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THE CHINA BUSINESS REVIEW

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Technology Import Rules

A Chinese Law Firm's Story

Women Migrant Workers

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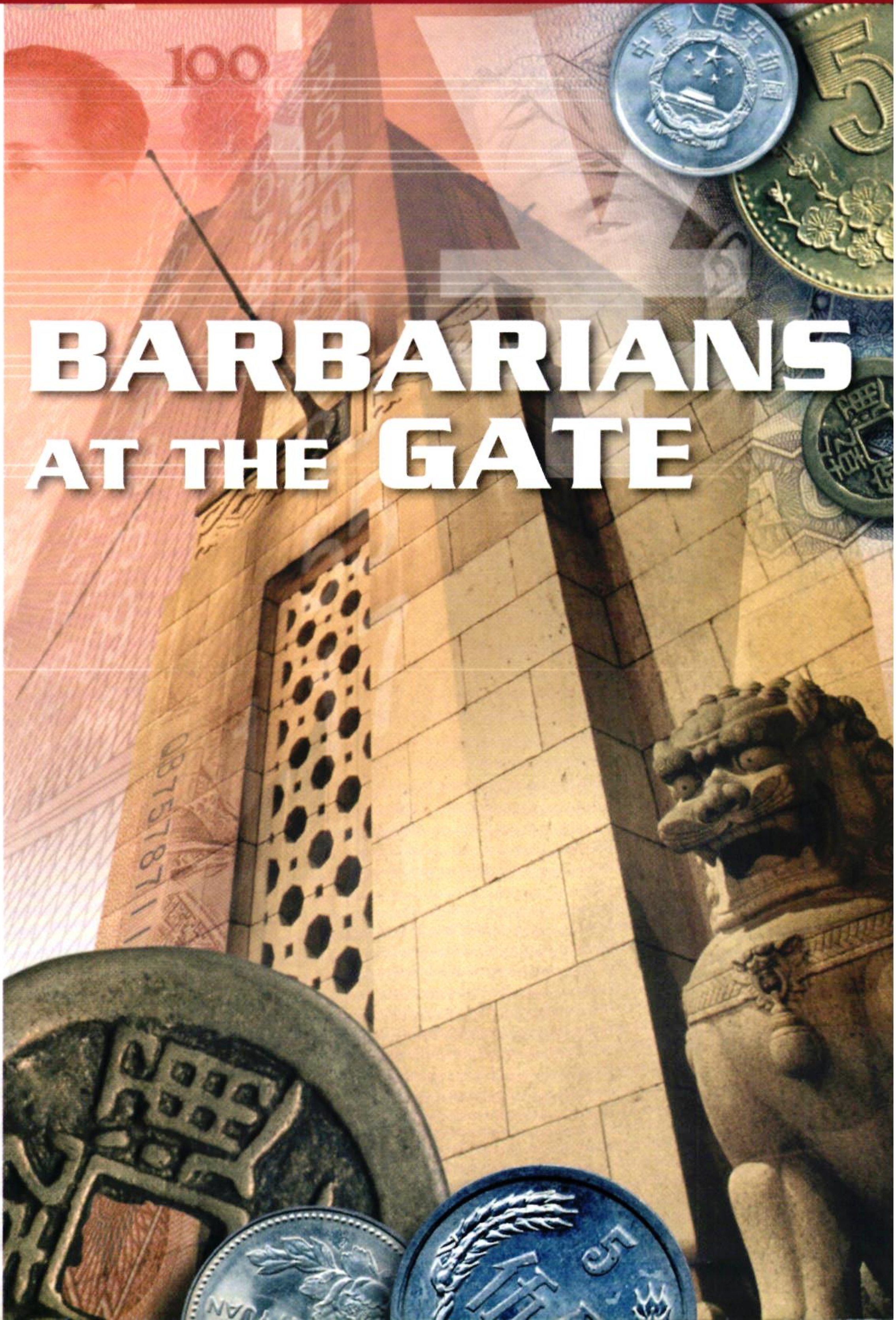

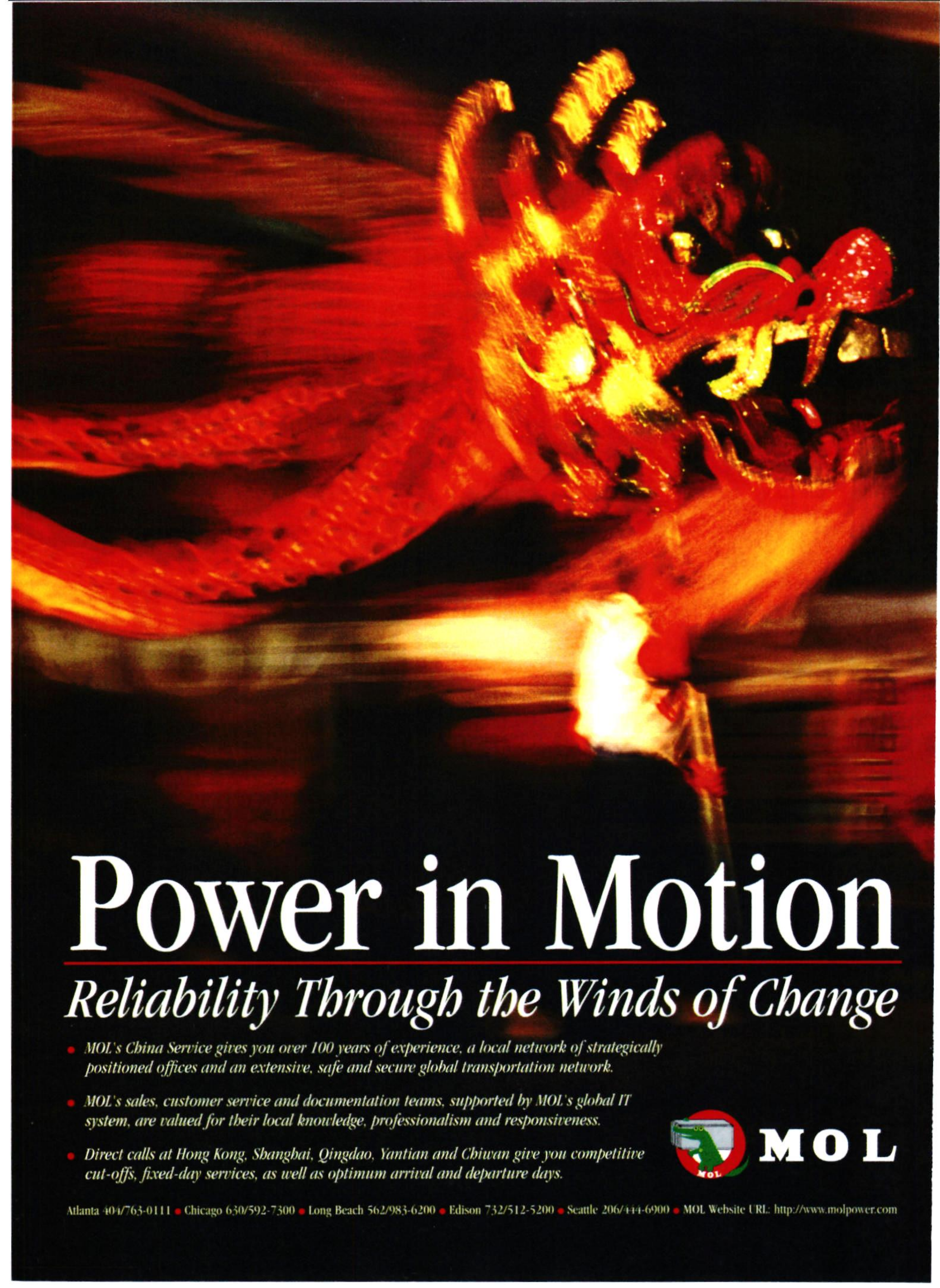

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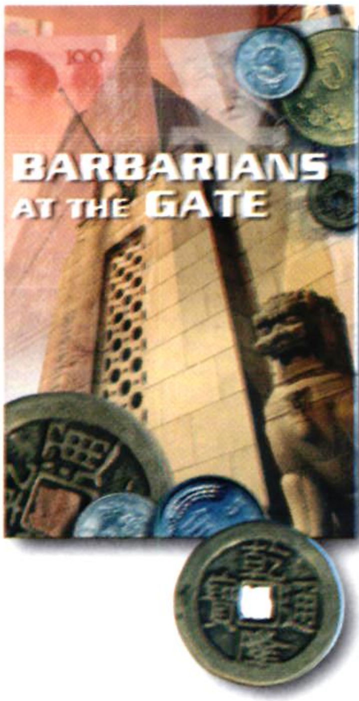

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short takes

Beijing Restricts Outdoor Advertising

The Beijing Municipal Administrative Management Committee recently passed a new regulation requiring the removal of oversized billboards—numbering nearly 200,000—in an attempt to prepare for the 2008 Olympics and "to preserve the architectural ambience of the city." Some of the billboards targeted include the 40-foot-high A&W restaurant billboard situated between the Hilton and Sheraton hotels in downtown Beijing—and 30 McDonald's restaurant signature golden arches.

China to Get Faster Computers

US technology firms may now sell server and other computers with processor speeds of up to 195,000 millions of theoretical operations per second to China without seeking authorization from the US government. The original 1979 Cold War-era ban on the export of high-speed computers was designed to curb the export to potential enemies of technologies with dual commercial-military applications.

China's First WTO Complaint: Steel

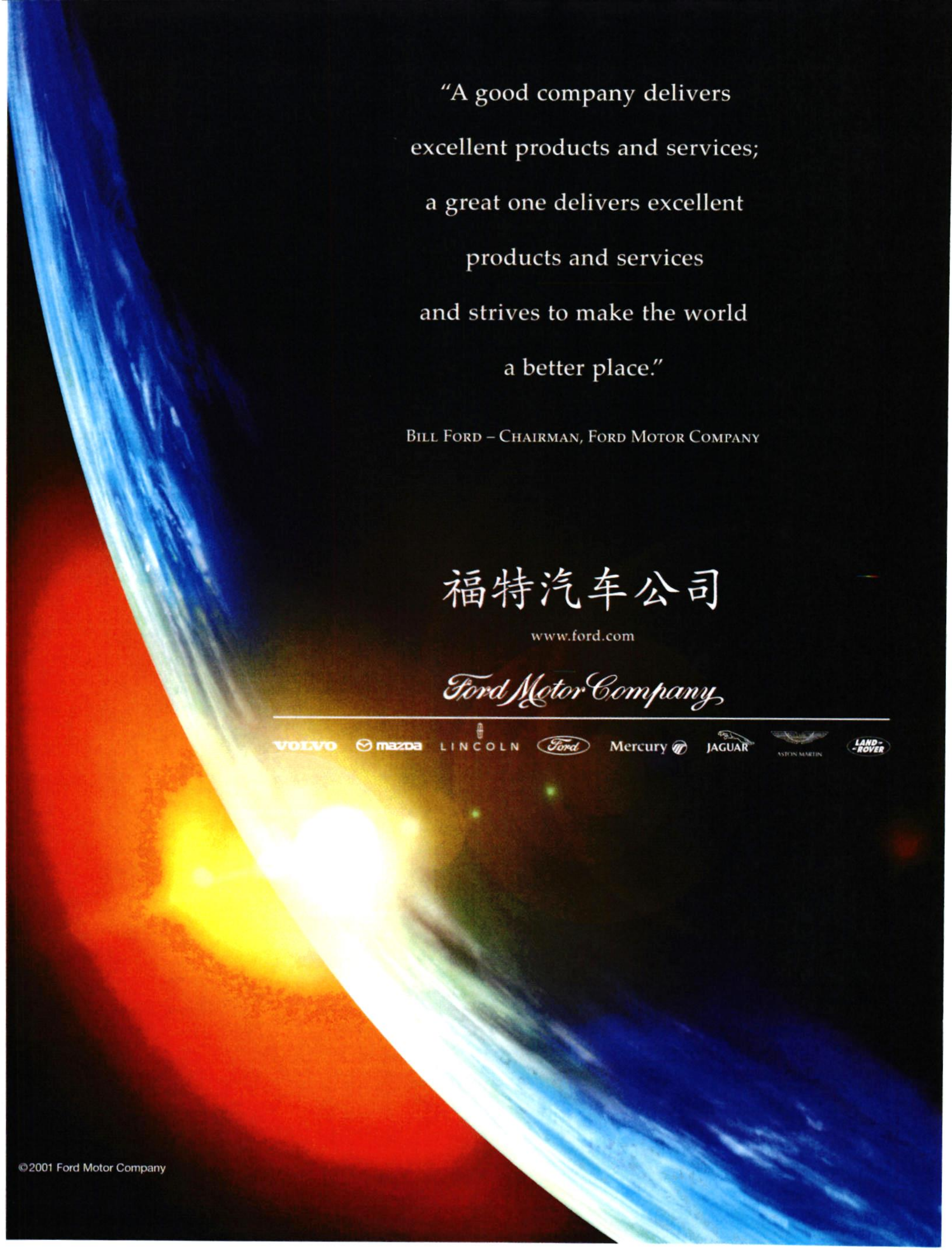
The Ministry of Foreign Trade and Economic Cooperation filed China's first World Trade Organization complaint against the United States in response to US tariffs on steel imports. The recent US announcement that it would impose a 30 percent tariff on certain steel imports received worldwide criticism. Australia has already negotiated a deal with the United States that will allow 85 percent of the country's steel exports to remain unaffected by the tariff.

Public Bidding for Olympic Venues

Beijing's Mayor, Liu Qi, recently opened for public—including foreign company—bidding the 19 Olympic venues to be constructed and 13 venues slated for renovation over the next six years. Beijing also announced a design competition for the two major Olympic centers.

English in Guangdong Schools

Over the next two years, 200 schools in Guangdong will turn to English as their main teaching medium. China's youth will need to be able to communicate in English to participate in the global economy, according to local officials.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products and services
and strives to make the world
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Robert A. Kapp

The Light and the Dark

The two-sided reality of US-China relations is likely to be with us for a long time.... Let's hope it is, since the alternatives are probably worse.

A respected colleague of mine recently observed that the old days of annual Most Favored Nation/Normal Trade Relations (MFN/NTR) battles in the US Congress had their good points.

Ugly and hysterical as the MFN/NTR season was, he argued, at least it provided an issue around which supporters of a normal and stable commercial relationship with China could—and had to—organize themselves and forcefully present their case. Indeed, year after year, that case was accepted, in the sense that the US Congress never voted to close US markets to Chinese imports by denying MFN/NTR treatment for Chinese goods.

I am not one to yearn for the "good old days" of that grinding battle. And I do not think anyone in the US business community would seriously argue that we would be better off without permanent NTR and China in the World Trade Organization (WTO). While permanently unresolved public policy issues are the bread and butter of legions of income-earners in the nation's capital, I maintained from my first week at the US-China Business Council in 1994 that we could earn our livings without the MFN ritual, and of course that has turned out to be the case. China's uneven and complicated progress along the path to economic reform and development, including its implementation of WTO commitments, gives American businesses plenty to grapple with, and fires the US-China Business Council's consulting and informational services to its hundreds of corporate members. We are glad to be where we are today, as compared to where we were a few years ago.

And yet, there is something to what my colleague is saying. Absent a clear and present danger to which it must respond, the business community that sustains in such large measure the daily life of US-China relations watches from the sidelines as other forces jockey for the pilot's seat.

Today, the picture of US-China relations is mixed and formless. Political phrasemakers might complain about a "lack of vision," but that is just the jargon of political convenience. What we see is a murky mixture of dark and light. If, as Daoists since the time of Laozi have argued, that's the natural order—dark and light are intertwined, and you cannot have one without the other—then fine: let's just continue adjusting to the Daoist reality of US-China relations.

On the other hand, if dark has the ability to cloud and ultimately extinguish light, then we have a serious problem on our hands.

Light...

September 11, and the opportunities for US-China cooperation against terrorism that grew from it, helped to steer US-China relations onto a more positive trajectory after the traumas of 2001. Two visits to China by the president of the United States have provided the setting for both nations to demonstrate their willingness to work together on concrete tasks and to maintain clear and candid communication. The prospects of high-profile visits to the United States by Vice President Hu Jintao this spring and President Jiang Zemin in the fall represent further important commitments to a sustained, communicative relationship involving investments of time and concern by people in the most powerful positions in both countries.

Morever, after a period of curtailed activity, dozens of US government agencies are engaging with China again: The US-China Business Council is humming with consultative meetings, brainstorming sessions, and other useful engagements with US public agencies dedicated to expanding their cooperative engagement with Chinese counterparts. Members of Congress and their staff members are again travelling to China.

The US-China Interparliamentary Exchange is again moving ahead, thanks on the US side to the commitment and energy of its volunteer leader, Rep. Donald Manzullo of Illinois. There are signs of growing US-China cooperation and consultation on deeply troubling human problems like the HIV/AIDS threat. The US Federal Bureau of Investigation is opening an office for the first time in Beijing, auguring well for better US-China cooperation not only on terrorism, but on international crime, money laundering, and other issues.

The Council applauds all those in US public life who take the time to work on "engagement" with Chinese counterparts. And the Council applauds Chinese officials' demonstrated willingness to put time and effort into focused cooperation with their American counterparts on a wide range of issues.

Dark...

Other recent signs are of more concern. In spite of—or perhaps, paradoxically, because of—recent re-engagement of the US and Chinese governments, developments in recent months have underlined how much remains sensitive and volatile.

- American non-business views of China—in the media and elsewhere—have turned sharply darker, with widespread diagnoses of stalled reforms, faulty statistics, rising social instability, unmanageable corruption, and an elephantine heaviness of process that stifles any bold attempts at fundamental therapies. The prognosticators of crisis, and their promoter partners, are increasingly vocal, while the defenders of a more positive outlook keep their heads low, either because they do not think there is much to say or because they believe the price for saying it is for now too high.
- There are plenty of points of US-China friction, on some of which US legislators will likely join together for the sake of "sending a message" or enacting new US law.
- The most sensitive and difficult issues dividing the two countries have not been effectively defused: Taiwan, nonproliferation, and human rights. If there is brighter news out there, behind the walls of government confidentiality, this would be a good time to make some of it public.
- There appears to be little political support for a stable bilateral relationship conceived of as beneficial to the security interests of either country, but there is much broader receptivity to a view of US-China relations predicated on the danger that each country poses to the security of the other. That, too, is a reflection of the passing of the trade agenda from the spotlight, leaving in the shadows the more positive aspects of the overall relationship.
- A few vocal US observers even see China's membership in the WTO, and the improvement of China's economy that China itself hopes will result from WTO participation, as representing new threats to US economic and security interests.
- In China, segments of the policy community continue to perceive the United States not only as the only world superpower but as the principal abuser of power in the world, and as the greatest obstacle to the attainment of China's highest stated policy objectives, specifically "peaceful reunification" with Taiwan.

A bifurcated prospect

This two-sided reality is likely to be with us for a long time. In fact, let's hope it is, since the alternatives are probably worse.

If you take the "light" view, then the occurrence of periodic irritations, even nasty ones, won't hurt the underlying relationship. Indeed, paradoxically, the growing sense on both sides that the relationship is finally strong enough to absorb shocks may even provide greater freedom to test the limits of the other side's patience on sensitive topics. In crude terms, "We know they're not going to get upset beyond the danger point, since we've agreed that we're critically important to each other, so let's maneuver some more—what can they do to us?"

The re-engagement in the autumn and winter of 2001 and 2002 gives some support to the view that momentary irritants can be managed without lasting damage. We even have gone now for a whole year without a new, full-blown crisis. Signs of enhanced cooperation between the United States and China have multiplied. Perhaps the newly reinforced relationship is already strong enough to cushion or absorb small disturbances.

But if you subscribe to the "dark" view, progress on one front can be stopped in its tracks by crisis on the other. If some sensitive issue can be ignited and can burn long enough, it can still damage the ties that have begun to link the two sides, throwing the consolidation process into reverse and setting off another round of recrimination and retaliation.

If that happens, the "good old days" of MFN/NTR debate, when business could make and win its case for holding US-China relations on track, will seem a quaint relic.

Ever the optimist, I am betting on the "light" option. But I won't win my bet by default. The factors that make the "dark" view credible are alive and active this spring, even without an MFN/NTR battle to keep champions of both views busy. 完

Realistic Exuberance

Brian L. Goldstein

The bankers' version of the old adage about the profits to be had in China is experiencing a revival among foreign financial services firms: Colossal profits await if only every Chinese household would borrow for a home or auto purchase, buy home and life insurance, and invest in mutual funds, retirement accounts, and college tuition savings plans. True, China's financial industry is undergoing ambitious liberalization as a result of the country's World Trade Organization (WTO) commitments and broader internal reform. But it is just as true that China's opening will not spell instant profits for foreign companies, as the pace and scope of liberalization will depend on both cautious regulation and commercial realities.

Brian L. Goldstein
is research manager in the Beijing office of the US-China Business Council.

China's financial reforms race ahead, but a note of caution sounds for foreign investors

PRC regulators, to put it bluntly, fear that too many new market entrants in too short a period of time will break China's fragile financial industry. Since China's WTO entry, regulators have set requirements for registered capital and operating funds, and capital-adequacy ratios for branches of foreign-invested financial ventures, at sky-high levels. The message is clear: Only large, global players willing to commit large dollar amounts up front will be allowed to play initially. But this same message is also a great leap forward—foreign banks, insurance companies, and investment banks that meet these requirements are being licensed to operate under a transparent process and within a set period of time.

Though many potential foreign entrants are chomping at the bit to launch operations, the majority of multinational players are unlikely to plunge headfirst into the market. Few, if any, companies will find it commercially viable to launch operations in more than a handful of cities without first developing a revenue base and cultivating internal staff capabilities. Companies that buy into existing PRC financial companies will be equally hard-pressed to commit to their China operations the level of funds necessary for immediate management control nationwide. But the experience of firms already operating in China has been positive thus far—Chinese companies and consumers are beginning to welcome and even demand the financial tools and expertise that foreign financial companies possess.

Two contrasting trends, then, are emerging: Foreign companies are excited by the epic expansion of financial services opportunities in China; and this exuberance is tempered by a rational assessment of the difficulties of earning profits in an immature market governed by cautious financial regulators. A brief sector-by-sector review of how these trends are guiding foreign investment and which firms are making early moves indicates where the sector is headed in the short to medium term. But first it is necessary to understand the forces driving the PRC leadership to liberalize the financial market.

PRC financial reform motivations

China's moribund state banking system has borne much of the financial burden of the country's impressive economic achievements during the reform era. In particular, the use of government-directed policy loans to state-owned enterprises (SOEs) during the 1990s undermined the ability of the state banks to lend on commercial terms, distorting the allocation of resources and leading to an enormous buildup of nonperforming loans (NPLs) and high cost-to-income ratios. Government control over the selection of companies to list on China's stock markets similarly undermined the development of transparent capital markets, responsible management, and credible financial information. The government tolerated immature capital markets, lack of institutional investors, and widespread market-rigging as long as other sectors of the economy were plowing ahead.

But China's leadership, especially since the Asian financial crisis, has come to recognize that an unreformed financial sector threatens the

Foreign banks will not be in a position to win significant market share in the short term and will not necessarily engage in expensive branch expansion until staff and systems are in place.

overall momentum of the reform process and economic growth. In recent years, the leadership has taken steps to corporatize banks, write off unrecoverable NPLs, and tighten regulation of listed firms (*see The CBR*, May-June 2001, p.12). Such attempts reached a new height in 2001, when China instituted dozens of supervisory mechanisms and reporting requirements to bring order to the country's casino-like markets. The China Securities Regulatory Commission (CSRC) is leading these efforts. Though others within China's financial elite have effectively pressured CSRC to step back from some liberalizing moves (arguments strengthened by the failure of oversight in the Enron case), the momentum remains clearly positive.

