fragmented procurement system prevented ATMB from receiving the price advantages of purchasing on a national scale and from standardizing replacement parts and maintenance operations. In China, this past procurement practice resulted in the country having what many officials jokingly refer to as a "radar museum" scattered across the country. Learning from that experience, ATMB leaders have worked hard to build a consensus for a national procurement policy for the 10 ACCs.

New procurement opportunities

In addition to the procurement of the network for the 10 ACCs, ATMB also has been investing in a major technology modernization program that has included purchases of radar surveillance equipment for major airports and airways, installation of more navigation equipment, and construction of communications networks. This effort has made China one of the largest markets for air traffic control equipment in the world.

● **Surveillance radar** ATMB is currently working on procuring some 40 radar and installing them along its busiest air routes. Last year, for example, ATMB purchased four monopulse secondary-surveillance radar valued at about \$6 million for the Beijing-Guangzhou air route. Installing radar along its busiest corridors will enable ATMB controllers to increase air traffic flow, as radar is a proven technology for safely reducing separation between aircraft. Currently, ATMB uses procedural control methods—large time and space intervals—to separate aircraft. While safe, it is less efficient because it uses more airspace.

● **Communications** ATMB's expansion and modernization of its communications infrastructure focuses on ground communication systems, a VSAT satellite-based communications network, and a VHF air-ground network. US company ARINC Inc. has been China's technology partner on the VHF air-ground network, and has sold some 100 ground stations to ATMB's Air Data Communication Co. (ADCC), which operates the network. To expand Chinese airlines' use of this system, the CAAC Airworthiness Department has mandated the installation of data link communications equipment on the Chinese fleet. Hughes Network Systems has been building ATMB's VSAT network.

● **Navigation** ATMB has chosen to install ground-based navigation technology in the eastern area of the country, where most traffic is concentrated. Each of China's more than 140 civil airports is now equipped with an instrument landing system, which emits signals to guide aircraft on the approach path to a runway. About 20 of these airports have systems providing coverage from both ends of the runway, increasing runway utilization. In recent years, ATMB also installed another 170 units of VHF omnidirectional range transmitters (VOR) and distance measuring equipment (DME) along air routes and at airports, providing more radio navigation points for pilots.

● **Flight inspection** To support its increased use of ground navigation aids, ATMB also has been ramping up its flight inspection capability. Specially equipped small aircraft conduct flight inspections to ensure that the ground-navigation equipment is calibrated to emit accurate signals. ATMB's flight-inspection unit now has six aircraft—three Cessna Citations and three King Airs—which are equipped with US-based Sierra Co.'s flight-inspection calibration equipment. The flight-inspection unit of ATMB, based at Beijing Capital International Airport, routinely tests 900 pieces of equipment located around the country. It also provides flight inspection services for the Macao and Hong Kong airports.

● **Aeronautical information** ATMB is working on developing an electronic aeronautical information system that airlines can access by computer disk or network. As China's fleet of general aviation aircraft grows, so will demand for more detailed aeronautical charts that identify obstacles, along the lines of those found in the United States. Today, ATMB only issues charts of its airways.

Most of China's air traffic investment has been in traditional ground-based air traffic technology, but ATMB is now beginning to take steps to exploit the capabilities for navigation and surveillance provided by the global positioning system (GPS) and other satellite-based positioning systems under development, which provide accurate information about aircraft positions.

About five years ago, Rockwell Collins, Inc. sponsored a comprehensive demonstration of the capability of GPS technology in Xi'an, Shaanxi Province. Despite the demonstration's success, ATMB has only taken steps to begin using this technology during the past two years. In western China, where terrain is rough, building a ground-based navigation network is impossible. The optimal solution is the use of communication, navigation, and surveillance systems that employ satellite- and aircraft-based equipment.

Spurred by Qantas Airways Inc., which was seeking a shorter route to Europe, ATMB used this technology to open a new 2,900 km route—L888—extending from China's border with Laos

northward to its border with Kazakhstan, shortening the flying time between Australia and Europe by 15-45 minutes. As part of this project, ATMB purchased controller workstations from ARINC Inc. for its facilities in Chengdu, Sichuan Province; Kunming, Yunnan Province; Lanzhou, Gansu Province; and Urumqi, Xinjiang Uygur Autonomous Region. At the same time, it worked with the airlines and aircraft manufacturers to determine what types of avionics and

China today has a general aviation fleet of 372 aircraft, of which only 27 are business (turbine-powered) aircraft, and 86 are helicopters. The country has only 43 private pilots. This contrasts sharply with other countries of similar size and GDP. Brazil, for example, with a slightly smaller GDP than China, has 1,150 business aircraft alone.

communications systems aircraft flying this route would require. This whole effort has required coordination with the PLA, which keeps a tight rein on airspace in this region. After successful flight trials by Qantas in June 2000, route L888 was officially opened in November. CAAC now plans to open another route using this technology between Chengdu and Lhasa, Tibet Autonomous Region.

Polar routes open

Another initiative involving ATMB coordination with the Chinese military is an effort to shorten other international air routes, particularly those over the North Pole. Four cross-polar air routes opened for regular flight on February 1, 2001, as the result of several years of work by representatives from Canada, China, Mongolia, Russia, and the United States. As with other airspace management issues, ATMB has been working closely with the PLA because these routes involve opening new airways, moving existing border crossings, and other arrangements in airspace managed by the Chinese military.

These new routes are key to offering nonstop service between the United States and Asia and provide significant time savings for flights to China and other parts of Asia. Not surprisingly, US air carriers are pushing strongly for these new routes because of the millions of dollars they would save on fuel and the market share they could capture with nonstop flights. The Boeing Co. also has a stake in this effort, as the extended-range Boeing 777 aircraft is ideal for these routes.

Continued on page 16

Commercial Aviation Takes Off

The strong growth forecast for China's commercial aviation sector is good news for foreign firms

Elizabeth Keck

China had 78 commercial aircraft in 1978 which, as one former salesman for The Boeing Co. described, the country had purchased in "onesies" and "twosies." Twenty years later, China was making headlines with purchases of up to 40 aircraft at a time, and its fleet had reached 510 commercial jets. By the time the Asian economic downturn hit four years ago, China had become the world's fastest-growing aviation market and ranked tenth in global commercial aviation activity, rising from 38th in just two decades. Today the International Civil Aviation Organization ranks China's commercial aviation activity ninth in the world, and the country continues to be a major market for commercial aircraft and a wide range of services that support a commercial aviation system.

China's commercial fleet is among the most modern in the world. In 1999, the latest year for which statistics are available, 445 of China's commercial jets were large- or medium-sized, with 100 or more seats; the remaining 65 were small passenger aircraft in the 20- to 70-seat range. Chinese aviation officials predict that the number of aircraft will rise again in 2001, perhaps reaching 600, as China is now aggressively buying up smaller regional and commuter aircraft to serve feeder routes. Boeing and Airbus Industrie, the two major commercial aircraft manufacturers, have been the main beneficiaries of China's drive to modernize its aviation sector, as China's civil aviation leaders decided not to equip with Soviet aircraft.

Shopping for planes

The medium-term outlook for sales to China is also strong. Randolph Baseler, vice president of marketing for Boeing Commercial Airplanes, predicts that China will be the largest commercial jet market outside the United States over the next 20 years, requiring 1,780 aircraft valued at \$137 billion. Of these, Baseler predicts that 6 percent will be 747s or larger; 26 percent will be intermediate twin-aisle aircraft such as the Boeing 767 or 777 and the Airbus 310 and 340; and the largest portion—68 percent—will be single-

aisle aircraft, such as the Boeing 737 or 717 and the Airbus 319 or 320.

According to Boeing market projections, all segments of the Chinese jet transport market will expand, led by the Chinese domestic market, which is projected to grow 9.1 percent over the next 20 years. The domestic market will also require the most aircraft—around 1,400, or 78 percent of all purchases.

The growing domestic market also will provide opportunities for manufacturers of small passenger jets. In recent years, some Chinese airlines have begun providing feeder and short-hop services to underserved smaller markets. The General Administration of Civil Aviation of China (CAAC) Air Transport Department has approved 160 regional feeder routes of less than 500 km and set ticket price ceilings. On October 1, 2000, CAAC dropped the airport construction fee—China's airport passenger tax—from ¥50 (\$6.04) to ¥10 (\$1.21) for these shorter flights.

These policies have paved the way for Shandong Airlines to begin short-hop service between Dalian, Liaoning Province, and Yantai, Shandong Province. The airline, which anticipated strong demand for this 45 minute, \$50 flight, has purchased three Cessna Caravans equipped with floats to operate over water between the two cities. Shandong Airlines also expanded its regional jet fleet with a purchase of five jets worth \$116 million from Canada's Bombardier Inc. just over a year ago. Its fleet also includes Swedish Saab Aircraft AB planes.

Another airline that has positioned itself for the feeder market is Sichuan Airlines, which took delivery of its first ERJ145 last September from Embraer Aviation International, marking that Brazilian aircraft manufacturer's entry into the China market. Sichuan Airlines was to receive two more ERJ145s in late 2000 and another two this year.

International passengers now boarding

While manufacturers continue to vie for market share, international air carriers are positioning themselves to capture passengers traveling between China and other countries. Air travel

Elizabeth Keck

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between China and other Asia-Pacific countries will be the fastest-growing segment of China's international passenger market, accounting for one-fourth of China's air travel by 2019. Airlines in China and around the region are positioning themselves to capture market share.

This past year, for example, China Eastern Airlines Co., Ltd. launched charter flights from Ningbo, Zhejiang Province, to Bangkok, Thailand, and from Shijiazhuang, Hebei Province, to South Korea. Meanwhile, China Southern Airlines Co. Ltd. and Asiana Airlines, Inc. signed an agreement to develop the passenger market between China and South Korea, and Asiana began roundtrip service from Seoul, South Korea, to Chongqing Municipality and Guilin, Guizhou Province. Other airlines that expanded their Asia networks last summer included China Northwest Airlines, which began service between Shanghai and Okinawa, Japan; China Southwest Airlines, with service between Seoul and Chongqing; and China Yunnan Airlines, with its new route between Seoul and Kunming, Yunnan Province.

According to Boeing research, air travel to and from Europe will grow at 4.9 percent over the next 20 years, with flights predicted to quadruple to more than 600 per week, serving 65 airline-airport pairs. Today, 147 weekly flights between Chinese and European destinations cover 29 airline-airport pairs.

The China-North America market is predicted to grow 4.5 percent over this same time period. Boeing estimates a five-fold increase in flights from North America, from the current 68 weekly to nearly 350. Currently, only two US passenger airlines, Northwest Airlines and United Airlines, Inc., and two US cargo airlines, FedEx Corp. and United Parcel Service, have rights to fly to China. China also has four designations under the bilateral air service agreement with the United States, but only three air carriers—Air China, China Southern, and China Eastern—currently operate flights to the United States. Both US passenger airlines have initiated nonstop service between China and the United States.

Currently, CAAC has no interest in expanding air carrier rights under its bilateral agreement, citing the competitive concerns of its air carriers. Thus, other US airlines interested in the China market, notably Delta Airlines and American Airlines, Inc., are working through their code share partners, China Southern and China Eastern respectively, to develop market share. If these partnerships are fruitful, direct flights to other major US hubs in cities such as Chicago, Illinois; Dallas/Fort Worth, Texas; Newark, New Jersey; and New York, New York, may eventually be established.

Training and maintenance services in demand

The growth in China's commercial aviation activity has also driven growth in aviation services.

In the world market, for every \$1.50 spent on new aircraft, approximately \$2.70 is spent on related services such as maintenance and training.

China has developed an impressive indigenous training capability for both pilots and flight attendants. The flight simulator and flight attendant training facilities at China Southern, China

The growth in China's commercial aviation activity has also driven growth in aviation services. In the world market, for every \$1.50 spent on new aircraft, approximately \$2.70 is spent on related services such as maintenance and training.

Eastern, and Air China are some of the most modern in the world. In addition, Airbus operates a flight simulator facility on its Beijing campus, and the US company Flight Safety Boeing has invested in a simulator center in Kunming, bringing the number of flight simulators in China to around 30. The Canadian manufacturer CAE has the largest market share of flight simulator equipment in China. CAAC, in its role as safety regulator, has a team of US-trained inspectors that regularly test these simulators to ensure they are accurately simulating real flight.

Use of flight simulator equipment in China generally remains lower than in most countries, however, because training outside China is popular. Senior pilots in Chinese airlines have clout and demand overseas training as part of their benefits package. Flight Safety Boeing and San Francisco-based Sierra Academy of Aeronautics are two US companies that have aggressively and successfully pursued this market.

Another important segment of the service market is aircraft maintenance. Lufthansa AG's maintenance service and Lockheed Martin Corp. entered this market early, through joint venture partnerships with Air China and China Southern, respectively. Since the establishment of these joint ventures a decade ago, other maintenance operations have emerged. Most recently, Rockwell Collins, Inc. and Honeywell opened specialty avionics shops in Shanghai.

General Electric Co. is reportedly investing over \$30 million in an aircraft engine joint-venture maintenance facility scheduled to open later this year in Xiamen, Fujian Province. Xiamen also is home to a successful maintenance facility, owned by Hong Kong, US, and Chinese interests, that services international air carriers. The French firm Societe Nationale d'Etude de Construction de Moteurs d'Aviation and Chengdu, Sichuan Province-based China Southwest Airlines also recently announced the formation of a joint venture to repair engines.

Companies are also competing for long-term contracts. General Electric, for example, recently

won a 10-year, \$215 million contract to repair GE90 engines for China Southern. Hawker Pacific Aerospace signed a five-year agreement with China Southern worth \$5.7 million to service landing gear.

Chinese airlines consolidate

While the outlook for commercial aviation is bright, the Chinese government's announcement last fall of its intention to consolidate its airlines has created some uncertainty in the industry. China has 26 airlines, 10 of which CAAC manages directly. City and provincial governments own the remainder.

Among these 26 airlines, the largest have fleets of up to 100 aircraft while the smallest may have only two or three aircraft. A typical major US air carrier, in contrast, may easily have a fleet of more than 500 aircraft—the size of China's entire commercial fleet. In an effort to increase the competitiveness of its airlines, the central government ordered the 10 air carriers controlled by CAAC to consolidate into three air carriers: Air China, China Southern, and China

Eastern. Once this is accomplished, these air carriers will be severed from CAAC's control. CAAC then will become the government's safety regulator and air traffic control service provider.

While this consolidation has been under discussion for several years, aviation leaders believe its prospects for success are high because China's top leaders support it. In preparation, high-level delegations have been traveling to the United States, Japan, and other countries to study funding mechanisms for aviation authorities, and CAAC's safety leaders have been researching safety oversight issues related to airline mergers.

This reform promises to benefit China's commercial aviation system because it will separate government from business and allow these airlines to be run more efficiently and competitively. It will also allow CAAC to concentrate on its fundamental responsibility as a government regulator, namely, to ensure the safety of the aviation system. These systemic changes thus promise to position China to develop one of the most dynamic commercial aviation systems in the world. 完

China's Changing Skies

Continued from page 13

General aviation activity on the rise...

China today has a general aviation fleet of 372 aircraft, of which only 27 are business (turbine-powered) aircraft, and 86 are helicopters. The country has only 43 private pilots. This contrasts sharply with other countries of similar size and GDP. Brazil, for example, with a slightly smaller GDP than China, has 1,150 business aircraft alone. Nevertheless, this segment of the market is positioned to be one of the greatest beneficiaries of the PLA's steps to open China's skies. During the past year, momentum toward accommodating more general aviation activity has grown.

Among the pioneers are the Zhang brothers in Changsha, Hunan Province, who operate a successful commercial cooling business, Broad Air Conditioning. Broad Air Conditioning was the first company in China to purchase business aircraft, and it has been using its Cessna Citation and Bell helicopter to ferry clients around the country for three years. Last year, Ms. Li Anli, general manager of a Shanghai company, planned to purchase a Beechcraft A-36 Bonanza. This caught national headlines because she was the first private individual in China to try to purchase an airplane.

In another indicator of movement in the general aviation sector, helicopter sales also appear

to be improving. Sikorsky Aircraft, a unit of United Technologies Corp., recently sold two S-76s to the Ministry of Communications for search and rescue operations off the coast near Shanghai. These are the first search and rescue helicopters to be put into operation in China. Bell Helicopter Textron Inc. has also announced sales of its SB427 light twin-engine helicopters to various Chinese firms. Schweizer helicopters recently sold seven aircraft for training and law enforcement applications.

Private pilot training also is emerging as a new aviation activity. When Shanghai Eastern Aviation Training Co. opened a private flight training school in Shanghai last year, it had more than 200 applicants for its first class of 50. The school opened with a newly purchased Cessna 172R and a Beechcraft A-36 Bonanza, and plans to purchase another Cessna aircraft soon. After students complete 80 hours of ground school and 35 hours of flying time, they are eligible for a CAAC private pilot license.

When the school opened, it had permission to fly up to 600 m high in a 20 km radius of its airport, an older airport in Shanghai. Its initial curriculum, however, could not provide for practice maneuvers such as slow flight and stall recovery, which need to be done at higher altitudes. Additional airspace was needed to accommodate this new activity.

Interest in learning to fly is spreading. Private pilot-training schools have reportedly opened in

Last summer CAAC sent a high-level multidisciplinary delegation to one of the largest US general aviation events—Air Venture in Oshkosh, Wisconsin—where delegates learned about all aspects of general aviation operations. Another team came to the United States to examine airport facilities for general aviation operators.

Guangzhou and Beijing. The CAAC Flying College, which trains commercial pilots at a series of airports across the country, could become the base for general aviation instruction. Shandong Airlines, one of China's progressive regional airlines, is eager to begin private instruction at the airports it owns. These schools not only fill domestic demand, but also demand from would-be pilots in neighboring countries. A sports flying school about four hours south of Beijing has enrolled Japanese customers who found the price of instruction in China more affordable than in Japan.

...but safety regulations lag

China's aviation safety regulatory system, like its air traffic system, is oriented toward commercial aviation. Because China lacks a regulation known internationally as Civil Aviation Regulation (CAR) Part 91, which provides the basic safety standards and flight rules for general aviation flying, CAAC requires private and corporate aircraft owners to place their aircraft under the management of established aviation operators. (For example, Shandong Airlines manages the Broad Air Conditioning fleet.) The CAAC Flight Standards Department now has a team drafting a CAR Part 91 for China.

As the momentum to open China's skies to small aircraft has grown during the past year, aviation policymakers have been re-

searching general aviation operations in other countries and taking steps to establish a safety regulatory structure. Last summer, for example, CAAC sent a high-level multidisciplinary delegation to one of the largest US general aviation events—Air Venture in Oshkosh, Wisconsin—where delegates learned about all aspects of general aviation operations. Another team came to the United States to examine airport facilities for general aviation operators. In China last year, CAAC hosted seminars featuring experts from the United States and other countries to learn more about managing general aviation operations. And CAAC's General Aviation Division in the Air Transport Department is preparing guidelines for general aviation operations.

