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THE CHINA BUSINESS REVIEW

SPECIAL ISSUE

Your Investment

How To Put It All Together

Investment Vehicles

Human Resources

China's West

Government Relations

IPR

WTO

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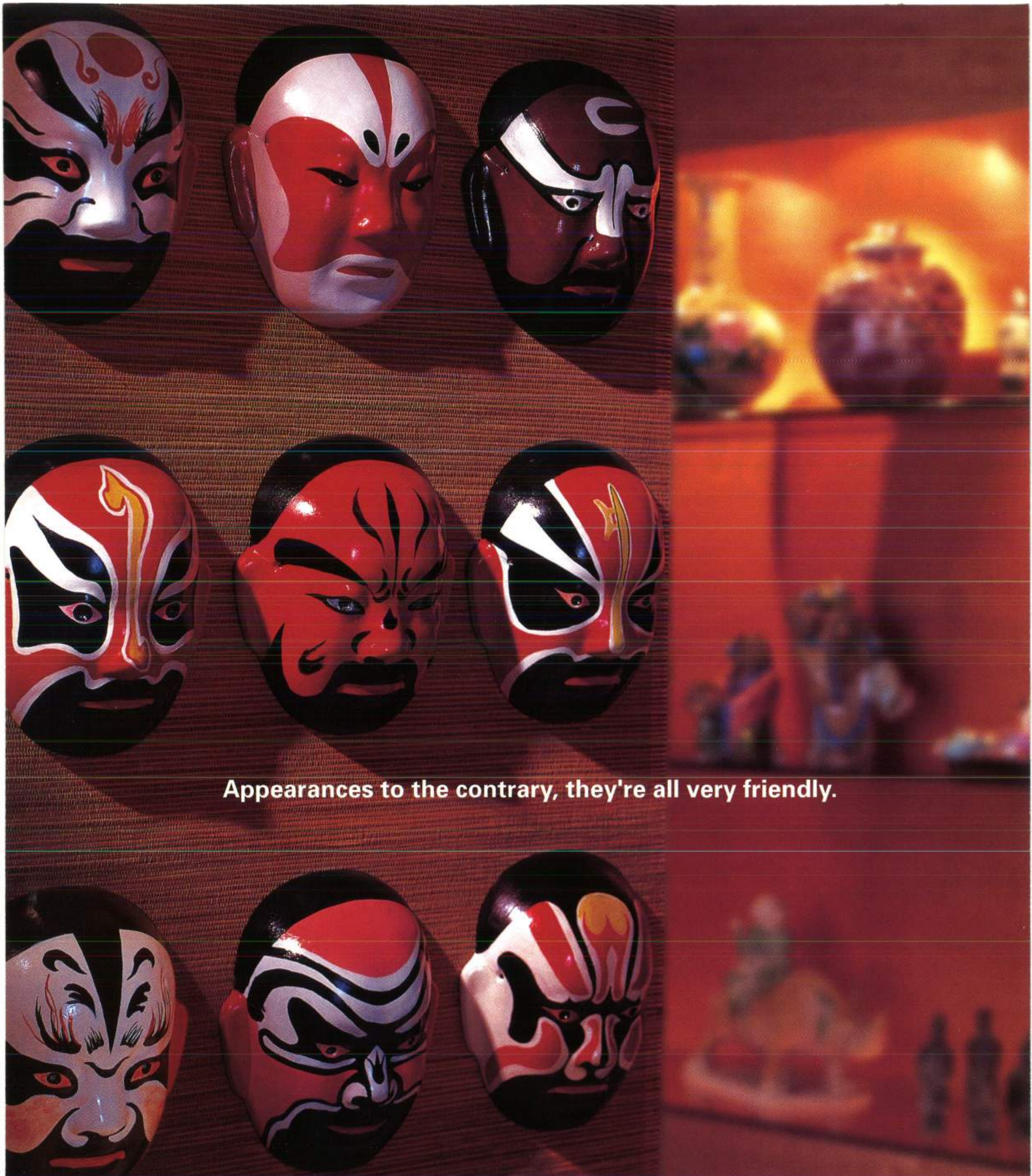
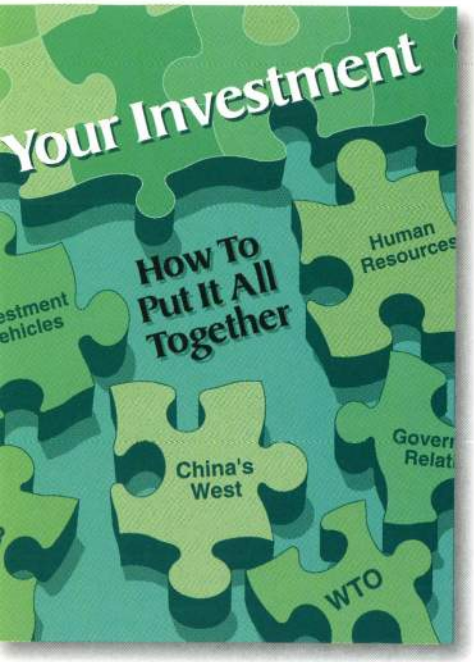