China's regulators are committed to institutionalizing supervisory and financial managerial mechanisms to drive China toward a mature financial system in line with international norms (*see* p.12). But as in other sectors, the introduction of foreign expertise and the licensing of foreign entrants do not necessarily make for profitable business opportunities for foreign firms. Before they create successful market-entry strategies, foreign firms must take the following PRC motivations and aspirations into account:

- **Wanted: Foreign entrants**

China's leadership recognizes that foreign participation in the full range of financial services is essential to the development of a mature financial industry. The country seeks foreign expertise to help create a workable pension system, institute credible auditing systems, run investment banks, and operate mutual funds. The realization that reform cannot be delayed and that domestic financial players should be subjected to real competition is behind the drive to open financial services to foreign investment on a specific timeframe.

PRC regulators hope that foreign participation in this sector will also help create a pool of financial professionals, and with them institutional investors and credible information reporting. In a parallel trend, mainland regulators have recruited several seasoned financial professionals from Hong Kong and elsewhere to join the PRC regulatory ranks.

Regulators will soon approve domestic listings of foreign-invested companies, which will force wholly domestically owned companies to seek competitive advantage through transparency and profitability. Though a late-2001 order requiring all listed companies to submit to audits by foreign accounting firms has been rescinded, the clear implication is that domestic companies need to shape up or close shop. Opening the sector to foreign entrants is a tool for, not the motivation behind, financial sector reform.

- **Stability**

The miracle of China's reform process is that radical change has occurred through incremental liberalization. The country's leaders have avoided, at all costs, shock treatment and other policies that might throw reform off track. China's reform path has been and will continue to be fundamentally pragmatic.

One primary fear of regulators is that an influx of foreign financial firms will cripple domestic companies that have not adequately restructured or that are saddled with remnants of social rather than commercial functions. Chinese banks, which are technically insolvent with as much as 50 percent of loans estimated as unrecoverable, rely on their monopoly on individual savings deposits for survival. Both banks and insurance companies are overstaffed, and excessive branch networks—though they are being heavily scaled back—burden these institutions with significant fixed costs. The prospect of trim, cash-rich foreign firms competing for the same Chinese customers as domestic banks has regulators preparing to batten down any hatches not propped open by China's WTO commitments.

A related PRC goal is to limit the initial number of foreign entrants. This goal reflects the PRC penchant for testing programs on a small scale before broadening implementation, lest too many players begin to move in directions not anticipated by policy planners. Though foreign companies will rightly ask why China should care if foreigners invest and fail, the real issue is that China fears that any failure in the financial sector could threaten the momentum of progress. China's financial system has a young, incomplete, untested legal framework that regulators fear could be destabilized if significant enforcement failures occur early on. China is also using initial foreign entrants as guinea pigs to tweak policies and institute bureaucratic processes to oversee new and complex businesses.

- **Corruption**

The issue of corruption within China's financial system took on a new urgency following the 2001 emergence of a corruption scandal within the Bank of China (BOC) that extended to the top BOC leadership. Chinese economist Hu Angang estimates that publicly admitted corruption in the financial sector totaled more than 6 percent of the value of China's GDP in 2000.

Corruption has long been a top worry. The failure of provincial trust and investment companies in the late 1990s undermined China's financial credibility. Market rigging by fund managers, extortion of company funds by listed firms, and highly complex pyramid schemes flourish in any space not brought under the PRC regulatory microscope. The prospect of opening new businesses to a large number of entrants understandably has authorities wondering whether they can cope. Already in 2002, an illegal representative office posing as a European bank was discovered and closed in Beijing. The natural inclination of regulators is to institute even more stringent documentary processes lest larger financial scandals threaten system integrity.

- **National security**

A final concern of PRC regulators is state security. China has long been sensitive about releasing financial information to the outside world and considers such information vital to national security. The most sensitive issues are perhaps the true amount of NPLs, which SOEs are worst off, and the true pension shortfall, as well as the potential conflicts between official and individual bank statistics. Successful reform will require the release of this information to potential foreign partners, investment banks, and fund managers. This is a big step that Chinese officials are, as yet, unwilling to take. Other related, nationalistic concerns include the worry that the deposit of PRC companies' and citizens' savings and pensions into foreign banks and insurance firms (even though kept within China) will somehow put the country at the mercy of foreign financiers.

Commercial realities

Though China's WTO accession documents detail the country's financial market liberalization, Chinese government policies will continue to play a dominant role in shaping foreign company operations. China's control over interest rate policies and foreign exchange for capital account transactions further circumscribe foreigners' quests for profitability.

- **Banking**

All restrictions on foreign bank participation in foreign-currency business were removed when China became a WTO member. Foreign exchange business opened to foreign entrants, though State Administration of Foreign Exchange controls on the conversion of the renminbi (RMB) remain. China has committed to a specific timeline to open RMB and foreign-currency services to foreign financial institutions. Banking operations phase in by client type (foreign-invested client, Chinese company, Chinese citizen) and by city.

For RMB business, foreign financial companies could provide services to foreign clients upon accession; beginning December 11, 2003, they will be allowed to serve Chinese companies, and by December 11, 2006, all Chinese citizens. Shenzhen and Shanghai (which were already open to more than 30 trial operations for RMB lending) were formally opened to foreign financial firms upon accession, along with Dalian in Liaoning, and Tianjin. More cities will be added until all geographic restrictions on RMB services are removed, which must occur by December 11, 2006.

China's overarching regulation guiding commercial banking operations is the Regulation on Management of Foreign-Invested Financial Institutions (State Council Order No. 340) and its implementing rules. Release of these rules in late 2001 sent shockwaves through the foreign financial community, as they ratcheted minimum requirements for the injection of registered capital and operating funds dramatically upward. These changes, combined with basic asset requirements detailed in China's WTO commitments of $10 billion in global assets for subsidiary or joint venture operations and $20 billion for foreign bank branches, significantly limit the number of potential foreign entrants. The rules also lay out a detailed matrix of services (client and foreign/local currency), venture type (subsidiary, wholly foreign-owned, or joint venture), and entity (bank or financial company) with corresponding minimum investment levels starting at $30 million and reaching as high as $120 million, though a portion of this capital may be injected using RMB.

Several other regulatory requirements restrain the growth and profitability of foreign banks. For one, all banks must now adhere to the government-set band for foreign-currency deposit interest rates. PBOC extended the restraints on PRC residents' foreign-currency deposits of less than $3 million to foreign banks in March 2002, just as it began issuing licenses to foreign banks to enter the market. In addition, foreign banks may only establish one branch per year and are subject to high fees on the interbank lending market. China does not have to lift the requirement that a foreign bank's RMB lending not exceed 50 percent of its foreign-currency liabilities until December 11, 2006. This restriction presents a significant barrier to rapid expansion in the short term.

Not only will foreign banks remain subject to a tough regulatory environment even after the removal of specific restrictions directed at foreign institutions, they will also be competing on

Key PRC Financial Regulations

Regulation	Date Effective	Link to Chinese Text
Financial Companies		
Regulation on Management of Foreign-Invested Financial Institutions (State Council Order No. 340)	February 1, 2002	www.legaldaily.com.cn/gb/content/2002-01/07/content_30066.htm
Implementing Measures for the Regulation on Management of Foreign-Invested Financial Institutions (PBOC [2002] Order No. 1)	February 1, 2002	http://202.84.17.28/csnews/20020129/186343.asp
Provisional Regulations on Financial Asset Management Companies Involving Foreign Investment for Asset Restructuring and Handling (MOFTEC, PBOC, and MOF [2001] Order No. 6)	October 26, 2001	www.moftec.gov.cn/moftec_cn/wzs/flfg2001-1026.html
Interest Rates		
PBOC Announcement on Unification of Management Policies for Domestic and Foreign-Invested Financial Institutions' Foreign Currency Deposit and Loan Interest Rates (PBOC [2002] Order No. 4)	March 1, 2002	www.pbc.gov.cn
Insurance		
Administrative Regulations on Foreign Insurance Companies (State Council Order No. 336)	January 1, 2002	www.legaldaily.com.cn/gb/content/2001-12/25/content_29443.htm
Administrative Regulations on Insurance Appraisal Institutions (CIRC Order [2001] No. 3)	January 1, 2002	www.circ.gov.cn/policy/list_detail.asp?Auto_ID=141
Administrative Regulations on Insurance Agency Institutions (CIRC Order [2001] No. 4)	January 1, 2002	www.circ.gov.cn/policy/list_detail.asp?Auto_ID=146
Administrative Regulations on Insurance Brokerage Companies (CIRC Order [2001] No. 5)	January 1, 2002	www.circ.gov.cn/policy/list_detail.asp?Auto_ID=142
Regulation on Management of Insurance Companies (CIRC [2000] Order No. 2)	March 1, 2000	www.circ.gov.cn/policy/list_detail.asp?auto_id=140
Securities		
Rule on Management of Securities Companies (CSRC Order [2001] No. 5)	March 1, 2002	www.csrc.gov.cn/CSRCSite/searchnews15.htm
Measures on Approval of Sino-Foreign Joint-Venture Securities Companies (Draft)	Draft released for public comment December 12, 2001	http://finance.sina.com.cn/y/20011212/153753.html
Provisional Regulation on Establishment of Fund Management Companies by Overseas Institutions (Draft)	Draft released for public comment December 21, 2001	www.cnstock.com/zxgg/zjhgg/200112211051.htm
Provisional Rule on Management of Securities Investment Funds	November 14, 1997	http://business.sohu.com/990920/file/019csc.html
Forthcoming New or Revised Regulations		
Investment Fund Law, Insurance Law, Reinsurance Law, Social Security Law, Provisional Regulations on Futures Transactions, Regulation on Non-Bank Foreign Financial Institutions, Regulation on Management of Insurance Companies, Regulation on Mandatory Vehicle Insurance, Rule on Management of Insurance Company Information Reporting		

NOTES: CIRC: China Insurance Regulatory Commission; CSRC: China Securities Regulatory Commission; MOF: Ministry of Finance; MOFTEC: Ministry of Foreign Trade and Economic Cooperation; PBOC: People's Bank of China. English translations are available to US-China Business Council member companies on the Council website at *www.uschina.org/members* the same turf as domestic banks. Already, Chinese banks have won a number of large dollar-denominated loan business projects for foreign companies in China. Domestic banks have moved to improve their services with longer hours and friendlier staff, supported by a large number of branches. Foreign banks will not be in a position to win significant market share in the short term and will not necessarily engage in expensive branch expansion until staff and systems are in place.

Nevertheless, the market is growing. Total lending was up 11.6 percent and deposits grew 16.0 percent in 2001. China has been encouraging the growth of consumer spending and is pushing home mortgages and automobile financing to spur economic growth. Commercial loans to Chinese consumers for housing mortgages already exceed $50 billion, and auto loans have topped $8 billion. Consumer loans are also the least likely to default. Though only 5.7 percent of outstanding loans in China are consumer loans, consumer loans accounted for 20.5 percent of growth in new loans in 2001.

Early movers A number of the 30-odd foreign banks licensed since 1996 to offer limited RMB services in Shenzhen and Shanghai are moving to meet requirements to provide services in Tianjin and Dalian. Bank of East Asia, Citibank, HSBC, and Xiamen International Bank won licenses in early 2002 to launch foreign-currency lending services in specific cities. Foreign banks are also raising their direct investment in China's healthier small commercial banks: HSBC acquired an 8 percent stake in the Bank of Shanghai in December 2001, while in recent months the World Bank's International Finance Corp. upped its stake in the Bank of Shanghai to 7 percent and purchased a 15 percent stake in Nanjing City Commercial Bank. In total, the assets of foreign banks in China reached $45.1 billion at the end of 2001.

Insurance

China's WTO entry commitments in terms of transparency have already forced the China Insurance Regulatory Commission (CIRC) to abandon the game of keeping foreign applicants guessing about the timing of approvals and licensing. The Management Regulation on Foreign-Invested Insurance Companies, passed in late 2001, limits regulatory review of the two-stage application process to eight months. To submit applications, insurers must have at least $5 billion in global assets and have had a representative office in China for at least two years. Foreign insurers may not hold licenses for both life and nonlife operations.

The same rules require joint and wholly foreign-owned ventures to commit $24 million in registered capital (the amount subsidiaries must inject in operating capital depends on the num-

Who's Who in China's Financial Regulatory Structure

People's Bank of China (PBOC)
www.pboc.gov.cn
Governor: Dai Xianglong

PBOC, China's central bank, formulates and implements China's monetary policy. PBOC supervises the operation of China's banking sector and determines interest-rate policies. Though PBOC does not act as an independent central bank, it has reorganized itself based on the US Federal Reserve System by establishing nine regional banks. PBOC has authorized the China Banking Association, established in May 2000, to play a central role in recommending interest rate changes.

China Insurance Regulatory Commission (CIRC)
www.circ.gov.cn
Chair: Ma Yongwei

CIRC is the insurance industry regulator, reporting directly to the State Council. CIRC was spun off from PBOC in 1998 as a separate entity to focus on drafting and implementing insurance policies, legislation, and plans for commercial insurance companies. It also prosecutes firms that violate the law, protects the interests of the insured, and maintains order in the market. CIRC's first priorities are to collect detailed information from insurers and to establish a financial security system to regulate the industry and reduce risks in the sector. In 2001, CIRC established branch supervisory organizations in each of China's 31 provincial-level administrative regions (excluding Tibet) to supervise local insurance operations and ensure compliance with CIRC regulations. (CIRC chief Ma Yongwei was formerly head of People's Insurance Group Corp.)

China Securities Regulatory Commission (CSRC)
www.csrc.gov.cn
Chair: Zhou Xiaochuan

CSRC, directly under the jurisdiction of the State Council, regulates China's stock and futures markets. CSRC has been leading the push for greater transparency and accountability in China's capital markets, bringing non-PRC financial professionals into its ranks and cracking down heavily on market manipulators. CSRC is responsible for approving and supervising the listing of public companies in China and has been establishing new systems and procedures almost daily to institutionalize corporate governance among Chinese companies. CSRC also plays a role in the approval and examination of foreign securities companies and investment banks as well as the listing of foreign-invested enterprises on domestic exchanges.

Ministry of Foreign Trade and Economic Cooperation (MOFTEC)
www.moftec.gov.cn
Minister: Shi Guangsheng

MOFTEC is responsible for the overall administration of China's foreign economic and commercial relations. MOFTEC approves and supervises foreign investment projects and formulates related policies, laws, and regulations. MOFTEC or its local offices, in coordination with the relevant financial regulator, must approve all investments that would bring the level of foreign participation in a company in China to 25 percent or more.

Ministry of Finance (MOF)
www.mof.gov.cn
Minister: Xiang Huaicheng

MOF is responsible for the macroeconomic management of China's national budget, financial and tax policy, tax revenues, Treasury bonds, and hard-currency reserves. MOF is responsible for overseeing the auditing and accounting of Chinese companies, as well as the administration of China's asset management companies (the four entities charged with relieving the state banks of their bad loans). It also has a role in the management and sell-off of China's state-owned enterprises. MOF is partially responsible for the management of China's pension and social security funds.

State Administration of Foreign Exchange (SAFE)
www.safe.gov.cn
Director General: Guo Shuqing

SAFE functions as a bureau with vice-ministerial rank under PBOC. SAFE's main responsibility is to regulate and supervise foreign exchange transactions, including overseeing international commercial borrowings, issuing foreign-currency bonds, and managing the overall foreign-debt exposure of Chinese entities. SAFE implements case-by-case reviews of the conversion of renminbi to freely trading currencies. SAFE is also empowered to crack down on illegal acts involving foreign exchange.

—The US-China Business Council

The biggest stumbling block to the development of the mutual fund industry is the lack of adequate information on listed companies and the dearth of good investment targets.

ber of branches), though CIRC may increase these amounts for new entrants at any time. CIRC also requires 20 percent of the capital injection to be placed into a guarantee fund at a CIRC-designated bank—a form of security deposit. A restriction requiring 20 percent of reinsurance to be directed to domestic reinsurers will be phased out by December 11, 2005, though the reinsurance of RMB premiums abroad will remain constrained by capital account controls.

China's WTO commitments allow foreign companies to establish nonlife insurance companies with 51 percent ownership as joint ventures or branches upon accession, and will allow wholly foreign-owned subsidiaries beginning December 11, 2003 (*see* p.16). Life insurance companies will be held to 50 percent foreign ownership caps indefinitely. Geographic restrictions will be phased out by December 11, 2004, but some cities may open ahead of schedule. Foreign firms may now choose joint venture partners that have no previous financial industry experience. One complication under the new rules, however, is that foreign insurers must choose partners before the preliminary application phase—in the past, insurers could hold off on identifying partners until the second phase of application. CIRC has also issued rules to clarify the application process for agents, brokers, and appraisers. Revision to the PRC Insurance Law is expected this year.

Like their banking counterparts, China's domestic insurance companies have been struggling to make up for lost time through restructuring, creative partnerships, and launches of new services in this growing market. Insurance premiums in 2001 topped $25.4 billion, up 32 percent over 2000. China now boasts more than 50 domestic insurers, the best of which have begun to respond to market demand for professional, well-branded products.

Early movers China currently has more than 30 licensed life and nonlife foreign insurers, most of which are joint ventures or subsidiaries (*see* p.18). American International Group, Inc. is leading the pack of foreign insurers with operations in Shanghai and in Foshan, Guangzhou, and Shenzhen, all in Guangdong. More recent entrants are launching operations and picking up domestic partners with cash or distribution outlets. New York Life International, Inc. has announced it will partner with appliance maker Haier Group Co., and Manulife Financial Corp. is working with Sinochem. The first batch of new insurers to be approved under the revised regulatory structure should start operations in early 2003.

Securities

China in 2001 instituted new requirements to improve reporting transparency and stem widespread market manipulation in its stock markets. Bringing regularity to China's domestic securities markets, which at the end of 2001 had 1,160 listed companies with a market capitalization of $525 billion, is a precondition to introducing additional players and advanced financial instruments. Developing the mechanisms and trust to support widespread individual investment by consumers and ultimately institutional investors is a primary goal for China's market regulators. Direct foreign participation in the market is crucial to this process, and foreigners are gradually being allowed to participate in investment banking and fund management businesses. Supporting services such as accounting and the provision of financial information are also opening.

China's markets are divided between foreign-currency-denominated B shares and RMB-denominated A shares; A shares account for most of the market's value and remain technically off-limits to foreign investors. China's markets also feature a mix of lock-up provisions for strategic investors that prevents quick profit-taking following initial public offerings (IPOs), and a closed capital account that prevents repatriation of RMB profits. But the fact that a significant portion of the almost $900 billion in RMB savings deposits held by Chinese citizens will gradually shift to securities investments has foreign companies hoping to set up shop as early as possible. Foreign-invested enterprise mutual funds will be able to accept RMB upon establishment and invest such funds, via domestic brokers, in A shares.

China's securities markets will also likely undergo a number of fundamental changes. Plans exist to merge the two stock exchanges in Shanghai and Shenzhen, and the launch of a new exchange for high-technology firms, postponed indefinitely in the post-dot-com environment, may resurface. China's central leadership also hopes to reintroduce mechanisms to reduce the level of state-owned shares in listed companies. B shares were opened to Chinese investors last year, and now schemes are being worked out to allow Chinese citizens to invest in Hong Kong stock markets under a variant of a qualified domestic institutional investor plan. China may also permit futures markets to expand again after years of tight controls.

Investment banks

China is accelerating WTO phase-ins of participation by foreign-owned securities companies (including investment banks). According to its WTO commitments, China must allow joint ventures with, at most, 33 percent foreign ownership to underwrite shares and broker foreign-currency B shares by December 11, 2004. But China approved several foreign entrants in early 2002, increasing equity levels and allowing A-share brokering. Investment banking services will be in demand as the pace of Chinese company listings picks up and foreign-invested enterprises in China receive long-awaited approval to issue A shares. An expected boom in mergers and acquisitions will further boost investment banking growth.

Regulators are likely to extend special privileges to a few desired entrants before the WTO commitment on securities companies takes effect. This window of opportunity exists because current Chinese law does not prevent the country from granting A-share trading licenses or approving higher foreign-equity ownership levels. China may grandfather the business scopes of such new investments when it subsequently introduces new laws to comply with WTO rules—as long as WTO commitments and Most Favored Nation principles are adhered to.

CSRC released a draft rule on securities companies, the Measures on Approval of Sino-Foreign Joint Venture Securities Companies, in late 2001. The draft echoed China's WTO commitments on equity limitations and business scope. The draft also set a minimum registered capital level of $60 million, again in line with regulatory commitments to limit entry to only the biggest, most committed players. CSRC has instituted the more general Rule on Management of Securities Companies, which, though authorizing the establishment of foreign-invested securities companies, refers to rules specific to foreign investors that have yet to be finalized. The rule nevertheless makes clear that foreign investors may either partner in a new joint venture or simply buy into existing securities companies.

Early movers Established in 1995 as a joint venture between China Construction Bank and Morgan Stanley, China International Capital Corp. (CICC) is China's highest-profile investment bank. CICC has reportedly received a coveted license to broker A shares.

Hong Kong-based Bank of China International Holdings (BOCI), the investment banking subsidiary of BOC, initiated a securities joint venture company in Shanghai in March 2002 with registered capital of $181 million. BOCI's joint venture is trailblazing in two respects: It is licensed to trade and invest in A shares, and it features a 49 percent sole foreign-equity stake.

BNP Paribas's 33 percent stake in a venture with Changjiang Securities, of Wuhan, Hubei, has also received approval. And CLSA is reportedly awaiting approval of a venture with Shanghai's Xiangcai Securities.

- **Fund management**

Mutual funds in China have blossomed following regulators' decision to allow open-ended mutual funds again in 2000, after a failed initial start in the 1990s. Fourteen companies now offer 51 PRC funds (closed- and open-ended). Mutual funds are expected to expand rapidly as insurance companies, pension funds, and individual investor funds flow into securities. Foreign funds will likely find it relatively easy to operate in China with access to A shares through domestic brokers.

Foreign companies may now establish joint venture mutual fund operations with a foreign ownership cap of 33 percent. The cap will rise to 49 percent by December 11, 2004, according to China's WTO commitments. China has yet to finalize the Provisional Regulation on Establishment of Fund Management Companies by Overseas Institutions, released by CSRC in late 2001. The draft rule largely reflects the requirements in the 1997 Provisional Rule on Management of Securities Investment Funds, which requires that each fund investor contribute $36.2 million and operate funds with a minimum of $24.2 million. The much-anticipated Investment Fund Law is scheduled for a National People's Congress reading in mid-2002 and may take effect as early as 2003.

The biggest stumbling block to the development of the mutual fund industry is the lack of adequate information on listed companies and the dearth of good investment targets. A history of minimal shareholder supervision has led to widespread market-rigging, misappropriation of funds, and false reporting. Many traders still illegally trade on their customers' margins. China has instituted key reforms in the past year, including requirements for quarterly reporting, independent board directors, and information disclosure for insider trading and auditing. Though a 2001 order requiring listed companies to engage foreign auditing firms was rolled back because of pressure from domestic accounting firms, regulators recognize the shortfall in the number of Chinese certified public accountants and the need to professionalize the industry as quickly as possible.