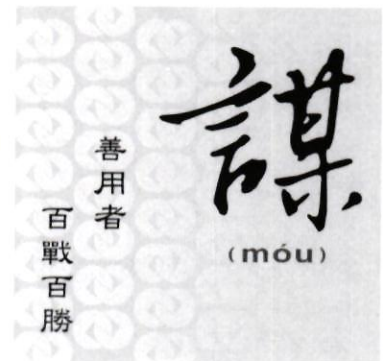
Until China opens more airspace, general aviation operators will continue to work through the CAAC General Aviation Division, which coordinates with the PLA to obtain permission for small aircraft operators needing to fly in temporary air routes and airspace normally closed to civil use. As more general aviation aircraft operate in China this workload increases, and no doubt it will continue to lead to more practical arrangements between the Chinese military and civil airspace users, benefiting all who fly China's skies. 完



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Cleared for Landing

Gwen Lyle

Airports multiply and expand, guided by the market and China's strategy to develop its interior

China's aviation industry is already one of the world's largest, ranking seventh in passenger turnover volume and tenth in transport turnover volume. The state-owned China Aviation Industry Corp. I (AVIC I) predicts that China's passenger traffic will grow 9 percent annually over the next 10 years, leveling off to 8.5 percent annually through 2020.

Where to land?

Much of this traffic flies in and out of a relatively small number of airports: of approximately 145 airports (in 135 cities) that handle scheduled flights nationwide, 20 are responsible for 78.8 percent of China's air traffic, according to the General Administration of Civil Aviation of China (CAAC). The airports in Beijing; Guangzhou, Guangdong Province; and Shanghai alone accounted for 36.9 percent of total passenger turnover in 1999, and 26 percent of total aircraft movement. These are three of just over 30 facilities that offer international service. By the end of 2005, however, China hopes to have 160 airports open for scheduled flights, and by 2015, 260. The United States, in comparison, had 565 certified civil airports in January 2000.

Of China's small supply of airports, only a minority can handle the largest planes. Only 22 of China's airports are currently in class 4E, meaning that they can accommodate Boeing 747 (B747) and B777 airplanes. The Chinese classify 35 airports as class 4D, which can accommodate B767, B757, Airbus 300 (A300), and A310 airplanes; and 40 airports as class 4C, which can handle medium-sized planes such as the B737. All airports in the capitals of provinces, municipalities, and autonomous regions are class 4D or E.

Not only does China need more airports, but it must develop and upgrade its existing ones. Because of a lack of both money and foresight, airports were often built too small and had to be expanded soon after they opened. CAAC's priority projects, in addition to the construction of Guangzhou Baiyun International Airport, are expansions of the Beijing and Shanghai hub airports, and improvements in secondary airports, especially in the Chinese interior, as part of

China's Great Western Development Strategy (*see The CBR*, November-December 2000, p.44).

Airports struggle to modernize

China also has to upgrade its flight security, plane maintenance, and repair and transport services. The country has yet to develop much-needed supporting air infrastructure, such as a nationwide computerized ticket-booking system. In the past 13 years, ¥39.2 billion (\$4.74 billion) has been pumped into China's air infrastructure (*see p.8*).

The goal of setting up a national hub and spoke network, in which the secondary airports feed larger airports and main trunk routes, remains distant, and city-to-city connections will be the mainstays of the Chinese industry for some time to come. The largest obstacles are limited demand in areas where the population generally cannot afford to fly and tourism has yet to develop; an inadequate fleet of small feeder aircraft; and regional airports that cannot handle larger planes.

The lack of feeder planes is particularly acute. Only a few dozen feeder planes—aircraft with less than 50 seats—currently operate in China, and they carry only 9 percent of passengers. Worldwide, feeder planes typically make up 30 percent of an airline's total operations. Aircraft with 70 seats or less constitute only 12 percent of the total passenger aircraft fleet. The air travel market is concentrated in large and medium-sized cities and southeastern coastal areas, but demand for feeder aviation is rising, especially along the east coast. Forecasted growth of passenger traffic for feeder aviation nationwide is around 10 percent annually, reaching 10 million passengers by 2005. This growth will continue to be moderate for a number of reasons, including the facts that economies in medium-sized cities are likely to remain weak, and that competition from railways and highways is likely to be strong, for some time to come.

China also has to figure out how to make its airports financially successful. The airport industry has learned that to make money, airports have to be run like businesses, which may re-

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quire privatization. China must copy the model used by most international airports, in which more than half of total revenues come from non-aeronautical sources like retail and parking facility fees. Officials hope to prevent problems like those of Jilin Airport, in Changchun, Jilin Province, which has been facing closure since it stopped receiving government subsidies last year. The airport is experiencing equipment problems and heavy losses because of low passenger volume. Beijing Capital International Airport (Beijing Airport) is one of China's few profitable airports, though according to its June 2000 interim report, net profit declined 21.5 percent from the previous year to ¥219.9 million (\$26.6 million).

After China joins the World Trade Organization (WTO), local governments will take over airport management from CAAC, and airports with substantial financial strength will be able to establish airport groups. Beijing Airport already has an expansion plan in place. The airport formally announced plans to establish an airport group with Tianjin's Binhai Airport, and it also has signed letters of intent with Xianyang Airport in Xi'an, Shaanxi Province, and Zhou Shuizi Airport in Dalian, Liaoning Province (see p.20). Beijing Airport also intends to invest in airport construction in western China.

The cargo market ascending

China's cargo market is expected to experience even larger growth than the passenger market. China's cargo deliveries to the United States will continue to outpace US deliveries to China by a factor of three. A trend towards larger, more productive freighter aircraft and the estimated tripling of the Asia-Pacific freighter fleet by 2019 will place a heavy demand on PRC airports. Though business passengers and tourists are probably a bigger priority for the industry, airports must be ready to respond to stronger demand for cargo services. To capitalize on the potential growth of the cargo market, China must improve its airport infrastructure, open its freight forwarding sector, improve service standards, and streamline Customs procedures (see p.30). Many Chinese airports, aware that the cargo sector has huge potential for revenue growth, are already building separate cargo facilities to handle more freight.

The Shenzhen municipal government, for example, is committed to establishing its airport as a major regional cargo hub. The government hopes the airport will serve as a competitive alternative to the nearby Hong Kong International Airport. In an effort to attract business, Shenzhen offers many preferential policies including low taxes, expedited customs clearance, and low-cost freight housing. The cost of handling 1 kg of cargo in Shenzhen is about \$0.04, compared with Hong Kong's \$0.25. Landing, overflying, and approach instruction fees, at Hong Kong International Airport are more than \$909, while

the same fees at Shenzhen International Airport are \$273. Nevertheless, Airbus Industrie sees Hong Kong stabilizing as the main airfreight transit point, and predicts China-Hong Kong cargo traffic will slow to an annual growth rate of 6.1 percent, from 7.6 percent, between 2006 and 2012.

Foreign equipment and service sales win out over direct investments

Foreign companies have found significant opportunities to sell equipment and services to Chinese airports, especially as many projects are funded by foreign loans that require competitive international bidding. Chinese civil aviation authorities report that they have hired 62 foreign-invested enterprises, many in support services such as catering and aircraft maintenance. These include Guangzhou Aircraft Maintenance Engineering Co. (GAMECO), a successful joint venture among Hutchison Whampoa Ltd., Lockheed Martin Corp., and China Southern Airlines Co., Ltd. Foreign-invested enterprises involved in equipment sales have included Portec Inc., which sells baggage conveyers; International Display Systems Inc., which sells multi-user flight information systems; and Infax, Inc., an information management and display-system manufacturer, which has sold both to Shanghai's Hongqiao Airport. Among foreign products most in demand

Chinese civil aviation authorities report that they have hired 62 foreign-invested enterprises, many in support services such as catering and aircraft maintenance.

Snapshot: China's Airport History

China's airports have come a long way. In 1949, the country had 36 airports, all with crude facilities. Only the airports in Guangzhou, Guangdong Province; Nanjing, Jiangsu Province; and Shanghai could be used even by a DC-4, and the rest could only handle small transport planes. Many old China hands will remember flying into Chinese airports in small, uninsulated Soviet cargo planes with cabins full of freight.

China's first international airport, Beijing Capital International Airport, was constructed in the early 1950s, followed over the next five years by about 25 small airports, mostly in South and Southwest China. Two more international airports were built in the early 1960s in Shanghai and Guangzhou, and the Beijing Airport was expanded. In the 1970s, airports were built in many provincial capitals, and in the late 1980s government efforts concentrated on airports near port cities. In the 1990s, more than 30 airports were built or expanded. China's current airport plans call for large hub airports with multiple runways and the ability to handle both passengers and freight. Authorities have emphasized the need to improve airport information systems, security protection, and monitoring systems.

The quality of airport construction has improved in recent years. In the early days of China's aviation industry, airports were only constructed on flat terrain, which was usually valuable farmland. Since the late 1980s, Chinese engineers have tried to tackle lower-quality spaces, such as the Caojiabao Airport in Xining, Qinghai Province, which was built on marshland, and Gaozi Airport in Xiamen, Fujian Province, where part of the runway was built on reclaimed land. Other airports have been built on soft land around water, hilly land, or in the case of Harbin, Heilongjiang Province, frozen land. The Longdongbao Airport in Guiyang, Guizhou Province, was the first to require massive leveling of stone—45 million m³ of stone and earth were moved in the course of construction. Bitumen pavers have spread bituminous concrete during the 1990s. China has used cement concrete with no expansion fissures since the 1960s and builders have used mechanical cutting and bonding of concrete joints to improve the flatness of the cement concrete surface.

—Gwen Lyle

In 2001, the US Department of Commerce Aerospace and Aviation Team is planning to organize a group of influential Chinese airport authorities to tour US facilities to learn about American products and services.

are passenger bridges, baggage handling systems, and information systems.

Foreign companies can often win contracts for the design of major airports, but domestic companies usually win the supervision and construction jobs. Foreign companies designed the terminal buildings of Beijing Airport, Shanghai Hongqiao and Pudong airports, and Guangzhou's Baiyun Airport, among others. China is eager for the technology, management experience, and capital these enterprises bring. Experience has shown that airport authorities start to look at foreign equipment, technology, and services several years before a project actually goes out for bid. By the time the bidding documents are released, airport authorities may already have an idea of which imported equipment or services they would like to purchase.

Foreign investors have been drawn into talks of possible joint operations with Chinese airports, though so far none of China's 34 airlines or 145 civil airports has managed to attract a foreign joint venture. The lack of decisionmaking power in joint ventures has discouraged potential foreign investors—regulations mandate that the chairman and president of foreign-invested airlines and civil airports be Chinese. Regardless of the number of shares they hold in an aviation joint venture, a foreign investor may have, at most, 25 percent of the votes on the board of di-

rectors. CAAC regulations adopted in 1994 stipulate that foreign investors shall hold no more than 35 percent of the shares of any mainland airline company and no more than 49 percent of the shares of any mainland airport. As China comes closer to joining the WTO, however, the Chinese government is reportedly considering regulations allowing foreign investors to increase their holdings in domestic airlines to 49 percent, and to be majority shareholders in airports.

In 2001, the US Department of Commerce Aerospace and Aviation Team is planning to organize a group of influential Chinese airport authorities to tour US facilities to learn about American products and services. The project will be managed by the Commercial Service at the US Consulate in Guangzhou and the Chinese authorities will likely be associated with airports from China's western regions. Participating PRC airports have construction plans that are still at an early stage, maximizing the potential for US company participation in the future.

Sources of funding

In terms of business operations, China's airline companies and civil airports have an ambiguous identity—somewhere between private businesses and public utilities with government participation. According to CAAC, capital fund investment in 1999 was ¥5.7 billion (\$690 mil-

Airports Seek Foreign Help for Expansion

● **Beijing** The Beijing Capital International Airport (Beijing Airport) claimed when it opened its new terminal that it had the best operating facilities in the world, but some services in such areas as retail offerings and passenger comfort still lag behind facilities elsewhere in the world. The airport has nonetheless already scheduled improvements, including a plan to obtain ISO9002 certification. The new airport handled 119,000 aircraft movements, 480,000 tons of cargo and mail, and 14.5 million passengers in the first eight months of 2000, an increase of 20 percent over the same period in 1999. It is already operating near capacity, with an annual passenger volume of 20 million on an average of 530 daily flights, with a peak level of 586 flights per day.

Beijing Airport and Tianjin's Binhai Airport have announced plans to form China's first airport group, to capitalize on each other's strengths and to design, build, invest in, and manage other airports under the jurisdiction of the General Administration of Civil Aviation of China. While the medium-sized Tianjin Airport's annual passenger volume is only 5 percent of Beijing's, the smaller airport also has facilities sufficient to handle large airplanes such as the Boeing 747. Just 85 miles apart, the two air-

ports serve as each other's alternative. Beijing and Tianjin airport officials intend to form a more effective road, rail, and water transportation network to increase the volume of passenger and freight transportation and elevate Beijing Airport to an international hub in northern Asia.

● **Shanghai** The first phase of the Shanghai Pudong International Airport began formal operations last year. The airport handled 2.47 million passenger arrivals and departures, and 97,600 tons of cargo, during its trial operation from October 1, 1999 to July 31, 2000. It is designed to handle 20 million passenger arrivals and departures annually, and 29 Chinese and foreign airlines have already opened passenger and cargo flights there. A second runway is scheduled for completion by 2003, at an expected cost of ¥2 billion (\$240 million). The Shanghai Airport Authority is seeking foreign investment and has established an airport construction company to procure all equipment. Major equipment needs in the short term include power and water supply, security, and baggage handling systems.

● **Guangzhou** Construction of a terminal for the new Guangzhou Baiyun International Airport, in Guangzhou, Guangdong Province,

began last summer. The new \$2.4 billion facility will cover an area about four times that of the existing airport, which it will replace. The current Baiyun Airport is the country's busiest and has long been overburdened by passengers and cargo. By 2010, when the new airport is complete, it will have three runways—the current airport has only one—and will be able to handle 80 million passenger arrivals and departures and one million tons of cargo annually.

The new facility will be built in several stages with designs provided by US firms Parsons Corp. and URS Greiner Corp., and the Guangdong Provincial Architectural Design Institute. The first phase of construction will cost about ¥10 billion (\$1.21 billion) and will be completed in late 2002. According to the local airport authority, the new Baiyun airport will be financed by open tender, a condition of the Japanese bank loan that is financing much of the construction. Baiyun Airport is the first airport in China to be constructed and run by a limited liability company. The airport will also be the first in which the local government plays a significant role in construction, alongside the central government.

—Gwen Lyle

lion). The largest source of funding (35 percent) was the Civil Aviation Construction Fund. Capital was also raised from public listings (26 percent) and domestic loans (21 percent). Less than 10 percent came from internal budgets and the airport construction fees paid by everyone who passes through a Chinese airport. Foreign loans were only 9.9 percent of the total money spent. Despite the wide variety of funding sources, the sector often loses more than ¥100 million (\$12.1 million) a year.

CAAC has started to raise funds for civil aviation enterprises through overseas listings. Many CAAC subsidiaries have been listed in Hong Kong and have raised large amounts of capital. These include China Eastern Airlines Co., Ltd., China Southern Airlines, China Aviation Industrial, and Beijing Airport. Beijing Airport raised HK\$740 million (\$89.4 million) for development and expansion through its initial public offering in early 2000 in Hong Kong. Issuing bonds is another method of raising capital—last year Shanghai Hongqiao Airport was the first A-share company to issue convertible bonds to raise funds for airport development.

Foreign investors' lack of enthusiasm for joint ventures has not affected foreign governments' interest in granting loans to China's airlines and airports. In 1982 China used foreign government loans for the first time in aviation infrastructure construction, when the Kuwaiti government provided loans with preferential terms to Xiamen International Airport. Since then, the aviation industry has benefited from a total of \$1.5 billion in low-interest government loans from Austria, France, Japan, the Netherlands, the United Kingdom, and the United States—most of which have supported both airport construction and renovation.

Western development

Western development is a common theme in China these days, and the aviation sector is no exception. According to the Chinese government, the 55 airports in the western part of the country

account for 39 percent of the country's total, with a density of eight airports per million km². The Chinese government plans to speed up infrastructure construction in the western provinces and autonomous regions, and has designated between 35 and 50 airports to be either constructed or expanded (*see below*). Unfortunately, these airports are unlikely to benefit local residents as airfares are too expensive for their lower incomes. The airports are really designed for tourists and business-

Last year Shanghai Hongqiao Airport was the first A-share company to issue convertible bonds, to raise funds for airport development.

people, who are expected to spur economic growth as they have in the rest of China. Funds for western expansion will come mainly from Treasury bonds, civil aviation departments, local governments, and foreign capital.

Sky-high ambitions

As tourism increases, sources of funding multiply, and airports restructure to become profit-making entities, the Chinese government will likely place the rapid development of China's airports higher on its list of priority infrastructure projects. Chinese aviation authorities seem determined to focus on western airport development in the coming years. Foreign investors, meanwhile—who have been lukewarm on the joint-venture opportunities in aviation, and the incentives available for investment in the west—will probably continue to seek out, and find, more opportunities in equipment sales. 完

Airports in Western China to be Expanded, Renovated, or Built, 2001-05

● Chongqing Municipality

Jiangbei (Chongqing); Qianjiang; Wanxian
Liangping

● Gansu Province

Dunhuang; Lanzhou Zhongchuan; Qingyang;
Jiayuguan

● Guangxi Province

Beihai; Nanning Wuxu; Wuzhou Changzhoudao;
Guilin Liangjiang; Liuzhou Bailian

● Guizhou Province

Longdongbao (Guiyang); Tongren; Xingyi;
Liping; Libo; Huangping; Liupanshui; Bijie;
Qianbei; Maotai; Zhongshanqu

● Qinghai Province

Ge'ermu; Xining Caojiabao

● Shaanxi Province

Xi'an Xianyang; Yulin Xisha; Ankangwulipu;
Hanzhong Xiguan; Yan'an Ershilipu

● Sichuan Province

Chengdu Shuangliu; Mianyang Nanjiao; Luzhou
Lantianba; Guangyuan Panlong; Panzhihua
Bao'anqing; Jiuzhaigou Huanglong; Xichang;
Yibin Laiba; Langzhong; Kangding; Dachuan
Heshiba; Nanchong

● Tibet Autonomous Region

Lhasa Gongga; Linzhi; Changdu Bangda; Rikazhe

● Xinjiang Uygur Autonomous Region

Urumqi; Qiemo; Kuche; Aletai; Ku'erle; Geshi;
Tacheng; Hetian; Kelamayi; Yining; Akesuwensu

● Yunnan Province

Kunming Wujiaba; Lincang; Nujiang; Mengzi;
Baoshan; Zhaotong; Dali; Lijiang;
Xishuangbanna Gasa; Simao; Diqing; Wenshan;
Mangshi

—Gwen Lyle and

US-China Business Council staff

Winners and Losers of China's WTO Entry

A recent study offers some concrete predictions of the economic effects of China's WTO entry

Jun Ma and Zhi Wang

China is widely expected to enter the World Trade Organization (WTO) in 2001, and Taiwan will immediately follow. The combined volume of total international trade in China, Taiwan, and the Hong Kong Special Administrative Region is equal to more than half of US international trade volume and has exceeded that of Japan since 1995. While it is generally known that the accession of China and Taiwan to the WTO will have a significant impact on the Greater China economies and many others, very few quantitative analyses have explored the impact on trade, production, and employment in specific industrial sectors.