Appearances to the contrary, they're all very friendly.



Cover by John Yanson

SPECIAL ISSUE: Your Investment

INVESTOR RESOURCES

DEPARTMENTS

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short takes

History in the Making: President Signs Permanent Normal Trade Relations Into US Law

At a White House ceremony on October 10, 2000, President Bill Clinton signed into law the China Relations Act of 2000, which grants permanent Normal Trade Relations to Chinese products upon PRC accession to the World Trade Organization. The US Senate voted 83-15 on September 19 to approve the bill, H.R. 4444, which the US House of Representatives had passed on May 24 by 237-197. The final votes showed substantially more support for the measure than many observers expected. The ceremony marked the end of an annual process of US government review of China's trade status.

SETC Slims Down

The State Economic and Trade Commission (SETC) will have phased out nine of its ten bureaus by the end of November: the State Internal Trade Bureau, State Machine-Building Industry Bureau, State Metallurgical Industry Bureau, State Petrochemical Industry Bureau, State Light Industry Bureau, State Textile Industry Bureau, State Building Materials Industry Bureau, and State Non-Ferrous Metals Industry Bureau. Their administrative functions will be transferred to various other SETC departments. The State Bureau of Safe Production will absorb the State Coal Industry Bureau's staff to continue the supervision of mine safety, and the State Tobacco Monopoly Bureau will remain intact to continue its fight against tax evasion by tobacco producers and sellers. The roughly 800 staff members of these bureaus will be shifted to positions either within SETC or in other trade associations or enterprises.