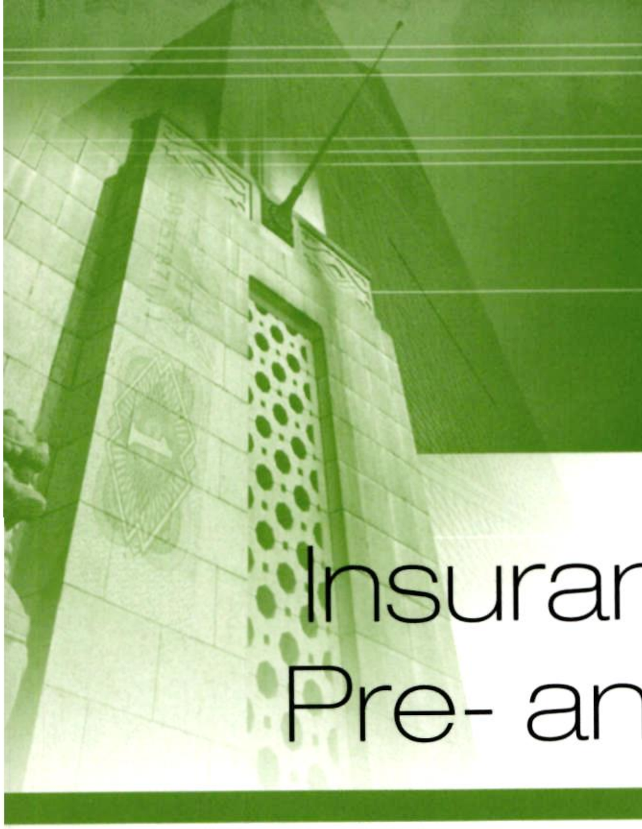
Early movers Dozens of foreign investment funds struck technical cooperation deals with domestic funds as open-ended funds re-entered the market. Foreign companies will likely leverage these advisory roles into joint ventures in the near future. Early reports indicate that Schroder Investment Management (Hong Kong) Ltd. plans to form a joint venture with China Galaxy Securities Co. Ltd., and HSBC may further its partnership with China Southern Fund Management Co.

- **Auto financing**

China committed to allow wholly foreign-owned investment in auto financing upon accession, but PRC regulators have been slow to write rules, aside from the foreign financial institution regulation, that will apply to non-bank financial services. Potential entrants hope

Continued on page 27

China needs foreign competition for precisely the reasons it fears it.



Insurance in China: Pre- and Post-WTO

Yuan-Kee Lee

China's insurance sector has changed significantly in the past four years, driven in large part by the country's evolving economic, business, and regulatory environments, as well as by its December 2001 entry into the World Trade Organization (WTO). The country's regulatory initiatives, restructuring of insurance companies, and WTO-related preparations and commitments have established a framework and timetable for the growth of China's insurance industry over the next decade.

Insurers around the world have been following these developments closely as they expand their operations into China. And as they look for ways to manage their exposure to risk, businesses in other industries operating in China—and those planning to do so—would do well to take note of

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Foreign risk-management and insurance firms now have a clear roadmap on which to base their China plans

the changes occurring in the country's insurance sector.

Industry overview

China accounts for only 1 percent of the world's total insurance premium volume, according to *Sigma*, a Swiss Reinsurance Co. publication, primarily because its insurance industry—like much of the private sector in the country—is relatively young. Though China's modern insurance industry began with the establishment of the People's Insurance Co. of China in 1949, the industry's development was suspended between 1959 and 1980.

Since then, with the introduction of China's reform policies, the domestic insurance industry has grown steadily. A second insurer, Xinjiang Corps Insurance Co., was established in 1986, followed by Ping An Insurance Co. of China, Ltd. in 1988, and China Pacific Insurance Co. three years later. The first foreign insurer, American International Group, Inc., established operations in Shanghai in 1992. Many more local, wholly foreign-owned, and joint venture insurance institutions have since established operations in China. Today, the PRC is home to 52 life and nonlife insurers, including 11 whose licenses are "under preparation," according to the China Insurance Regulatory Commission (CIRC).

The birth of China's retail insurance brokerage industry can be traced to 1999, when direct brokerage licenses were granted to three local companies: Jiangtai Insurance Broker Co., Ltd. in Beijing; Changcheng Insurance Brokers Ltd. in Guangzhou; and Shanghai Dongda Insurance Brokers Co., Ltd. In 1993, Sedgwick Group plc (acquired in 1998 by Marsh & McLennan Companies, Inc., the parent of Marsh Inc.) became the first foreign insurance intermediary to receive an insurance/risk management consulting and reinsurance brokerage license. At present, Marsh is still the only international insurance intermediary licensed to operate in China.

China's insurance market has been growing at an average annual rate of 27 percent since 1980. According to CIRC, total premiums in 2001 reached ¥210.9 billion (about $25.5 billion), up 32.2 percent over 2000. Nonlife insurance accounted for 32.5 percent of the total, and life and health, 67.5 percent. Regional disparities are significant in the insurance markets—in 2000, nonlife premiums per capita in Shenzhen were more than $60, compared to only $2.40 in Guizhou.

The nonlife (property and casualty) market has grown more slowly than the life market because of fierce competition, the lower level of risk awareness in China's expanding industrial sector, declining state-owned-enterprise (SOE) spending on insurance, and a lack of innovative marketing mechanisms and insurance products. Automobile insurance accounted for 62 percent of China's total nonlife premiums in 2000, industrial property insurance accounted for 20 percent, and other insurance, 18 percent, according to CIRC. To date, personal property and casualty insurance—including individual automobile, dwelling, and third-party liability policies—remains significantly underdeveloped. In contrast, the life and health markets have grown far more rapidly, as a result of the growth of the private sector, the increasing difficulties that SOEs experience in meeting their welfare obligations, the advent of insurance agents, and unattractive bank savings terms that have led consumers to accumulate funds by purchasing cash-value life insurance policies.

Despite these modest beginnings, China's insurance market appears to have significant long-term growth potential. Large numbers of infrastructure projects, the concentration of assets in areas subject to natural hazards, increasing risk awareness among businesses operating in China, SOE reforms, and continued foreign investment in China are sure to spur the development of the country's nonlife insurance market. At the same time, the life insurance market will likely grow in step with the country's rising per capita income, the receding role of the government in social security and healthcare, the graying population, and shrinking family size.

Regulatory developments

China has had to build up a legal and regulatory foundation for the industry over the last decade. The country passed its Insurance Law in 1995 and three years later established an independent insurance regulator, CIRC, which replaced the People's Bank of China. Since then, CIRC has established 31 offices throughout the country.

China has introduced new rules, regulations, and guidelines governing the operation of insurers, intermediaries, and other service providers. The most important of these include the Administrative Regulations of Representative Offices of Foreign Insurance Institutions, announced in November 1999; the Administrative Regulations of Insurance Companies, effective January 2000; the Administrative Regulations of Insurance Brokerage Companies, the Administrative Regulations of Insurance Agency Companies, and the Administrative Regulations of Insurance Adjusting Companies, all of which took effect January 1, 2002; and the February 2002 Administrative Ordinance on Foreign-Funded Insurance Companies.

In 1999, CIRC launched a nationwide program to clean up the country's insurance market, in part to correct the illegal business activities of foreign representative offices and unlicensed foreign insurance intermediaries in China. In mid-2001, CIRC launched a similar campaign, focusing on 10 aspects of the insurance industry, including the establishment of operating institutions, qualifications of senior management, group insurance, activities of representative offices of foreign insurance institu-

Licensed Foreign Insurance Businesses in China

Company	Country	Business	Joint Venture Partner	Location(s)
Commonwealth Bank of Australia Ltd.	Australia	Life	China Life CMG	Shanghai
Manulife Financial Corp.	Canada	Life	Sinochem	Shanghai
Sun Life Financial Services of Canada	Canada	Life	China Everbright Group, Ltd.	Tianjin
AXA SA	France	Life	China Minmetals Group	Shanghai
Allianz AG	Germany	Life	Dazhong Insurance Co.	Shanghai
Assicurazioni Generali SpA	Italy	Life	China Petroleum Finance Co.	Guangzhou
Tokio Marine & Fire Insurance Co., Ltd.	Japan	Property/Casualty	WFOE	Shanghai
ING Groep NV	The Netherlands	Life	NA	Shanghai
Samsung Fire & Marine Insurance Co., Ltd.	South Korea	Property/Casualty	WFOE	Shanghai
Winterthur Swiss Insurance Co.	Switzerland	Property/Casualty	WFOE	Shanghai
Prudential Corp. plc	United Kingdom	Life	China International Trust and Investment Corp.	Guangzhou
Royal & Sun Alliance Insurance Group plc	United Kingdom	Property/Casualty	WFOE	Shanghai
American International Group, Inc.	United States	Life and Property/ Casualty	WFOE	Shanghai, Guangzhou, Shenzhen, Foshan
The Chubb Corp.	United States	Property/Casualty	WFOE	Shanghai
John Hancock Mutual Life Insurance Co.	United States	Life	Tian'an Life Insurance Co.	Shanghai
Marsh Inc.	United States	Broker/Consultant	WFOE	Beijing

NOTES: This list is not meant to be comprehensive. Many companies on this list expect to receive licenses to begin operations in other cities; other companies also expect to receive licenses shortly. WFOE: Wholly foreign-owned enterprise; NA = Not available
SOURCE: Compiled by The US-China Business Council from publicly available news articles, company press releases, and company websites.

tions, and the insurance agent market. As a result, CIRC reprimanded, fined, or restricted the business activities of many domestic and international insurance companies and representative offices of foreign insurance institutions.

The new regulations and the rectification efforts have significantly improved the operating environment of China's insurance industry, especially for foreign insurance entities. The Insurance Law is currently under review, and most sections, including provisions on insur-

Tips on Buying Insurance in China

Foreign companies buying risk management and insurance services in China can take a number of steps to ensure they make the right choices:

- Understand and comply with China's insurance laws and regulations. Do not cut corners, even if insurance practices and the acquisition process seem alien or incompatible with the way things are done by insurers in your home market. In addition to following basic rules, insurance buyers in China should study and understand the Administrative Regulations of Insurance Companies, specifically Chapters III and IV. These chapters require insurers to abide by a number of criteria for insurance terms and conditions in China. For example, if a company plans to introduce a new type of insurance—regardless of whether it is for a general property type of risk or a new product—the company must first file it with the China Insurance Regulatory Commission (CIRC).

For all the published rules and regulations, there are just as many unwritten guidelines or criteria that firms should observe to establish long-term and productive working relationships with the insurance industry and government entities. For example, tenders, if necessary, have to be carefully managed by people familiar with local market practices. Be aware that the lowest bidder may only be able to underwrite a small portion of a large risk. Find out how much of the risk insurers can cover based on their net and treaty capacity. (Net is the amount of risk the insurer takes without any form of reinsurance. Treaty is the reinsurance an insurer purchases for its portfolio by type of risk, such as property, liability, construction, or marine. If the individual risks qualify for coverage under the treaty reinsurance terms and conditions, no individual negotiation is required with the treaty reinsurers.)

If your risk is a large industrial risk or a specialty risk that needs facultative reinsurance, negotiate with a reputable insurer. An open tender will result in many insurers going into the facultative reinsurance market and seeking a quotation at the same time. Prudent companies can find out about the unwritten rules from an experienced consultant or broker.

- Learn as much as possible about the insurance market in China—what's available, from whom, and at what cost. Understand that even within the same insurance company, business and underwriting philosophies and capabilities vary. Be aware of local politics regarding market position, order, and leadership in different geographic areas and product lines. Have confidence in local underwriters' willingness to be business-minded and flexible, once approached with respect and the right strategy.
- Engage an insurance and risk management service provider that understands your firm as well as the Chinese insurance industry and that can operate with efficiency, integrity, and consistency. Remain involved in the process to establish a constructive partnership with your insurers.
- Establish a risk management policy and guidelines and take them seriously. Your firm should make sure that it has sound safety and risk-control programs and a carefully constructed business contingency plan. Your firm and your brokers or consultants must fully understand your risk portfolio in China, including what and how much risk you have, what risks can be or have been transferred, where and how much your firm is exposed, and what you have done to prevent, reduce, or mitigate potential losses.
- Start working on project insurance or renewals at least three months before the policy takes effect. In general, if the local insurers' net and treaty can fully retain the risks, the terms can be competitive. If your firm requires facultative reinsurance, which is negotiated with the reinsurance market on an individual risk-by-risk basis rather than on a treaty basis, the terms should be in line with the facultative market. For large risks that need facultative reinsurance, your firm may have to devise an effective marketing strategy once it thoroughly understands what the local markets can offer.

Although these measures might apply universally to companies operating worldwide, they take on even greater importance in China, where the insurance market and many related products are in the early stages of development.

Operating in China: What not to do

- Do not engage insurers or service providers that are not licensed to operate in China. Do not ask local insurers to "front" an insurance policy without taking on any risk at all. Do not ask local insurers to accept the terms and conditions of a global program, controlled master program, or tailor-made program unconditionally. All terms and conditions must be negotiated with local insurers. This does not mean that your firm cannot maintain terms and conditions it would like to use on a global basis; it simply means your firm must respect the Chinese insurance industry and underwriters and let them do their job as professionals.
- Do not insist on the American way or your firm's way. This approach will only attract unnecessary attention and make things more difficult—especially if your firm insists on doing what will benefit itself, when this path violates local criteria, rules, and regulations. At the same time, do not merely accept the so-called "Chinese way" at face value either. Find the right way within the framework of what's acceptable locally and do it well.

Establishing a network of local knowledge and expertise in China can help ensure smoother business development.

- If you are seeking a long-term establishment in China, do not engage in any "back-door" deal—no matter how attractive it might appear. Your firm must be sure that what it does in China can withstand scrutiny.

Foreign firms may achieve their business objectives in China more effectively if they understand the fundamental regulatory, cultural, and business differences between China and their home country; understand their counterparts and help their counterparts to understand them; and seek to develop open-minded and constructive relationships with entities and people with whom they work. It is also critical to proceed with patience and respect—and determination—to succeed in China in the long term.

—Yuan-Kee Lee

ance contracts, insurers, insurance intermediaries, the regulator, and liability, are expected to be amended soon.

Implications of China's WTO commitments for insurers

China made serious commitments in its WTO accession package to open its insurance market to foreign providers. The country has established a clear timeframe for meeting these commitments and is working to strengthen its regulatory functions and revise rules and regulations that are inconsistent with its WTO commitments.

To be sure, the Chinese government will take measures to enforce its commitments. But it is also true that CIRC will make full use of WTO-consistent domestic laws and regulations to protect its own interests. Although foreign insurers and brokers seeking licenses in China still need to be patient during the licensing and preparatory process, they are now in a position to plan and map out the future with more certainty. But

China's WTO Insurance Commitments

After 15 years of hard work and negotiation, China became a member of the World Trade Organization (WTO) on December 11, 2001. An outline of China's WTO commitments in the insurance sector follows.

Insurance company operations

- Upon accession, China agreed it would issue licenses with no economic needs test or quantitative limits. A foreign insurance company establishing operations in China must have more than 30 years of experience in a WTO member economy, must have had a representative office in China for two consecutive years, and must have had total assets of more than $5 billion at the end of the year prior to application.
- From the date of accession, foreign nonlife insurers could establish branches in China or enter into joint ventures with equity interest of up to 51 percent. Within two years after entry, wholly foreign-owned subsidiaries will be permitted without limitation on business models.
- Upon accession, foreign life insurers could set up joint ventures in China with equity interest of up to 50 percent with partners of their choice.
- Upon accession, foreign life and nonlife insurers were permitted to provide services in Guangzhou, Shanghai, and Shenzhen; and Dalian, Liaoning, and Foshan, Guangdong. Within two years of entry, foreign life and nonlife insurers will be permitted to provide services in Beijing, Chonqing, and Tianjin; and Chengdu, Sichuan; Fuzhou and Xiamen in Fujian; Suzhou, Jiangsu; Ningbo, Zhejiang; Shenyang, Liaoning; and Wuhan, Hubei. Within three years, there will be no geographic restrictions.
- Upon accession, foreign nonlife insurers licensed in China were permitted to write "master policies" and insurance for "large commercial risks" without geographic restrictions. Large commercial risks are defined as follows:
  - Upon accession: enterprises paying a minimum annual premium of ¥800,000 ($96,767) and with investment in China in excess of ¥200 million ($24.2 million)
  - One year after accession: minimum annual premium of ¥600,000 ($72,575) with investment of more than ¥180 million ($21.8 million)
  - Two years after accession: minimum annual premium of ¥400,000 ($48,383) with investment of more than ¥150 million ($18.1 million)
- Upon accession, foreign nonlife insurers were permitted to provide insurance for enterprises abroad, as well as property, liability, and credit insurance for foreign-invested enterprises in China.
- Two years after China's entry, foreign nonlife insurers will be permitted to provide a full range of insurance products and services, both to foreign and domestic clients, and insurers will be permitted to write individual (not group) insurance for foreigners and Chinese citizens. Three years after entry, foreign life insurers will be permitted to provide health insurance, group insurance, and pension/annuities insurance to foreigners and Chinese.
- China agreed to limit statutory insurance to third-party auto liability insurance and driver and operator liability insurance for buses and other commercial vehicles. No additional lines or products will be added.

Insurance brokerage operations

- To become licensed in China, a foreign insurance broker must have been in operation for 30 consecutive years and have had representative offices in China for at least two consecutive years. At China's accession, companies filing license applications must have minimum total assets of $500 million. The minimum criteria will be reduced to $400 million one year after accession, to $300 million two years after accession, and to $200 million four years after accession.
- Upon accession, foreign insurance brokers could enter the China market as a joint venture partner with equity interest of up to 50 percent. Within three years after accession, foreign equity can be no more than 51 percent; within five years after accession, a wholly foreign-owned subsidiary can be established.
- Geographic restrictions on foreign insurance brokers—like those on foreign insurers—will be lifted gradually. Upon accession, joint venture operations will be permitted in the five cities of Dalian, Foshan, Guangzhou, Shanghai, and Shenzhen. Within two years after accession, the number of cities will be increased by 10 to include Beijing, Chengdu, Chongqing, Fuzhou, Ningbo, Shenyang, Suzhou, Tianjin, Wuhan, and Xiamen. Within three years after accession, geographical limitations will be eliminated. Foreign brokers will be permitted to provide master policy-related services no later than Chinese brokers, under conditions no less favorable.

Reinsurance operations

- Upon accession, foreign insurers were permitted to provide reinsurance services for life and nonlife insurance as a branch, joint venture, or wholly foreign-owned subsidiary, without geographic or quantitative restrictions on the number of licenses issued.
- The current 20 percent mandatory reinsurance cession to China Reinsurance Co. will be reduced to 15 percent one year after entry, 10 percent after two years, and 5 percent after three years. Four years after accession, mandatory reinsurance will be cancelled.

—Yuan-Kee Lee

SOURCE: *Compilation of Legal Instruments on China's Accession to the World Trade Organization.* Beijing: Law Press, 2002.

first they must become familiar with the related laws, rules, and regulations and comply with them.

The major local insurance companies in China are preparing for a more competitive marketplace. Instead of waiting for foreign competition to enter the PRC market on a large scale in five years, many have already changed the way they approach their business and clients. They are more business-focused, competitive, aggressive, and service-oriented than before. They understand they have yet to develop competitive products and services and that they need effective, modern management systems. Nevertheless, they are learning quickly and are determined to defend and expand their business.

Foreign insurers and brokers planning to enter China thus need to have well-conceived strategies. Good products and services alone may not necessarily lead to success. Sound business plans—specifying target geographic areas and clients, market positioning, marketing channels and mechanisms, and after-sales service, in addition to competitive products and services—are as important for companies entering China as for start-up operations anywhere in the world.

What may distinguish one firm from another is the degree of understanding of the cultural and business environments, the hiring of quality staff able to get firms started faster and more effectively, and the establishment of sound management and financial systems. Establishing credibility as a professional organization, being competitive without appearing overly aggressive, and delivering consistent quality will be among the keys to success. Due diligence to identify and navigate around potential obstacles is also essential. Finally, companies must understand the need to make long-term investments at the cost of short-to-mid-term profits in this emerging market.

Post-WTO risk management and insurance services

Although the full implementation of China's WTO commitments will take time, insurance buyers in China—both local and foreign—will benefit immediately from these commitments, because they clarify what can be achieved, by whom, and when (*see* p.20). More risk-management and insurance service providers will emerge soon, as will new and better products and services and a stronger understanding of individual industries and risks. In addition, China's WTO commitments to phase out geographic and product restrictions on foreign insurers and mandatory reinsurance placements, conditionally accept master insurance policies that cover risks everywhere in China, and gradually lower the geographic restrictions on the underwriting of large industrial risks

What may distinguish one firm from another is the degree of understanding of the cultural and business environments, the hiring of quality staff able to get firms started faster and more effectively, and the establishment of sound management and financial systems.

will likely benefit all types of insurance buyers in China. The entry of foreign insurance brokers should play a constructive role in providing risk management and insurance brokerage services.

The insurance market in China will develop based on China's WTO commitments and the government's desire for a stronger industry. Insurance buyers will benefit from the diversity of products and services likely to emerge from this process. In the meantime, foreign insurers and brokers need to be well informed about the many changes that have occurred in the last few years and comply with insurance rules and regulations. For long-term success, they also need a thorough understanding of the market and the issues attached to its development, tailor-made business strategies and action plans, an effective management structure, and quality staff. 完

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Chubb in China

Naziha Hassan

A leading property and casualty insurer gears up for post-WTO China

The Chubb Group of Insurance Companies became the second US nonlife insurer, in late September 2000, to obtain a license to sell property and casualty insurance in China. Chubb, a 120-year old firm based in New Jersey, is among the world's leading providers of property and casualty and executive liability insurance for a broad range of sectors, including finance and high technology. The company—with 12,000 employees and 135 offices in 32 countries—is one of the few nonlife insurers anywhere with real global reach.

Chubb sees its expansion of its China operations as contributing to the development of a modern Chinese insurance sector. As China's economy continues to develop and its service sector moves up the value chain, Chubb is confident that its global network will play an important role in attracting foreign investment to China.

A maturing industry

One of the indicators of the immaturity of China's insurance industry is the lack of a well-developed distribution system of professional brokers and agents. This is one of the biggest obstacles insurers face in building up their China business, according to the American Chamber of Commerce in Beijing. Brokers help individuals and businesses assess their risks and recommend insurers best suited to their needs.

Moreover, China has severely restricted foreign participation in insurance, although conditions will improve with the country's World Trade Organization (WTO) accession. When Chubb entered China, PRC insurance licenses allowed the few foreign insurance firms operating there to sell policies only to foreign investors in one city and to invest only in interest-bearing accounts with Chinese banks or in Treasury bonds or other State Council-sanctioned instruments. China's WTO commitments in the area of insurance are substantial but will be phased in gradually over five years (*see* p.16).

The ambiguity of the insurance regulations also makes operating in China difficult. There is substantial room for administrative discretion that further clouds the picture.

Despite these obstacles, WTO membership will open up the insurance sector to new foreign participants and will expand the range of cities in which they can choose to operate. In addition, China recently announced that insurance companies would be allowed to invest premium income in the stock market. Such alternative investment vehicles are essential to the development of a healthy insurance industry. They also help to broaden and deepen the capital market. The ability to use alternative investment vehicles, Chubb officials note, is important to the overall health of the economy as well.

Obtaining a license

After more than six years of effort to secure an insurance license in China, Chubb was invited to submit an application letter and form to the China Insurance Regulatory Commission (CIRC). The invitation to apply was issued on the occasion of Premier Zhu Rongji's 1999 visit to the United States. The company finally received its license on September 28, 2000. The extended application process was the result of the ups and downs in the US-China relationship during this period.

As one of the first foreign insurers in China, Chubb paid ¥100 million ($12.1 million) in registered capital to establish operations; the PRC now requires foreign insurance operations in China to have a minimum registered capital of ¥200 million ($24.2 million). The company had to deposit 40 percent of its total registered capital into a guarantee fund; now, companies must deposit 20 percent of their ¥200 million in registered capital into this fund. Any changes to the information submitted at the time of application require approval from CIRC, which has overseen China's insurance industry since 1998.

Adapting operating styles

Chubb operates as a wholly foreign-owned entity with three offices in China: a Shanghai branch office, which serves as Chubb's Greater China Regional Headquarters and has 23 employees; a Beijing representative office, which has eight employees; and a representative office in Shenzhen. Chubb's insurance license allows the company to sell property and casualty insurance only to foreign-invested enterprises in the greater Shanghai area and to provide limited amounts of reinsurance.