Based on a large-scale computable general equilibrium (CGE) model, which includes 22 sectors, 17 regions of the world economy, and about 27,500 equations, we conducted a series of simulations on the economic impact of China's WTO accession on its own economy and on the rest of the world. In particular, the model estimates aggregate and sectoral gains and losses to production and trade in China and its major trade partners (*see p.24*).

Based on the US-China WTO agreement and other more recent commitments China has made to its major trading partners, our study assumes the following major trade-policy and investment changes over the next five years:

- Tariff reductions for both agricultural and manufacturing products
- Elimination of nontariff barriers (NTBs) in industrial sectors
- Agricultural trade liberalization, including the accelerated growth of import quotas for grains and plant-based fiber between 2001-05, and the elimination of such import quotas and the replacement of the quota system by a 15 percent tariff in 2005
- Opening up of major service sectors
- Phasing out of Multifiber Arrangement (MFA) quotas on textiles and clothing by North American and European countries
- An increase in actual foreign direct investment (FDI) inflows by 16 percent in 2001, followed by an average of 11 percent annual growth in FDI from 2002-04

Table 1 shows the estimated reduction in trade protection in 2005 due to prospective changes in China's tariffs and NTBs. As for Taiwan's policy changes upon its WTO accession, we assume a 15 percent tariff cut for grains and a 36 percent tariff reduction for all other products from 2001-05. By comparing the baseline scenario (in which China and Taiwan are not WTO members) and the entry scenario (in which China and Taiwan are WTO members), our simulations show net economic gains for China and its trading partners.

Gains for China from three sources

China's WTO accession and related FDI growth will, we estimate, enhance annual GDP growth by about 0.45 percent from 2001-05. This gain to economic growth mainly results from three sources: a more efficient allocation of production factors through increased specialization according to China's comparative advantages; a more rapid physical capital accumulation, which would compound the efficiency gains; and a more rapid growth of factor productivity as a result of technology transfer via the expansion of capital and intermediate goods imports. (The annual capital growth rate will increase by 0.45 percent, and the annual growth rate of total factor productivity will increase an additional 0.2 percent, relative to the baseline scenario.) Consistent with the higher GDP growth rate, total domestic consumption in China will also rise by an annual average of 0.47 percent over the next five years relative to the baseline scenario (*see Table 2*).

Winners and losers

Our model shows that, as a WTO member, China's exports and imports would grow at higher rates than if it were not a member. Over the next five years, the model predicts that average annual export growth will rise 6.7 percent, and average annual import growth will rise 5.2 percent, over the baseline scenario. These increases result from both China's trade liberalization and the substantially lower entry barriers it will face in other markets. The model predicts that the greatest increases in exports will be labor-intensive

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products such as apparel, leather and footwear, and nongrain agricultural products; the greatest increases in imports will be land- and capital-intensive products, such as grains, oilseeds, plant-based fiber, and motor vehicles.

These results in the trade arena are mirrored in domestic production patterns. Compared to the baseline scenario, the average production gain of the 22 sectors will be about 5 percent over the next five years. Our model suggests that the biggest winners in China's WTO accession will be producers of apparel, electronics, leather and footwear, textiles, other light manufactures, other transport equipment, and mineral products. Over the next five years, production in these sectors should increase by more than 10 percent from the baseline scenario. The apparel industry will grow an additional 61 percent, the electronics industry 26 percent, and the leather and footwear industries 19 percent (*see* Table 3). These results are consistent with the theory that in a free trade environment, China will specialize in labor-intensive industries and export more of these products.

Sectors that will lose the most after China's accession include motor vehicles, grains and oilseeds, and plant-based fiber. Production in these three sectors will decline by about 4-5 percent over the next five years, compared with the baseline scenario, as a result of China's WTO entry. These results reflect China's comparative disadvantage in land resources and the high cost of domestic production of land- and capital-intensive products.

It is worth re-emphasizing that Table 3 shows the comparison between production levels in the baseline scenario and the entry scenario, both dated in 2005, rather than the output growth rate from 2000-05. The output level of the "losing" sectors in 2005 could still be higher than in 2000 as a result of growth in domestic demand. This is especially true for the auto industry, as government consumption policies will significantly boost demand for its products.

Other than the sectors mentioned above, nongrain crops, forestry and fishery, livestock, wood and paper, and machinery will do better than average; mineral products, housing and

Our model suggests that the biggest winners in China's WTO accession will be producers of apparel, electronics, leather and footwear, textiles, other light manufactures, transport (other than motor-vehicle) equipment, and mineral products.

Table 1
Tariff and Nontariff Barrier (NTB) Protection
Rates in China after its WTO Accession (Percent)

	2000	2001	2002	2003	2004	2005 - 2010	Rate of Reduction	Initial NTB*
Apparel	32.1	28.5	24.9	21.4	17.9	17.9	44.3	
Dairy & meat products	16.7	14.9	13.2	11.5	11.4	11.4	31.8	
Electronics	11.6	9.0	6.3	3.7	3.0	3.0	74.5	7.8
Forestry & fishery products	4.4	3.1	2.7	2.6	2.6	2.6	40.8	
Grains & oilseeds	27.7	26.2	24.6	23.0	21.5	21.5	22.5	
Leather & footwear	12.2	10.5	9.1	8.6	8.6	8.6	29.6	
Livestock	21.4	20.5	19.5	19.3	19.2	19.2	10.4	
Machinery	13.5	11.4	9.6	8.1	7.4	7.4	45.5	5.1
Manufactured intermediates	11.8	9.8	8.2	7.1	6.9	6.9	41.8	12.0
Mineral & energy products	1.3	0.3	0.3	0.3	0.3	0.3	74.7	9.4
Motor vehicles & parts	33.3	29.2	25.1	21.1	18.4	18.4	44.7	26.3
Nongrain crops	22.1	19.7	17.5	15.4	14.5	14.5	34.4	
Other light manufactures	13.7	12.8	11.9	11.2	10.7	10.7	21.9	
Other transport equipment	4.9	3.8	3.7	3.6	3.5	3.5	29.1	11.2
Plant-based fiber	73.5	67.7	61.9	56.1	50.3	50.3	31.6	
Processed food	34.3	31.1	27.8	24.7	22.4	22.4	34.8	2.7
Textiles	25.4	22.0	18.5	15.2	12.4	12.4	51.2	7.0
Tobacco & beverages	50.0	44.8	39.6	34.4	29.2	29.2	41.6	2.7
Traded services	29.7	25.8	21.9	18.1	14.2	14.2	52.0	
Wood & paper	11.4	9.1	7.0	5.1	4.3	4.3	62.2	5.5
Average	17.0	14.5	12.2	10.2	8.9	8.9	47.6	

* Where applicable

NOTE: China's tariff cuts are aggregated from six-digit Harmonized Commodity Description and Coding System (HS) tariff schedules based on the US-China market-access agreement (November 1999) and weighted by 1998 import data from PRC Customs. SOURCES: Zhang Shuguang et al., *Measuring the Costs of Protection in China*; and Li Shantong et al., *The Global and Domestic Impact of China Joining the WTO*

construction, motor vehicles, and dairy and meat, among others, will do worse than average.

Foreign investment in service sectors

One important aspect of China's WTO accession that our model does not fully capture is the opening of service sectors to foreign investment. Liberalization measures in these areas will have a significant impact on China's telecommunications, banking, insurance, asset management and underwriting, retail and wholesale, transportation, travel, legal, accounting, and other services (see *The CBR*, January-February 2000, p. 24).

All segments of the telecommunications sector—fixed-line, mobile, Internet, paging, etc.—will permit greater foreign investment over the

banks' market shares and keener competition among domestic banks.

In the areas of insurance, asset management, and securities underwriting, China will also gradually reduce geographic, quantitative, and business scope restrictions under a rather complicated schedule. As for the retail sector, China's WTO commitments offer few additional concessions for the next three years other than policies that are already in place, but competition with major Western chain stores is already intense. The PRC will allow road and railway transport joint ventures in one and two years, respectively, after China's WTO accession. The terms for opening professional services vary, but they generally emphasize professional qualifications and

Table 2
Percentage Change in Annual Growth Rates
as a Result of China's and Taiwan's WTO Entry*

	Hong Kong	Taiwan	China
Real GDP	0.09	0.06	0.45
Exports	0.06	0.94	6.69
Imports	0.31	0.97	5.15
Total factor productivity	0.00	0.02	0.34
Capital stock	0.03	0.01	0.18
Consumption	0.09	0.06	0.47
Investment	0.09	0.06	0.45

* Percentage change from the baseline scenario, in which China and Taiwan are not WTO members
SOURCE: Authors' calculations

next five years. For example, 30 percent foreign equity participation in value-added services (Internet and paging) will be permitted in Beijing, Shanghai, and Guangzhou, Guangdong Province, immediately upon accession. Geographical restrictions and limits on foreign equity holding will be relaxed over the next two years. Similar but slower liberalization schedules will be applied to mobile voice and data services, as well as domestic and international fixed-line services. But China will not permit more than 50 percent foreign ownership in any telecom services even five years after its WTO accession, ensuring that foreign investors will be partners rather than competitors of domestic firms.

In the commercial banking industry, foreign banks will be permitted to engage in *renminbi* (RMB) corporate banking with local enterprises two years after China's WTO accession, and RMB retail banking with local individuals five years after accession. Geographical restrictions will be gradually relaxed over five years. Though foreign competition will have little impact in the first two years, China is stepping up its efforts to partially privatize some better-run banks, and several more commercial banks will likely list on the stock market in the next year or so. We expect to see a rapid expansion of these listed

Trading Partners and Sectors Included in the Model

- Association of South East Asian Nations (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam)
- Australia
- European Union (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, the United Kingdom)
- Hong Kong Special Administrative Region
- Japan
- South Korea
- Latin American Multifiber Arrangement (MFA) countries (Brazil, Central America and the Caribbean, Colombia, Peru, Uruguay)
- Low-income South African countries (Malawi, Mozambique, Tanzania, Zambia, the rest of sub-Saharan Africa)
- Mexico
- Middle Eastern and South African MFA countries (Botswana, Turkey, the rest of the Middle East, the rest of the South African Custom Union)
- New Zealand
- South Asia (Bangladesh, India, Nepal, Pakistan, Sri Lanka)
- Taiwan
- United States
- The rest of the world

The 22 sectors are apparel, dairy and meat products, electronics, energy products, forestry and fishery products, grains and oilseeds, housing and construction, leather and footwear, livestock, machinery, manufactured intermediates, mineral products, motor vehicles and parts, non-grain crops, other light manufactures, other transport equipment, plant-based fiber, processed food, textiles, tobacco and beverages, traded services, and wood and paper.

—Jun Ma and Zhi Wang

national treatment for foreigners and foreign companies.

Impact on Taiwan and Hong Kong

Our CGE model shows that the economies of Taiwan and Hong Kong will also be positively affected by the WTO entry of both China and Taiwan, but their gains will be substantially less than those of China. The annual GDP growth rates of Taiwan and Hong Kong would rise 0.06 and 0.09 percent, respectively, over the next five years, compared with the baseline scenario. Both economies would further increase their imports and exports, but Hong Kong's trade deficit with the mainland would increase slightly because direct trade between China and other countries would increase. At the sectoral level, Hong Kong's information technology sector would expand, while its apparel industry would shrink. The biggest winners in Taiwan would be textiles-related producers, while the main losers would be apparel and motor vehicles. The estimated percentage increase in Taiwan's plant-based fiber production is large, but as its base is only a negligible portion of the economy's total output, a shrinking cotton sector would not pose any threat to the island's economy.

Impact on the United States and other countries

Our model also generates a simulation of the impact of China's WTO entry on other countries. It predicts that China's WTO accession would raise the annual real GDP growth rate of the United States, European Union, and Japan by about 0.1 percent each over the next five years. As China opens its vast market, many countries will benefit from increased exports to China. In particular, all land-abundant agricultural commodity suppliers, such as Australia, Canada, New Zealand, and the United States, will gain significantly, with more than 50 percent of those gains going to the United States alone. China's WTO entry will enhance the exports of US land-intensive agricultural products by 14 percent over the next five years. Producers of automobiles and auto parts in Japan, the European Union, and the United States will seize more than 85 percent of the gains from increased exports to China, with US auto exports to China growing by 131 percent.

On the other hand, the model predicts that China's exports will outperform other Asian and Latin American suppliers in previously restricted markets, such as textiles and apparel. China's share of the US import market will increase by about 14 percent over the next five years. The domestically supplied proportion of US textile and apparel products will decline regardless of China's WTO accession, but China's WTO entry will accelerate this process and further reduce the market share of US-supplied apparel by about 5.7 percent, as of 2005.

More than economic gains

Compared with the baseline scenario, in which China is not admitted to the WTO, we expect that China's WTO entry will significantly enhance exports, production, and employment in China's labor-intensive industries, while reducing production and employment in land- and capital-intensive industries. Competition in service industries will become increasingly keen, though in the first one to two years after China's WTO accession many service sectors will remain protected. Overall, China's economic gain from WTO membership will be substantial. In addition to the visible economic benefits, China will have to change its economic institutions, legal framework, and government's role in the economy, to meet WTO requirements. The gains from improved institutions are difficult to quantify but are likely to be profound and have long-term effects on both China and the world economy. 完

Our model predicts that China's WTO accession would raise the annual real GDP growth rate of the United States, European Union, and Japan by about 0.1 percent each over the next five years.

Table 3
Percentage Change in Production in 2005
as a Result of China's and Taiwan's WTO Entry*

	Hong Kong	Taiwan	China
Apparel	-9.9	-6.0	60.6
Dairy & meat products	0.1	-0.6	1.7
Electronics	6.3	1.5	26.0
Energy products	0.9	-1.8	0.8
Forestry & fishery products	0.2	-1.4	3.6
Grains & oilseeds	0.3	-0.9	-5.1
Housing & construction	0.4	0.3	2.7
Leather & footwear	-0.3	-2.0	18.9
Livestock	-0.2	-0.6	4.6
Machinery	4.8	2.1	6.1
Manufactured intermediates	6.0	3.0	3.0
Mineral products	3.0	-7.8	-1.0
Motor vehicles & parts	-2.0	-7.9	-5.4
Nongrain crops	0.7	-2.5	1.7
Other light manufactures	0.7	-3.4	11.8
Other transport equipment	-1.6	-1.1	14.1
Plant-based fiber	-7.7	14.5	-3.8
Processed food	0.3	0.0	3.9
Textiles	0.6	9.9	13.4
Tobacco & beverages	1.1	0.1	3.9
Traded services	-0.1	0.3	3.5
Wood & paper	1.7	-0.1	4.4
Total	0.2	0.6	5.2

*Percentage change from the baseline scenario, in which China and Taiwan are not WTO members
NOTE: Table 3 shows the difference in production levels in the baseline scenario (in which China and Taiwan are not WTO members) and the entry scenario, both in 2005, rather than the output growth rate from 2000-05. The output level of the "losing" sectors in 2005 could still be higher than in 2000 as a result of growth in domestic demand. This is especially true for the auto industry, as government policies will significantly affect demand for its products.
SOURCE: Authors' calculations

Management Fraud in China

Patrick M. Norton and Lane Huang

Management fraud is a widespread problem for foreign businesses in China. Detecting it is difficult and resolving it satisfactorily is even harder. Nevertheless, there are reasonable steps that foreign investors can take to minimize the risk of management fraud and deal with the problem when it occurs.

Some common-sense tips on how to avoid falling victim to fraud in your China venture

Distance and language problems

Most foreign-invested enterprises (FIEs) in China take one of two legal forms—either wholly foreign-owned enterprises or joint ventures with one or more Chinese partners. (Share companies and holding companies, which are subject to separate laws and regulations, are less common and will be disregarded for purposes of this article.) Virtually all FIEs rely extensively on local management, which the FIE either hires directly or, in many joint ventures, assigns the Chinese partner to hire.

Foreign investors rely on local management personnel in China for the same reasons they do elsewhere in the world: local managers are more familiar with the distinctive features of the local market, business environment, and culture; have personal contacts in both business and government circles; and are generally less expensive. The difficulties of doing business in the Chinese language are also a compelling reason for using local management personnel. As a result, a foreign company investing in China typically manages its Chinese business at a great distance from its own headquarters, largely through local management personnel, who generally keep the venture's principal books and records in a language inaccessible to home-country management. This situation creates numerous opportunities for management fraud.

Most forms of management fraud in China are not unique to the country. Typical forms include

- **Fictitious transactions involving goods or services that are never received or are priced above their value** Local joint-venture partners or management personnel use other corporations under their control, sometimes located offshore, to invoice the FIE for such goods or services. The common ownership or affiliations of these corporations may be difficult to detect.

- **Competition with the FIE's business** Local joint-venture partners or management personnel may set up parallel companies that compete directly with the FIE, typically using the foreign investor's own technology and market information and diverting the most profitable contracts to their own operations. They may also falsify production records and sell part of the FIE's production "out the back door" and pocket the proceeds. Without independent contacts in the market, the foreign investor may have trouble discovering such activities.

- **Use of corporate assets as security for loans to the managers or other, unrelated businesses owned or controlled by the managers** China's undeveloped system for registering security interests often makes it hard for a foreign investor even to know that the corporation's assets have been encumbered.

- **Falsification of corporate books and records** Chinese accounting standards are still evolving, and corporate record keeping is lax at best. A foreign investor faced with a language barrier may fail to identify falsification or to distinguish it from sloppy or incompetent bookkeeping.

Some forms of management fraud in China also involve collusion between Chinese management and local government officials. Foreign investment in China is strictly regulated, and the frequent interaction between local management and local regulators offers numerous opportunities for collusion. This can take many forms. In one rather dramatic example, the Chinese party in an equity joint venture contributed land and buildings for a manufacturing plant as its share of the joint venture's registered capital, while the foreign investor contributed cash—a common arrangement. Without informing the foreign investor, the Chinese partner later went to the local

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land bureau and, presumably for some form of consideration, had title to the land and buildings transferred back into its own name in the official land records. The foreign investor discovered this largely by chance.

Some less-tangible causes

Distance and language barriers, together with a developing legal system, may make concealing fraud easier in China than elsewhere. More profound and less tangible causes may contribute as well.

China lacks experience with a modern business culture. In China's traditional economy, businesses were family owned or operated by trade guilds. After 1949, the focus of the economy shifted to massive state-owned enterprises run on the basis of central planning. Managers were government employees, not independent business managers accountable to shareholders. (This continues to be true for the many remaining state-owned enterprises in China.) As a result, until recently China has lacked a class of modern business managers following international standards of corporate governance. Many Chinese managers simply do not know what conduct is acceptable and what conduct is not.

Second, as numerous domestic and foreign commentators have noted, identifying a commonly accepted ethos in China today is difficult. China's leaders spent much of the twentieth century deliberately trying to destroy traditional Confucian values. Communism's own, originally puritanical morality has also been widely discredited, especially in the wake of the excesses of the Cultural Revolution. The Chinese have been told that "to get rich is glorious," without a widely accepted value system that puts constraints on the acceptable means to that end.