—*Lissa Michalak*

Lissa Michalak is publications assistant at *The CBR.*

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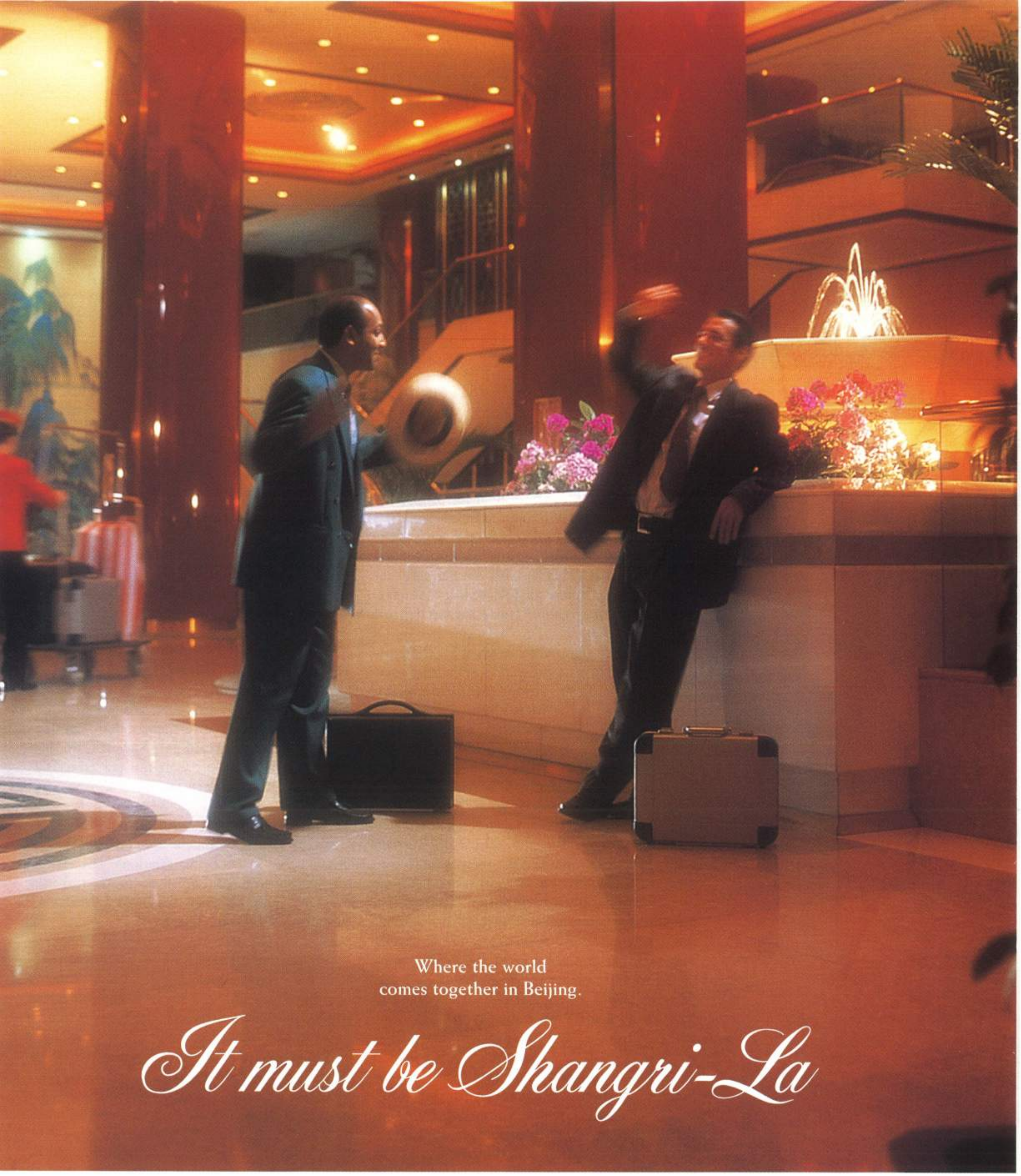

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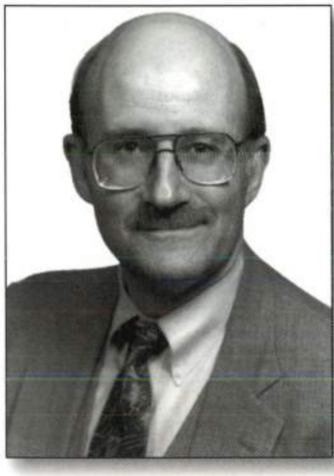
LETTER from the President



Robert A. Kapp

Bobbing in the Wake:
Thoughts on the Aftermath of PNTR

Now it is China's turn.

On a crystalline autumn day, with a military band in crimson uniforms and dozens of American senators and members of Congress plus an array of ranking members of the executive branch in attendance, the President placed his signature on the work of the US Congress establishing permanent Normal Trade Relations (PNTR) with the People's Republic of China when the PRC accedes to membership in the World Trade Organization (WTO).

This was a memorable occasion for the hundred or more of us privileged to attend the signing ceremony, on the South Lawn of the White House, in the brilliant sunlight and sharply drawn shadows of late afternoon. Seasoned regulars suddenly popped out mini-cameras for snapshots. Political figures so often publicly at loggerheads mingled cordially and easily, sharing a moment's celebration of an accomplishment founded on their decision to work together.

On hand were the men and women, from both the public and private sectors, who had done the heavy lifting in support of final passage of this long-contested legislation. Many of us, I'm sure, felt a momentary flush of that familiar intense camaraderie that had begun to recede into memory at the moment the Senate completed its approval of PNTR. Many of us, I suspect, felt as well a feeling of awe that the task had finally been accomplished after years of such intense controversy, and a twinge of regret that—for now, at least—the coalition in which we had all participated would begin to dissipate as new assignments drew its members in new directions.

As one small contributor to the effort on behalf of the US-China Business Council's members, I felt that we had both done well and done good.