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Chubb's clients in China are multinational companies ranging from low-cost manufacturers to high-end service corporations. Chubb has targeted businesses in China that include high technology, metal work, electronics, biomedicine and biotechnology, and power and energy resources firms, as well as financial institutions. Chubb's major competitors are American International Group, Inc. and local Shanghai branches of major PRC insurers. Chinese firms dominating the Shanghai property insurance market include People's Insurance Co. of China, Huatai Insurance Co., China Pacific Insurance Co., and Ping An Insurance Co. (PAIC). Chubb recently partnered with PAIC to launch the first directors and officers (D&O) liability product for the China market. In this joint effort, Chubb will assist PAIC with the technical knowledge and skills associated with providing D&O liability coverage and will provide PAIC with reinsurance for this line of business.

Chubb has pursued a long-term strategy to position itself for the coming market openings. China's December 2001 entry into the WTO means that Chubb may gain access to four more cities: Dalian in Liaoning, and Foshan, Guangzhou, and Shenzhen, in Guangdong. (Other cities will open over the next few years.) But the investment levels that Chinese officials say is required to open additional city offices substantially exceed international norms and raise the question of whether such investment can result in financially viable operations. Clarification of this issue is being sought in discussions between China and other WTO members. Resolution of this issue would enable Chubb to introduce tailored policies, as well as the services for which it is known around the world, to a broader segment of the Chinese economy. Further, as WTO commitments phase in, the scope of Chubb's license will allow the company to serve both foreign and domestic enterprises.

A 20-year effort

Chubb's involvement in China came about as China's leaders recognized the importance of the insurance industry for the country's growing and increasingly sophisticated economy. Even so, the market remained closed to foreign firms until the early 1990s. Chubb's involvement in China goes back to 1979, when the Chinese government invited a delegation of Chubb executives to Beijing to discuss insurance issues. Subsequently, in 1994, Chubb opened its first representative office in Beijing. This office spearheaded a series of training and other programs and technical assistance efforts to demonstrate the company's commitment to developing the Chinese insurance industry.

For example, a joint effort by Chubb and the Shanghai University of Finance and Economics paved the way for the Chubb School of Insurance. The purpose of this project was to share Chubb's risk management expertise with China's insurance regulators, domestic insurers, and businesses. Today, the Chubb School has evolved into a Chartered Property Casualty Underwriter/Insurance Institute of America (CPCU/IIA) accreditation center. Other Chubb efforts have included a regular insurance column in the *People's Daily* on insurance matters and a weekly English-language radio message on insurance.

Chubb also partnered with various state institutions during the late 1990s to carry out risk assessments. In 1997, Chubb helped the State Seismological Bureau to develop its first digital earthquake intensity map. The company has also provided pro bono advice on corporate governance and loss-control strategies to Chinese companies, as well the China Securities Regulatory Commission and the Shanghai Stock Exchange. Chubb's managers helped research and develop loss-control strategies for industrial parks in Beijing, Dalian, Guangzhou, Shenzhen, and Tianjin, and Zhuhai, Guangdong; Suzhou, Jiangsu; and Xiamen, Fujian. Chubb also conducted a comparative analysis of PRC building and fire codes with the US National Fire Protection Association. In addition, the State Institute of Water and Hydraulic Research developed the Shenzhen and Pudong flood risk maps in 1999 and 2001, respectively, with Chubb's assistance. Chubb notes that senior Chinese officials have regularly sought its expertise on a wide array of issues, from insurance solvency to WTO. These types of contributions to China's own capacity-building efforts helped earn the company a positive reputation among Chinese officials and complemented the company's bid for a license.

Planning for the future

The demand for international quality insurance products and loss-control techniques has already risen considerably in China and is projected to grow at an even faster pace now that the country is a WTO member. Chubb's new product team will launch several cutting-edge insurance products in 2002. These new products will not only benefit Chubb's foreign-invested enterprise clients, who are desperately looking for world-class insurance products, but will also help develop the local insurance industry.

The concept of loss control is not yet prevalent in China's business culture, however. There is a great need for the application of risk-prevention techniques and programs offered by experienced loss-control engineers. Industry experts, for instance, generally cite the statistics that following a major disaster in any country: 30 percent of the companies affected never reopen for business and an additional 30 percent go out of business within three years. Tangible effects of a loss can be seen directly and protected by an

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As WTO commitments phase in, the scope of Chubb's license will allow the company to serve both foreign and domestic enterprises.

THE RISKS OF TECHNOLOGY DEREGULATION

NEAL STENDER

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New regulations give foreign technology suppliers more freedom—and more responsibility—than ever before

Foreign suppliers of technology to China must pay more attention to a range of legal issues, and less attention to government officials, under the new Regulations for Technology Import and Export Administration. The regulations eliminate the need for government approval of most technology imports but also introduce new uncertainty about the enforceability of aggressive contract terms. To take advantage of the new freedoms while avoiding the new risks, foreign technology suppliers will need to develop new contract provisions. Some suppliers may also find it worthwhile to amend or replace existing contracts.

Registration vs. approval

The new regulations replace the previous approval process with a simpler registration process for most technology import contracts. Registration entails submitting a contract copy, documents proving the legal status of each party, and a registration application form to the local commission on foreign trade and economic relations (COFTEC) or the national-level Ministry of Foreign Trade and Economic Cooperation (MOFTEC) (see p.25).

MOFTEC or the local COFTEC must still approve contracts for a foreign company to contribute technology as capital to a PRC subsidiary or contracts for the import of any technology that is defined as "restricted" in MOFTEC's new Catalogue of Prohibited and Restricted Import Technologies. Restricted technologies include technology for genetically modified organisms and complete sets of technology for petroleum refinery catalyzing and cracking. Technologies defined as "prohibited" include those for cupola steel production and for nickel-cadmium accumulator production. MOFTEC has indicated that it has no plans to increase the number of restricted or prohibited technologies any time soon, so most technology import contracts will only require registration for the foreseeable future.

Deregulated royalties and usage restrictions

The old regulations required most agreements to expire within 10 years and PRC customers to face no restrictions on their use of licensed technology after the contract's expiration. Such requirements were a major concern for foreign suppliers that wanted to preserve the confidentiality of, and income stream from, nonpatented information for more than 10 years. The new rules omit these requirements; suppliers may now freely negotiate post-expiry restrictions on technology usage.

By no longer requiring contract approval, the new regulations also allow suppliers to demand higher royalties than before, when approval authorities generally withheld approval of contracts unless royalties were below 6 percent of customer revenues. But suppliers should take care not to exceed royalty levels that can be justified by market prices, in order to avoid later difficulties with tax authorities.

What is technology?

The definition of "technology" is, in substance, unchanged under the new regulations, which refer to "patent rights assignment, patent application rights assignment, patent implementation permission, technical secrets assignment, technical services, and other forms of technology transfer."

It remains unclear whether the regulations apply to borderline contracts covering transactions that are mainly nontechnological in nature but that also include technology-like elements such as personnel training, equipment installation, or data provision. But suppliers now face less pressure than before to register these borderline contracts, because registration is not needed to make a contract valid and the regulations do not state any registration deadline. If the State Administration of Foreign Exchange were to demand a registration certificate before processing a contract remittance, suppliers could meet such a demand by belatedly registering—as long as MOFTEC has not added the contracted technology to the catalogue of restricted or prohibited technologies.

Trademarks handled separately

As under the old regulations, suppliers will need to document any license of trademarks separately. Trademarks are governed not by technology import regulations but by the Trademark Law and related regulations, entailing a different set of rights, restrictions, and procedures.

Prohibited and mandatory terms

Many foreign suppliers will welcome the reduced government supervision of technology import contracts, but aggressive drafting is now riskier. Previously, each contract term could be presumed enforceable once it had been approved, even if it conflicted with the old regulations. But now, each party must rely on its own view of the enforceability of any contract terms that may conflict with the new regulations. For this reason, a thorough understanding of prohibited and mandatory terms is crucial.

The new regulations largely carry over prohibited terms from the old regulations but define them more narrowly. The regulations state unequivocally (without the previous exception for "special approval") that a contract "must not contain" provisions that:

- Require the assignee to accept conditions "not indispensable" to the imported technology, including the purchase of unnecessary technology, raw materials, products, equipment, or services.
- Restrict the assignee from acquiring competitive or similar technology from another source.
- Restrict the assignee from improving the technology or from using the improved technology.
- Require the assignee to pay for, or undertake obligations related to, an expired or cancelled patent.

The new regulations also largely carry over mandatory terms. Although foreign suppliers can no longer seek approval for wording that excludes these mandatory terms, they can still negotiate with their customers to protect themselves.

The regulations require the supplier to guarantee that it is the "lawful holder," or authorized assignor or licensor, of the technology and that

The new regulations allow suppliers to demand higher royalties than before, when authorities generally withheld approval of contracts unless royalties were below 6 percent of customer revenues.

Registration Procedures

The technology import registration application form, which will eventually be available online and from local foreign-trade authorities, must include the title of contract; name of supplier; name of technology user; name of technology recipient (which is the same as the user if there is no import agent); "general circumstances" of the contract; fee amount of the contract; payment methods; fee calculation methods; credit methods; and a 17-character code containing various codes indicating the year of signature, the country or territory where the foreign party is located, the PRC party's location, the letter "Y" indicating import (rather than export), the type of the technology (categorized by industry), and the PRC party's 8-digit identification number.

PRC government foreign-trade authorities will process registrations, usually at the local level, but the central-level Ministry of Foreign Trade and Economic Cooperation will process contracts in which suppliers provide technology to projects that have State Council approval, are within the central government's budget, or are funded by loans from a foreign government or international financial institution. A copy of the application form must also be filed with the China International Electronic Commerce Network (*http://info.ec.com.cn*, not yet accessible at the time of writing).
If a contract is amended or renewed, re-registration is required.

—Neal Stender

Now, each party must rely on its own view of the enforceability of any contract terms that may conflict with the new regulations.

the technology is "complete, error-free, valid, and capable of accomplishing contracted technical targets," but the regulations do not expressly require the contract to specify technical targets.

The regulations require the supplier to bear the liability if technology use in accordance with the contract infringes a third party's rights or interests. But a foreign technology owner can limit its liability by arranging for a limited-liability intermediary to act as the supplier under the technology import contract.

The party that makes an improvement owns the improvement, under the new regulations. But parties now have more freedom than before to negotiate the terms of a "grant-back" license to the supplier of improvements owned by the customer.

Reasonableness, foreign law, and arbitration

The new regulations state that "an agreement must not contain" provisions that "unreasonably restrict" the assignee's channels or sources of purchasing raw materials, spare parts, products, or equipment; the quantity, types, or selling prices of the assignee's products; or the assignee's export channels for products made using the imported technology. Suppliers can meet this "reasonableness" requirement in various ways. For instance, they can insert explanations and evidence to demonstrate that each restriction is reasonable. The PRC has customarily regarded preexisting exclusive distribution rights of a third party as a justification for restricting export channels. Suppliers can also demand that customers agree to foreign governing law and arbitration, ideally in a jurisdiction that is likely to find each restriction reasonable. It is important that suppliers not select foreign courts because there is no substantial basis for PRC enforcement of foreign court judgments. Suppliers also would do well to insert clear wording that requires invalid clauses to be modified to the extent needed to make them valid.

Because there is no longer an approval process to interpret such issues as "reasonableness," the development of PRC law on "conflicts of laws"—when two or more legal systems apply to the same contract—and on enforcement of foreign arbitral awards is likely to speed up. But some questions are unlikely to be answered definitively for some time. For example, in interpreting an agreement that specifies foreign law, will the PRC recognize the authority of a foreign arbitration tribunal to use the standard of reasonableness prevailing under that foreign law? Also, if the foreign arbitration tribunal issues an award that a supplier seeks to enforce in China, could PRC courts refuse enforcement on the grounds that the tribunal did not apply the PRC standard of reasonableness, or on the grounds that PRC law was incorrectly interpreted?

Grandfathering and amending contracts

If a previously approved contract conflicts with the new regulations, it appears clear that the contract remains valid, although no official notice has yet addressed this point. Such a contract will likely be "grandfathered" and presumed valid—unless the foreign supplier knew or should have known that the previous approval was improper under the old regulations.

By amending or replacing previous technology import contracts, foreign suppliers can increase royalties, lengthen the contract duration, and impose post-expiry restrictions on technology usage. But amending a contract would raise doubts about the continuing applicability of the previous approval and about the enforceability of any contract terms that conflict with the prohibited or mandatory terms of the new or old regulations.

A better environment for US business models

Implementation of the new regulations has begun slowly, after the government rushed them into effect on January 1 as part of its push to comply with the World Trade Organization's Trade-Related Aspects of Intellectual Property Rights agreement. As *The CBR* goes to press, many government authorities are still unprepared to process registrations under the new regulations, and a website planned to facilitate registration is not yet accessible. These transition difficulties have prevented registrations throughout the first quarter of 2002, but little harm has been done because contracts now become binding on the parties even without registration.

The new technology regulations further narrow the differences between the PRC and US operating environments. Though adjustments are still needed, US companies can now transplant their US business models and US-style legal precautions to China with greater confidence than ever before. 完

Realistic Exuberance

Continued from page 15

that the nonbank rules will appear soon and will require less registered capital than banking operations. Auto finance companies hope to convince Chinese consumers, who collectively finance only about 5 percent of auto purchases, to move closer to the world average of 70 percent. Still, the same issues that affect banking—interest rate controls and the requirement to inject capital in advance of actual booked business—will hinder foreign investors' ability to lure market share away from domestic banks that have already launched auto financing services.

- **Credit cards**

More than 380 million bank cards have been issued in China since 1985, but only a small percentage of these are true credit cards. Most consumers have debit cards that are linked directly to bank savings accounts. Moreover, bank cards only account for 1 percent of domestic consumption.

Clearly there is room for growth, though interest rate constraints and lack of mature credit verification and collection systems are stunting the industry's development. Poor standardization and cooperation among China's major banks also interfere. Dozens of bank card brands compete in the market, and ATMs of one bank rarely accept cards from a competitor bank. But the recent transformation of the decade-old "Golden Card" project (established to create a unified national payment system) into a commercial entity known as the China UnionPay Co. is real progress. UnionPay is now instituting a system whereby banks operating in China pay royalties to join the network and issue cards using the network's logo. Foreign credit card companies have been left out of the network process to date, in what is a clear attempt to keep the nation's banking network under domestic control.

Maintaining perspective

China is opening its financial industry at a phenomenal pace. The regulatory reform and licensing of new business has put the financial sector in greater flux than any other sector. Of course, to many on the frontier, the pace of change seems glacial. And while many companies are rightly maddened by a lack of clarity or the imposition of new requirements in revised regulations, overall the changes are resoundingly positive.

Companies considering entering China's financial sector should heed both a note of caution and a call to action. First, the caution: despite China's commitment to fundamental liberalization, making money in the highly competitive, emerging financial services market will remain difficult. The RMB is unlikely to become convertible on the capital account in the near future, and interest rate controls will affect pricing decisions for some time to come. Domestic competition will not be easily swept aside, and low per capita incomes limit the revenue individual consumers can generate for financial service firms. Credit assessment also remains difficult. High entry costs must be weighed against a serious study of the actual potential market in the medium term—which is nowhere near the total population of 1.3 billion.

At the same time, China's progress should energize most multinational financial services companies. Many—but not all—financial companies have already opened a representative office on the mainland—a necessary first step for many licensing procedures in China investments. And having people on the ground to meet regulators, get a feel for the competition, develop a brand name, and start information flowing is indispensable, as is early staff development. Close monitoring of the quickly changing market and regulatory conditions is a prerequisite to making informed business development decisions.

Meanwhile, the changing market and regulatory structures outlined above evolve apace. New rules and requirements will undoubtedly follow the initial, groundbreaking rules revised or created to allow foreign participation. Yet a number of basic concerns remain about which WTO commitments China may accelerate, or when officials may raise registered capital requirements. And companies have yet to learn how foreign equity investment of less than 25 percent (the minimum level at which a company is considered a foreign-invested enterprise) will be treated in practice.

The reasons PRC regulators may seek to slow liberalization can be countered with the argument that foreign involvement will ease rather than exacerbate these problems. The development of a professional managerial culture with institutional motivations will strengthen stability. Corruption will be driven out of the market as investment funds flow to more responsible players. And regulators themselves will benefit from better financial information. Indeed, China needs foreign competition for precisely the reasons it fears it.

Taken in total, realistic exuberance is merited when viewing the burgeoning financial services market in China. Every financial service firm and its parent company will be looking at China in coming years. As in any sector, sober analysis of constraints and market potential will lay the foundation for a successful China strategy. 完

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China's Economic Indicators, 1997-2001

	1997	1998	1999	2000	2001
Gross Domestic Product (GDP, RMB billion)	7,446.3	7,834.5	8,206.8	8,940.4	9,850.0
Real GDP growth (%)	8.8%	7.8%	7.1%	8.0%	7.3%
Consumer price index (%)	2.8%	-0.8%	-1.4%	0.4%	0.7%
Urban disposable per capita income (RMB)	5,160.3	5,425.1	5,854.0	6,280.0	6,795.0*
Rural net per capita income (RMB)	2,090.1	2,162.0	2,210.3	2,253.4	2,343.5*
Urban unemployment rate (%)**	3.1%	3.1%	3.1%	3.1%	4.0%

NOTES: *Calculated by the US-China Business Council; **According toChina Statistical Yearbook figures, which do not include under-employment or the migrant population.

Richest Chinese Regions, 2000

Location	Disposable Income (RMB)
Shanghai	11,718
Beijing	10,350
Guangdong	9,762
Zhejiang	9,279
Tianjin	8,141
Fujian	7,432
Tibet	7,426
Jiangsu	6,800
Shandong	6,490
Yunnan	6,325

How Much Things Cost

Product	Beijing (RMB)	Shanghai (RMB)
Can of regular Coca-Cola	1.85	1.8
Base subway fare	3	2
Scoop of Haagen-Dazs ice cream	25	25
Domestic ice cream	1-3.5	1-3.5
Taxi ride (5 km)	11.2-14	14
Large Pizza Hut cheese pizza	85	85
Youtiao (fried bread)	.4	.3
Big Mac	9.9	9.9
Colgate toothpaste (100 g)	17.6	6.4
Jieyin toothpaste (180 g)	4.6	4.6
Apples (1 kg)	5	5.2
Rice (1 kg)	3	2.5
Handmade noodles (1 kg)	2	2
Pork (1 kg)	11	12
Cabbage (1 kg)	.8	1
Soy sauce (1 liter)	2.5-4.5	3.5-4.5
Cooking oil (1 liter)	9.6	7
Milk (1 liter)	8.8-11	5-6.8
Gasoline (1 liter)	2.8	1.8
Movie ticket	20	30
Fenghuang bicycle	380-462	462
Domestic Car Red Flag	200,000	200,000
Joint Venture Car Audi China A6	510,000	510,000
Imported Car Toyota 2000 Mercedes-Benz E280	 350,000 760,000	 350,000 760,000

NOTE: $1=RMB 8.28

China's Trade with the World ($ billion)

	1997	1998	1999	2000	2001
Exports	182.7	183.8	194.9	249.2	266.2
% change	20.9%	0.5%	6.1%	27.8%	6.8%
Imports	142.4	140.2	165.7	225.1	243.6
% change	2.6%	-1.5%	18.2%	35.8%	8.2%
Total	325.1	324.0	360.6	474.3	509.8
% change	12.1%	-0.4%	11.3%	31.5%	7.5%
Balance	40.3	43.6	29.2	24.1	22.5

China's Trade with the United States ($ billion)

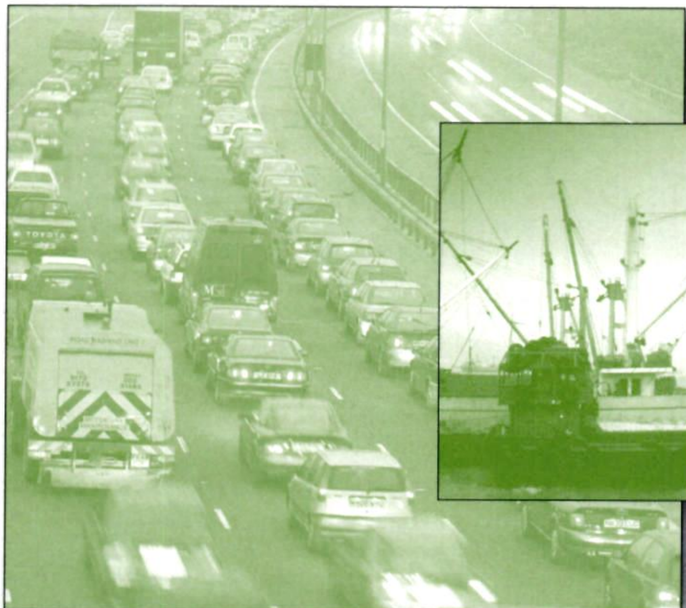
	1997	1998	1999	2000	2001
US Exports	12.8	14.3	13.1	16.3	19.2
% change	6.7%	10.9%	-8.0%	24.4%	18.3%
US Imports	65.8	75.1	87.8	107.6	109.4
% change	21.0%	14.1%	16.9%	22.6%	1.6%
Total	78.6	89.4	100.9	123.9	128.6
% change	18.4%	13.7%	12.9%	22.8%	3.8%
US Balance	-53.0	-60.8	-74.7	-91.3	-90.2

NOTE: PRC exports reported on an FOB basis; imports on a CIF basis

US and Total Foreign Direct Investment in China, 1997-2001

	Number of Contracts			Contracted Investment ($ million)			Utilized Investment ($ million)		
Year	US	Total	Percent (US)	US	Total	Percent (US)	US	Total	Percent (US)
1997	2,188	21,001	10.42	4,937	51,004	9.68	3,239	45,257	7.16
1998	2,238	19,799	11.30	6,484	52,102	12.44	3,898	45,463	8.58
1999	2,028	16,918	11.99	6,016	41,223	14.59	4,216	40,319	10.46
2000	2,609	22,347	11.67	8,001	62,380	12.83	4,384	40,715	10.77
2001*	2,594	26,150	9.90	7,505	69,120	10.80	4,858	46,842	10.40
Total	11,657	106,215	11.05	32,943	275,829	12.07	20,595	218,596	9.48

NOTE: *Calculated by the US-China Business Council



10 Largest Cities by Population, 2001

Chongqing	30,910,900
Shanghai	13,216,300
Beijing	11,075,300
Chengdu	10,133,500
Harbin	9,346,400
Tianjin	9,120,000
Shijiazhuang	8,898,000
Wuhan	7,491,900
Qingdao	7,066,500
Guangzhou	7,006,900

NOTE: China had 40 cities with populations of more than 1 million in 2002.

Foreign Direct Investment in China by Region, 2001 (Ranked by amount utilized)

	Number of Contracts			Amount Contracted			Amount Utilized		
		% change	% of total	$ million	% change	% of total	$ million	% change	% of total
Hong Kong	7,976	13.0	30.5	20,598.0	18.1	29.8	16,863.3	4.0	36.0
British Virgin Islands	1,500	39.4	5.7	8,767.5	15.9	12.7	5,058.4	41.6	10.8
United States	2,594	1.6	9.9	7,505.3	-4.6	10.8	4,858.3	11.1	10.4
Japan	2,003	25.0	7.7	5,351.6	48.6	7.7	4,578.6	41.1	9.8
Taiwan	4,196	36.1	16.1	6,904.0	73.1	10.0	3,158.0	32.8	6.7
Singapore	671	9.5	2.6	1,991.6	-2.3	2.9	2,168.6	3.7	4.6
South Korea	2,933	14.1	11.2	3,505.9	47.8	5.1	1,973.3	30.9	4.2

SOURCES: CEIC; China Statistical Yearbook; Dow Jones News Service; Financial Times; Foreign Broadcast Information Service; Inside China Today (www.insidechina.com); Ministry of Foreign Trade and Economic Cooperation; Ministry of Information Industry; People's Daily; PRC General Administration of Customs, China's Customs Statistics; The US-China Business Council; US Department of Commerce; US International Trade Commission.