And finally, a sense of victimization may also play a role. Many Chinese believe that foreigners have exploited China for generations. The discrepancies between their own living standards and those of foreign investors—reflected, for example, in the broad gaps between local and expatriate salaries and benefits—lend credence to this belief. Some therefore have little compunction about enriching themselves at the expense of foreigners. Some foreign investors may encounter this belief among Chinese officials, who may, as a result, be less inclined to pursue Chinese perpetrators of crimes against foreigners.

We do not wish to imply that all Chinese possess these characteristics. Indeed, most Chinese still invoke and follow widely accepted ethical and moral principles of right and wrong, and there is a growing, talented middle class eager to adopt international standards of business, including international business ethics. Yet China is a society and an economy in flux, and the inevitable uncertainties of this situation provide fertile ground for corruption of many kinds, including management fraud.

The legal framework: Criminal law...

China's criminal law pertaining to management fraud is relatively undeveloped. Several provisions of the Criminal Code, however, penalize some of the more objectionable forms of management fraud in FIEs: conversion of corporate funds or property (Article 271); misappropriation of corporate funds (Article 272); solicitation or acceptance of bribes as a corporate employee (Article 163); and the offering of bribes to corporate employees (Article 164).

China is a society and an economy in flux, and the inevitable uncertainties of this situation provide fertile ground for corruption of many kinds, including management fraud.

Depending on the amount of money involved, conviction for these crimes may result in five to ten years' imprisonment, together with fines and confiscation of property that was stolen or converted from company to individual ownership.

Another set of criminal provisions in China applies solely to the management of state-run enterprises. These provisions, because they are directed at corporate managers who also qualify as government officials, target official corruption more than violations of general standards of corporate governance. These provisions of the Criminal Code include the following:

- Illegal competition with the business of the manager's own state-owned enterprise (Article 165)
- Diversion of corporate opportunities for the benefit of friends or relatives (Article 166)
- Culpable neglect of official duties leading to losses to the enterprise (Article 167) or its bankruptcy (Article 168)
- Sale of corporate assets at unjustifiably low prices in exchange for personal benefits (Article 169)

These provisions are obviously vestiges of an earlier era in China's economy, as they apply solely to state-run corporations. All of these actions should be equally objectionable for managers of private enterprises, but expanding their application to private enterprises, including FIEs, will require legislative action. In the meantime, even some particularly egregious forms of management fraud in FIEs, such as diversion of corporate business opportunities to friends or relatives, may be difficult to bring within the strict terms of existing criminal prohibitions.

...

...and civil remedies

China's civil law also includes provisions permitting restitution for unlawful misappropriation of corporate funds or assets. For example:

- Wrongfully converted property must be re-

stored or, if that is impossible, compensation in an equal amount must be paid (General Principles of Civil Law, Article 117).

- Directors, supervisors, and managers are liable to the corporation if, in the course of their duties, they violate laws, regulations, or the corporation's articles of association, and these actions cause losses to the corporation (Company Law, Article 63).

- The corporation is entitled to restitution of il-

The most effective and appropriate way to deal with fraud depends on, among other factors, the scope of the fraud; the involvement, if any, of the local Chinese joint-venture partner; and, perhaps most important, the attitude of local government officials.

legal gains from bribes, embezzlement of corporate assets, or misappropriation of corporate funds (Company Law, Article 214).

- The corporation is entitled to any income derived by a director or manager from a business competing with the corporation itself (Company Law, Article 215).

All of these are rights of the corporation; China has no recognized cause of action comparable to a shareholder's derivative suit under US law. Initiating any of these actions on behalf of a joint venture may, depending on the joint venture's structure, require the local partner's consent or a unanimous board approval. If the joint-venture partner is involved in the fraud in any respect, or is otherwise unwilling to pursue court action, approval may be impossible to obtain.

Exercise of these civil remedies is, in any event, subject to the general shortcomings of a judiciary that is unfamiliar with commercial law, often susceptible to political pressures, and frequently unable to enforce judgments against tangible assets. No reliable records are available that indicate how frequently these rights have been successfully invoked in Chinese courts, but we are unaware of any such cases in which an FIE has obtained restitution.

Steps to guard against fraud

Foreign investors can take a number of steps to mitigate the risk of management fraud in their China operations. Most of these steps are dictated by common sense and apply to investments everywhere. They are so often ignored or forgotten in China, however, that restating them is worthwhile.

The FIE's management structure is generally set out in its articles of association and, for joint ventures, in the venture contract as well. In these documents the FIE can limit the authority of local management in contracting or pledging the

FIE's assets, and require that an FIE officer appointed by the foreign investor co-sign transactions above certain thresholds.

The FIE's constituent documents may also specify which corporate officers will hold and have access to the business's accounts and records and how the accounts will be audited. At a minimum, an absolute right of access is essential. Most foreign investors should also insist on the right to have the business's accounts independently audited by an internationally recognized accounting firm under international accounting standards. Many foreign investors also insist on the right to name the FIE's chief financial officer.

Too many restrictions may, of course, encumber the business, and rules on paper will not always prevent a local manager from exceeding his or her authority. Nevertheless, a clear set of ground rules at the outset can both serve as a caution to local management and make clear after the fact whether rules have been broken.

Despite the obvious benefits, many foreign investors fail to exercise these basic precautions. Sometimes local partners convince them that such legalities are inappropriate in the Chinese business environment. On other occasions they are simply trying to minimize transaction costs. In either case, investors have only themselves to blame for the consequences of misplaced trust or false economies.

Legal framework aside, there is no substitute for a direct, hands-on management role. Ideally, foreign investors want to employ at least a few of their own personnel in positions that involve the personnel in the business's daily operations or that enable them to report irregularities to corporate headquarters. If these (generally expatriate) personnel are not fluent in Chinese, their effectiveness is limited, though their very presence is likely to inhibit major transgressions.

Properly preparing and training expatriate personnel is also important. China's business environment is often quite different from that in the foreign investor's own country, and distinguishing appropriate from inappropriate business behavior is not always as easy or obvious in practice as it may appear in theory.

Ultimately, the use of local management personnel in China businesses is both necessary and highly desirable from a business standpoint, and local joint-venture partners are invaluable to many businesses. All too often, however, foreign investors fail to perform the same thorough due diligence on their local joint-venture partners and personnel that they would in other countries or for other—sometimes less important—aspects of their businesses. Foreign investors have many ways of investigating the backgrounds of prospective partners or employees, including the Foreign Commercial Service offices in most US consulates (or their equivalents for other countries), trade associations, and local consulting firms. Some firms in China specialize in conducting this kind of due diligence and can check,

for example, the credit, reputation, and background of joint-venture partners, or verify the credentials of prospective employees.

Obtaining redress when fraud occurs

If these precautions are not taken—and sometimes even if they are—management fraud may occur. The most effective and appropriate way to deal with such fraud depends on, among other factors, the scope of the fraud; the involvement, if any, of the local Chinese joint-venture partner; and, perhaps most important, the attitude of local government officials. A foreign investor should regard the investigation as a process, the different components of which must be managed and adjusted as it evolves.

● Obtain evidence

When a foreign investor suspects management fraud, he or she first needs to obtain and preserve as much evidence as possible to establish a persuasive case for local authorities. In a joint venture, this is easiest to do when the local partner is cooperative and not under suspicion. The local partner may well have other sources of information that would help corroborate the suspicions. Generally, the foreign investor can then obtain relevant corporate records and block the suspected employees' access to those records and the computer systems on which they may be kept.

If the foreign investor believes that the local partner is involved in the problem, it may have difficulty obtaining the necessary evidence without confronting the partner and possibly precipitating the destruction of evidence. Private investigative agencies in China, including several that are foreign owned, can assist in investigations of this kind, but difficult questions of discretion and reliability are inevitable.

Premature or unsubstantiated accusations of wrongdoing may, of course, also cause problems. Lawsuits by local managers or partners for defamation or the like are improbable—but not out of the question—in China. If accusations are made and not substantiated, the practical consequence may be severe loss of face in business circles. The foreign investor should be certain of its case before taking aggressive action.

● Procure government support

Chinese police are unlikely to act on criminal complaints by foreign companies unless they believe that other parts of the Chinese government will support those complaints. The relationships among local partners, managers, officials, and police can be complex and opaque to outsiders. Substantial collusion or even outright corruption may exist in some areas.

Many officials in the Chinese government are sympathetic to allegations of fraud, however, both because their departments or ministries wish to promote foreign investment and, more simply, because they genuinely believe in upholding the law. Identifying those agencies that are most likely to be helpful and assembling the

proper alignment of support is the difficult part of the redress process. Foreign investors who make a point of establishing independent contacts (the famous *guanxi*) with appropriate regulatory authorities find this easier than those who leave government contacts entirely to their local partners or employees—who could end up being the very individuals suspected of fraud.

At all levels of government the foreign investor's leverage is enhanced to the extent that he or she has persuasive evidence of wrongdoing. In our experience, at some level of government the foreign investor is likely to find officials who are sympathetic to well-documented grievances and willing to help.

Generally speaking, the agency most likely to be sympathetic to complaints by foreign investors is the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and its local offices. The encouragement of foreign investment is one of MOFTEC's key missions, and MOFTEC officials are typically more sophisticated than other bureaucrats about the proper functioning of private corporations. The ministries with direct supervisory responsibility for the FIE's business sector (for example, the local office of the Ministry of Information Industry for an information technology FIE) and local government leaders (such as the mayor) may be less responsive than MOFTEC, as they may not wish to antagonize local businessmen. On the other hand, the disclosure of a major, unremedied fraud in their jurisdictions could embarrass them and jeopardize future foreign investment.

The most difficult situations for foreign investors are those in which the interests of the local managers or partners are closely tied to various local officials—in some cases, with direct collusion. The foreign investor's principal recourse under these circumstances is to raise the issue to a higher level—to the provincial government, or even, if the case is sufficiently compelling, to the central government in Beijing.

At all levels of government the foreign investor's leverage is enhanced to the extent that he or she has persuasive evidence of wrongdoing. In our experience, at some level of government the foreign investor is likely to find officials who are sympathetic to well-documented grievances and willing to help. Contrary, however, to the images of a highly centralized, authoritarian police state that are sometimes disseminated in the West, today's China is often a highly fragmented, decentralized

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Customs Law Gets a Facelift

Rico Chan

A majority of foreign investors and traders, when asked which aspect of Chinese law (and which law enforcement agency) they dread most, will list customs law and the General Customs Administration (Customs) first. This dread may be the result of

customs system into line with the more modern and rational customs systems contemplated by the 1999 Amendment Protocol to the International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Customs Convention), which originally came into force on September 25, 1974 (*see p.33*). The 1999 Amendment Protocol aims to simplify and coordinate customs procedures among members to meet the needs of rapidly growing international trade volume, and developments in information technology that affect international trade and customs practices. Third, the amended Customs Law confers more investigative and enforcement powers on Customs, but at the same time subjects these powers to a greater degree of accountability.

Amendments to the 1987 law bring much-needed improvements to the legal framework for Customs activities

poor communication on both sides, or of serious problems in China's customs system. Either way, if China manages to join the World Trade Organization (WTO) this year, its annual trade volume will jump from \$165 billion in 1999 to \$1.3 trillion by 2005, according to official estimates. Thus, the importance of improving customs laws and procedures cannot be overstated.

Indeed, many analysts regard the amended Customs Law of the People's Republic of China as one of the most important legislative changes that China has implemented to prepare itself for WTO membership (*see p.31*). The law, which was promulgated on July 8, 2000 and took effect January 1, 2001, includes substantial amendments to its predecessor, the Customs Law, enacted in 1987. Whereas the 1987 law had seven chapters and 61 articles, the amended Customs Law has nine chapters and 102 articles. As the new national legal framework for China's customs regime, it will usher in a wave of detailed regulations in 2001 that will change many basic PRC customs practices (*see p.32*). For domestic firms, foreign firms, and the Chinese government alike, the big question is this: Will the amended Customs Law equip China with a modern customs regime that can handle the likely explosion in trade volume?

In brief, the amendments to the Customs Law can be grouped into three general categories. First, they align China's customs tariff regime with WTO requirements. Second, they bring the

Meeting WTO requirements

The amended Customs Law institutes a new customs tariff regime, bringing Chinese customs law into line with WTO rules, particularly in terms of the following:

● Customs valuation (dutiable value)

The most important issue in customs law is the calculation and levy of customs duty on imported goods. The exact amount of customs duty depends on, among other factors, classification of imported goods, valuation methodology, rules of origin, and duty rates. Since the Tokyo Round of the General Agreement on Tariffs and Trade (GATT) negotiations in 1979, GATT members have agreed to adopt "transaction value" as the primary basis for valuation of imported goods. This agreement was eventually absorbed into Annex 1A of the 1994 WTO Agreement—more commonly called the WTO Customs Valuation Agreement. Under this agreement, other customs valuation methods are to be applied only when the "transaction price" is unavailable or inappropriate.

Although GATT members have established transaction value as the primary basis for customs valuation since 1979, China refused to adopt transaction value completely as its valuation method when it amended its Customs Law and Customs Tariff Regulations in 1987. Under the 1987 Customs Law, the dutiable value of im-

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ported goods shall be the “normal CIF [cost, insurance, and freight] value of the imported goods determined by Customs.” In essence, this statutory provision legally gave Customs complete discretion to accept or reject the value of imported goods stated in import documents. Like other developing countries, China has taken this nonconforming and defensive approach to reduce the loss of Customs revenue through transfer-pricing arrangements by trading parties. This nonconformity, of course, must end when China joins the WTO.

Article 55 of the amended Customs Law now provides that “the dutiable value of imported goods shall be based on the transaction price as examined and determined by Customs.” The vague language of this article, and its reference to determination by Customs, implies that Customs wishes to preserve its previous discretionary powers over customs valuation. However, Customs officials have stated on many occasions that they intend to embrace the WTO Customs Valuation Agreement fully. It remains to be seen whether the upcoming amendments

to the current Customs Tariff Regulations and the Customs Valuation Measures (both enacted in 1992) will place the discretion of Customs within the objective and transparent criteria and procedures prescribed by the WTO Customs Valuation Agreement.

As experience in China and elsewhere shows, requiring government authorities to justify their intervening actions in writing significantly reduces cases of arbitrary intervention.

● Right to explanation and right of appeal

Under articles 16 and 17 of the WTO Customs Valuation Agreement, a member’s customs administration must provide a written explanation of how it determined a particular customs value at an importer’s request. Further, under the April 1994 WTO Ministerial Decision in connec-

Recent Major PRC Customs Legislation*

2000

- Implementing Measures for the Regulations on the General Administration of Customs [Customs] Audit
- Notice of Customs on Increasing the Methods of Customs Supervision.
- Provisional Measures of Customs on Advance Rulings on the Classification of Commodities to be Imported and Exported through Customs

1999

- Announcement of Customs Concerning Implementing the “Real Deposit” Security Bank Deposit System
- Customs’ Implementing Measures for the Administrative Review Law
- Detailed Implementing Rules for the Measures for the Administration of Enterprise Classification Implemented by Customs
- Interpretation of the Supreme People’s Court on Several Issues Concerning the Application of Law in Criminal Trials of Smuggling Cases (Issued by the Supreme People’s Court)
- Measures of PRC Customs on Punishing the Illegal Domestic Sale or Assignment of Processing Trade-Bonded Goods
- Notice of Customs, the Ministry of Foreign Trade and Economic Cooperation [MOFTEC], and the State Economic and Trade Commission [SETC] Concerning Issuance of the Measures for the Administration of Enterprise Classification Implemented by Customs (Issued by Customs, MOFTEC, and SETC)
- Supplementary Notice of Customs, SETC, and MOFTEC on Several Issues Concerning the Standards for the Administration of Enterprises (Issued by Customs, SETC, and MOFTEC)

1998

- Notice of Customs on Adjusting the Customs Examination and Approval Procedures for the Import of Equipment for Some of the Domestic and Foreign Funded Projects Whose Development is Encouraged by the State
- Notice of Customs on Having the Directly Subordinate Local Customs Offices Take Over the Examination and Approval Procedures for Tax Exemptions on Certain Imported Supplies for the Exploitation of Petroleum (Natural Gas) in Designated Offshore and Onshore Areas
- Notice of the General Office of MOFTEC on Relevant Issues Concerning Confirmation of Related Foreign Investment Projects Eligible for Duty- and Tax-Free Importation of Equipment Organized by Enterprises and Units Directly Under the Ministry (Issued by the General Office of MOFTEC)
- Provisional Regulations for Administrative Punishment by Means of Warning, Suspension, or Revocation of Permission to Engage in Foreign Trade or International Freight Agency Business, Imposed on Enterprises that Violate Regulations or Engage in Smuggling (Issued by MOFTEC and Customs)
- Supplementary Notice of MOFTEC on Relevant Issues Concerning Implementation of the State Council’s Adjustment of the Taxation Policy for Imported Equipment (Issued by MOFTEC)
- Supplementary Notice on Further Strengthening the Administration of Foreign Economic and Trade Business and the Resolute Crackdown on Smuggling Activities (Issued by MOFTEC)

—Rico Chan

* Issued by the PRC General Administration of Customs unless otherwise noted.

tion with the WTO Customs Valuation Agreement, when the customs administration has reasonable doubts about the “truth or accuracy” of

The amended Customs Law does not require the importer to lodge a request for review with the local Customs administration first, but rather allows the importer to appeal directly to Customs in Beijing, and if necessary, to challenge any Customs decision in the local court.

a declared customs value, it may request additional information from an importing party. If the customs administration remains doubtful after reviewing the information provided, it must provide the importer with an explanation of the grounds for doubting the truth or accuracy of the declared value.

These provisions, which effectively shift the burden of proof onto the customs administration, help prevent arbitrary determinations. Under the 1987 PRC Customs Law, importers did not have the right to request explanations from Customs. Although the amended Customs Law does not expressly provide for a right to explanation, this right will likely be reflected in the forthcoming amendments to the Customs Tariffs Regulations and other related implementing regulations. Trading parties will applaud such amendments. As experience in China and elsewhere shows, requiring government authorities to justify their intervening actions in writing significantly reduces arbitrary intervention.

Article 11 of the WTO Customs Valuation Agreement (and Standards 10.4 and 10.5 of the Kyoto Customs Convention’s General Annex) stipulates that an importer shall have the right of appeal in response to the customs administration’s determination of the value of an imported good. This appeal will be directed either to the customs administration or an independent body, though the importer ultimately has the right of appeal to a juridical authority. In fact, both the 1987 Customs Law and the amended Customs Law comply with these international standards regarding right of appeal. The main difference is that the amended Customs Law does not require the importer to lodge a request for review with the local Customs administration first, but rather allows the importer to appeal directly to Customs in Beijing and, if necessary, to challenge any Customs decision in the local court.

● Advance ruling and announcement system

Reportedly modeled on the Administrative Rulings Procedures under Part 177 of the US Customs Regulations, Article 43 of the amended Customs Law allows parties to apply for advance rulings on the classification of goods and other customs issues. According to this provision, cus-

tomers must publicize these rulings for the general public’s reference. This advance ruling system, if properly implemented, would make the Chinese customs system significantly more transparent and predictable. In fact, prior to the amended Customs Law, Customs had been experimenting with an advance ruling system on a limited scale. Under the Customs Classification Rulings Measures issued in February 2000, parties were able to request Customs to advance rulings on the classification of goods prior to actual importation or exportation. However, such rulings applied only to the applicant’s goods. Article 43 of the amended Customs Law extends such administrative rulings to the same type of goods imported or exported by any other parties, similar to the current practices under US Customs Regulations.