As the battle for PNTR became history, the world was moving on. With the completion of Congress's work providing for full WTO-member treatment for China upon China's accession to the World Trade Organization, this being Washington, a variety of noises old and new could already be heard. Herewith a sampling, with my responses:

1 "Maybe the comfortable old annual NTR review was not such a bad thing; after all, it brought all the vociferous China critics together in one place for one big, loud, but ultimately ineffectual annual display. Now, with that channel closed to them, they'll find who knows what other ways to roil the waters."

My response: Thanks, but keep your nostalgia. Let's not get weepy about the annual MFN/NTR explosion, or minimize its perpetual capacity to do real harm. And let's not start pining for the operatic performances that accompanied the annual renewal extravaganza. Enough was enough long before Congress passed legislation to end the annual ritual.

2 "PNTR is no magic bullet: Its supporters oversold it as a panacea and cure-all for all of the maladies in US-China relations. The American people were sold a bill of goods and now must live with the reality that PNTR doesn't resolve those US-China differences."

My response: First of all, no, we didn't oversell PNTR; have a look at "At Crunch Time" in this space for May-June 2000. Or check it out at the Council's website, at: *www.uschina.org/public/preslets/0005.html.*

But second of all, let us remember that US rejection of PNTR would have made further progress on many other US-China issues far more difficult. Let us be glad that we no longer have to deal with the NTR albatross as we confront both commercial and non-commercial issues with China. And let us turn our attention to realizing the positive results of full WTO-based commercial relations, when China achieves WTO membership.

3 "Many in China, some representing powerful economic and other interests, perceive serious

challenges and dangers in Chinese WTO membership, and would just as soon delay China's accession to the WTO for a couple of years."

My response: Such a delay would not be helpful. Please remember: If China is not solidly in the WTO by next spring, the United States will be looking at yet another legally required debate on annual renewal of NTR. There will be a new president just settling into his new job; a new Congress of uncertain outlook, likely reluctant to walk carefully through China trade policy subtleties again; and a new list of emerging policy priorities for both. While PNTR upon China's WTO accession is US law, we should not underestimate the mischief that could be caused by delay in completing the accession process.

And we should not misinterpret the strength of the PNTR votes in the House and Senate this year. Those impressive votes were taken at a very particular moment, on the wings of colossal efforts by congressional champions, a mobilized administration, and a US business community that focused its energies in a manner that was very hard to do once and would be even harder to do twice. It would be unwise to take any of those components for granted in other circumstances on other issues, especially if China's WTO accession were to fail to materialize in a timely fashion.

4 "Let's discuss how very difficult this WTO accession is going to be for China."

My response: Absolutely. We all need to discuss it, across the Pacific and within our own countries. It is the height of irresponsibility to lurch into actions without considering their consequences, as we have argued over and over again in opposition to NTR cancellation and other ill-advised recommendations to lash out against US-China trade. The world and China both need to understand the magnitude of the changes in economic conduct facing China under WTO mandates.

But we must make a key distinction. It is one thing for China to engage with the international community to strengthen and accelerate the difficult process of achieving full WTO implementation according to the bilateral agreements China concluded with many WTO members, including the United States, and according to the final accession documents that, as *The CBR* goes to press, still await completion. American businesses, and certainly the US-China Business Council's members, are eager to contribute productively where they can to helping China successfully pursue its arduous voyage under WTO guidelines and obligations.

It is something else entirely, however, to contemplate a campaign to educate the world as to why China might not comply with its written agreements. Neither international business nor international policymakers will respond favorably to that approach. In the PNTR struggle just concluded, we argued to Congress that it would be extremely counterproductive for the United States, after finally concluding a bilateral WTO Accession Agreement with China embodying Chinese commitments to fulfill a long list of American requirements, to say to China, by turning down PNTR, "Sorry, we didn't really mean it."

The United States, backed by the strongest possible efforts of a broad business community, has taken the step it needed to take to ensure that China's WTO membership would link our two nations in a new and productive manner.

Now it is China's turn. We have every reason to believe that China's embrace of WTO membership represents a decisive action of historic significance in China's development as a great modern nation. We look forward to celebrating China's final steps to ensure that same outcome, and to embarking on a new voyage together, without undue delay. 完

Please remember: If China is not solidly in the WTO by next spring, the United States will be looking at yet another legally required debate on annual renewal of NTR.