HOPE FOR CHINA'S MIGRANT WOMEN WORKERS

ZHANG YE

Civil society groups are emerging to aid migrant women in southern China

Zhang Ye is China country director at The Asia Foundation, Beijing.
This paper was originally presented at the China Supplier Workshop on Labor Practices and Corporate Social Responsibility, October 22-23, 2001, in Shenzhen, China.

More than 10 million migrant laborers work in Guangdong Province, according to China's 2000 national census, and the Guangdong Statistical Bureau estimates that more than 60 percent of these are women. Migrant workers tend to staff wholly foreign-owned enterprises, joint ventures, township and village enterprises, and private enterprises that produce toys, clothing, footwear, electronics, and other consumer goods. Female workers usually come to Guangdong from poorer provinces along the Yangzi River such as Hubei, Hunan, Jiangsu, Jiangxi, and Sichuan. They find jobs in Guangdong factories through labor bureaus, from relatives and friends, or by word of mouth.

Guangdong's economy has grown more than 14 percent per year on average during the past decade, and the province has accounted for about half of the country's total GDP growth. Guangdong alone generates more than 40 percent of China's foreign trade in terms of value. While both the central and local governments have recognized the indispensable contribution of migrant labor, so far government policy has provided migrant labor few protections.

Labor on the move

China's limited supply of arable land is unable to absorb the large supply of surplus labor in the countryside (*see The CBR*, March-April 2002, p.18). At the same time, the cost of agricultural products has increased by 10 percent each year over the last decade, according to *China Development Review*, and most of China's agricultural products have already lost their comparative advantage in the international market. Farmers also often find it difficult to sell their products in domestic markets, in part because consumption patterns in China's prosperous cities are shifting away from grains and other basic foodstuffs and because the government has cut back the resources it devotes to agricultural development in recent years. Large numbers of farmers have thus left the land to find jobs in big cities such as Beijing and Shanghai, and the cities of the Pearl River delta in Guangdong.

The current residential permit (*hukou*) system prevents migrant laborers from staying in the big cities permanently, however. Without an urban *hukou*, farmers are technically not allowed to live and work in the cities and cannot benefit from the social safety net the Chinese government provides to urban citizens (*see* p.32). From 1949 to the early 1980s, the *hukou* and work unit systems prevented labor mobility and the development of true labor markets. As a result, most of the rural population was tied to the land.

But with economic reforms came plentiful urban jobs—largely in construction, food services, and factories—that urban populations alone could not fill. Despite the *hukou* and work unit restrictions on mobility, large numbers of migrant laborers have flooded the big cities in the past 10 years. This wave of migration has broken the original rigid system in many ways. Local farmers are no longer tied tightly to their farmland. They can move to big cities whenever there are jobs and can usually manage to make some kind of living.

Though the central government has recognized urban economies' need for rural labor, it is still concerned about urban overpopulation, and thus far social policies and government practices have lagged behind social change. Each city still handles migrant labor at its own discretion. Policies vary according to local political, economic, and social circumstances. Often the rules and policies discriminate against migrant laborers. Official reports on migrant labor tend to emphasize the negative side, such as rising crime rates, environmental degradation, and difficulties implementing family planning and other policies. And urban residents and local city governments exclude migrant workers from urban political, cultural, educational, and social arenas so that they are essentially confined to isolated factory communities or industrial complexes.

Even in places like the Pearl River delta, where a larger labor force is needed and migrant laborers drive economic development, the system still fails to guarantee a migrant worker's quality of life and job security. In Shenzhen, where economic growth has been the most rapid and most sustained in China over the past 20 years, migrant laborers were responsible for as much as 70 percent of the growth of industrial output in the mid-1990s, according to Dr. Liu Kaiming, a research fellow at the Institute of Contemporary Observation in Shenzhen. Nonetheless, most local governments do not recognize the contribution of migrant labor to big city development and expansion.

Migrants suffer rights violations

Chinese laws and regulations recognize citizens' "equal rights in employment and selection of jobs," yet the rights and interests of migrant workers are often violated. More often than not migrant workers face significant problems in the workplace.

- Most of the laborers do not have contracts with their employers, and those that do have minimal power when negotiating working conditions and benefits and thus end up simply agreeing to the terms and conditions offered by the employers.
- Migrant laborers typically work long hours, averaging 11 to 12 hours per day. Many factories do not observe weekends, and workers work seven days a week, even though China's Labor Law guarantees workers 8-hour workdays, 40-hour workweeks, and at least one day off per week.
- Migrant wages are often well below the local legal minimum wage, and some factories force workers to pay fees the government intended factories to pay—such as job introduction fees and fees for permits that allow workers to stay temporarily in Guangdong—so that workers receive even less than their set wage.
- The large majority of migrant laborers do not enjoy benefits such as medical insurance and social welfare services to which citizens with a local *hukou* are entitled.
- Supervisors often infringe upon migrant laborers' personal rights and dignity, and physical assault and personal humiliation are not uncommon.
- Workplace injuries are common, often because factories do not meet safety standards. Workers are often exposed to industrial hazards and pollution.
- Few of the nonstate-owned factories have organized labor unions, and thus workers lack an appropriate channel through which to voice their concerns. Even the factories that have a branch of the government-sanctioned national labor union (All-China Federation of Trade Unions [ACFTU]) do not always improve their working environments because, in many cases, these labor unions don't really represent the workers' interests.

Women overlooked

Chinese government development programs tend to overlook women's roles and rights, and existing policies do not favor women's employment and career development. Even compared with 10 years ago, Chinese women's social status has declined in many ways, found a 2001 survey by the All-China Women's Federation, a Chinese organization that has a close relationship with the government. For instance, the percentage of women in politics has fallen, and women's employment opportunities remain limited. Chinese rural women, who make up the bulk of women migrants, have been pushed to the bottom of the social hierarchy, suffering more than urban women in the process of modernization.

In addition, these women migrants face poorer working conditions than their male counterparts. Though statistics show that the migrant labor male-to-female ratio nationwide is 2:1, in the Pearl River delta the ratio is reversed. Job segregation in the delta pushes

Though statistics show that the migrant labor male-to-female ratio nationwide is 2:1, in the Pearl River delta the ratio is reversed.

women into the unskilled, labor-intensive, and lower-paid apparel, footwear, and toy industries. The average monthly salary for a woman migrant worker in Guangdong is ¥300-¥500 ($37-$62), according to a 2000 report by the Institute of Sociology of the Chinese Academy of Social Sciences. In contrast, male migrant workers generally earn ¥500 or more a month. Salary levels have stagnated since the early 1990s. Given inflation and increases in the cost of living, salaries have fallen in real terms.

China's Labor Law guarantees women workers maternity leave and protection for their reproductive health. Yet the country's vast pool of cheap labor makes it easy for employers to refuse to pay maternity leave or simply to fire women workers when they become pregnant. In many factories, the working conditions and environment are harmful to women's health, particularly in the footwear and garment factories. The chemical fumes, unbearable heat, and long hours of standing not only affect women's general physical health but are also detrimental to their reproductive health.

Migrant women workers tend to be naïve and unassertive, leaving them more vulnerable to sexual harassment and personal abuse than local women. A few cases in which migrant women workers became mistresses of Hong Kong or Taiwan businessmen caused concern among local

Hukou Reform Targets Urban-Rural Divide

Recent reforms to China's household registration (*hukou*) system have begun to redress the historical bifurcation of Chinese society into urban and rural classes. Identification booklets, also called *hukou*, are issued to all Chinese and identify the carrier as a rural or non-rural resident. Each urban administrative entity (town, city, etc.) issues its own *hukou* and provides full access to social services such as education only to its own *hukou* holders.

The document and the symbol

More than just an identification document, the *hukou* symbolizes China's two-tiered society. China adapted its *hukou* system from other communist countries during the famines of the 1950s to distinguish farmers, who could grow food, from urbanites, who needed grain rations. During the 1960s and 1970s, the system hardened to the point that peasants could be arrested just for entering cities. In the 1980s and 1990s, most urban areas relaxed these barriers to travel, which, along with economic reforms, prompted an influx of rural migrants. Until recently, migrants have had to obtain temporary residence permits to remain in urban centers and have had to pay excessive fees for social services. Police can still summarily expel from cities any migrants without residence documents.

The reforms enable rural migrants with stable jobs and fixed residences to register for the first time as urban residents. In one sense, the reforms simply acknowledge the flow of rural migrants to cities in recent decades. In a deeper sense, liberalization of the *hukou* system will help to improve labor mobility and to accord some measure of equal treatment to rural inhabitants in the cities, who have traditionally been treated as second-class citizens.

The basic reforms

Hukou reforms differ from locality to locality but set roughly the same qualifications for entitlement to urban registration. Basically, a person and each of his or her immediate family members can obtain an urban *hukou* if he or she has a fixed residence and stable work in an urban area, usually defined as more than one year on the job. These two qualifications were laid out in Chinese Communist Party Central Committee Document No. 11 of November 2000, which outlined China's urbanization strategy for the Tenth Five-Year Plan (2001-05). Areas involved in *hukou* reform also offer urban registration to those who purchase a local commercial housing unit. Given the relatively high price of commercial housing in China, this provision aims to attract urban investment from outside entrepreneurs. Urban centers also often offer *hukou* to holders of graduate degrees to lure professionals from other areas.

Since mid-2001, China has expanded the geographic scope of its *hukou* system reforms, as prescribed by Central Committee Document No. 11. During 2001, about 600,000 rural residents acquired urban *hukou*, according to China's State Commission on Restructuring the Economy (SCORE). State Council Circular No. 6 of March 2001 mandated that all small cities (those with populations of less than 100,000) should grant *hukou* to residents with fixed jobs and homes beginning October 1, 2001. The reforms now encompass all towns and small cities in Anhui, Guangdong, Hebei, Jiangsu, Shandong, Sichuan, and Zhejiang provinces.

Reforms also extend to several large cities, including Beijing, Chongqing, and Shanghai; Hefei, Anhui; Jinan, Shandong; Ningbo, Zhejiang; and Shijiazhuang, Hebei. Guangdong has reportedly eliminated the urban-rural distinction altogether and no longer stamps *hukou* as "urban" or "rural." Nevertheless, rural residents still try to obtain a Guangzhou *hukou* to access the city's social services.

A SCORE official recently told the *China Economic Times* that problems relating to unemployment, the social safety net, and pollution precluded most large cities from trying *hukou* reforms. The several large cities that had initiated reforms, he said, had done so because of their ability to absorb significant numbers of outsiders.

These cities have placed significant limits on eligibility for urban registration, however. Outsiders who qualify for Beijing's *hukou*, for example, include only educated professionals, commercial home buyers, and entrepreneurs with firms employing more than 100 people. Other large cities limit urban registration to qualified residents in designated counties and towns lying within their administrative boundaries. (In China, a large city—defined as having more than a million people—can have administrative authority over outlying counties and small cities, though they might be separately chartered urban entities.) A rural migrant, in other words, still cannot acquire a *hukou* to live in a big city proper—only a *hukou* to live in urban areas situated along the city's periphery. The exception is Shijiazhuang, which has offered an urban *hukou* to any resident with a fixed home and job since August 2001. Some economists note, though, that most rural migrants would be unable to afford the cost of living in big cities even if allowed to settle there.

Accepting reality

The geographic expansion of *hukou* reform is a bow to necessity, given the flow of rural inhabitants to urban areas in recent decades. *China Information Daily* reported authorities, who sometimes identify migrant women as a threat to the stability of marriages and family. Government-sponsored "strike hard" campaigns launched in Guangdong often target these mistresses, many of whom are already marginalized migrant women.

Migrant women workers in the Pearl River delta also typically shoulder large family responsibilities. The money they remit home is often the main source of income and essential support for family expenses such as housing, parent hospitalization, and sibling education or marriage.

Many of these migrant women, most of whom are aged 18-25, become trapped by circumstance. Because they are not official urban residents, they cannot stay in the big cities forever. But home may no longer have a place for them either—after living in the cities, many young women have trouble readjusting to rural conditions. The new and unstable position they find themselves in presents psychological issues and other dilemmas.

The government response

The central government has recognized the constraints of the original rural-urban dichotomy guaranteed by the *hukou* system, and various government agencies have suggested

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last November that, from 1982 to 2000, more than 200 million rural Chinese moved to urban areas—more than half in the 1995-2000 period alone—attracted by jobs in the manufacturing and service sectors. Of the total flow during the last 20 years, roughly 100 million lacked legal status in the form of temporary residence permits or urban *hukou*. *China Information Daily* predicted that 180 million rural Chinese would move to urban areas by 2010, as *hukou* reform makes internal migration easier.

It's all about education

Why would rural migrants with stable work and a fixed dwelling in an urban area feel the need to change *hukou*? The main reason is their children's education, according to a Chinese labor economist who has studied *hukou* reform in Fenghua, a small city within the jurisdiction of Ningbo. According to the economist, Fenghua's rural *hukou* holders must pay ¥3,500 ($437) for their children's yearly primary school tuition, inclusive of various book fees. For urban *hukou* holders, primary school costs only ¥1,200 ($150) per child per year. This disparity is typical of most urban centers. Moreover, discriminatory education policies make it more difficult for rural *hukou* holders than urban *hukou* holders to enter universities. An urban *hukou* could thus mean the difference between a lifetime of manual labor and a high-paying, white-collar career for one's children.

Reforms in Jinan

Jinan, Shandong's provincial seat, is one of the few large Chinese cities that have undertaken *hukou* reforms. Greater Jinan encompasses four outlying counties and one small city, home to 3.3 million rural *hukou* holders, or 58 percent of greater Jinan's 5.6 million residents. Since 1997, residents with a college degree or above, as well as investors and buyers of commercial housing, have been able to obtain urban *hukou*. In August 2001, the Jinan city government also began to allow rural *hukou* holders in the outlying small city and counties to acquire an urban *hukou* at no charge. To register as urbanites, applicants need a fixed residence and stable work, corroborated by an employer's contract. City officials say that roughly 40,000 rural residents in the designated areas have switched to an urban *hukou* since August.

The recent reforms have had a minimal impact on Jinan society, according to the Public Security Bureau (PSB), which, as in most Chinese cities, oversees household registration. The reason, the PSB said, was that those who have changed *hukou* had lived in the city long before the reforms were announced. Jinan has not experienced an influx of migrants since August. The requirement that migrants have steady work before changing *hukou* also precluded the possibility of new urban *hukou* holders competing with Jinan's unemployed for jobs. By the same token, PSB officials said, Jinan would wait three to five years before allowing rural *hukou* holders in the city proper to obtain an urban *hukou*, to guard against potential problems with vagrancy and environmental damage.

Is *hukou* reform too slow?

The principal obstacle to more extensive *hukou* reforms is the fear among city leaders that urban social welfare systems cannot support large inflows of rural migrants, according to one economist. He argued that this fear was unfounded, citing the numerous public assets that cities could use to generate the proceeds necessary to ensure social welfare coverage for expanded city populations. The economist explained, for example, that city governments owned all land within their jurisdiction and could easily sell this asset piecemeal and tax real estate transactions to raise funds. Another untapped source of social welfare funds is the farmland that peasants leave behind when they move to urban areas. To protect themselves against unemployment or other urban hardships, migrants should be allowed to obtain "back-up" funds by selling or mortgaging their land.

The significance of *hukou* reform

A lack of labor mobility has long been an odd feature of the Chinese economy. Close to 25 million urban workers have been laid off since 1997, and economists estimate that China's excess rural labor force is 150 to 200 million. One obvious solution to these problems would be to encourage laid-off and surplus workers to move to eastern provinces that offer manufacturing and service sector jobs. While the *hukou* system has not stopped the flow of rural workers to urban centers, it has impeded their integration into those areas and their access to the most prized jobs. *Hukou* reforms, therefore, should allocate labor more rationally by making it easier for workers to settle in areas where their labor is needed most. Moreover, because the *hukou* system perpetuates China's longstanding urban-rural divide, these reforms are an unprecedented step toward dismantling a social structure that, according to some economists and policymakers, denies "national treatment" to rural inhabitants.

—Joe Young

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strategies for abolishing the system. Indeed, in some places, *hukou* reform has already begun.

But for now, in most places, local protectionism continues to resist fundamental changes in the system. Local governments prefer to use migrant workers as a reliable source of cheap labor, and rarely consider them when formulating urban plans or urban social welfare policies. And because the migrant population pays large fees every year to the local authorities to obtain the various permissions necessary for them to work and live temporarily in Guangdong, migrant workers are cash cows for local bureaucracies. In Shenzhen, for example, taxes levied on migrant laborers account for 70 percent of local government tax revenue, according

Social Justice for Working Women in Guangdong

Multinational companies that manufacture or have their goods manufactured in China have come under scrutiny in recent years for the working conditions at their facilities. A few companies, such as leading apparel marketer Levi Strauss & Co. (LS&CO), have launched a range of measures that attempt to improve the conditions in their suppliers' factories and help local communities. LS&CO, with 2001 sales of $4.3 billion in more than 100 countries, has roughly 16,700 employees worldwide. The company has a strong business presence in the Asia-Pacific region, including a manufacturing presence in Hong Kong and China (primarily Guangdong) through contractors. The company estimates that 28,000 employees work in its contracting facilities in China; about 80 percent are women. (This figure does not include licensee and affiliate production.)

LS&CO routinely audits all of its contractors for compliance with *Global Sourcing and Operating Guidelines*, a code of conduct that directs business practices such as fair employment, worker health and safety, and environmental standards. This code, based in part on international standards developed by the International Labor Organization, has led the way in improving working conditions in apparel factories throughout the world. If LS&CO determines that a business partner is not complying with these guidelines, the company requires the partner to correct the problem within a specified time period. If a contractor fails to comply, LS&CO will terminate the business relationship.

The company also seeks input and recommendations from nongovernmental organizations (NGOs) to improve its internal monitoring process. LS&CO actively participates in the Fair Labor Association (a collaborative effort among the business, NGO, and university communities aimed at protecting workers' rights and improving independent monitoring systems) and the Ethical Trading Initiative.

Supporting NGO initiatives

LS&CO goes beyond the factories to help support local communities through the Levi Strauss Foundation. In Asia, LS&CO and the Levi Strauss Foundation give more than $2 million annually to local communities, of which around $400,000 annually has been committed to China (including Hong Kong) for the past three years. Since 1999, the company has extended its grantmaking activities to benefit the communities in China from which it sources, with significant grants to NGOs for projects in the Pearl River delta region.

The foundation's main initiative in China so far is a $300,000 Asia Foundation project to help migrant women factory workers in Guangdong through legal rights, health, and education programs. Known as the *Social Justice for Working Women Program*, this project offers much-needed services to women workers of southern Guangdong through Women Workers' Legal Aid Centers, Women Workers' Mobile Health Services, and Women Workers' Education and Counseling Centers.

According to the Asia Foundation, the popularity of the program has encouraged local government service providers to offer these support services on a regular basis, whereas they had just offered emergency assistance in the past. The foundation notes that local governments "have since endorsed" minimum labor rights standards for migrant workers.

The need for services

The Asia Foundation identified the above services, in consultation with the Guangdong Women's Federation, the Guangdong Labor Union, and the Qinghua University Research Center on Contemporary China (which collaborates with the Guangdong Women's Cadre Training School), as the most effective ways to address the current needs of women workers in Guangdong. Because the average education level of women migrant workers is junior middle school—some have only completed primary school, and fewer have finished senior middle school—very few of these women have much knowledge of the legal and health issues that concern them.

Moreover, the Guangdong Labor Union's health checkups have shown that health problems are common among women workers, who, along with gender-specific complaints, also suffer from respiratory diseases and high blood pressure. In some factories, working conditions harm workers' health. For instance, in footwear factories, workers may be exposed to poisons in the glue used for shoe making; in welding and metallurgical factories, workers may be exposed to dust and poisons in the paint. Workers in garment and toy factories can suffer exposure to dust and excessive heat and noise, and workers in wooden handicraft factories are sometimes exposed to dust, heat, and toxic paint.

● Women Workers' Legal Aid Centers

One of the most important services of the Women Workers' Legal Aid Centers is the legal counseling the Guangdong Women's Federation provides to migrant women workers. Migrant workers have little, if any, knowledge of their rights as workers, as women, and as members of Chinese society. With the aid of lawyers from the women's federation, migrant women and other workers are able to obtain better access to justice in cases ranging from physical abuse, factory injuries, and divorce to labor and property disputes.

In 2001 alone, the Guangdong Women's Federation handled more than 50 legal cases on behalf of migrant women in roughly 10 cities across the province. According to the Asia Foundation, the cases involved compensation for workplace injuries, nonpayment of wages, bigamy, and divorce. Most of the federation's clients won their cases.

Last year, the federation distributed more than 21,000 copies of *Learn to Protect Yourself*, a handbook covering basic legal rights, to migrant workers and drafted a report on the eligibility of citizens for legal aid support services. To raise awareness of the importance of legal aid, as well as garner public support, the women's federation published 15 articles on the program's activities and legal cases in local newspapers in 2000. The news column "Self-Protection of Migrant Women Workers"—started by the project and published in the *Yang Cheng Evening News*—has become very popular among migrant women, many of whom send their own articles for publication in the column.

to Liu Kaiming. Local governments therefore have significant incentives to maintain the status quo.

Local officials also tend to be ambivalent about the poor labor standards of foreign-invested companies. Because overseas investments provide the bulk of revenue for many local economies, local officials generally would rather protect the interests of the companies than the rights and interests of the migrant workers.

Local officials and urban residents have formulated strong interest groups that oppose changes to the system. In Beijing, until 2000, more than 100 kinds of jobs were not open to migrant labor. Now, some low-paid jobs that many Beijing residents are unwilling to take,

The women's federation also operates four telephone hotlines, which handled more than 7,000 inquiries in 2001. Most of the questions dealt with legal issues such as labor disputes, labor contracts, and divorce. More hotlines may be set up in the future, depending on funding and human resources.

Women Workers' Mobile Health Services

Under the Women Workers' Mobile Health Services program, a team of health professionals travels throughout southern Guangdong offering free medical advice, health education, and physical checkups to women factory and other workers. Before the program was set up, the Women's Department of the Guangdong Labor Union analyzed factory conditions and their relation to women workers' health and hygiene. The findings suggested a need for "onsite health and hygiene education, counseling, and checkup services for at-risk female factory workers." The absence of preventive health education and the limited access to basic healthcare for women workers is a significant problem in the province.

These mobile health services, which benefited more than 5,000 migrant and other workers in 2001, travel to 12 factories every month. In addition, women's health fairs took place last year in township and municipal facilities in eight localities. HIV/AIDS awareness has been introduced into some of the educational materials and services, along with breast cancer protection and infectious illness prevention information. Women who are found to have health problems are introduced to hospitals for treatment.

Follow-up efforts by the labor union's women's department have shown that, after receiving these materials and services, women workers are more aware of how to protect their health and are more willing to join the labor union-initiated health insurance program, which covers much of the cost of their medical care. According to the Asia Foundation, the project has included several presentations for more than 100,000 women workers, safety courses for women union members (not exclusively for migrant women), and consultations on regulations specific to women workers.

Women Workers' Education and Counseling Centers

The Guangdong Provincial Women Officials' Training Center oversees four Women Workers' Education and Counseling Centers, which provide education and counseling programs for women workers. These programs cover self-esteem, legal rights and protection, healthcare, gender relations, HIV/AIDS awareness, personal hygiene, and interpersonal skills in the workplace. The center developed new materials to educate women workers in these areas and distributed them to more than 5,000 women workers. In 2001, the centers provided psychological counseling to about 250 women. The most common complaints are adjustment to new working and living environments, interpersonal relationships, labor disputes, and reproductive health. The centers were first established in Zhongshan and Dongguan in 2000 and will be expanded to Panyu District of Guangzhou and Nanhai District of Foshan in 2002.