Modernizing customs clearance procedures

The amended Customs Law updates PRC customs procedures in a number of important ways:

● Use of automated systems and EDI

With the increasing reliability and popularity of the Internet, both local and foreign firms have growing expectations for e-commerce (business-to-business, business-to-consumer) as well as e-government (business-to-government) transactions in China. The amended Customs Law now provides a legal basis for recognizing and further developing electronic customs declarations. Under Standard 7.4 of the Kyoto Customs Convention’s General Annex, China must provide electronic communication facilities to carry out customs declaration procedures. Furthermore, China has committed itself to implementing the 12-point Collective Action Plan produced by the Asia Pacific Economic Cooperation (APEC) Subcommittee on Customs Procedures.

Article 25 of the amended Customs Law states that import and export customs declarations shall be submitted in paper form *and* electronic form. During the drafting process, there was a lengthy debate over whether Article 25 should read paper form *or* electronic form. In the end, the consensus was that most local Customs administrations in China are not yet ready to handle customs declarations in electronic form only.

Customs has nevertheless been experimenting with the use of electronic communication and networking technology for quite some time, and has made significant progress. Since 1993 the Chinese government has been working on the “Golden Bridge,” the “Golden Gate,” the “Golden Tax,” and the APEC Shanghai Model Port projects. These projects aim to build a national communication network to link China’s foreign trade, customs, tax, and foreign-exchange control systems. For example, since January 1, 1999 exporters have been required to complete “foreign-exchange settlement verification” via a computer system that has been networked between Customs and the State Administration of Foreign Exchange (SAFE). In

Upcoming Amendments and New Regulations

Existing regulations to be amended:

Regulations on Import and Export Customs Tariffs Issued by the State Council on March 7, 1985; effective March 10, 1985.

Detailed Rules for Implementation of Administrative Penalties under the Customs Law Issued by Customs on July 1, 1987; amended and repromulgated by the State Council effective April 1, 1993.

Regulations for Customs Protection of Intellectual Property Issued by the State Council on July 5, 1995; effective October 1, 1995.

New implementing regulations to be enacted pursuant to the amended Customs Law:

- Customs security regulations
- Customs statistics regulations
- Customs clearance regulations
- Customs supervision and administration regulations

—Rico Chan

addition, starting from September 30, 2000, all import licenses have been applied for and granted electronically via a computer system that links Customs and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC).

Since 1994, Customs has been experimenting with a pilot computer system for customs clearance—first in Beijing and then in other major customs ports and zones throughout the PRC. Under this system, importers, exporters, and licensed customs brokers are required to enter customs declaration information into electronic data interchange (EDI) terminals installed at local Customs offices. Next, the information is reviewed by the Declaration Forms Review Section of the local Customs office. After review, the parties are asked to submit their customs declaration forms and supporting trade documents. Other sections of the local Customs office are notified of each customs declaration and which customs control measures, such as physical inspection and checking of import licenses, should be applied to each declaration. In November 2000, Customs announced the success of this pilot scheme and required that similar computer systems be installed nationwide as of January 1, 2001. It appears, however, that this system is not yet fully in place in many cities.

● Right to predeclaration inspections or sampling

Article 27 of the amended Customs Law meets China's obligation under Standard 3.9 of the Kyoto Customs Convention's General Annex to allow importers to inspect shipments and take samples before making customs declarations. This measure should help reduce the liability risk of importers and customs brokers making incorrect customs declarations because they lack knowledge of a shipment's actual contents. It should be noted that this right of predeclaration inspection is subject to the consent of Customs. According to explanations by Customs officials, when Customs has reason to suspect that a particular shipment is connected with smuggling activities, it may refuse to allow the importer to conduct a predeclaration inspection.

● Right to amend and cancel declarations

Article 26 of the amended Customs Law provides that parties can amend or cancel a submitted customs declaration if Customs deems that they have "valid reasons" for such a request. This article helps bring China's customs regime in line with Standard 3.27 and Transitional Standard 3.28 of the Kyoto Customs Convention's General Annex. But the actual benefits of this provision for trading parties will depend largely on how "valid reasons" are defined in the forthcoming Customs clearance regulations. Whether Customs will accept inadvertence as a valid reason is unclear, however, as is the level of proof that Customs will accept from trading parties to allow the amendment or cancellation of a submitted cus-

tom's declaration. This is important because, as all experienced traders know, inadvertent mistakes in customs declarations are bound to occur if a company has a heavy flow of trading transactions.

Parties can now amend or cancel a submitted customs declaration if Customs deems that they have "valid reasons" for such a request.

● Wider use of customs security

A new Chapter Six (Articles 66 to 70) has been added in the amended Customs Law to provide for the wider use of "customs security"—when importers or exporters request the clearance or return of goods from Customs pending a final determination on customs duty or other customs measures. This provision meets China's obligation under Standard 5.5 of the Kyoto Customs Agreement's General Annex, which requires China to accept a pledge of "general security" from trading parties for various customs matters. When compared with the Customs Security Measures issued in 1987, Chapter Six of the amended Customs Law appears to permit the use of customs security under more circumstances, and allows more non-*renminbi* forms of security cash deposits to be accepted by Customs. This should help strike a bal-

Kyoto Customs Convention: Background and Process

The International Convention on Simplification and Harmonization of Customs Procedures was concluded in Kyoto, Japan, on May 18, 1973 and took effect on September 25, 1974. China has been party to the Convention since 1988.

The Convention aims to eliminate the divergence of customs procedures and practices among its member countries, to meet the needs of international trade, to ensure the appropriate standards of customs control, and to enable customs authorities to respond to major changes in business and administrative methods and techniques.

Since the conclusion of the Convention in 1973, international trade volume has grown significantly. Consequently, demand for further simplification and coordination of customs procedures internationally is increasing. Under the auspices of the World Customs Organization, headquartered in Brussels, member countries agreed on a significant revamping of the Convention in 1999. As noted in its preamble, the 1999 Amendment Protocol aims to make the Convention's core principles of simplification and harmonization obligatory for all

member countries, and to provide customs authorities with efficient procedures supported by appropriate and effective control methods.

Before the proposed amendments can become binding for all of the Convention's existing 66 member countries, 40 of them must ratify the amended Convention. China agreed to follow the amended Convention on June 15, 2000, but as of February 2001 only a few other member countries had agreed to do so, including Algeria, Lesotho, Morocco, and New Zealand.

Within three years after the Amended Convention enters into effect, member countries must have implemented the standards contained in the General Annex, which they all must accept without reservation. At that time, member countries will also be required to implement any other standards from the convention's specific annexes to which they have also agreed. All members must also implement the transitional standards included in the General Annex five years after the 1999 protocol takes effect.

—Rico Chan

ance between commercial firms' need to clear customs expeditiously and Customs's need to protect revenue and discourage violations.

New Customs powers and accountability

Smuggling, for a multitude of reasons, is a serious problem in China. The multibillion-dollar smuggling syndicate in Xiamen, Fujian Province, recently uncovered by the Chinese government, is just one of many smuggling cases in China. Although China has significantly lowered its customs duties on imports over the past 10 years, the huge volume of imports into China still makes smuggling an extremely lucrative activity.

Customs now has the power to conduct investigations of suspected offenders outside Customs control areas. This includes searching vehicles, people, and places (other than residences) that may be involved in smuggling activities, as well as seizing goods, records, vessels, and vehicles.

According to statistics from Customs and MOFTEC, the antismuggling campaign launched by the central government in 1998 led to nearly a doubling in Customs duty revenue that year, along with the prosecution of many local Customs directors and local Communist Party cadres. Customs has long lobbied for more effective powers to combat rampant smuggling activities. At the same time, the community at large has been demanding more accountability and checks and balances on Customs's wide powers. Along with China's need to comply with the WTO Customs Valuation Agreement and the Kyoto Customs Convention, the central government, Customs, and public sentiment were equally strong forces in the framing of the amended Customs Law.

As part of the 1998 national campaign to combat rampant smuggling, the central government established the Antismuggling Investigation Bureau (ASIB), under the joint governance of Customs and the Ministry of Public Security (see *The China Business Review*, July-August 2000, p.44). Article 4 of the amended Customs Law gives full legal endorsement to the establishment of ASIB and its authority to conduct criminal investigations. This legal endorsement is critical to ASIB's legitimacy because under the 1996 PRC Criminal Procedure Law, only public security bureaus and other government organizations specifically authorized by national law to conduct searches, detentions, and criminal investigations may do so.

Under the 1987 Customs Law, Customs had rather limited investigative powers outside "cus-

toms control zones," demarcated around Customs entry points. Article 6(4) of the amended Customs Law now gives Customs the power to conduct investigations of suspected offenders outside Customs control areas. This includes searching vehicles, people, and places (other than residences) that may be involved in smuggling activities, as well as seizing goods, records, vessels, and vehicles. Restricting this "out-of-zone" power are the requirements that approval for searches be obtained from a local Customs director and that all searches take place in the presence of either the suspect or an independent witness. Article 6(5) of the amended Customs Law gives Customs new powers to search suspects' records and documents at postal organizations and financial institutions, provided these searches are authorized by a local Customs director.

Under Article 37 of the 1987 Customs Law, when a party fails to pay customs duty within the three-month statutory period, Customs has three options: enforce the security placed with Customs for the goods; dispose of the goods to satisfy the overdue customs duty; or order banks to deduct funds from bank accounts of the importer or its surety. Articles 60 and 61 of the amended Customs Law give Customs additional seizure powers, and increase the types of goods that can be disposed of, in order to satisfy overdue customs duty. These powers are subject to constraints. First, they may be exercised only with the approval of a local Customs director. Second, Article 61 states that if these powers are proven to have been exercised unjustifiably, Customs is obligated to return seized property and pay compensation to the infringed parties if necessary.

Additional protections can be found in Article 92 of the amended Customs Law, and other Chinese laws. Article 92 requires Customs to apply for a court order from the local People's Court before it may implement its penalty decision to sell off seized property. In addition, all Customs penalty measures are subject to the rules in the 1999 Law on Administrative Review, the 1996 Law on Administrative Penalties, the 1994 Law on Compensation by the State, and the 1989 Law on Administrative Litigation.

A commendable step toward modernization

The amended Customs Law is a praiseworthy development in Chinese law. Though many systemic, political, and organizational issues still need to be tackled to build Customs into a completely modern and professional organization, the amended Customs Law is a much-needed first step toward this end. As the basis for a national framework legislation, it is inevitably general. Traders now hope the forthcoming customs implementation regulations will be specific enough to further the goal of creating a transparent, objective, predictable, and rational customs legal regime. 完

Management Fraud in China

Continued from page 29

system. Even identifying sympathetic officials at higher levels of government does not guarantee a result.

This entire political process is obviously complex and involves numerous, ongoing judgments as to which officials to contact, when to try pressure, and when to be circumspect. Such decisions require on-the-ground expertise. Diplomatic sources, trade organizations, and law firms can often provide well-informed, experienced, and discreet advice and, if appropriate, can assist in dealing with government officials.

● Utilize the police

A special department of the local police called the Economic Investigation Section investigates economic crimes. The police are required by law to record in writing any charges brought by an individual or business entity. They will, however, only accept a case for investigation if they believe that reliable facts indicate a crime has been or will be committed. When the police accept a case, they conduct an investigation, collect evidence, and, if they believe sufficient evidence exists, request that the prosecutor indict the suspect.

To our knowledge, few allegations of corruption have been raised against these units. They can be susceptible to political pressure and connections, however, and their willingness to pursue an investigation on behalf of a foreign investor is likely to depend on whether they perceive political support for the investigation—hence the need for the foreign firm to establish that support first. The last thing the police want to do is start an investigation of this kind and find no political support behind them.

The local police are also influenced by practical, common-sense issues, including the seriousness of the crime, the difficulties of obtaining the necessary evidence, the resources that will be devoted to the investigation, and other investigations currently under way that have prior claims on resources. These issues guide the investigative decisions of police and prosecutors everywhere in the world, and China is no different.

● Employ forensic auditors and private investigators

While a police investigation is pending, the foreign investor may want to have an independent audit of the FIE conducted. The police usually lack technical accounting expertise and may find an independent audit useful for investigative purposes and in any subsequent prosecution. The police generally accept only forensic audit reports issued by designated forensic audit firms. The foreign investor should, therefore,

consult the local police bureau before retaining an auditor. The company's regular auditors should probably not be involved in this process, as they presumably missed the fraud in the first instance. This process is easier if the foreign investor has reserved the right to conduct such audits in the FIE's articles of association or in the joint-venture contract.

Private investigators may also be helpful at this stage, particularly when the adequacy of police resources or expertise is a concern. But a

The local police are influenced by practical, common-sense issues, including the seriousness of the crime, the difficulties of obtaining the necessary evidence, the resources that will be devoted to the investigation, and other investigations currently under way that have prior claims on resources.

foreign investor obviously needs to be sure to keep the police informed of all independent activities.

● Minimize corporate liabilities from fraud

Criminal activities by the FIE's officers or directors may give rise to administrative or criminal liability of the FIE itself, or to civil liability for third-party losses. The FIE should act promptly to mitigate these risks. Careful review of any agreements entered into by the defrauding employees may identify third parties that need to be notified and consulted. Alerting regulatory agencies not already notified in the investigative process may also be appropriate. Also useful are advertisements in local newspapers advising third parties of individuals who are no longer authorized to represent the FIE or who may be using company seals ("chops") that are fake or no longer valid.

Forethought pays off

It is reasonable to expect that management fraud in China will gradually diminish as China develops both a modern business culture and more suitable laws. In the meantime, foreign investors are well advised to anticipate fraud problems when they structure their China businesses, and to address any problems they encounter promptly and discreetly. 完



In Memoriam

LEONARD F. WOODCOCK

Leonard Woodcock was an extraordinary man who spent the first decades of his career working to improve the lives of America's auto workers and the final decades constructing an enduring US-China relationship that would serve the vital interests of the citizens of both countries. He passed away at his home in Ann Arbor, Michigan, at the age of 89 on January 16, 2001, of pulmonary complications.

The son of a machine worker, Woodcock played a key role in developing the United Auto Workers (UAW) into one of America's largest industrial unions. He joined the union in the 1930s and rose through its ranks to become president in 1970, when Walter Reuther died in a plane crash. Later that year Woodcock led a 67-day strike against General Motors Corp. that produced major concessions. His accomplishments overall in the UAW were legendary. They include negotiating major health and safety improvements, voluntary overtime, a dental plan, cost-of-living and pension protections, and measures against discriminatory practices.

President Carter asked Woodcock in March 1977 to lead a diplomatic mission to Hanoi on the issue of US soldiers missing in action and then in July to become Chief of Mission in Beijing. Woodcock accepted the Beijing posting on the condition that he have a mandate to negotiate full normalization of relations with China before the next presidential election. Carter agreed, and Woodcock took up the challenge.

Woodcock succeeded in Beijing. He personally negotiated key aspects of the normalization package directly with Deng Xiaoping in the fall of 1978 and engaged his superiors in Washington to shape the American negotiating position. With the establishment of full diplomatic relations in January 1979, Leonard Woodcock became America's first ambassador to the People's Republic of China.

After he left Beijing in 1981, Woodcock continued his involvement in US-China relations for two decades. He constantly sought to educate the leaders of each country about the realities—and complexities—of the other. He understood that China is not monolithic, and he encouraged American policymakers to take serious account of this political reality.

Woodcock also toiled tirelessly and without fanfare to tackle difficult problems when they arose. Working closely with the State Department, just five

months after the June 4, 1989 Tiananmen massacre he traveled to Beijing to try to find a way for Chinese astrophysicist and human rights leader Fang Lizhi, who had found sanctuary in the US Embassy, to leave the country. During that trip he met with Deng Xiaoping in the last meeting that Deng had with any foreign visitor.

Throughout the 1990s Woodcock actively supported annual renewal of China's Most Favored Nation trading status, spending many hours making the rounds on Capitol Hill to keep the US-China trade relationship on track. This effort reflected his core belief that trade on an equal footing benefits the people of both countries. He arranged in 1991 for a Chinese buying mission that purchased \$130 million worth of American cars, spread equally among the Big Three auto makers.

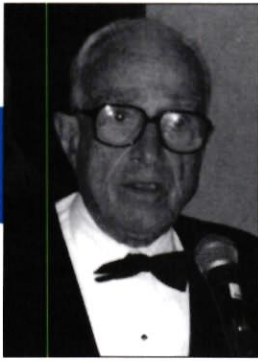
Leonard Woodcock took his message that good US-China relations serve the fundamental interests of Americans and Chinese to leaders and citizens in both countries. He felt strongly, too, that the United States must help China's economy move forward before Americans can expect significant political changes toward a more democratic political system there.

Leonard Woodcock was a unique man: a very skilled negotiator, tough but quiet, he was willing to dispense wise counsel but never sought compensation for his advice. This style made him effective but also hid much of the record of his accomplishments from the public eye. He remained an internationalist long after that went out of fashion in American labor. His wisdom, integrity, and political acumen will be sorely missed.

—Kenneth Lieberthal

Kenneth Lieberthal

is professor of political science and William Davidson Professor of Business Administration at the University of Michigan. He was special assistant to the President and senior director for Asia on the National Security Council from 1998 to 2000.



In Memoriam

ARTHUR W. HUMMEL JR.

THE MANY FRIENDS AND ADMIRERS OF RETIRED Ambassador Arthur Hummel were saddened by news of his death on February 6, 2001. Born in China of American missionary parents, Art Hummel retained a lifelong personal and scholarly interest in Asia. After joining the Foreign Service, he rose rapidly to become one of his country's most senior and respected diplomats. His ambassadorial posts included Burma, Ethiopia, Pakistan, and the People's Republic of China, and he was assistant secretary for East Asian and Pacific affairs during the administration of President Ford. He became one of the handful of senior American diplomats to rise to the rank of career ambassador.

To those who knew him, Art Hummel was the model of what a senior diplomat should be. He combined seriousness of purpose with immense personal integrity, great personal and moral courage, and a quiet sense of humor. Long before I met him, I had become acquainted with an episode in his background. As a high school student in Nanjing, Jiangsu Province, in 1949, I had acquired a puppy from a family friend, the China representative of the British American Tobacco Co., a dashing British citizen named Lawrence Tipton. A long-time resident of China, Tipton had been interned by the Japanese at the outbreak of World War II. He later escaped and spent the war years with a Chinese Nationalist guerrilla troop fighting in Shandong Province. Tipton used to regale us with stories from those days, which epitomized for me the utmost in adventure and danger. Years later when, as a mid-level Foreign Service officer, I met Art Hummel for the first time, I was awed by his dignified and distinguished bearing. Imagine my surprise when I discovered that he had escaped internment with Tipton, and the two of them had shared those adventures together.