The project also held the first-ever Conference on Guangdong Provincial Social Policies and Services for Migrant Workers, which was cosponsored by the provincial government and attended by representatives from local governments, domestic and foreign-invested firms, and NGOs. After the conference, some local government agencies improved their policies and practices concerning migrant workers. For instance, the local authorities now handle migrant workers' complaints about delays in salary payments more effectively.

Difficulties and encouragement

The project has run into difficulties, largely from the women migrants' employers, even though most training and counseling sessions are held on Sunday, a day off for most workers. These companies complain that some of the lectures are too sensitive or provocative and are reluctant to let the project team come into the factories. The project staff must often spend months explaining the project and its purpose to the employers to persuade them that the project will benefit their workers without having a negative effect on their business. Even so, only a limited number of factories—usually those with better conditions—have agreed to let the project team into the factories for lectures.

Getting local government officials' cooperation has also been difficult. It often takes months to get local officials to agree to let the project go ahead, because they are concerned that some of the lectures and counseling may upset the investors that generate most of the local economy's revenue. Local officials are willing to cooperate only once they are convinced that the program will benefit both sides.

Despite such difficulties, testimony from the women migrants themselves seems to indicate that the project is having the desired effect. Interviews conducted with women who have attended project training courses since 2000 clearly indicate that the women find them useful.

One 24-year-old migrant woman from Sichuan was excited to learn more about reproductive health, according to Asia Foundation follow-up interviews. She and her friends had heard stories about women who had become pregnant or contracted sexually transmitted diseases but had never been told exactly how to prevent pregnancy or such diseases. After participating in the program, she said, she feels she knows how to protect herself and whom to ask for help if she were to find herself in such a situation.

A 28-year-old woman from Hunan echoed those sentiments and added that she now has more self-confidence and knows what to do if she experiences health problems or if her rights are infringed. Indeed, the interviews indicate that women particularly value information on sexual and reproductive health. Perhaps even more important is the sense of self-empowerment they seem to have gained. Many of the interviewees note that, after participating in some of the project's training sessions, they have the confidence to stand up for their rights for the first time in their lives.

—Virginia A. Hulme

Virginia A. Hulme is associate editor of *The CBR.*

The Chinese media play an increasingly important role in raising awareness about the situation of migrant labor. Guangdong newspapers work closely with the women's federation, the labor union, and the local judiciary, and the media have exposed many major labor accidents and serious legal cases involving migrant labor.

such as street sweeping or garbage collecting, are open to migrants. In Shenzhen, the most open city in China, only white-collar workers with higher education can obtain a local *hukou*. While changes in the *hukou* system are inevitable in the long run, the local governments that are the actual beneficiaries of the current system will resist fundamental change. Until such change occurs, migrant laborers' disadvantaged position will continue.

A few bright spots: Civil society

China is trying to move in the direction of the rule of law. As part of the central government's efforts to join the international system in the past 20 years, China has joined and ratified over 20 international treaties and agreements to guarantee and protect women's—and indeed all citizens'—basic rights. China has among the best legal protections of women's rights on the books, but weak enforcement has stymied improvements in the position of migrant women workers.

In the past 10 years, China's nongovernmental organizations (NGOs) have been playing an increasingly important role in the delivery of social services. Horizontal linkages among NGOs, as well as between NGOs and other sectors, in China and abroad have enhanced NGOs' advocacy capacity. In Guangdong, linkages among Chinese and foreign NGOs, multinational corporations, and scholars are quietly forming. Joint activities in this region include the provision of services and assistance to migrant labor.

Several groups have begun to focus attention on and provide services to migrant women workers. The following are just a few examples.

- Over the past five years, teams of scholars from the Chinese Academy of Social Sciences, Qinghua Center for Contemporary China Studies, and Guangdong Women's Cadre Training School, among others, have conducted a series of studies about the disadvantaged position of migrant laborers. They have published their findings in a series of books and articles to push for policy change. They have also provided education and training in law, reproductive health, self-protection, and social skills for migrant women workers.
- Some traditional mass organizations, such as the ACFTU and the All-China Women's Federation, have shifted from a Communist Party-line-focused approach to a service-focused approach. With the support of foreign foundations and companies, they have turned their attention to the well-being of migrant women workers, addressing issues such as legal rights and health conditions.
- The Chinese media play an increasingly important role in raising awareness about the situation of migrant labor. Guangdong newspapers work closely with the women's federation, the labor union, and the local judiciary, and the media have exposed many major labor accidents and serious legal cases involving migrant labor. As a result, government agencies have forced some factories to improve their safety measures and have levied fines. And thanks to media-fueled social pressure, the victimized workers won their lawsuits and received compensation more easily than in cases where such attention was lacking. As labor issues become an important social topic, more factories are paying attention to labor standards and migrant women's working and living conditions.
- Some migrant workers in Guangdong have organized themselves into support groups, often based on their home provinces. Members of these groups provide each other with information and arrange lodging for new arrivals.
- Foreign NGOs and foundations are working with local NGOs to provide services and training for migrant workers, particularly female workers. For example, the Asia Foundation has been active in Guangdong since 1999 working with the local labor union, women's federation, and university-based research centers to provide counseling and services to tens of thousands of migrant women workers. Oxfam Hong Kong has provided women workers with a van not only for transportation but also for medical care and other social service activities. The Global Alliance for Workers and Communities has launched activities in factories where the majority of workers are women.
- Numerous multinational corporations that benefit from their own business and investment in the region have also begun to recognize the importance of addressing some of these issues. Some multinational corporations support intermediaries and NGOs in their work concerning labor standards, rights, and justice for women workers (*see* p.34).

These various players are not only helping migrant workers solve legal issues, but are also creating pressure on society to improve the working and living conditions of migrant workers.

The development of civil society has created a new opportunity to enhance women's roles and rights. Both the state and the market have failed in the past to provide women with equal opportunities or necessary protections. Citizen participation can help supply these public goods and protect worker rights. As NGOs play an increasingly important role in China, they are becoming tangible providers of services for needy people. Gradually, they are coming to act as advocates for social change. This kind of bottom-up approach will encourage further opening and will gradually change Chinese society and, one hopes, improve the lot of *all* of China's migrant workers, both male and female. 完

BOTTOM-UP LEGAL REFORM

CAROLA McGIFFERT

How one local law firm is helping to change the system

Carola McGiffert worked on China trade issues in the Clinton Administration and is a graduate of the Johns Hopkins School of Advanced International Studies. She recently spent seven weeks living and studying at the Hopkins-Nanjing Center in Nanjing, Jiangsu.

Feng Songlin is not your typical Chinese lawyer. Feng, the head of one of the largest private law firms in Nanjing, Jiangsu, a provincial capital of about 6 million people a few hours northeast of Shanghai, has practiced law for more than 20 years. His personal motto—"to be faithful and honest, to carry forward justice"—was borne out when he was named one of Nanjing's top 10 lawyers in 1998 in recognition of his successful prosecution of a corrupt local official. He is what a colleague calls "a traditional lawyer with a modern mind."

What makes Feng so modern? For starters, he hires young lawyers like Li Zhuying, who, as head of external relations, works to attract foreign clients. This unusual step is just one part of Feng's effort to transform his small but growing firm so that it can remain competitive. After January 2003, foreign law firms will be able to operate more freely in China as a result of China's World Trade Organization (WTO) commitments, and Feng and Li want to be ready.

The significance of the changes that Feng's Nanjing Dongnan Law Firm (NDLF) are making, such as expanding operations and searching for a foreign partner, go beyond the firm's bottom line. They reflect efforts that a range of Chinese professionals and entrepreneurs are undertaking that will bring about de facto reform in China's economic and legal systems. Western observers—who are rightly concerned about the rule of law in China, but who sometimes cannot see the forest for the trees—have largely overlooked this quiet movement.

A split from tradition

Discussions among Western experts about the rule of law in China usually concern the actions of the senior leadership: What regulations and laws will the central government enact and implement, and which ones will they enforce? The interesting question, however, is not what will be imposed from above, but rather what is already percolating up from below. In other words, how is the average Chinese citizen already starting quietly to instigate small changes that will ultimately have a powerful impact on how China understands the rule of law?

Traditionally, Chinese leaders ruled by virtue rather than law; legislation and regulations had little relevance. Today's legal system in China reflects this tradition, despite efforts to move toward a more legalized society. Starting with Deng Xiaoping's 1978 declaration that "democracy has to be institutionalized and written into law so as to make sure that institutions and laws do not change whenever the leadership changes or whenever the leaders change their views," the Chinese leadership has repeatedly affirmed its commitment to achieving a system of rule of law. In practice, however, the law in China is subservient to and an instrument of Chinese Communist Party (CCP) policy, according to China legal expert Stanley Lubman, whose 1999 book *Bird in a Cage: Legal Reform in China After Mao* is among the most comprehensive on legal reform in China to date (*see* p. 51).

Though China's legal infrastructure, from the Western perspective, is skeletal, and rule of law in China remains a largely subjective enterprise, change is nonetheless under way. Over the past two decades, China has developed institutions charged with developing and enforcing a system of laws, including a legislature that is increasingly acting as more than a rubber stamp; a court system that is beginning to assert its independence; and a legal education system that is starting to find its sea legs. In addition, personal relationships (*guanxi*) are arguably becoming less important in legal matters, particularly for commercial issues, even if connections and backroom deals still play a significant role in Chinese society. China's efforts to become an economic superpower and its hard-won membership in the WTO have honed the senior leadership's attention to legal reform, primarily as it relates to commercial and economic law.

At the very least, economic reform has generated the need for a legal system with which foreign investors feel comfortable. Because of regulations like the 1979 Sino-Foreign Joint Venture Law, designed to attract foreign direct investment (FDI) and import foreign capital and technical expertise, China quickly became a leading FDI recipient and net exporter, which in turn helped fuel two decades of remarkable economic growth. The creation of enforceable laws that were recognizable to foreign investors was key to this process.

From the foreign perspective, the benefits of China's WTO membership go beyond greater market access. China is now obligated to play by the same rules as other WTO members, and this will, in theory, help to accelerate China's domestic legal reform efforts. For example, under WTO rules, China must not only adhere to its agreed-upon tariff and nontariff barrier reduction commitments, but also its commitment to increase transparency.

Whether China has the legal and administrative infrastructure and political environment to accomplish this goal remains to be seen, but the leadership is clearly heading in the right direction. According to the Office of the US Trade Representative, China has agreed to translate all WTO-related laws into one or more of the WTO languages and to publish all laws before their implementation. In addition, the Ministry of Foreign Trade and Economic Cooperation has established a system by which WTO members can make inquiries about trade-related laws. In December 2001, the State Council issued new rules that require legal amendments or new administrative regulations to be made public at least 30 days before they take effect. Though these rules fall short of requiring a process of gathering and incorporating comments from the Chinese public, such as the *Federal Register* in the United States, they are an important step toward more transparent policymaking.

Of course, such rules are worthless if they are not enforced, and in the case of WTO-related rules, China's record has yet to be proven. Already, there have been cases where comment periods have been observed—but others where they have not. In addition, Chinese provinces and municipalities have been slow to implement WTO obligations, and it is unclear whether rules to increase transparency have yet reached the local level. All of this indicates that legal reform in China will be a long-term process. Regardless of how long it takes to transform China's legal system, however, China's WTO commitments ensure that legal reform is here to stay.

Private firms lead the charge

China reportedly has just over 120,000 lawyers and 9,000 law firms today. This falls short of President Jiang Zemin's goal, announced in 1992, of 300,000 lawyers by 2000. Although this slow growth is a reality check for legal reformers, it also reflects a change of focus to quality over quantity.

Legal education in China remains relatively poor and law schools emphasize rote learning rather than critical thinking. Nevertheless, efforts over the past decade to increase educational and professional standards are gradually making their mark. The reestablishment of the bar in 1986 and the release of the Law on Lawyers in 1997 both aimed to improve the quality of Chinese lawyers. And although it fell short of labeling lawyers as true professionals, the Law on Lawyers did not say, as other laws had, that the purpose of lawyers and the law was to serve the CCP and the state. This was a major step forward at the time, but perhaps more important in the elevation of legal standards in China is the fact that firms like NDLF—and the foreign clients that they hope to attract—are simply demanding better-educated, more able lawyers.

NDLF is one of about 70 law firms in Nanjing. It employs 30 lawyers and five legal assistants and is expanding rapidly, having doubled in size over the past 18 months. In contrast, the average provincial firm, according to Li, employs 10 people, including both lawyers and staff.

NDLF is also one of a growing number of private law firms in China. Traditionally, most law firms have been state owned, but the trend is toward private partnerships. In 1996, 76 percent of Chinese law firms were state funded and only 24 percent were partnerships or cooperatives, according to Lubman; by early 2002, 50 percent were partnerships or cooperatives, according to the *People's Daily*. Nevertheless, most private firms resemble corporate entities and lack the in-

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In the process of changing internally, this firm of young lawyers is putting gentle but persistent pressure on the local legal system to reform itself.

centive-based, profit-sharing structure of Western partnership law firms.

To date, most Chinese law firms have had few, if any, foreign clients—in large part because their role was to help resolve disputes among state-owned companies. NDLF has only one foreign client, a Japanese investment firm, for which it provides services ranging from the supervision of contracts to the identification of potential joint venture partners and the training of Japanese staff based in China. But it is aggressively seeking others.

NDLF is a rare bird in Nanjing. Despite its proximity to Shanghai, a modern highway connecting the two cities, and a strong technological and research base supported by a first-rate university system, Nanjing has not yet attracted much attention from multinational firms. Surprisingly few multinational companies have come to Nanjing to take advantage of the highly educated, but relatively inexpensive, labor force. NDLF is seeking to change this and, in the process of promoting its firm, is also promoting Nanjing as a low-cost alternative to Pudong in Shanghai.

Seeds of change

Though external factors, notably trade and investment, have sparked legal reform over the past two decades, forward-looking people like Feng and Li of NDLF have also played a crucial role. Feng was inspired to restructure his firm because of the competition he saw coming down the road in the form of the WTO. And, in the process of changing internally, this firm of young lawyers is putting gentle but persistent pressure on the local legal system to reform itself. The measures that the firm is undertaking include:

- **Continuing its expansion** NDLF hopes to double in size again over the next two years so that it has the capacity to handle new business that will flow in after WTO terms come into full force. NDLF understands that its small scale undermines its efforts to compete with foreign firms.
- **Searching for a foreign partner** Li says one of his primary tasks is to set up a partnership structure modeled on Western law firms. Under the envisioned arrangement, the foreign law firm ultimately would be the majority shareholder in a joint venture firm. NDLF would handle administrative matters, advise the foreign firm on Chinese laws and practices, and represent clients before Chinese courts. While the foreign firm would provide ideas and clients, NDLF would provide access and implementation—thus serving as a bridge between Chinese and foreign companies. According to Li, "business in China is still best done in Chinese," and therefore NDLF would provide on-the-ground, tactical expertise.
- **Ensuring that all new hires are under 35 years old** This assures that they have had formal college training and have a "modern mind," Li explains. They must be fluent in English, have excellent computer skills, understand international business, and have some international contacts.
- **Implementing a new incentive-based salary structure** This should encourage lawyers to bring in more business and attract the most talented lawyers coming out of college. NDLF currently requires 50 percent of a client's fee to go to the lawyer that handles the work and 50 percent to go to the firm. Eventually, 75 percent will go to the lawyer. This will, it is hoped, increase the average salary of the firm's lawyers from about ¥3,000 ($362) a month to closer to the Jiangsu average of ¥4,000-¥5,000 ($483-$604) a month.
- **Honing the firm's public relations efforts** Having watched multinationals wage aggressive campaigns when they feel they have been treated unfairly or when they are trying to win a coveted contract or license—often dispatching senior executives and consultants to lobby senior leaders in Beijing—Feng and his team are incorporating similar tactics on behalf of their clients. NDLF has recently used ad campaigns, speeches, and opinion articles to increase public awareness of various issues of interest to their clients. These efforts put pressure on local governments and courts to ensure fairness.

These are some of the many ways in which NDLF is making a difference. By raising its standards and demanding the best young lawyers, it is exerting pressure for improvements in legal education. By restructuring operations to make the firm more attractive to top-notch lawyers, Feng and his team are creating a model that will all but certainly be copied by other firms. By using public relations tools, the firm is demanding fairness in the legal system and reducing the importance of *guanxi*. In its own small way, by embracing rather than shrinking from competition, NDLF is paving the way at the grassroots level for a more law-based Chinese society, one in which both foreign and Chinese participants can benefit.

Of course, no one Chinese law firm can bring about legal reform in China, just as no one multinational company can. Nor can the WTO or any other trade agreement. China will experience genuine and sustainable legal reform not only after a difficult restructuring of laws, law schools, courts, and government practices, but also after a fundamental redefinition of relationships in China—among people and between the people and the state. This will take time and require patience. Nonetheless, it is encouraging to see, through the prism of one law firm in one city, that this change is one that the Chinese people welcome. In the end, it is the Chinese people—not the WTO dispute settlement court or the US government or even the CCP—who will bring about lasting changes in the legal system. In this regard, change in China is moving forward at a fast clip. 完

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China Business

Sales and Investment

JANUARY 16 – MARCH 15, 2002

Compiled by Collins Alt and Richard Burns

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

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

Accounting and Insurance

INVESTMENTS IN CHINA

ING Groep NV (the Netherlands)/Beijing Capital Group

Signed letter of intent to form an insurance joint venture in Dalian, Liaoning. (the Netherlands:50%-PRC:50%). 02/02.

OTHER

Assicurazioni Generali S.p.A. (Italy)/CNPC

Opened new life insurance and financial services joint venture in Guangzhou. 02/02.

Manulife International Ltd. (Canada)/SINOCHEM

Joint venture, Manulife-Sinochem Life Insurance Co., will open Guangzhou branch. 02/02.

Advertising and Public Relations

INVESTMENTS IN CHINA

AOL Time Warner, Inc. (US), Broadband Investment Ltd. (Hong Kong)/Shanghai Paradise Co., Ltd.

Will form joint venture to operate a nine-screen multiplex cinema in Shanghai. 03/02.

Tom.com Ltd. (Hong Kong)/Hong Xiang (Guangdong)

Tom.com acquired stake in Hong Xiang, a mainland music and entertainment firm. (Hong Kong:50%-PRC:50%). $15.1 million. 03/02.

Tom.com Ltd. (Hong Kong)

Signed equity purchasing MOU with Beijing Yanhuang Times Advertising Corp. (Hong Kong:50%-PRC:50%). $8 million. 03/02.

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

Tom.com Ltd. (Hong Kong)

Signed equity purchasing MOU with China Media Network Ltd. of Guangdong. (Hong Kong:65%-PRC:35%). $3.5 million. 03/02.

Tom.com Ltd. (Hong Kong)

Signed equity purchasing MOU with Tianming Advertising Co., Ltd. of Henan. (Hong Kong:50%-PRC:50%). $6.8 million. 03/02.

Tom.com Ltd. (Hong Kong)

Signed equity purchasing MOU with Qilu International Advertising Co. of Shandong. (Hong Kong:60%-PRC:40%). $13.4 million. 03/02.

Tom.com Ltd. (Hong Kong)

Signed equity purchasing MOU with Qingdao Chunyu Advertising Co., Ltd. of Shandong (Hong Kong:50%-PRC:50%). $5.7 million. 03/02.

OTHER

Television Broadcasts Ltd. (Hong Kong)/China International Television Corp.

Agreed to air TVB8 and Xing He television channels in mainland hotels. $200,000. 03/02.

Bertelsmann AG (Germany)/Rongshu.com (Beijing)

Announced the formation of a strategic partnership in Chinese online literature as a possible precursor to a merger or joint venture. 02/02.

Weber Shandwick Worldwide Inc. (US)

Announced plans to double its personnel in China within three years. 02/02.

Banking and Finance

CHINA'S INVESTMENTS ABROAD

CCB

Agreed to buy remaining 30% stake in joint venture Jian Sing Bank Ltd. from partner Dah Sing Financial Holdings Ltd. (Hong Kong). $13.5 million. 02/02.

BOC

Opened a branch in Manila, the Philippines, to facilitate RMB-related business. $12 million. 01/02.

INVESTMENTS IN CHINA

BNP Paribas Peregrine, a subsidiary of BNP Paribas SA (France)/ Changjiang Securities Co., Ltd. (Hubei)
Will form joint venture investment bank in Shanghai. (France:33%-PRC:67%). $60 million. 03/02.

Bausparkasse Schwaebisch Hall AG (Germany)/CCB
Reached an agreement, pending approval from PBOC, to establish joint venture bank in Tianjin. 02/02.

OTHER

Chang Hwa Commercial Bank (Taiwan)/PBOC
Gained approval from PBOC to open representative offices in Jiangsu. 03/02.

Daiwa Securities Group Inc. (Japan)/Shanghai International Group Corp.
Will form cooperative relationship to promote mutual product development and to exchange market information. 03/02.

United World Chinese Commercial Bank (Taiwan)/PBOC
Gained approval from PBOC to open representative offices in Shanghai. 03/02.

Chemicals, Petrochemicals, and Related Equipment

INVESTMENTS IN CHINA

AP Precision Plastic Pte. Ltd., a subsidiary of Asian Micro Holdings Ltd. (Singapore)/Shunde Leliu Xinpu Electronics Factory (Guangdong)
Signed MOU to manufacture precision plastic injection molding and other plastic components in Guangdong. (Singapore:51%-PRC:49%). $500,000. 03/02.

Consumer Goods

CHINA'S INVESTMENTS ABROAD

Sanyo Electric Co. Ltd. (Japan)/Haier Group Co. (Shandong)
Formed an appliance sales joint venture to sell Haier products in Japan. (Japan:60%-PRC:40%). $60 million. 02/02.

INVESTMENTS IN CHINA

Eastman Kodak Co. (US)/BOC
Signed agreement to enable Kodak to expand its Express Color Shop network to 10,000 outlets in 2003. 02/02.

Ito-Yokado Co. Ltd. (Japan); Uni-President Enterprise Corp., a subsidiary of Tainan Group (Taiwan)
Will form joint venture to open 7-Eleven convenience stores in Beijing and Shanghai. 02/02.

Fedders Corp. (US)/Xi'an Dong Fang Electrochemical Co. (Shanxi), a subsidiary of China North Industries Group Corp.
Formed joint venture, Xi'an Fedders Dong Fang Air Conditioner Compressor Co. Ltd., to manufacture rotary compressors for air conditioners. (US:50%-PRC:50%). 01/02.

OTHER

Mitsubishi Heavy Industrial Ltd. (Japan)/Haier Group Co. (Shandong)
Will form strategic alliance to market each other's washing machines and robot components in China and Japan. 03/02.

Wal-Mart Stores, Inc. (US)
Will launch two purchasing companies in Shanghai in the next two months. 03/02.

Jusco Co., Ltd. (Japan), a subsidiary of AEON Group (Japan)
Will open three more retail stores in Guangdong this year. 02/02.

Sampo Corp. (Taiwan)/Haier Group Co. (Shandong)
Will form strategic alliance to market each other's appliances, IT, and telecom products in China and Taiwan. 02/02.

Matsushita Electric Industries Co. Ltd. (Japan)/Wanbao Electric Appliance Group Co. (Guangdong)
Joint venture, Matsushita-Wanbao Compressor Co. Ltd., opened air-conditioner compressor plant in Guangzhou with annual production capacity of 2.5 million units. 01/02.

Electronics and Computer Software

CHINA'S IMPORTS

IBM Corp. (US), ExcelStor Technology, a subsidiary of Great Wall Technology Co. Ltd. (Hong Kong)
Agreed that ExcelStor would license, manufacture, and market Deskstar 120GXP disk drives for worldwide sale under IBM name, and in China under ExcelStor name. 02/02.

Thales SA (France)
Won contract from the Government of the PRC to provide technology for recording and storing personal information for national identity cards. 02/02.

Toshiba Corp. (Japan)/Sichuan Changhong Electric Co.
Signed technology transfer agreement under which Toshiba will transfer tuner technology to Changhong, which will produce the tuners at its factories and sell them to Toshiba. $14.5 million. 02/02.

INVESTMENTS IN CHINA

Toshiba Corp. (Japan)/Henan Pinggao Electric Co., Ltd.
Will form electronics joint venture in Hebei to manufacture switchgears and circuit breakers. (Japan:50%-PRC:50%). $21 million. 03/02.

Earth Communications Inc. (US)/Dalian Sanke Technology Group Co. (Liaoning)
Will jointly produce synthetic materials based on nano-technology. (US:58%-PRC:42%). $51 million. 02/02.

Intel Corp. (US)/Anhui USTC iFLYTEK Co., Ltd.
Bought a 2.86% stake of Anhui USTC iFLYTEK, which has developed mature data voice convergence technology. 02/02.

Legend Holdings Ltd. (Hong Kong)/Xiamen Overseas Chinese Electric Co., Ltd. (Fujian)
Will form a mobile handset R&D, manufacturing, and sales joint venture. (Hong Kong:60%-PRC:40%). $18 million. 02/02.

LG Group (South Korea)/Shandong Langchao Cheeloosoft Co.
Will set up a software solutions joint venture. (South Korea:49%-PRC:51%). $600,000. 02/02.

OTHER

Amkor Technology, Inc. (US)/Grace Semiconductor Manufacturing Corp. (Taiwan)
Will form alliance to offer total supply chain solutions in microelectronics. 03/02.

Softstar Entertainment Inc. (Taiwan), Enix Corp. (Japan)
Will form a video game development joint venture in Beijing. 03/02.

ChipPAC Inc. (US), Semiconductor Manufacturing International Corp. (Taiwan)
Announced the formation of a non-exclusive alliance to provide services from wafer fabrication to final distribution in China. 02/02.

Digital China Holdings (Hong Kong), Data Systems Consulting Co., Ltd. (Taiwan)
Will form a joint venture to develop software and other related value-added services in China. (Hong Kong:40%,Taiwan:60%). $6 million. 02/02.

Fujitsu Ltd. (Japan), Semiconductor Manufacturing International Corp. (Taiwan)
Signed a deal under which SMIC will make high-end memory chips used in mobile phones and portable electronics for Fujitsu in China. 02/02.

General Electric Co. (US)/Shanghai High-Tech Zone
Signed agreement allowing the establishment of an international R&D center in Zhangjiang High-Tech Zone in Pudong. 02/02.

IBM Corp. (US)/The COLL Group (Shanghai)
Will form strategic alliance to cooperate in sales, software R&D, and technology training. 02/02.

SAES Getter S.p.A. (Italy)
Opened a plant in Shanghai's Pudong District to offer air-purification products and services to chip companies. $5.4 million. 02/02.

Satyam (India)
Will form a software development center in Shanghai Pudong Software Park. 02/02.

Engineering and Construction

CHINA'S EXPORTS

Government of the PRC
Won contract from the Government of Cambodia to repair the 5.1km Mao Zedong Boulevard in Phnom Penh. 02/02.

CHINA'S IMPORTS

Ming He-Han S & T Co., Ltd., a subsidiary of Jupiter Enterprises, Inc. (US)
Won contract from Xin Fei File Equipment Manufacturer to construct factory in Xi'an, Shaanxi. $1 million. 03/02.

INVESTMENTS IN CHINA

Bilfinger Berger AG (Germany)/Beijing Construction Engineering Group
Will form construction joint venture. (Germany:50%-PRC:50%). $12 million. 02/02.

OTHER

China National Construction & Agricultural Machinery Import & Export Corp.
Will finance 90% of construction of irrigation pump facility in Ilocos Sur, the Philippines. (the Philippines:10%-PRC:90%) $34 million. 02/02.

Government of the PRC
Granted funds to Government of Tanzania to finance two water supply projects in Dodoma Municipality and Chalinze. $17 million. 02/02.

Kuwait Fund for Arab Economic Development (Kuwait)/PRC Ministry of Finance
Signed agreement to finance the Jiuzhaigou airport in Sichuan. (Kuwait:21%-PRC:79%). $99 million. 02/02.

Lafarge SA (France)/Dujiangyan Building Materials Corp. (Sichuan)
Joint venture, Lafarge Dujiangyan Cement Co., opened cement plant with capacity to produce 1.4 million tons per year. 02/02.

Sumitomo Corp. (Japan)/Shanghai Jiaotong University
Will transfer some product development functions for core speed-change and reduction gears to China. 02/02.

Environmental Technology and Equipment

CHINA'S IMPORTS

Pacific Gateway Holdings Inc., a subsidiary of Altagem Resources Inc. (Canada)
Won contract from Zibo Huashan Landscaping Engineering Co. Ltd. in Shandong to be the consulting engineer and general contractor for the Zibo City High-Tech Water Plant. 02/02.

INVESTMENTS IN CHINA

Daiki Co., Ltd., Mitsubishi Rayon Co. Ltd. (Japan)
Will set up water treatment products joint venture in Dalian, Liaoning. $619,000. 02/02.

MERGE Energy Bhd. (Malaysia), AWA Envirotech Co., Ltd. (Thailand)
Will form water treatment and distillation services joint venture in Shandong. (Malaysia:50%,Thailand:50%). $50,000. 01/02.

Food and Food Processing

INVESTMENTS IN CHINA

New Dragon Asia Corp. (US)
Agreed to acquire flour-milling assets of Shandong Long Feng Peng Lai Flour Co., Ltd. 03/02.

South African Breweries plc (UK)
Announced plans to invest $100 million in China over the next three years for acquisitions and marketing. 02/02.

Uganda Coffee Development Authority/Beijing North Star Industrial Group
Formed joint venture to market Ugandan coffee in China. (Uganda:51%-PRC:49%). $300,000. 02/02.

OTHER

J.R. Simplot Co. (US)
Announced plans to strengthen cooperation with local Chinese potato farmers and to expand local potato production north of Beijing. 02/02.

McDonald's Corp. (US)
Opened outlet in the Shanghai Hongqiao Airport. 02/02.

City of Zhaoqing (Guangdong)
Acquired the brewing interests of Shenzhen Huaqiang Holdings Ltd., including its investment in Zhaoqing Blue Ribbon Brewery Noble Ltd. and its 19.6% stake in Noble China Inc. (Canada). 01/02.

Machinery and Machine Tools

INVESTMENTS IN CHINA

Atlas Copco AB (Sweden)
Signed letter of intent to acquire Liuzhou Tech Machinery Co., Ltd. (Guangxi). 02/02.

OTHER

Rockwell Automation (US)
Announced plans to shift one-tenth of its global procurement to China sources over the next three years. $300 million. 02/02.

Metals, Minerals, and Mining

CHINA'S IMPORTS

M.I.M. Holdings Ltd. (Australia)
Will license its Isasmelt technology to Yunnan Metalurgical Group for its new lead-zinc smelter. $40 million. 02/02.

Shanghai Baosteel Group Corp.
Will buy 50,000 tons of steel from the wreckage of the World Trade Center to manufacture steel plates. 01/02.

INVESTMENTS IN CHINA

Watts Industries, Inc. (US)/Yuhuan County Cheng Guan Metal Hose Factory (Jiangsu)
Will form joint venture in Jiangsu to manufacture metal plumbing products. (US:60%-PRC:40%). 03/02.

Pacific Minerals Inc.(Canada)/Brigade 217 of Northwest Geological Bureau, China Nuclear Industry (Inner Mongolia)
Pacific Minerals will acquire 96.5% interest in the 217 Gold Project in Inner Mongolia. $750,000. 02/02.

Toong Rong Iron & Steel Enterprise Corp. (Taiwan)
Will build stainless steel plant in the Shanghai suburbs with an annual capacity of 60,000 tons. 02/02.

TVI Pacific Inc. (Canada)/Inner Mongolia Huayu Geological and Mineral Prospecting Co. Ltd.
Will form joint venture in Inner Mongolia to explore and develop mineral deposits. 02/02.

Miscellaneous

INVESTMENTS IN CHINA

American Express Co. (US)/CITS
Will form a joint venture to provide business travel management services in China. (US:49%-PRC:51%). $2.5 million. 01/02.

OTHER

Northwest Airlines Corp. (US)/CITIC
Announced the formation of a marketing alliance for Chinese travelers holding US visas. 03/02.

Dow Jones Newswires (US)/XinhuaOnline Information & Technology Co. Ltd.
Signed agreement under which XinhuaOnline will redistribute selected news content from Dow Jones Newswires. 02/02.

SembCorp Industry Ltd., Straco Investment Pte. Ltd. (Singapore)/ China Poly Group
Opened joint venture project, the Shanghai Ocean Aquarium. $55 million. 02/02.

Wynn Resorts (US), Galaxy Casino Ltd. (Hong Kong)
Won casino licenses in Macao. 02/02.

Genesis Technology Group, Inc. (US)/Shanghai Technology Stock Exchange (STSE)
Agreed that Genesis would facilitate technology transfer and sales of intellectual property licenses between US and PRC firms in the US. 01/02.

Packaging, Pulp, and Paper

INVESTMENTS IN CHINA

Bertelsmann AG (Germany)/Shanghai Packaging Group, Shanghai Printing Group
Will form joint venture to provide printing and packaging services for books and periodicals. (Germany:50%-PRC:50%). $29 million. 01/02.

R.R. Donnelley & Sons Co. (US)/Shanghai Press and Publications Administration
Signed joint venture agreement to construct a print manufacturing facility in Shanghai. $30 million. 01/02.

Petroleum, Natural Gas, and Related Equipment

CHINA'S IMPORTS

IMPCO Technologies, Inc. (US)/Sichuan Chuanteng CNG Equipment Co. Ltd.
Signed licensing agreement to market and sell IMPCO gaseous fuel products in Sichuan. 02/02.

CHINA'S INVESTMENTS ABROAD

CNPC
Will acquire European Bank for Reconstruction and Development's 30% stake in Azerbaijan's Kursangi and Karabagli oil fields pending approval from the State Oil Co. of the Azerbaijan Republic. $52 million. 01/02.

Repsol YPF SA (Spain)/CNOOC
Will buy the offshore Indonesian oil assets of Repsol YPF. $585 million. 01/02.

INVESTMENTS IN CHINA

Royal Dutch/Shell Group (the Netherlands)/SINOPEC
Will form a retail joint venture in Jiangsu. 03/02.

Chinese Petroleum Co. (Taiwan)/CNOOC
Will form joint venture, Tainan Chaoshan Oil Corp., to exploit undersea oil in the Chaoshan area of the Taiwan Strait. $50,000. 02/02.

Hong Kong and China Gas Co. Ltd.
Will aquire 80% of Yixing Ganghua Gas Co. (Jiangsu) to develop gas projects in Jiangsu and Shandong. $47.4 million. 02/02.

Far East Energy Corp. (US)/China United Coalbed Methane Corp. Ltd.
Will form joint venture to explore, develop, produce, and sell coalbed methane in Yunnan. (US:60%-PRC:40%). 01/02.

OTHER

BP plc (UK)/SINOPEC
Will jointly operate 500 oil stations in Zhejiang. (UK:40%-PRC:60%). 02/02.

Royal Dutch/Shell Group (the Netherlands), OAO Gazprom (Russia), The Hong Kong and China Gas Co. Ltd./PetroChina
Began building natural gas pipeline in western China to deliver gas to Shanghai. (the Netherlands, Russia, Hong Kong:45%-PRC:55%). $18 billion. 02/02.

Pharmaceuticals

CHINA'S IMPORTS

Sanguine Corp., Ascendiant Corp. (US)
Signed licensing agreement whereby Ascendiant will help test, manufacture, and distribute PHER-02, a synthetic substitute for human red blood cells, in China. 02/02.

INVESTMENTS IN CHINA

Hai-O Enterprise Sdn. Bhd. (Malaysia)/Tong Ren Tang Holdings Corp.
Will form joint venture, Peking Tong Ren Tang Sdn. Bhd., to open and manage stores selling traditional Chinese medicine. $1.3 million. 01/02.

OTHER

Boehringer Ingelheim GmbH (Germany)/Shanghai Sine Pharmaceutical Co., Ltd.
Announced opening of manufacturing facility, Boehringer Ingelheim Shanghai Pharmaceuticals Co., Ltd., in Shanghai to produce medicine for respiratory diseases, arthritis, and high blood pressure. 03/02.

Ports and Shipping

OTHER

Massachusetts Port Authority/COSCO
Signed terminal services agreement under which COSCO will provide weekly direct service between Asia and Boston. 01/02.

Power Generation Equipment

CHINA'S IMPORTS

Endesa SA (Spain)
Won contract from Beijing Guanting windfarm to supply 50 wind turbine generators. $26.2 million. 03/02.

Property Management and Development

INVESTMENTS IN CHINA

Pacific Concord Holding Ltd. (Hong Kong)
Will acquire a majority stake of Winsan (Shenzhen) Industrial Co., Ltd.'s property assets. (HK:50.45%-PRC:49.55%). $36.8 million. 03/02.

Sun Hung Kai Properties Ltd. (Hong Kong)/Air China (Beijing), Beijing Capital Airport Group Corp.
Will develop a logistics center at Beijing International Airport. (Hong Kong:33%-PRC:67%). $30 million. 03/02.

3D Global Ltd. (Australia)
Signed agreement with EG0365.com, a subsidiary of Jie Qiang Group, to be anchor tenant in a Shanghai-based 3D Internet shopping mall. 02/02.

Accor SA (France)/Jinjiang Holdings Co., Ltd. (Shanghai)
Will form joint venture to provide marketing and distribution support for 68 hotels in China jointly owned by both groups. 02/02.

Landmark Entertainment Group Inc., ICT Group Inc. (US)/Government of Wuxi (Jiangsu)
Signed an agreement to develop the Asian Hollywood and a high-tech theme park around Wuxi. $300 million. 02/02.

Macquarie Bank Ltd. (Australia); Schroder's Asian Properties LP, a subsidiary of Schroder's plc (UK)
Signed MOU to form a property joint venture to develop 6,000 apartments in Shanghai in the next five years. (Australia:50%, UK:50%). $40 million. 02/02.

OTHER

Four Seasons Hotels (Canada)/Shanghai Jing'an District Government, Shanghai Industrial Investment Co., Ltd.
Opened joint venture, the Shanghai Four Seasons. (Canada:21%-PRC:79%). 01/02.

Telecommunications

CHINA'S EXPORTS

Gran Caiman Telecommunications SA, a joint venture of the Ministry of Information and Communications of Cuba/Great Dragon Telecom Co., Ltd. (Beijing)
Will manufacture and assemble telephones for export to the Empresa de Telecommunicaciones de Cuba SA. 03/02.

CHINA'S IMPORTS

Elephant Talk Communications Inc. (Hong Kong)
Won contracts from Jitong, China Netcom, and Great Wall Broadband Network Service Co., Ltd. to launch new IP services in greater China, Taiwan, and Hong Kong. 03/02.

Marconi plc (UK)
Won contract from China Mobile to supply base stations for a 3.5GHz fixed wireless access project in Shandong. 03/02.

Motorola Inc. (US)
Won contract from Unicom Guomai, a subsidiary of China Unicom, to build mobile radio system in Shanghai. $13.3 million. 03/02.

Motorola Inc. (US)
Won contract from Eastern Communications Co., Ltd. (Zhejiang), to supply GSM/GPRS chipset platform for handsets. 03/02.

Polycom Inc. (US)
Won contract from China Unicom for mainland carrier video communications systems. $3.35 million. 03/02.

Shanghai Bell Alcatel Mobile Communication System Co., a subsidiary of Alcatel (France)
Won contract from Zhejiang Mobile Communications Co., a subsidiary of China Telecom, to expand GSM telecommunications network. $76 million. 03/02.

AsiaInfo Holdings Inc. (US)
Won contract from China Railcom to design and implement national IP backbone. 02/02.

FibCom, a joint venture of Tellabs Denmark AS, IFU-Denmark, and ITI Ltd. India
Will export fiberoptic telecom equipment to China. 02/02.

Lightscape Networks, a subsidiary of ECI Telecom Ltd. (US)
Won contract from Zhejiang Unicom, a subsidiary of China Unicom, to supply XDM platforms for deployment in the nodes of all existing mobile switching centers. 02/02.

Lucent Technologies, Inc. (US)
Won contract from Sichuan Telecom, a subsidiary of China Telecom, to provide LambdaUnite and WaveStar optical transport systems and switches. 02/02.

Oy Nokia AB (Finland)
Won contract from China Unicom to expand mobile network in Shanghai and Gansu. $100 million. 02/02.

Oy Nokia AB (Finland)
Won contract from Fujian Mobile Communications Co. to deploy Nokia GSM network solutions. 02/02.

Siemens AG (Germany)
Won contract from China Mobile to expand the Tibet Mobile Communications Co. GSM network. $11 million. 02/02.

Nera ASA (Norway)
Won contract from Datang Telecom Technology Co., Ltd. to provide SDH high-capacity transmission equipment. $4.6 million. 01/02.

CHINA'S INVESTMENTS ABROAD

Huawei Technologies Co., Ltd. (Guangdong)
Announced it will nearly double its $17 million investment in its subsidiary, Huawei India, for telecommunications software R&D. 02/02.

INVESTMENTS IN CHINA

BT Group plc (UK)/21 ViaNet, Inc. (Beijing)
Will form joint venture to support and develop broadband and new services in China. 03/02.

Pacific Century CyberWorks Ltd. (Hong Kong)/SINOPEC
Will form IT joint venture, Petro-CyberWorks Information Technology Co. Ltd., to support and ensure the quality of SINOPEC's information system infrastructure in Beijing. (Hong Kong:45%-PRC:55%). 03/02.

Qualcomm Inc. (US)/China Unicom
Signed MOU to develop Binary Runtime Environment for Wireless to enable mobile users to download games and read e-mail. 03/02.

Avaya Inc. (US)/Beijing CCID Time Information Co., Ltd.
Will jointly establish broadband network products, technology, and solutions. 02/02.

Brightpoint Inc. (US), Chinatron Group Holdings Ltd. (Hong Kong)
Signed joint venture to distribute mobile phone handsets in China. (US:50%-Hong Kong:50%). 02/02.

Ciena Corp., CEC-IDN Telecom Ltd., a joint venture of IDN Telecom, Inc. (US)/China Electronic Corp.
Signed MOU to cooperate in manufacture and distribution of Ciena's CoreDirector™ and MetroDirector K2™ software products and to research and develop Ciena's ON-Center™ NMS software in China. 02/02.

Earth Communications Ltd. (US)/NORINCO
Will form a joint venture in Shandong and Shanghai to produce and sell fiberoptics in China. $215 million. 02/02.

Japan Telecom Co., Ltd./China Railcom
Signed MOU to develop and sell telecom services in China. 02/02.

LG Electronics (South Korea)/Langchao Electronic Information Industry Group Corp., Cherry S/W, Yan Tai Development Zone Distribution Center (Shandong)
Will form an R&D, manufacturing, and sales joint venture in Shandong for CDMA handsets with annual capacity of 1.5 million units. (South Korea:49%-PRC:51%). $2 million. 02/02.

LM Ericsson AB (Sweden)/Langchao Electronic Information Industry Group Corp. (Shandong)
Will form joint venture to develop and promote wireless communication technology and products in Jinan, Shandong. $5 million. 02/02.

Texas Instruments (US), Legend Holdings Ltd. (Hong Kong)/Xiamen Overseas Chinese Electric Co., Ltd. (Fujian)
Will form joint venture to research, develop, and manufacture voice and data products. $18 million. 02/02.

Vodatel Networks Holdings Ltd. (Macao)/Shandong China Telecom
Will expand Shandong China Telecom's digital data network and frame relay networks in Qingdao, Yantai, and Jinan in Shandong. $1.68 million. 02/02.

Israel Aircraft Industries (Israel), Hong Kong Satellite Technology Holdings (Hong Kong)/China Aerospace Technology Group
Will form joint venture, Hong Kong Satellite Technology Group, to purchase two Israel Aircraft Industries communications satellites and to offer direct-to-home broadcasting services in China. 01/02.

LM Ericsson AB (Sweden)/Dalian Daxian Group (Liaoning)
Will form joint venture to develop Bluetooth solutions and software, hardware system integration, PDA, and notebook Bluetooth blocks. (Sweden:51%-PRC:49%). 01/02.

Wi-Lan Inc. (Canada)/Ray Scientific and Technology Development Co., Ltd. (Beijing), Wincomm Communications Co., Ltd. (Beijing)
Will form joint venture, Wi-Comm Communications Co., Ltd., to manufacture and sell Wi-Lan wireless telecom products in China. (Canada:20%-PRC:80%). $5.7 million. 01/02.

Youngwoo Telecom Co., Hanbit I & T Co. (South Korea)/Ningbo Bird Corp. (Zhejiang)
Will form joint venture to manufacture and sell core communications equipment components in China. (South Korea:49%-PRC:51%). $2 million. 01/02.

OTHER

KTF Co. (South Korea)/China Mobile
Signed deal to provide automatic roaming for GSM and CDMA mobile phones for Chinese customers traveling to South Korea during the upcoming World Cup tournament. 03/02.

France Telecom/China Mobile
Signed an interconnection agreement to support operator's routes on bilateral traffic between the two countries. 02/02.

Motorola Inc. (US)/China Mobile
Will jointly research the potential for third-generation network technology in China. 02/02.

Novatel Wireless, Inc (US)
Began shipments of its wireless PC card modem for distribution in China by Brightpoint China Ltd., a joint venture of Brightpoint, Inc. (US) and Chinatron Group Holdings Ltd. (Hong Kong). 02/02.

Eastman Kodak Co., Intel Corp. (US)/BOC, China Netcom
Announced the formation of a cross-industry strategic alliance. 01/02.

Textiles and Apparel

CHINA'S IMPORTS

BasicNet SpA OPVS (Italy)
Will officially license its Kappa and Robe di Kappa brands to Li Ning Group. 03/02.

INVESTMENTS IN CHINA

Asahi Kasei Corp. (Japan)
Will set up a wholly foreign-owned subsidiary in Zhejiang to produce Spandex with an annual capacity of 1,300 metric tons. $25 million. 02/02.

E. I. du Pont de Nemours & Co. (US)/Lianyungang Zhongshan Spandex Co., Ltd. (Jiangsu)
Will form joint venture in Jiangsu to manufacture and market Spandex. (US:50%-PRC:50%). $100 million. 02/02.

Atsugi Co., Ltd. (Japan), China Resource Textile Materials Corp. (Hong Kong)
Will set up joint venture, Yantai Atsugi CRC Stocking Corp., in Shandong to manufacture cotton socks and stockings. (Japan:85%-Hong Kong:15%). $18 million. 01/02.

High Fashion International Ltd. (Hong Kong)/Wahaha Group Corp. (Zhejiang)
Will form a joint venture to market children's wear and casual clothing under the Wahaha brand name. 01/02.

Transportation

CHINA'S IMPORTS

The Boeing Co. (US)
Will deliver 33 airplanes in 2002 to the China Aviation Supplies Import and Export Corp. for use by four mainland airlines: China Southern, China Eastern, Hainan Airlines, and Shanghai Airlines. $1.6 billion. 02/02.

Gulfstream Aerospace Corp., a subsidiary of General Dynamics Corp. (US)
Won a contract from Deer Jet Co. Ltd., a subsidiary of Hainan Airlines Group, for three Gulfstream 200 business jets. $60 million. 02/02.

Hertz Corp., a subsidiary of Ford Motor Co. (US)
Will license its name to China National Auto Anhua International Trade Corp., in Tianjin, for automobile rentals. 02/02.

Lockheed Martin Corp. (US)
Won contract from INCOM, a subsidiary of China National Instruments Import and Export Corp., to tailor its SkyLine air traffic control system for Chinese airspace. $10.7 million. 02/02.

Pratt & Whitney, a subsidiary of United Technologies Corp. (US)
Won contract from Deer Jet Co. Ltd., a subsidiary of Hainan Airlines Group, for three Pratt & Whitney Canada PW306A jet engines. 02/02.