Art Hummel became a close friend whose knowledge, policy sense, and intellectual integrity represented for me the best in the Foreign Service. He was unflinching in stating hard truths to foreigners and superiors alike, but he did so in a manner that earned respect for his viewpoint. He worked tirelessly to put US-PRC relations on a sound basis, but his perspective on China and on US national security interests was free of sentimentality. Coming as we did from similar backgrounds, we shared common interests ranging from US for-

eign policy in Asia to the use of computers to tame the Chinese language. Indeed, it was Art who introduced me to Chinese word processing, a skill he had mastered following his retirement.

As the US ambassador to the People's Republic of China from 1981 to 1985, Art Hummel played an instrumental role in negotiating the third of the three communiqués that form the basis for the US-PRC relationship. Earlier he had participated in the policy deliberations that eventually led to the establishment of US diplomatic relations with Beijing. In this and other ways, his dedicated service made a lasting contribution to the interests of the country, the United States, that he represented so well. For me, however, Art Hummel's most enduring legacy consists of his standards of personal conduct, his friendship, and his warm human qualities.

—J. Stapleton Roy

J. Stapleton Roy

a career ambassador, was ambassador to Singapore from 1984 to 1986; ambassador to the People's Republic of China from 1991 to 1995; and ambassador to Indonesia from 1996 to 1999. He was assistant secretary of State for Intelligence and Research from 1999 to 2000.

Photograph courtesy of the National Committee on United States-China Relations

China Business

Sales and Investment

NOVEMBER 15, 2000 - JANUARY 15, 2001

Compiled by Mark Dunn

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

John Hancock Mutual Life Insurance, a unit of John Hancock Financial Services, Inc. (US)/Tian'an Insurance Co. (Shanghai)

Will form life-insurance joint venture in China. (US:50%- PRC:50%). 11/00.

Agricultural Commodities and Technology

OTHER

Cargill Inc. (US), Uni-President Enterprises Corp. (Taiwan)

Signed agreement to build several oil-seed crushing plants in the PRC. 12/00.

Government of the PRC

Extended loan to the Philippines to speed implementation of agricultural projects. \$100 million. 12/00.

Banking and Finance

CHINA'S IMPORTS

Securities Institute of Australia

Won tender to train officials from BOC in credit risk management. 12/00.

PR Newswire (US)

Invested in Xinhua Financial News, a subsidiary of Xinhua News Agency of Beijing, to help distribute Chinese corporate financial information worldwide. 12/00.

OTHER

American International Assurance Co., Ltd., a subsidiary of American International Group, Inc. (US)/Bank of Communications (Shanghai)

Signed agreement to cooperate to run an insurance agency, share client resources, and train personnel. 12/00.

The Bank of New York Co., Inc. (US)/Agricultural Bank of China

Signed MOU to develop an open-end investment fund business in the PRC. 12/00.

Fortis Investment Management, a unit of Fortis (Belgium)

Will open office in Shanghai. 12/00.

Malayan Banking Berhad (Malaysia)

Opened branch office in Shanghai. 12/00.

Multilateral Investment Guarantee Agency, a unit of the World Bank/People's Insurance Co. of China

Signed agreement to promote foreign direct investment from China to developing countries. 11/00.

Sun Microsystems, Inc. (US)/Talent Technology Development Co. (Beijing)

Opened the Sun-Talent E-Banking Development Center in Beijing to promote the use of computer network technology in China's financial institutions. 12/00.

Chemicals, Petrochemicals, and Related Equipment

CHINA'S IMPORTS

Praxair, Inc. (US)

Signed 15-year contract to supply Semiconductor Manufacturing International Corp. of Shanghai with industrial gases. 12/00.

INVESTMENTS IN CHINA

BASF AG (Germany)/Sinopec

Established joint-venture ethylene plant, BASF-YPC Co. (Germany:50%- PRC:50%). \$3 billion. 12/00.

Lawter International, a subsidiary of Eastman Chemical Co. (US)/Funing County Organic Chemical Factory (Jiangsu)

Established joint venture to produce and market chemical intermediates and derivatives. 12/00.

BASF AG (Germany)

Opened BASF Colorants and Chemicals Co., Ltd. in Pudong, Shanghai, to produce complex metal dyestuffs. \$14.5 million. 11/00.

Abbreviations used throughout text: ADB: Asian Development Bank; BOC: Bank of China; CAAC: General Administration of Civil Aviation of China; CATIC: China National Aero-Technology Import-Export Corp.; 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.; ETDZ: Economic and Technological Development Zone; ICBC: Industrial and Commercial Bank of China; MII: Ministry of Information Industry; MOU: Memorandum of Understanding; NA: Not Available; NORINCO: China North Industries Corp.; P&T: Posts and Telecommunications; PBOC: People's Bank of China; RMB: Renminbi; SEZ: Special Economic Zone; SINOCEM: 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

Consumer Goods and Services

CHINA'S EXPORTS

Shanghai Tobacco Co.

Will export Chunghwa brand cigarettes to the United Kingdom. 12/00.

INVESTMENTS IN CHINA

Eastman Kodak Co. (US)

Will increase investment in the PRC to provide digital photo developing services. \$10 million. 1/01.

Lamkin Corp. (US)

Will open a golf-grip manufacturing and assembly plant in Guangzhou, Guangdong Province. 1/01.

OTHER

Carrefour SA (France)

Plans to open 10 more stores in the PRC. 12/00.

Lingo Media Inc. (Canada)/Guangzhou Renzhen English Production Group (Guangdong)

Signed a co-publishing agreement for two English-language learning programs. 12/00.

Pacific Sogo Department Store Co., a joint venture between Pacific Construction Co. (Taiwan) and Sogo Co. (Japan)

Opened third Shanghai store. 12/00.

IBM Corp. (US)/Dalian Department Store Group (Liaoning)

Signed partnership to exchange retail industry information and patented technologies. 11/00.

Electronics and Computer Software

CHINA'S IMPORTS

AsiaInfo Holdings, Inc. (US)

Will provide Shanghai Online, a unit of China Telecom, with network-security, professional-software, and system-integration services. \$1.4 million. 1/01.

RevaComm (US)

Won contract to design a website for Xinhua Financial News, a unit of Xinhua News Agency of Beijing. \$2 million. 1/01.

Intel Corp. (US)

Signed MOUs to provide information technology and equipment to Great Wall Securities Co., Guangdong Securities Co., Guosen Securities Co., and V-Sun Securities Ltd., for the construction of e-commerce sites. 12/00.

Nortel Networks Corp. (Canada)

Won contract from the PRC State Administration of Taxation to supply products for a computerized taxation system. \$10 million. 12/00.

Unigraphics Solutions Inc. (US)

Won contract to supply TONMAC International of Jiangsu Province with multiple licenses of software and collaborative visualization solutions. \$2.9 million. 12/00.

Unigraphics Solutions Inc. (US)

Will supply Shenyang Liming Aero-Engine Group Corp. of Liaoning Province with a fully integrated CAD/CAM/CAE software suite. \$1 million. 12/00.

Oberthur Card Systems (France)

Won contract to provide microprocessor chip cards for GSM mobile phones in China. \$23 million. 11/00.

Tektronix, Inc. (US)

Sold 642 arbitrary function generators to 25 Chinese universities to help students simulate lab situations and to improve electronics education labs in PRC universities. 11/00.

INVESTMENTS IN CHINA

HelloAsia Corp. (US)

Will acquire CNTomi of Guangdong Province, an enterprise software and solution provider, and rename it HelloAsia (China) Ltd. 1/01.

NEC Corp. (Japan)

Will increase investment at the Shanghai Hua Hong NEC Electronics Co. to boost chip production by 50%. \$300.1 million. 1/01.

Pacific Century CyberWorks (Hong Kong)/Chinese Academy of Sciences (Beijing)

Formed joint venture, Cyber Trans Science and Technology Development Co. Ltd., to create a bilingual web browser. (Hong Kong:51%-PRC:49%). \$12 million. 1/01.

Tsann Kuen Enterprise Co., Ltd. (Taiwan)

Will open five computer, communications, and consumer electronics stores in Xiamen, Fujian Province. \$3.03 million. 1/01.

Chunghwa Picture Tubes, Ltd.; Kuang Yuan Co., Ltd. (Taiwan); Victor Co. of Japan, Ltd./Fujian Electronic Information Group

Established joint venture, Fujian JVC Electronics Co., Ltd., to manufacture and sell deflection yokes for use in display monitors. (Taiwan:10%, 10%, Japan:70%-PRC:10%). \$20 million. 12/00.

Computer Associates International Inc. (US)/China National Computer Software and Technology Service Corp. (Beijing)

Formed joint venture to provide enterprise resource planning and manufacturing resource planning to the Chinese market. 12/00.

Hewlett-Packard (China) Co., a unit of Hewlett-Packard Co. (US)/Tianjin Science and Technology Development Co., Tianjin Zhenglian Information Engineering Co.

Signed agreement to establish joint-venture software testing center. (US:50%-PRC:10%, 40%). 12/00.

Legend Holdings Ltd. (Hong Kong)/New Oriental School (Beijing)

Will establish joint venture, Beijing Liandong Weiye Technology Development Co., Ltd., to develop online learning services. (Hong Kong:50%-PRC:50%). 12/00.

LG Group (South Korea)

Will increase its investment in the PRC over the next three years. \$430 million. 12/00.

Big Sky Network Canada Ltd., a subsidiary of China Broadband Corp./Deyang Guangshi Network Development Ltd. (Sichuan)

Formed joint venture to provide high-speed Internet access to Deyang, Sichuan Province. 11/00.

Intel Corp. (US)

Will increase investment in Shanghai to expand chip-making capacity. \$200 million. 11/00.

Samsung SDI, a unit of Samsung Group (South Korea)/Shanghai Vacuum Electron Devices

Established joint venture to produce vacuum fluorescent displays in the PRC. (South Korea:55%-PRC:45%). \$95.7 million. 11/00.

Sanyo Electric Co., Ltd. (Japan)

Will build a plant, Sanyo Energy (Beijing) Co. Ltd., to make lithium ion batteries for mobile phones. 11/00.

OTHER**Hewlett-Packard Co. (US)/Sohu.com (Beijing)**

Signed agreement to provide comprehensive e-commerce solutions for small and medium-sized companies in the PRC. 1/01.

JDS Uniphase Corp. (Canada)

Opened 320,000 sq. ft. manufacturing facility in Shenzhen, Guangdong Province. 1/01.

Philips Lighting, a unit of Koninklijke Philips Electronics NV (the Netherlands)

Will move its worldwide technology development and research center for integrated compact fluorescent lamps to Shanghai. 1/01.

Agilent Technologies, Inc. (US)

Will launch new research group in Beijing to develop tools to design and model next-generation optical communication devices. 12/00.

Chinese Computer Communications, Inc. (US)/China Association for Standardization, a branch of the China Quality Assurance Bureau

Signed agreement to promote the use of a Chinese Internet script developed by Chinese Computer Communications, Inc. 12/00.

Environmental Technology and Equipment**OTHER****ADB**

Will provide Tianjin with a loan to improve the city's sewage-disposal facilities. \$130 million. 12/00.

The World Bank

Will provide the "Water Conservation Project" with a loan to construct irrigation and drainage works in Hebei and Liaoning provinces, Beijing, and Qingdao, Shandong Province. \$74 million. 12/00.

Food and Food Processing**CHINA'S IMPORTS****Clements Citrus Sales of Florida, Inc., a subsidiary of Clements Golden Phoenix Enterprises Inc. (US)**

Sold 100,000 cans of frozen orange juice to Tianjin Hongrun Trading Co. Ltd. 12/00.

INVESTMENTS IN CHINA**Singfood Investment Pte, a unit of QAF Ltd. (Singapore)/East Rise Holdings Ltd. (Fujian)**

Formed joint venture, Fujian Dongjia Feeds Co., Ltd. (Singapore 50.1%-PRC:49.9%). \$2.1 million. 1/01.

Danone Group (France)

Will acquire 50% of Aquarius Water Co., Ltd. of Shanghai. 12/00.

Medical Equipment and Devices**INVESTMENTS IN CHINA****Medrad Inc., a subsidiary of Schering AG (Germany), Vincent Medical Manufacturing Co. (Hong Kong)**

Will form joint venture to manufacture disposable syringes in Guangdong Province. 1/01.

Formosa Plastics Group (Taiwan)

Will invest in the construction of hospitals in Beijing Municipality, and Fuzhou and Xiamen, Fujian Province. \$45.34 million. 12/00.

OTHER**Bank One Corp. (US)**

Will provide preferential loans to 30 Chinese hospitals to purchase advanced medical equipment. \$40 million. 12/00.

Miscellaneous**INVESTMENTS IN CHINA****Eastman Kodak Co. (US)/Shanghai Film and TV Group**

Will build multiplex movie theater, Kodak CinemaWorld, in Shanghai. 11/00.

OTHER**British Broadcasting Corp.**

Was granted license to broadcast its international news channel in the PRC. 1/01.

Hong Kong Asia-Pacific Satellite Holding Co., Ltd./China Great Wall Industry Corp. (Beijing)

Signed contract to launch the Apstar V satellite. 1/01.

Berlitz International Inc. (US)

Opened a language center in Beijing. 12/00.

IPS China Holdings Ltd. (Singapore), Integrated Paving Concepts Inc. (Canada)

Signed agreement to distribute StreetPrint Pavement Texturing product throughout the PRC. 12/00.

Ministry of Hotels and Tourism (Myanmar)/Chinese National Tourism Administration

Signed MOU to cooperate in the tourism industry. 12/00.

Star TV, an affiliate of The News Corp. Ltd. (Australia)

Established representative office in Shanghai. 12/00.

Bahraini Radio and Television Corp./State Administration of Radio, Film, and Television

Signed agreement to exchange radio and television productions about national culture and traditions. 11/00.

Microsoft Corp. (US)

Will establish representative office in Chengdu, Sichuan Province. 11/00.

Petroleum, Natural Gas, and Related Equipment**CHINA'S EXPORTS****China Huanqiu Chemical Engineering Corp. (Beijing)**

Signed contract with Ceylon Petroleum Corp. to build 30 oil storage tanks and a single point buoy mooring at Muthurajaela, Sri Lanka. \$79.52 million. 12/00.

Government of the PRC

Signed contract to export 7.5 million tons or more of crude oil annually to Japan from the Daqing Oil Field in Heilongjiang Province. 12/00.

Shenhua Coal Trading Co., a subsidiary of Shenhua Group Corp. (Beijing)

Won contract to supply the Philippine National Power Corp. with 455,000 tons of coal for the Mainloc power plant on Leyte Island, the Philippines. 11/00.

INVESTMENTS IN CHINA

Infineum Singapore Pte, Ltd., a joint venture between Exxon Mobil Corp. (US) and Royal Dutch/Shell Group (the Netherlands)/Gaoqiao

Petrochemical Corp, a unit of Sinopec

Established joint venture, Shanghai Hilibe Additives Co., to produce lubricant additives. (US, the Netherlands:50%-PRC:50%). 12/00.

OTHER

National Iranian Oil Co./Sinopec

Signed agreement to explore for gas and oil in Kashan, Iran. \$150 million. 1/01.

Virgin Oil Co. Inc. (US)/China United Coal-Bed Methane Co., Ltd. (Beijing)

Will explore coal-bed methane resources in the Ningxia Hui Autonomous Region. 1/01.

Largo Vista Group Ltd. (US)

Opened the Largo Vista Representative Office in Wuhan, Hubei Province. 12/00.

Phillips China Inc., a unit of Phillips Petroleum Co. (US)/CNOOC

Will develop the Penglai 19-13 oil field in Bohai Bay. 12/00.

Power Generation Equipment

INVESTMENTS IN CHINA

ABB Ltd. (Switzerland)/Xi'an Power Compensation Condensation Plant (Shaanxi)

Formed joint venture, ABB Xi'an Power Condenser Co., to manufacture power compensation condensers. \$6.4 million. 1/01.

OTHER

ADB

Will provide the PRC with a loan to help develop wind power as a source of electricity. \$58 million. 12/00.

United Nations

Established institution in Hangzhou, Zhejiang Province, to promote the construction of small hydropower stations in the PRC. 12/00.

Property Management and Development

INVESTMENTS IN CHINA

Accor (France), Zenith Hotels International (Hong Kong)

Formed hotel joint venture in the PRC. 1/01.

Telecommunications

CHINA'S EXPORTS

Shanghai Bell, a joint venture between Alcatel Bell NV, Belgian Development & Cooperation Fund (Belgium), and Huaxin P&T Economic Development Center (Beijing)

Won contract to upgrade Myanmar's telephone network. \$20 million. 12/00.

Shanghai Bell, a joint venture between Alcatel Bell NV, Belgian Development & Cooperation Fund (Belgium), and Huaxin P&T Economic Development Center (Beijing)

Will renovate the national telecommunications network of Laos. \$30 million. 11/00.

CHINA'S IMPORTS

Lucent Technologies (US)

Signed contract to provide Liaoning Telecom, a subsidiary of China Telecom, with optical networking products. \$15 million. 1/01.

Oy Nokia AB (Finland)

Signed agreement with Guangdong Telecom to supply a broadband access solution to Guangdong Province. 1/01.

Vodatel Networks Holdings Ltd. (Macao)

Provided China Telecom Guangdong Corp. with a Digital Data Network and Broadband Network Expansion Project. \$17.8 million. 1/01.

AsiaInfo Holdings, Inc. (US)

Won contract to supply Jilin Mobile Communications Co., a subsidiary of China Mobile Communications Corp., with messaging products and services for its local Internet infrastructure project. \$800,000. 12/00.

AT&T (US)

Will provide Huawei Technologies Co., Ltd., Guangdong Province, with a wide range of consulting, design, and networking solutions for its domestic and international operations. 12/00.

LM Ericsson AB (Sweden)

Won contract to expand the GSM network of Jiangsu Mobile Communications Corp. \$110 million. 12/00.

LM Ericsson AB (Sweden)

Signed contract to provide IP backbone network equipment to Zhejiang Telecom, a unit of China Telecom. 12/00.

Lucent Technologies (US)

Signed contract to provide Shandong Telecom, a subsidiary of China Telecom, with a synchronous digital hierarchy system and a dense wave division multiplexing system. \$8 million. 12/00.

Motorola Inc. (US)

Won contract from China Mobile Communications Corp. of Beijing to build a GSM 1800 network in Sichuan Province and expand the existing GSM 900/1800 network in Fujian Province. \$102 million. 12/00.

Motorola Inc. (US)

Signed contract to provide Zhejiang Mobile Communications Corp. with equipment for GSM expansion. \$29 million. 12/00.

Motorola Inc., Cisco Systems, Inc. (US)

Won contract to supply China Mobile Communications Corp. of Beijing with a general packet radio service high-speed mobile data network for the cities of Beijing; Chengdu, Sichuan Province; Hangzhou, Zhejiang Province; and Tianjin. 12/00.

NetSpeak Corp. (US)

Will provide China Unicom with a VoIP virtual private network solution. \$1.9 million. 12/00.

Nortel Networks Corp. (Canada)

Signed contract with China Netcom Corp. Ltd., to build an "OPTera" long-distance fiber-optic system from Shenzhen, Guangdong Province, to Hong Kong. 12/00.