Aero Inventory plc (UK)
Won contract from Taikoo Aircraft Engineering Co., Ltd., of Fujian, to be the sole service provider for a range of aircraft components. $10 million. 01/02.

Sikorsky Aircraft Co., a subsidiary of United Technologies Corp. (US)
Won contract from Ministry of Communications for two salvage helicopters for use by the Shanghai Salvage Air Fleet. 01/02.

CHINA'S INVESTMENTS ABROAD

Hainan Airlines Group
Will acquire stake in Air Cambodia, including market access and property rights. (Cambodia:51%-PRC:49%). $10 million. 02/02.

INVESTMENTS IN CHINA

Avis Europe (UK)/Shanghai Automotive Industry Group
Will form joint venture to rent and lease automobiles in China. (UK:50%-PRC:50%). $22 million. 02/02.

Hyundai Group (South Korea)/Beijing Automotive Industry Holding Co.
Signed an MOU to form Beijing Hyundai Motor Co., an automobile manufacturing joint venture in Beijing. (South Korea:50%-PRC:50%). $250 million. 02/02.

Mitsubishi Corp. (Japan), Shihlin Electric & Engineering Corp. (Taiwan)
Will form new joint venture involving Mitsubishi parent company and local subsidiary through existing Shihlin subsidiary in Jiangsu to manufacture and sell automotive parts. (Japan:41%-Taiwan:49%-PRC:10%). $2.6 million. 02/02.

Sikorsky Aircraft Co., a subsidiary of United Technologies Corp., Schweiger Aircraft Corp. (US)/Shanghai Little Eagle Science and Technology Co., Ltd.
Will form joint venture to manufacture a version of the Schweiger Model 269 series helicopter for sale in China. 02/02.

Thyssen Krupp Stahl AG (Germany)/Wuhan Zhong-Ren Rui Zhong Auto Component Industry Ltd. (Hubei), a subsidiary of Guangdong Zhongren
Agreed to set up a tailored blanks automobile components joint venture in Wuhan, Hubei. (Germany:51%-PRC:49%). 01/02.

MAN AG (Germany)/Zhengzhou Yutong Coach Manufacturing Co. (Henan)
Will form joint venture, Lions Bus Co., to manufacture bus chassis in Henan. (Germany:50%-PRC:50%). $18 million. 01/02.

Perusahaan Otomobil Nasional Bhd. (Malaysia)/Goldstar Heavy Industrial Co., Ltd. (Guangdong)
Will form joint venture, Proton Automobiles China Ltd., to market left-hand-drive automobiles. (Malaysia:49%-PRC:51%). $22.5 million. 01/02.

OTHER

Shenyang Brilliance Automotive Co., Ltd., a subsidiary of Brilliance Automotive Holdings Co., Ltd. (HK)
Will sell half of its 50% share in its Jinbei truck venture with General Motors Corp. to three Chinese companies: Liaoning Development Group (10%), Liaoning Energy Corp. (7.5%), and Shenyang Automobile Industry Assets Management Co. (7.5%). 02/02.

Government of South Korea/Government of the PRC
Announced opening of 7 new bilateral air routes and increase of bilateral weekly flights by 30. 02/02.

Honda Motor Co. (Japan)
Announced plans to set up a motorcycle R&D WFOE in Shanghai. $17 million. 01/02.

Council Bulletin

Upcoming Events

Biennial Gala 2002
June 5

The Ritz-Carlton
1150 22nd Street, NW
Washington, DC

Special Guests:
Honorable Zeng Jianhui, chairman, Foreign Affairs Committee, National People's Congress, and the delegation of the National People's Congress to the US-China Interparliamentary Exchange

29th Annual Membership Meeting
June 6

The Ritz-Carlton
1150 22nd Street, NW
Washington, DC

Topics:
- China's Current Economic and Financial Health
- China's Private Sector
- The 2008 Olympics
- Effective Government Affairs
- Retooling Sales and Distribution Networks
- Competing in China's Services Market

Event Wrap-Up

Council Hosts China Operations 2002

The US-China Business Council hosted its annual China Operations conference in Beijing on March 26. Participants discussed US-China relations, anticorruption strategies, the Beijing 2008 Olympics, investment strategies, and China's implementation of its World Trade Organization (WTO) commitments.

Presentations were given by Robert Kapp, president of the US-China Business Council; Wang Jisi, director of the Institute of American Studies, Chinese Academy of Social Sciences (CASS); Hu Angang, Center for China Study/Chinese Academy of Sciences, Qinghua University School of Public Policy and Management; Liu Jingmin, Beijing vice mayor and deputy executive president of the Beijing Organizing Committee of the 2008 Olympic Games; Nicholas C. Howson, chief representative, Paul, Weiss, Rifkind, Wharton & Garrison; Edward J. Epstein, chief representative, Altheimer & Gray; Shannon Cheung, head of Global Payments and Cash Management, HSBC, China; and Nicholas R. Lardy, senior fellow, Foreign Policy Studies Program, Brookings Institution.

Attendees at China Operations

Beijing Vice Mayor Liu Jingmin and Council President Robert Kapp

Washington

March
IPR Roundtable Discussion Featured Bruce Quinn, China Desk, Office of the US Trade Representative (USTR); Mark Cohen, International Affairs and Legislative Office, US Patent and Trademark Office; and Steven Tepp, Office of Policy and International Affairs, US Copyright Office

Meeting Featured visiting team from the Shanghai WTO Affairs Consultation Center

Launch of Council's 2002 China WTO Action Plan Featured Jeffrey Bader, assistant USTR for China, Hong Kong, Taiwan, Hong Kong, and Mongolia; and USTR colleagues

Meeting Featured Kenneth Juster, under secretary, Bureau of Export Administration, US Department of Commerce

Issues Luncheon: The President's Asia Visit Featured James Moriarty, acting senior director for Asian Affairs, National Security Council and Laurent Charbonnet, director for Asian Affairs, National Security Council

April
Meeting Featured US Export-Import Bank Board Member D. Vanessa Weaver

Meeting: Private Enterprise in China Featured Professor Cao Siyuan, founder, director, and senior economist of the Beijing Siyuan Research Center for the Social Sciences

Beijing

April
China Operations 2001 (*see above*)

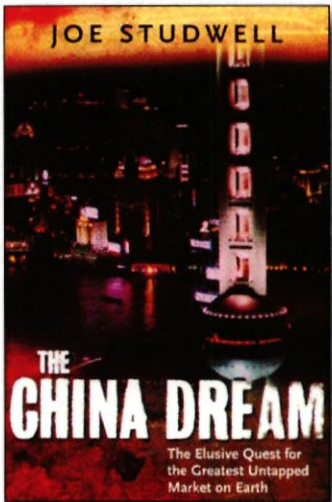
Shanghai

March
Meeting: Shanghai's Development Prospects Featured Edward Leman, president, Chreod, Ltd. Jointly hosted with the Canada-China Business Council

April
Breakfast Meeting Featured Grant Aldonas, undersecretary, International Trade Administration, US Department of Commerce

REVIEWS

The China Dream: The Elusive Quest for the Greatest Untapped Market on Earth



by Joe Studwell. London: Profile Books, 2002. 359 pp. $27.00 hardcover.

Book reviews all too frequently turn into contests of intellectual prowess between the author and the reviewer, and it is often hard to tell whether the book is worthwhile or not. Since, in this case, the author and reviewer have already amiably sparred over the contents elsewhere, I'll skip straight to the literary bottom line—*The China Dream: The Elusive Quest for the Greatest Untapped Market on Earth*, by Joe Studwell, is a well-written book and recommended reading for anyone interested in business in China.

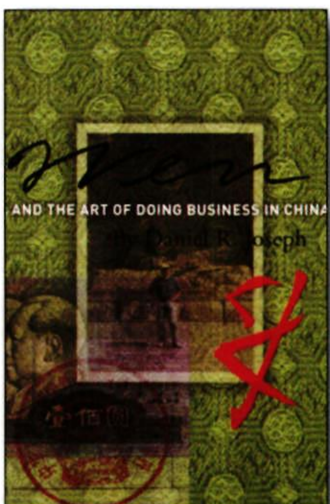
But the recommendation comes with a caveat—*China Dream* reads as though it were two books in one, and one is better than the other. A few minor factual errors aside, the first part is a good summary of the history of foreign businesses in China (especially the modern period). For anyone dreaming of the vast market opening up now that China has joined the World Trade Organization, *China Dream* is a sobering yet entertaining reminder of just how difficult it can be to establish and operate a business in China, especially if the immediate goal is short-term profits.

The second part of the book focuses on the perilous state of the banking system, the official economy, the government, and the accuracy of Chinese statistics. On the whole, I found this section of the book to be more pessimistic about China and its future than current trends warrant. Nevertheless, Studwell—editor of the *China Economic Quarterly* and a resident of Hong Kong and Beijing from 1991 to 2000—draws conclusions that are still worthy of further consideration. *China Dream* is one of the better books to come out on business in China in recent years.

—Patrick J. Powers

Based in Beijing, Patrick J. Powers is the director of China Operations at the US-China Business Council.

Wen and the Art of Doing Business in China



by Daniel R. Joseph. Pittsburgh, PA: Cultural Dragon Publishing, 2001. 240 pp. $20.00 hardcover; $16.00 softcover.

Reading the back cover of *Wen and the Art of Doing Business in China*, I was fascinated to learn that Dan Joseph had run a company in Datong, Shanxi, "where no business had ever been built before." Unless, of course, you count my former employer, the $750 million Antaibao Coal Mine, which was developed in the late 1980s by Occidental Petroleum/Island Creek, or the various mining equipment suppliers that have been providing services in the Datong area for two decades.

So with the author firmly ensconced in the penalty box, it was with some trepidation that I started to read. Essentially an autobiographical tale of the author's trials running a joint venture manufacturing operation, Joseph's book walks the reader through his experiences from the start-up phase to his resignation and the company's ultimate failure.

Although the author warns the reader up front that *Wen* is both a general and a business work explaining "the relationships between culture and business, and culture and economic and political development," it would have been better as a pure business book. For example, in a section of the book where the author gives his personal vision of China's future, he weakens his more compelling theme about cultural differences between US and PRC management styles and commercial expectations.

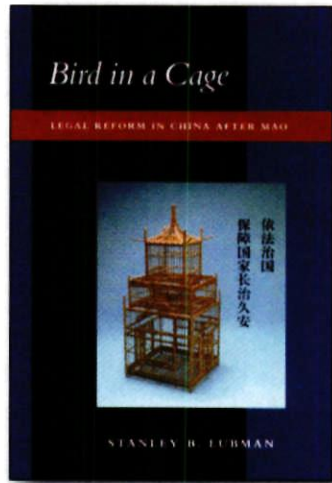
Despite its flaws, *Wen* actually contains a lot of practical anecdotes and advice about the difficulties individuals and smaller companies face on the ground in China. As one of the better cautionary tales out there, *Wen* should be mandatory reading for those who are being sent to work in China—especially for those sent outside of the major cities—and for the managers dispatching them there.

—Patrick J. Powers

Based in Beijing, Patrick J. Powers is the director of China Operations at the US-China Business Council.

Bird in a Cage: Legal Reform in China After Mao

by Stanley B. Lubman. Stanford, California: Stanford University Press. Hardcover: 1999, 447 pp. $75.00; softcover: 2001, 472 pp. $29.95.



In joining the World Trade Organization (WTO) in December 2001, China made commitments that promise to transform the country's marketplace and regulatory environment dramatically. China has revised hundreds of laws and regulations to bring them into line with WTO mandates and has taken complementary steps to invite more public participation in government and make government affairs more transparent down to the village level. These efforts are nothing short of breathtaking.

Nonetheless, even the best laws are of little use if they are not enforced consistently and fairly. Given its weak judiciary and other legal institutions and, as author Stanley Lubman puts it, "the prevailing environment of national and local protectionism," many businesspeople and policymakers question whether China will be able to meet its WTO obligations, especially those relating to uniform application of the law, nondiscrimination, and transparency. Written on the brink of China's WTO accession by a widely respected pioneer of the Western study of Chinese law, Lubman's *Bird in a Cage: Legal Reform in China After Mao* raises sobering concerns—still valid in 2002—about the prospects for China's WTO compliance and success in establishing the rule of law more broadly.

Bird in a Cage takes its title from a metaphor coined by economist Chen Yun, who described China's economy as a bird that must be allowed to fly—introduce market forces and some measure of decentralization—but only within the confines of its cage—the central plan—lest the bird escape. While China's economy has nearly outgrown its cage, Lubman demonstrates how China's fledgling legal system is like a bird constrained by the cage of Chinese Communist Party dictate. Law in a China that is shifting rapidly to a market economy still serves more as an instrument of Party control than as a framework to facilitate private transactions or to protect rights. Lubman argues persuasively that, until the courts become truly independent of Party and government interference, China cannot claim to enjoy rule of law. Such a development will, Lubman cautions, require an unprecedented political and constitutional adjustment that elevates the courts' status above that of other Chinese authorities.

Lubman builds his case with historical background and studies from a wide array of legal developments. In the early chapters, he deftly traces the distinctive elements of traditional Chinese law and their differences from the Western legal tradition. He then analyzes legal development during the Maoist era (1949-79) using studies of the Maoist approach to dispute mediation, competing approaches to criminal law, and the politicization of civil law during that period. Lubman shows us how both the imperial legacy and the Maoist overlay fail to differentiate between the functions of law and administration and place the judicial system at the same level as the state's bureaucracies in the political hierarchy—rather than giving the courts authority over administrative organs—with limited powers of judicial interpretation.

This instrumentalist approach to law as an administrative tool persisted through the reform era (1979-2001) and survives today in what might be termed the "WTO era." While Lubman documents China's truly impressive achievements in crafting a legal framework for domestic market reform and foreign direct investment, as well as the rising legal consciousness and sophistication among Chinese both within and outside government, he also pinpoints multiple obstacles to China's achieving true rule of law. These include in particular the growth of localism, in which bargaining substitutes for rules, and the debilitating impact of corruption. His primary concerns are with administrative law and dispute resolution institutions that ultimately fail either to curb bureaucratic arbitrariness or protect private rights.

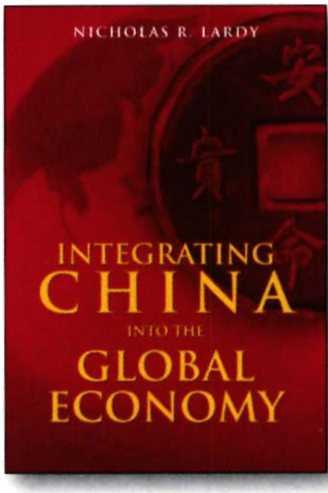
Bird in a Cage is an exploration of China's modern pursuit of legal reform and institution building. The product of nearly 30 years of Lubman's rich experience as a teacher, writer, and adviser, this uniquely insightful study is invaluable for legal scholars, lawyers, and law students wanting to understand Chinese attitudes toward law. More of a series of related essays than a textbook on Chinese law per se, it is also a wonderful reference book. Lubman explains many areas of substantive Chinese law and provides an extensive bibliography and footnotes, as well as a detailed index, for those pursuing further research on topics such as Chinese court procedures or property, tort, company, criminal, and administrative law, to name but a few.

The book should also appeal to students of China more broadly, including trade practitioners, businesspeople, and policymakers, since these rule-of-law issues are entwined with questions of China's political and economic future. Lubman also proffers thoughtful suggestions on how we in the West might position ourselves to help China meet its WTO obligations. In sum, Stanley Lubman's *Bird in a Cage* provides a veritable feast of fact, analysis, and insight for anyone seeking to understand and engage modern China.

—*Jamie P. Horsley*

Jamie P. Horsley, an attorney who lived and worked in China for 13 years as a lawyer, diplomat, and corporate executive, is associate director and senior research fellow of the China Law Center, Yale Law School.

Integrating China into the Global Economy



by Nicholas R. Lardy. Washington, DC: Brookings Institution, 2002. 244 pp. $19.95 softcover.

Readers of *The CBR* will find Nicholas Lardy's latest in his series of analyses of the Chinese economy just as valuable as his previous efforts: *Integrating China into the Global Economy* is a solid attempt to take stock of China's economic progress to date and its prospects over the next decade. Like his 1998 work on China's financial system, and his 1994 volume on foreign trade and investment, *Integrating China* uses current data and careful research to back up convincing arguments about where China's economy is today, and where it is headed, as the country embarks on a new era as a member of the World Trade Organization (WTO).

The book's five chapters cover the reforms that preceded WTO entry; the terms of China's final WTO accession package; the implications of China's entry for foreign firms and for the world economy; and the relationship of these events to US policy. Each chapter can stand alone or as part of a larger discussion about what must happen for China's economy to continue to provide for its citizens.

To business readers familiar with the story of reform-era China, Lardy's summary of these reforms from 1980 to 2001 may seem, at first, nothing new. Foreign investors that have set up operations in China have witnessed these reforms first-hand. They should stick with this section, however, because it also includes some less-publicized findings—for instance, that by the end of the 1990s, the number of tariff lines subject to import licensing restrictions had fallen below 4 percent, affecting only 8.45 percent of all imports.

Similarly, even readers who have followed the last few years of China's 15-year WTO negotiating process will find that Lardy makes some observations in the chapter summarizing China's WTO commitments that illustrate the extent of the concessions made on the Chinese side. For example, he points out that China agreed to a clause that establishes a disadvantageous, transitional product-specific safeguard mechanism that will make it "fairly easy for the United States and other countries to impose restrictions on goods imported from China. And China's ability to respond...is more circumscribed" than that of other WTO members. He notes that this mechanism, which could be invoked to counter a surge of Chinese exports, allows a WTO member to single out Chinese goods for special quotas—an exception to the WTO's principle of nondiscrimination.

Without a doubt, the strongest section of the book examines the impact of WTO entry on China, foreign firms, and other economic actors. Lardy puts two recent studies on the impact of WTO entry on China's economic growth—by the US International Trade Commission and the PRC Development Research Center—into useful perspective. He notes that they are probably low-end estimates of the boost that WTO entry will give to China's GDP, in part because they are based on computable general equilibrium models that assume that Chinese firms are already operating at optimal efficiency and in a competitive market.

The chapter also looks at sectors that are likely to be most affected by WTO membership—autos, agriculture, textiles and apparel, and finance. Lardy suggests that overcapacity is likely to be more of a problem for the domestic auto sector than will imports of foreign cars. He also predicts that it will be at least five years before foreign banks will be involved enough in the domestic banking system to threaten its stability. In textiles, he explains that China's trade in apparel and textiles will grow only to the extent that other WTO members refrain from excessive use of special safeguard mechanisms. At the end of the chapter Lardy returns to the issue of China's financial health, noting that China could still undermine its own future by failing steadily to commercialize its banks or to end policy-based lending to inefficient state-owned enterprises.

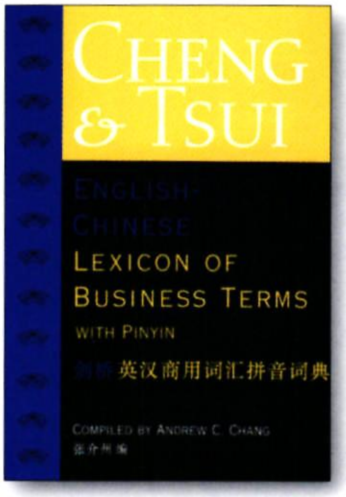
Lardy closes the book with balanced assessments of the likelihood of China's successful compliance with its WTO obligations; the consequences for US and other countries' trade patterns; and the implications for US policymakers. He warns that the high bar set for China in comparison with other WTO members makes compliance difficult and that China's legal system may not be up to the task. Yet he also details the substantial efforts China took to comply with WTO norms even before its December 11, 2001 accession.

Lardy offers insights into US policy toward China that are likely to please some Washington advocates of expanded trade and stable US-China relations. He dismisses the notion that China is solely to blame for the US trade deficit with that country, placing it instead on low US savings and investment rates. He suggests that the US government fund WTO capacity-building assistance programs, as every other major PRC trading partner already does, and warns against excessive use of safeguard mechanisms by the US Trade Representative. He also highlights the fact that the United States is the only WTO member that has not acknowledged that most of China's prices are market-determined, and thus that US antidumping procedures' designation of China as a nonmarket economy is biased. Indeed, his final statement of the book implies that China's economic integration will succeed only if other WTO members, not just the United States, do not erect barriers to keep China's products out.

—*Catherine Gelb*

Catherine Gelb is editor of *The CBR*.

Cheng & Tsui English-Chinese Lexicon of Business Terms with Pinyin



compiled by Andrew C. Chang. Boston: Cheng & Tsui Company, 2002. 448 pp. $29.95 softcover.

With more than 9,000 entries, the *Cheng & Tsui English-Chinese Lexicon of Business Terms with Pinyin* is a welcome addition to the bookshelf of anyone doing business in or with China or another Mandarin-speaking area. The bulk of the *Lexicon* is devoted to common business vocabulary, business-related legal terms, and ordinary words that are often used in banking, finance, insurance, international trade, real estate, and stocks and bonds.

Entries range from the relatively straightforward, such as "debt" and "savings," to words and concepts that are more difficult to translate, such as "rain check," "tombstone ad," "make a killing," "scab," and "foreclosure proceedings," to the occasional Latin term, such as "lis pendens." Each English entry is followed by a direct translation into simplified Chinese characters, which is followed by romanization in *pinyin* with tone marks. Many entries have two or more translations into Chinese, separated either by commas or semicolons—words separated by commas are near synonyms, while those separated by semicolons have different meanings and are used in different contexts. Unfortunately, however, the tome lacks examples that put the words into context, which could frustrate users confronted with several different translations of one English term.

The *Lexicon* also includes several extremely useful appendices containing specialized vocabulary. The appendix on information technology and e-business is divided into three sections: telecommunications and video, networks and e-business, and computers and peripherals. Again, terms range from the common, such as "browser" and "cable television," to the more technical, such as "asynchronous transfer mode," "ethernet," and "dynamic random access memory." The financial statements appendix covers balance sheets, cash flow statements, and income and profit-and-loss statements.

Anyone who has struggled to convert large Chinese numbers into English equivalents will appreciate the third appendix, which lists the main units of Chinese counting, in both characters and numerals, up to one trillion. It also gives examples of various numbers in both numerals and characters, commonly used expressions, fractions, and decimals. The first part of the final appendix, which covers dining out, reads like a Chinese menu but progresses to words for smell, taste, and texture and a section on healthy requests—including useful terms such as "decaffeinated," "diabetic meal," "salt-free," and "vegetarian," among others.

Andrew Chang, professor emeritus of Chinese and Japanese at Thunderbird, the American Graduate School of International Management in Glendale, Arizona, has put together an English-Chinese business dictionary handy for students, researchers, and businesspeople alike. This reviewer hopes a Chinese-English version will appear soon.

—*Virginia A. Hulme*

Virginia A. Hulme is associate editor of *The CBR*.

Chubb in China

Continued from page 23

insurance policy, but the loss of a company's ability to generate sales and profit is less obvious and has far-reaching consequences for the survival of a company. Sound risk management practices help stop losses before they happen. In China today, however, primarily because of cost concerns, buildings are rarely constructed with the appropriate materials, resulting in potentially hazardous situations. Educating local governments and businesses about loss-control strategies and risk-assessment techniques will take time.

In the next three to five years, as WTO commitments phase in, Chinese individuals and businesses are likely to learn the importance of sophisticated service products relating to insurance, banking, and taxation. This is particularly true since state-owned and private enterprises can no longer expect the government to cover their losses. Foreign companies, like Chubb, currently operating in China will have an obvious advantage over new entrants because of the time they have spent learning about the needs of the market. After nearly two decades in China, Chubb is building name recognition, customizing its products, and gaining valuable experience in the China market that will help prepare it for post-WTO China. 完

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- George Bernard Shaw

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