Oy Nokia AB (Finland)

Signed agreement to expand the GSM 1800 mobile network capacity of Shanghai Mobile Communications Co. \$40 million. 12/00.

Oy Nokia AB (Finland)

Signed agreement with China Mobile Communications Corp. of Beijing to provide four provinces with a general packet radio service core network infrastructure. 12/00.

UTStarcom Inc. (US)

Signed contract to install city-wide wireless personal access systems in Guangxi Zhuang Autonomous Region and Hebei, Henan, and Jiangsu provinces. \$22 million. 12/00.

AsiaInfo Holdings, Inc. (US)

Will provide Liaoning Telecom, a subsidiary of China Telecom, with messaging products and services for its Internet infrastructure expansion project. \$1.6 million. 11/00.

Cisco Systems, Inc. (US)

Will supply China Unicom with a nationwide VoIP network. 11/00.

Oy Nokia AB (Finland)

Will provide a GSM 1800 mobile telephone network to Jilin Mobile Communications Co., a subsidiary of China Mobile Communications Corp. \$15 million. 11/00.

Oy Nokia AB (Finland)

Will provide the broadcasting services of Sichuan NTC Investment Co., Ltd. with digital multimedia terminals. 11/00.

UTStarcom, Inc. (US)

Signed contract to install wireless personal access systems in Guangdong and Shaanxi provinces. \$21 million. 11/00.

UTStarcom, Inc. (US)

Signed contract to upgrade the wireless personal access system in Hangzhou, Zhejiang Province. \$9 million. 11/00.

INVESTMENTS IN CHINA**Golden Fortune Investments Ltd. (Canada)/Wuxi New Telecom Ltd. Co., a division of Wuxi Telephone Co. (Jiangsu)**

Formed joint venture, Wuxi New Orient Telecommunications Ltd., to aid in the marketing of products to Chinese communication networks. (Canada:60%-PRC:40%). 1/01.

AT&T (US)/Shanghai Information Investment Inc.; Shanghai Telecom, a subsidiary of China Telecom

Formed joint venture, Shanghai Symphony Telecommunications Co., Ltd. to provide broadband IP value-added services in Pudong, Shanghai. (US:25%-PRC:15%, 60%). 12/00.

OTHER**Compaq Computer Corp. (US)/Datang Telecom Technology Co., Ltd. (Shaanxi)**

Signed MOU to collaborate on CDMA-standard wireless opportunities in China. 12/00.

Ministry of Finance (Republic of the Congo)/Export-Import Bank of China

Signed soft-loan contract to finance a joint venture between the Ministry of Post and Communications of the Congo and ZTE Corp. of Guangdong Province. \$9.6 million. 12/00.

MCE Companies, Inc. (US)

Will open an office in Nanjing, Jiangsu Province. 11/00.

Nortel Networks Corp. (Canada)/Datang Telecom Technology Co., Ltd. (Shaanxi)

Established partnership to promote sales of CDMA products in China. 11/00.

Transportation**CHINA'S EXPORTS****Harbin Aircraft Manufacturing Corp., a subsidiary of China Aviation Industry Corp. II (Beijing)**

Signed contract to export the C-12 series aircraft to Canada. 11/00.

CHINA'S IMPORTS**General Motors Corp. (US)**

Will ship unassembled Corsa sedans and station wagons to be assembled in Shanghai and renamed the "Buick Sail." 12/00.

Otis Elevator Co., a subsidiary of United Technologies Corp. (US)

Won contract to supply and install 1,020 screen doors in Guangzhou's Metro Line 2. \$16 million. 12/00.

Vector Training Systems (US)

Will provide the Civil Aviation Flying College of China, Sichuan Province, with two Piper Seminole trainers. \$500,000. 12/00.

INVESTMENTS IN CHINA**Honda Motor Co. (Japan)/Hainan Sundiro Motorcycle Corp., Tianjin Motorcycle Group. Co.**

Established joint venture, Sundiro-Honda Motorcycle Co. (Japan:50%-PRC:47.33%, 2.67%). \$99.6 million. 1/01.

General Motors Corp. (US)

Will acquire a 34% stake in Liuzhou Wuling Motors of Guangxi Zhuang Autonomous Region. 12/00.

Hino Motors Ltd. (Japan)/Shenyang Aircraft Industrial (Group) Co. (Liaoning)

Formed joint venture to manufacture coaches. (Japan:49%-PRC:51%). 12/00.

Kolbenschmidt Pierburg AG, a unit of Rheinmetal AG (Germany)/Shanghai Automobile Nonferrous Casting Plant

Established joint venture, Kolbenschmidt Pierburg Shanghai Nonferrous Components, to develop, manufacture, and sell automobile engine components. (Germany:50%-PRC:50%). 12/00.

OTHER**Orbital Engine Corp. (Australia)/Hainan Sundiro Motorcycle Co.**

Signed MOU to produce Orbital Combustion Process two-stroke engines for the Chinese automotive market. 12/00.

The World Bank

Will provide loan to the Xinjiang Uygur Autonomous Region to improve urban transportation. \$100 million. 12/00.

ADB

Will provide loan to China to build a new 176-km expressway between Chongqing and Zunyi, Guizhou Province. \$320 million. 11/00.

FedEx Corp. (US)

Was awarded one round-trip flight per week to the PRC. 11/00.

Hyundai Motor Co., Kia Motors Corp., subsidiaries of Hyundai Group (South Korea)

Jointly set up Chinese headquarters in Beijing. 11/00.

Northwest Airlines Corp. (US)

Was awarded one round-trip flight per week to the PRC. 11/00.

United Airlines, Inc. (US)

Was awarded two round-trip flights per week from the PRC. 11/00.

United Parcel Service (US)

Was awarded six round-trip cargo flights to the PRC per week. 11/00.

www.China

www.china.org.cn/e-15/index.htm This site, run by the China Internet Information Center, collects information regarding China's Tenth Five-Year Plan, drafted in October 2000 and finalized in March 2001. Documents include translations of the official communiqué, Premier Zhu Rongji's explanation, and official articles from the Chinese government and press.

www.edu.cn/english The China Education and Research Network (CERNET), set up under the Ministry of Education and operated by Qinghua and other leading PRC universities, is an academic network that links Chinese educational and research organizations and provides comprehensive information about China's educational system and resources. CERNET features free archives of news stories, research projects, website links, and statistics, among other resources.

<http://china.scmp.com/resources/ZZZCJ6MXUFC.html> This recently expanded *South China Morning Post* (SCMP) page offers a daily index of article summaries from the Chinese press. SCMP articles on social, political, and economic issues in the PRC are also available in the site's China section.

www.chinaquota.com This business-to-business website includes information on PRC export quotas, including prices, year-to-date clearance volume, and a visa query service. The site is divided into four categories—chemicals, garments, minerals, and crops—and visitors can view trading requests posted by other parties. Membership and all services are free of charge.

www.imf.org/external/country/CHN/index.htm The International Monetary Fund's China page features China's transaction history with the IMF, including disbursements, repayments, and current financial statistics. Also available are the latest IMF press releases and surveys related to China.

www.ita.doc.gov/td/infrastructure The website for the Infrastructure Division of the US Department of Commerce's International Trade Administration tracks large-scale infrastructure projects around the world and is primarily intended for American companies interested in overseas business opportunities. The site offers, for no charge, statistics and an extensive infrastructure-project database organized by country and industry. The database, which includes more than 100 China projects, lists project descriptions, relevant dates, and government contact information.

www.voanews.com The recently renovated Voice of America (VOA) website offers current news stories, organized by region and subject, as well as live webcasts of original radio and television news and entertainment programming. The VOA China Branch section of the site offers English lessons, a limited archive of past articles, and streaming Mandarin and Cantonese programming—some of which features callers from China. Visitors may access all areas of the site free of charge.

SITES IN CHINESE

www.peopledaily.com.cn/GB/channel3/topic216/ This *People's Daily* page collects articles about China's World Trade Organization (WTO) entry from Chinese publications. Included are analyses of how individual sectors will fare after China's WTO entry, as well as general commentary on China's preparedness and other concerns.

www.chinarural.org China Rural Villager Self-Governance Information Net provides news and information about self-governance in China's rural areas, including villager elections (see p.44). This site also features government regulations sorted by province, news reports, and several online journals that discuss rural life, work, and government.

—Drake Weisert

Village Elections: Training Ground for Democratization

Jamie P. Horsley

Since the early 1980s, the Chinese government has been quietly promoting, through the establishment of directly elected villager committees (*cunmin weiyuan-*

democracy—including the complementary nature of political and economic reforms and the intimate relationship between democracy and the rule of law—are now being repeated in a national context, suggesting a shift toward more openness and pluralism.

Well established and spreading to the cities, China's villager committee elections are forging a path toward rule of law in China

The villager committees: Out of the Cultural Revolution

The concept of villager self-governance through elected VCs emerged from the political and economic chaos of the decade-long Cultural Revolution (1966-76). Party leaders hoped the committees would promote stability and economic prosperity by allowing villagers to choose leaders they trusted and making these leaders directly accountable to their constituents. Party leaders also hoped the committees would help improve the relationship between villagers and the state. The government realized that to enforce unpopular central policies such as taxes and family planning, the state would have to improve this relationship. Although China has a long tradition of a kind of rural "home rule," used to relieve the empire of day-to-day administration in its numerous far-flung villages, never had competitively elected local governance been introduced at that level nationwide.

China's 1982 constitution provides for villager committees, elected by village residents, to handle public affairs and social services, mediate civil disputes, help maintain public order, and convey residents' requests and opinions to the people's government. The formal government extends from the top in Beijing down only to the township, one organizational level above the village. In 1987 the National People's Congress (NPC) adopted a provisional law that was made permanent as the VC Law in November 1998, after a decade's experience, public comment on a published draft revision, and heated debate over issues such as the degree of autonomy villager committees should enjoy.

hui), what may be the world's largest grassroots democratic education process. The 1998 Organic Law on Villager Committees (VC Law) requires villager committees (VCs) to implement democratic administration and subjects them to fiscal accountability. Supervised by the Ministry of Civil Affairs (MCA), they constitute the lowest level of civil administration in China. In some areas of Fujian Province, the country's leader in electoral innovation, villagers have just finished voting in their seventh round of regularly scheduled VC elections.

This process of village democratization is laying a foundation for the development of the rule of law among the 900 million Chinese who live in the countryside by teaching them their rights and responsibilities under the VC Law and by demonstrating the benefits of having accountable leaders whom they can vote out of office or even, in extreme cases, recall.

The villager committee experience is also influencing election practices and democratic governance in urban communities, higher-level township governments, and within the Chinese Communist Party, among other political arenas. Moreover, the themes the government articulated in justifying the introduction of village

Jamie P. Horsley

is a lawyer and currently a consultant to the Carter Center's China Village Election Project. She lived and worked in China for 13 years, as a lawyer, diplomat, and corporate executive, and continues to speak and write on developments in China. This article is based on field observations and discussions with Chinese officials, as well as research done in preparation for a longer paper entitled, "A Legal Perspective on the Development of Electoral Democracy in China: The Case of Village Elections," to be published in "Essays on Chinese Law" (a *festschrift* in honor of Jerome Alan Cohen, forthcoming).

The VC Law's primary goals are to ensure villager self-government and promote grassroots socialist democracy, material development, and culture and ideology. The law highlights the VC responsibilities outlined in the constitution and adds the duty of educating villagers on their rights and obligations under the law. Importantly, the law also gives VCs certain key economic responsibilities, which include management and allocation of village lands and collective property—matters of direct concern to all villagers—as well as support for cooperative economic projects and village production. The higher-level township governments guide, support, and assist—rather than lead—the VCs. The VCs, in turn, assist the township governments in their official work, such as tax and grain collection, family planning, and military conscription. Typical VC work plans might include raising funds for and constructing a new schoolhouse, installing cable TV in the village, or persuading the neighboring village to help build a better road.

The VC itself is composed of three to seven members, including a chair, one or more vice

The VC, as the “executive arm” of village governance, is accountable to the villager assembly, which is a body composed of all villagers aged 18

The themes the government articulated in justifying the introduction of village democracy—including the complementary nature of political and economic reforms and the intimate relationship between democracy and the rule of law—are now being repeated in a national context, suggesting a shift toward more openness and pluralism.

years and older. The villager assembly reviews the VC's annual report and evaluates its members, and may recall VC members and hold by-elections should vacancies occur during the VC



Ballot box and polling station, Xiangling Village, Xianyou County, Fujian Province, August 3, 2000

Photographs courtesy of Jamie P. Horsley

chairs, and ordinary members, all serving three-year terms. VCs are to include an “appropriate number” of national minorities and women, although the proportion of female VC members nationwide is still very low due, according to local leaders and civil affairs officials, to the perception among villagers of the “low quality” of the education and experience of rural women. VC membership is not a full-time or salaried occupation, although members generally receive some compensation for the time they spend on VC work.

term. The villager assembly may also make ultimate decisions on matters raised by the VC that involve the interests of all the villagers, somewhat akin to the people's congresses established at the township level and above. The villager assembly is further charged with formulating detailed village pledges and charters that govern the day-to-day work of the VC. Normally convened by the VC, the villager assembly may also be called at any time upon the request of 10 percent of the adult villagers.

Villager committee elections

The PRC has long held elections of various sorts. The typical arrangement in the past, for

Typical VC work plans might include raising funds for and constructing a new schoolhouse, installing cable TV in the village, or persuading the neighboring village to help build a better road.

commune leaders for example, would be for the Communist Party to decide on a slate of candidates, one candidate for each open position, and present that slate to the voters for approval or disapproval. Voting would generally be by a public show of hands at a mass meeting. VC ballots are still often designed for voters to indicate their approval or disapproval for each candidate, rather than merely to vote *for* the candidate of their choice, and mass meetings are often called to conduct VC elections. On the whole, however, VC election practice and law have progressed a long way from those early elections.

The 1998 VC Law now incorporates important democratic elements designed to ensure that the villagers truly have a choice in selecting their leaders, including

- Open, direct nominations by individuals rather than groups;
- Multiple candidates;
- Secret ballots;
- The mandatory use of secret voting booths to ensure the integrity of the individual vote;
- A public count of the votes;
- Immediate announcement of election results; and
- Recall procedures.

An electoral system cannot claim to be democratic if one group or party can choose all the candidates. The VC Law thus contains two stipulations designed to open up the nominating process. First, candidates must be nominated directly by individual villagers, rather than by organizations or the Communist Party as was the past practice. Second, the law explicitly prohibits “any organization or individual” from appointing, designating, or removing and replacing VC members, except in accordance with the law’s election and recall procedures.

Details on nominating procedures and the selection of official candidates—and the decision whether to hold primary elections at all—are left to local discretion. An open and competitive method referred to as a “sea election” (*haixuan*) has recently gained widespread popularity. Conceived by farmers in Lishu County, Jilin Province, this method operates like an open pri-

Sea Election in Qiuban Village, Fujian Province, August 2, 2000

Fujian Province’s first “sea election” under the 1998 Organic Law on Villager Committees (the VC Law) took place on August 2, 2000 in Qiuban Village of Xiaokou Town, Dehua County, Fujian Province. Nestled deep among lush hillsides dotted with rice fields, temples, and two-story red brick houses topped with gracefully arching dragon roofs, Qiuban is a poor village with 660 residents, of which 444 are registered voters and 12 are Communist Party members. The village has only one road leading in and out, and the nearest village is eight kilometers away. The Qiuban Villager Committee (VC) consists of a chair and two members.

Election day was preceded by the selection of the seven-member villager election committee by the villager representative assembly, voter registration, and a nomination process in which residents could register their interest in running for the VC or be registered by others. Three men, none of them incumbents or Chinese Communist Party members, registered to run for the position of chair. A candidates’ forum lasting four hours took place one evening, during which registered candidates were invited to give speeches and answer questions. Because sea elections are totally open, villagers could also vote for residents who had not registered for or participated in the forum.

The election on August 2 was scheduled to take place from 8-11:00 am, at the Qiuban Village school and office compound. Residents gathered in the courtyard first to hear procedural instructions from the villager election committee. Voters were to line up at one of three ballot stations, corresponding to the three “villager small groups” in which Qiuban residents are organized. Election monitors manned desks at the head of each line, where they carefully checked voter identification cards against the voter registration list and proxy authorization forms (from villagers who lived outside of Qiuban) against the proxy registration list. The cards and forms were stamped, and voters were then given a blank ballot. One at a time, voters entered a designated classroom containing a secret-ballot booth, which consisted of a curtained-off desk and chair. “Scribes”—teachers from outside the village—were available to fill in ballots for voters who were illiterate or otherwise needed assistance. Completed ballots were to be folded over and deposited by the voter personally in a locked ballot box positioned outside the room, under scrutiny of an election monitor.

Voting finished shortly after 11:00 am. The three ballot boxes were set on tables arranged in front of the courtyard, in full view of the

gathered residents. The boxes were unlocked, opened, and emptied onto flat round baskets. The ballots were first counted by election workers assigned to each villager small group to ensure the number of ballots cast did not exceed that of registered voters, and the total number of ballots cast was announced. All but 25 of 444 eligible voters cast ballots, including 64 who voted by registered proxies, thus exceeding the 50 percent threshold of voter participation required by law to validate the election.

The ballots were then mixed together and re-distributed to the ballot counters, so that determining how each villager small group had voted would be impossible. The names written under each position on every ballot were then called out, and the votes recorded on two large sheets of paper posted on either side of the courtyard. The results were tallied and announced on the spot. As is often the case with wide-open sea elections, no candidate received more than the 50 percent required to be elected, and a run-off election among the top vote-getters was held a few days later.

—Jamie P. Horsley

mary. Every voter has the right to nominate candidates for all open offices, candidates are often permitted to make campaign speeches and answer questions from the villagers, and the top vote-getters then go on to compete in the final election. In one sea election conducted in Hebei Province in January 2000, for example, roughly 150 candidates were nominated, and, based on the number of votes received, ultimately whittled down to two candidates for VC chair, two for VC vice chair, and four for the three VC member positions. In a modified sea election held in Fujian in August 2000, interested candidates were encouraged to register and participate in a candidates' forum prior to the vote, which resulted in a more manageable number of nominees.

The VC Law strengthens measures on transparency and accountability to ensure democratic self-government. It introduces the so-called "four democracies": democratic election, democratic decisionmaking, democratic management, and democratic supervision. The VC must not only abide by majority rule in making decisions and obtain approval from the villager assembly for action on specified matters (democratic decisionmaking) but must also adhere to the principle of "open management" of village affairs. This involves publicizing financial matters, every six months and promptly making public—typically on the village bulletin board—all decisions on important community-related matters, including family planning, disaster relief, payment of electricity and water bills, and the salaries and stipends of Party cadres and VC members (democratic management).

The VC Law gives villagers the right to report to higher levels of government if the VC does not publicize materials in a timely and accurate manner, and responsible persons are to be held liable for any violations verified through investigation. Moreover, the villager assembly is to review the VC's annual work report, evaluate the performance of committee members, and vote

on any request to recall a VC member, thus making VC members directly accountable to the villagers (democratic supervision).

The VC Law is weak on explicit enforcement provisions. Most complaints, on issues such as

An open and competitive method referred to as a "sea election" (*haixuan*) has recently gained widespread popularity. Conceived by farmers in Lishu County, Jilin Province, this method operates like an open primary. Every voter has the right to nominate candidates for all open offices, candidates are often permitted to make campaign speeches and answer questions from the villagers, and the top vote-getters then go on to compete in the final election.

fraudulent financial reporting, failure to hold elections on time, and refusal to install properly elected VC leaders, are handled by administrative appeal to MCA. Nonetheless, villagers have demonstrated a quick grasp of the significance of their rights under the VC system and have not been shy about filing administrative complaints, resorting to press appeals, and taking advantage of the recall provisions to oust corrupt and incompetent officials. One early recall case, for example, involved a village official who misappropriated ¥660,000 (about \$80,000) in village funds for personal use. In another, a VC official illegally sold village land and embezzled funds.

Branching out

Elected VCs are popular and may be introducing some measure of stability in the country-

International Support for Village Elections

China's village elections program, launched quietly and tentatively in the 1980s, started to attract international attention and assistance when the program began to gain momentum in the early 1990s. Organizations such as the Asia Foundation (www.asiafoundation.org); the Carter Center (www.cartercenter.com/China.html); the Ford Foundation (www.fordfound.org); and the International Republican Institute (www.iri.org) of the United States; the Canadian and the Finnish, Danish, and several other European governments; the European Union as a whole; and the United Nations Development Program (UNDP) have all lent financial and technical support of various kinds. Their efforts have focused, at the request of China's Ministry of Civil Affairs

(MCA), on training election officials and newly elected villager committee members, and producing civic education materials such as illustrated posters on the 1998 Organic Law on Villager Committees, the function of villager committees, and proper election procedures.

The Carter Center* has been working with MCA to develop software that will help compile a national, computerized database to collect and analyze the results of village elections. The database will provide information on how the elections are working and will help MCA identify any problems. The center is also working with MCA to develop websites that post legislation, policy documents, and news on villager committee elections. More information on MCA's pro-

grams and village election developments can be found at the websites given above and www.chinarural.org (in Chinese).

—Jamie P. Horsley

* In April 2000, the US-China Legal Cooperation Fund awarded the Carter Center a modest grant to support a cooperative project with the PRC Ministry of Civil Affairs to compile a handbook for election officials conducting village-level elections in China. The Legal Cooperation Fund is a project of the China Business Forum, Inc., the research and education arm of the US-China Business Council.



Unlocking ballot boxes for public ballot count of open “sea election” in Qiuban Village, Xiaokou Town, Dehua County, Fujian Province, August 2, 2000

side. Nonetheless, the thousands of rural protests and riots that have been reported in the press in recent years indicate that VCs are no panacea for the myriad problems plaguing Chinese farmers. Indeed, rural complaints primarily involve corruption, charging of excessive and illegal fees, and other abuses of power by township and higher-level government officials. These officials hold much greater power than VC members over spending on infrastructure and provision of

other government services, but are not directly accountable to their putative constituents.

People’s congress deputies

By law, the same villagers who elect their village leaders also vote every three years for their representative or deputy to the township people’s congress and every five years for their deputy to the county people’s congress. The township people’s congress in turn elects the



Counting ballots at polling stations, Liuxian Village, Xianyou County, Fujian Province, August 3, 2000



One of the winners of the Liuxian Village villager committee election shows his new Villager Committee Member Certificate. August 3, 2000

township magistrate and other township officials. The county people's congress elects county-level officials as well as representatives to the provincial people's congress, which in turn

The thousands of rural protests and riots that have been reported in the press in recent years indicate that VCs are no panacea for the myriad problems plaguing Chinese farmers. Indeed, rural complaints primarily involve corruption, charging of excessive and illegal fees, and other abuses of power by township and higher-level government officials.

elects representatives to the NPC.

Township and county deputies are technically accountable to, and subject to recall by, the citizens who directly elect them. The electoral law governing people's congress elections provides for competition through multiple candidates, write-in candidates, and secret ballots. However, since the nomination and candidate selection procedures for people's congress deputies are neither as open nor as competitive as those for VCs, the relevant Party organization still retains a good deal of control over determining the official candidate list. It is no surprise that township people's congress deputies generally appear more responsive to the Party and their superiors in the people's congress system than to the residents they are supposed to represent.

The people's congresses have, nonetheless, cautiously begun to exercise some of their own powers of election and confirmation. In 1988, a small number of provincial and provincial-level municipal people's congresses elected their own



Voting booth, Qiuban Village

candidates for provincial vice governorships and vice mayorships, rejecting Party candidates. In spring 1993, six candidates nominated by people's congress deputies—and not on the Party list—were elected as vice governors. And, for the first time in the PRC's history, candidates put

In one of the earlier reported instances of a quasi-direct township election that might serve as a model for further experiments, all registered voters in Dapeng Town in Shenzhen, Guangdong Province, were allowed to participate in a form of sea election to nominate candidates for town magistrate.

forward by the provincial people's congress deputies defeated Party-sponsored candidates for provincial governorships (in Guizhou and Zhejiang). Since the late 1980s, people's congress deputies have also begun to assert their independence, electing their own preferred candidates—rather than a predetermined slate—for deputies to the higher-level people's congresses and their own congress leaders.

Some Chinese election experts believe that the democratic improvements in the 1998 VC Law have created the conditions for further revision to the 1979 people's congress electoral law, last amended in 1995. The next round of township people's congress elections will begin in October 2001 and will be staggered throughout China over three to four months. The NPC, which oversees elections at the township level and above, will be experimenting with improvements in election procedures and will be collecting statistics with an eye to revising the law.

In the meantime, many local governments, including Beijing's, have begun to encourage greater interaction between people's congress deputies and their constituents. These local governments have instituted, among other measures, regular meetings in which deputies report on their work, take questions from the citizens, and educate voters on the functions of the congresses and their deputies.

Township elections

Another promising development is the increasing experimentation, especially since 1998, with more direct voter participation in the election of township officials. That year, the Party began to promote open administration (subject to public supervision) in both village and township affairs, thus laying the groundwork for more accountable township government and some form of direct participation in the election of township officials. In one of the earlier re-

ported instances of a quasi-direct township election that might serve as a model for further experiments, all registered voters in Dapeng Town in Shenzhen, Guangdong Province, were allowed to participate in a form of sea election to nominate candidates for town magistrate. Electors representing about one-fifth of the town's population, selected by the election organizing committee from among local officials, Party members, VC members, villager-small-group chiefs, town resident committee members, and representatives of enterprises and unions, then voted among the five qualified candidates who received more than 100 votes on the first ballot, in what was called an "opinion poll." The winning candidate's name was then submitted to the township people's congress for a confirming vote, in accordance with current law.

Of course, moving direct elections from villages of a few hundred or a few thousand residents, where everyone typically knows everyone else, to the township and higher levels becomes more complicated. The role and financing of candidates' campaigns, and the need for lesser-known candidates to appeal to aggregated interests, out of which pressure to form political groupings and parties would very likely emerge, are just some of the thorny issues the government and the Party will have to address. The Party has not wavered from its firm stand that China will not move to a Western-style, multi-party political system. However, while it considers ways to introduce direct elections at higher levels of government, the Party is permitting quiet experiments in such places as Anhui, Hebei, Henan, Shanxi, and Sichuan provinces, as well as Shenzhen, to gain insight and experience before tackling the matter formally.

Party elections

In the early years, turnover in village leadership was an estimated 15-40 percent. That percentage seems to be declining as trusted neighbors fill most VC positions. The Party was quick to capitalize on what turned out to be a good method of identifying popular and competent candidates for Party membership, and the number of Party members serving on VC committees appears to be on the rise. This phenomenon has led some observers to characterize VC elections as largely designed to consolidate Party power at the village level.

That the Party has taken advantage of the new system to shore up its ranks and credibility does not, however, detract from the influence the democratic experience is starting to have on elections for other offices. In fact, in an encouraging indication of a growing receptivity to popular participation, the Party is now experimenting more widely with a "two-ballot system" for electing local branch secretaries—the first ballot involving a popular vote on potential candidates and the second ballot restricted to Party members.

The Party is usually deeply involved in day-

to-day village affairs and competes with the popularly elected VC chair (in instances where the chair is not also a Party official) for effective leadership in the village. Party officials quickly saw the utility, if not the necessity, of recruiting local Party secretaries whom the villagers themselves endorsed. All village-level Party secretaries in Fujian, for example, were elected in May 2000 in a process that involved an initial "confidence vote" of candidates, in which all village voters participated, followed by a Party-members-only vote on final candidates. In 1999 Sichuan implemented a similar "public recommendation, direct Party member election" system of electing its village Party branch secretaries, and similar multistage Party elections have been tried at the village level in other places including Anhui, Henan, and Shenzhen.

Urban elections and the emergence of "communities"

The urban counterparts of villager committees are residents' or neighborhood committees. Authorized by the same constitutional provision as the VCs, the residents' committees (RCs, *chengshi jumin weiyuanhui*) date back to 1954, when they were first conceived to serve urban residents who did not belong to a state unit (*danwei*) such as a state-owned factory or government agency. The RCs were to handle such matters as civil mediation, household registration, and family planning, but were generally unpopular and seen as intrusive. They also competed with service organizations like the Communist Youth League, women's associations, and local Party branches. A 1989 law on residents' committees, patterned largely upon the trial VC law of 1987, called for RCs to be set up for every 100-700 households and answer to a residents' assembly. RC members were to be elected by representatives of households or small groups of residents, rather than directly by the individual residents. In practice, RC members have typically been appointed by the Party.

One of the reasons RCs never became a popular civic force was that city dwellers saw no direct connection between the RCs and their economic and social interests. As the numbers of laid-off workers and the urban unemployed rise, and government and state-owned employers provide fewer housing, schooling, medical, and retirement benefits, urban residents must look elsewhere for support. The RCs are emerging as one potential source.

Thus, in 1999 MCA selected and the Party approved about 20 cities to experiment with more open RC elections, involvement of younger people in RC work, and other fresh approaches to urban grassroots self-governance. Some large cities like Beijing; Chongqing; Nanjing, Jiangsu Province; and Shenyang, Liaoning Province, are expanding neighborhood boundaries to create larger "communities" (*shequ*) consisting of thousands of households rather than the hundreds

organized into RC neighborhoods. In some places residents, using secret ballots and generally following the procedures in the VC Law, directly elected community committees or councils. In others, committee members were still elected by household representatives or by proxy.

The Party is now experimenting more widely with a "two-ballot system" for electing local branch secretaries—the first ballot involving a popular vote on potential candidates and the second ballot restricted to Party members.

The NPC plans to revise the 1989 Organic Law on Residents' Committees within the next year or so, and is conducting preparatory investigations throughout China.

Implications for the rule of law

The Chinese speak of the VC Law as an important part of the country's strategy to establish the rule of law. As one official in Qianxi County, Hebei Province, put it: "The purpose of the villager committee elections is to, in accordance with the law, elect good officials who will serve the people, and to develop the economy and ensure social stability. You cannot separate democracy and the rule of law," he observed. "Democracy is the foundation and guarantee of doing things according to the law."

China has no tradition of democracy and rule of law, however. While developing sound legal codes and building legal institutions to implement and enforce laws are critical to establishing the rule of law, so is nurturing a society that understands the rights and responsibilities of citizens in a modern state. The introduction of democratic elections, self-governance, and transparency in financial and administrative affairs in the villages, with mechanisms to enforce accountability through recall and term elections as well as legal and administrative remedies, are significant building blocks for the spread of democracy, government accountability, and rule of law to higher levels and other sectors of Chinese society.

These developments are part of a series of broader reforms that complement China's economic development. Such reforms include permitting Chinese citizens to sue government agencies in certain cases; more competitive recruitment of government and Party officials through open examinations; the setting up of hotlines to report corruption, register complaints, and otherwise improve oversight over lo-

cal governments; and greater participation in the legislative process, as more draft legislation is made available for public comment.

At the conclusion of the Fifth Plenum of the 15th Central Committee of the Chinese Communist Party in October 2000, the Party echoed earlier calls to enhance democracy and the legal system, but also explicitly recognized that restructuring the political system is a necessary adjunct to the country's ongoing economic reforms and "socialist" modernization drive. In addition to its main focus on economic development and the impact of China's entry into the World Trade Organization (WTO), the plenum set the complementary goals of strengthening the establishment of a democratic political system, promoting "scientific and democratic" decisionmaking, and expanding citizens' participation in political affairs in an "orderly way." The Plenum further endorsed broader implementation of the "four democracies" that were developed in the context of VC elections. Recently, citing the Fifth

Plenum's call for greater citizen participation in political affairs, the Chinese government for the first time invited public input on the Tenth Five-Year Plan.

In 1999 the Ministry of Civil Affairs selected and the Party approved about 20 cities to experiment with more open residents' committee (RC) elections, involvement of younger people in RC work, and other fresh approaches to urban grassroots self-governance.

The increasing emphasis on the transparency of village and government affairs, official accountability, and governance in accordance with law bode well for the creation of a climate in China that is conducive to compliance with its future WTO transparency and rule of law obligations. These trends also suggest that China is gradually feeling its way toward at least some limited "democracy with Chinese characteristics" under the leadership of the Communist Party. In the process, the Party will build on important lessons being learned in the countryside about effective governance based on the consent of the governed through fair and competitive elections. 完

In the May-June Issue of

THE **CHINABUSINESS** REVIEW

China's Economic Reforms: The Right Direction?

- The Economy Struggles
- The Financial Sector Heats Up
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- Telecoms Report: The latest regulatory and industry developments
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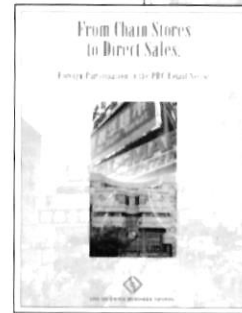
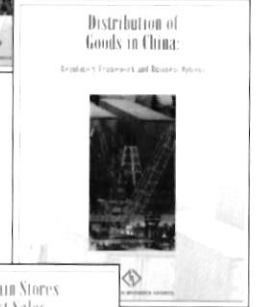
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Council Bulletin

Event Wrap-Up

Upcoming Events

China Operations 2001

April 10

8:30am-2:30pm

China World Hotel
Beijing

Topics:

- China's Economy
- Financial Services
- Dealing with Labor Disputes
- China and the WTO

For more information,
see below

Save the Date!

June 12, 2001

28th Annual Membership
Meeting
Washington, DC

Topics:

- China's WTO Preparations
- Shanghai as a Financial Hub
- Customs Modernization
- Research and Development Centers
- Human Resources and Tax Issues

For more information, see p.55.

Council's Forecast Conference Addresses Investment Climate, Intra-Company Relations

The Council's annual Forecast meeting kicked off with a reception on Capitol Hill on the evening of January 31. About 140 Council members attended two discussion panels and a luncheon the next day. The first session, on economic, political, and investment trends in China, featured Albert Keidel of Rock Creek Research, Joseph Fewsmith of Boston University, and Patrick Powers, director of the Council's China operations. Ray Bracy of The Boeing Co., Keith Davey of Ford Motor Co., Richard Herold of BP, and Jim Jarrett of Intel Corp. presented in the second panel, which focused on company strategies to coordinate headquarters, China, and Washington offices.

Senator Richard Lugar (R-IN) delivered the keynote speech on America's China policy. He said that, with the battle for Permanent Normal Trade Relations over, US debates on China would shift from commercial issues to traditional foreign policy concerns such as national security and human rights. He pinpointed the future of Taiwan, Taiwan arms requests, US export controls, Chinese-aided proliferation of weapons of mass destruction, national and theater missile defense, and China's persecution of religious groups as particularly difficult issues in US-China relations.

Washington

January

Farewell Luncheon for PRC Ambassador Li Zhaoxing

Reception on Capitol Hill

February

China Business: Houston

Featured Patrick Powers and Ann Weeks of the US-China Business Council

China Business: Chicago

Featured Patrick Powers, Karen Sutter, and Jeremie Waterman of the US-China Business Council

Issues Luncheon: Future Shock: The WTO and Political Change in China

Featured Minxin Pei, Senior Fellow at the Carnegie Endowment for International Peace, and Hu Angang, director of the Center for China Studies at the Chinese Academy of Sciences and professor at Qinghua University

Council and American Bar Association Committee Seminar: How to Succeed in Business in a Changing Greater China Featured H. Richard Kahler, president of Caterpillar China, Ltd.

Council APEC Working Group meeting

US APEC Business Coalition meeting Featured Liu Fugui of the China Council for the Promotion of International Trade

Shanghai

February

Luncheon Featured Geoff Jackson, regional director for Asia, US Trade and Development Agency

Breakfast: What's Next for Waigaoqiao

Featured Mr. Liu Hong, deputy general manager, and Henrietta He, project manager, from the Waigaoqiao United Development Company

Save the Date!

The US-China Business Council's China Operations 2001

Tuesday, April 10, 2001 • 8:30 am to 2:30 pm • China World Hotel, Beijing

TOPICS

- China's Economy in the Year of the Snake
- Financial Services Sector Update
- Dealing with Labor Disputes—Preventing Worst-Case Scenarios
- China and the WTO: A Status Check

China Operations is a members-only event.* Pre-registration and payment are required. For more information, or to register, contact: The US-China Business Council, Alice Shan, tel: 8610.6592.0727, e-mail: alicesxh@eastnet.com.cn.

*Prospective members are encouraged to contact the Council for more information.



The US-China Business Council's

28th Annual Membership Meeting

A Members-Only Event*

Tuesday, June 12, 2001

8:30 am to 2:30 pm

Washington, DC

Please join us for a discussion of emerging trends and priority issues for foreign-invested firms in China, including

- China's WTO implementation progress
- Shanghai's push to be a major financial services and IT hub
- Implications of China's Customs modernization project
- Factors fueling the growth of foreign-invested R&D centers
- Growing importance of human resources and tax issues

A luncheon keynote address on the
Bush Administration's China policy will follow.

Speaker announcements and more details will be available in the May-June issue of *The China Business Review* and on the Council's website at www.uschina.org/members

The Annual Membership Meeting is a members-only event. Pre-registration and payment are required. For more information, or to register, contact: The US-China Business Council, Gloria González-Micklin, Director of Programs, tel: 202.429.0340, e-mail: ggonzalezmicklin@uschina.org.

* Prospective members are encouraged to contact the Council for more information.

Picture

This Chinese character is the word for picture.

It's an image that conveys more meaning than the longest dictionary definition.

Chinese calligraphy attempts to capture the depth of a feeling, an idea, or an object in the simple gesture of a few brush strokes.

Each graceful line is considered a reflection of the author — every horizontal or vertical line is an indication of character.

It's more than just a word. It is a picture. Its design was specially chosen to articulate that which cannot be spoken out loud.

Picture-taking is the same endeavor.

Whether it's the smile of a bride, the joyful face of a child at play with his father, or the friendly glance of your best friend, we all say silently to ourselves, "I hope that picture comes out" as the shutter clicks.

And when it does, it calls back all the subtleties, all the nuances, of the moment.

It requires no translation. It defines its time as a world beyond language.

A good picture can be never be defined with 1000 words. Or, really, with any words. Any more than you can define a song, a rainbow, or a smile.



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