Foreign Investors Wise Up

Catherine Gelb

After a surge of foreign direct investment (FDI) in the early part of the decade, by 1997 China's enormous foreign-investment pipeline had started to dry up. Signings of new contracts declined from a high of more than $111 billion in 1993 to just over $41 billion last year. Though China was still the top recipient of FDI among developing countries in 1999, according to the UN Conference on Trade and Development, it had slipped from second to fourth place worldwide behind the United States, the United Kingdom, and Sweden.

Investors have learned the rules—and headaches—of investing in China.

By the end of the decade foreign investors had grown frustrated by the difficulties of making their PRC investments profitable. In particular, they had tired of China's opaque policymaking process, in which sudden policy changes are poorly explained, and of the many restrictions on their business activities, from outright prohibition of investment in certain industries to controls on foreign exchange conversion.

Deteriorating market conditions in the late 1990s compounded these difficulties. China's economy entered a severe slowdown, which deepened during the Asian crisis of 1997-98. Beijing had only just succeeded in taming runaway inflation, but the clampdown on credit that was part of this effort helped expose the structural weaknesses of the partially marketized economy. Unused capacity reached record highs, sought-after urban spenders started saving, and foreign investors worried that the government's reform and liberalization efforts were stalling.

China's signing of bilateral market-access agreements with the United States and the European Union on the terms of China's World Trade Organization (WTO) entry, in most foreign investors' eyes, came not a moment too soon. The terms of WTO membership require that China eliminate some of the most troublesome legal and regulatory barriers to trade and investment. Membership obligations will also serve as a source of external pressure on China's domestic reforms, especially of its state-owned enterprises (SOEs) and financial sector.

Catherine Gelb
is editor of *The CBR.*

Rude awakening

Veteran foreign investors can testify that even prior to the mid-1990s, foreign companies encountered restrictive, bureaucratic, and opaque legal and regulatory procedures for setting up and operating in China. Veterans have also learned that China is a highly fragmented economy in which investment rules and procedures—and consumer markets—vary widely from city to city and province to province.

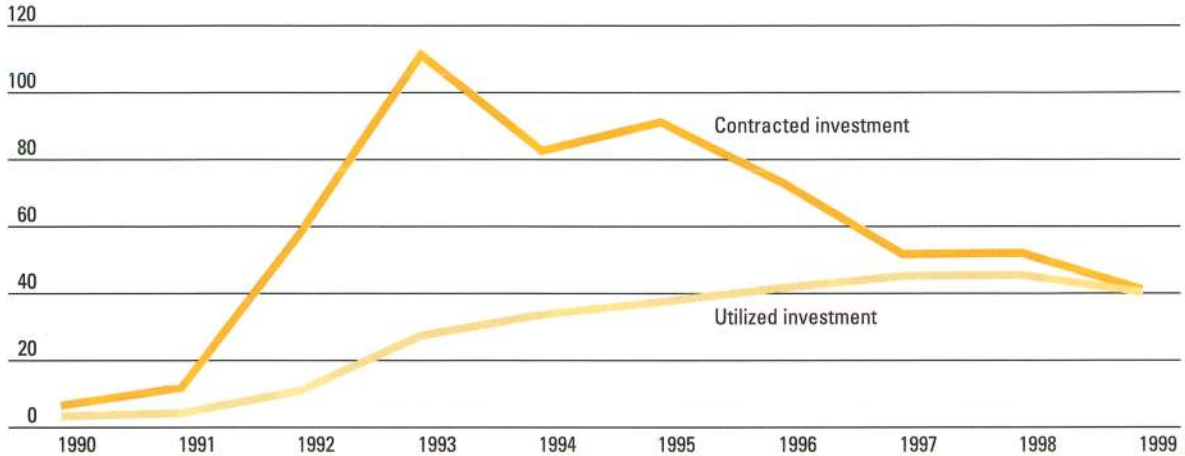
Some frustrations nonetheless surprised investors new to the market in the mid-1990s. Many encountered unforeseen weaknesses in infrastructure. They discovered that the distribution system, for instance, was fragmented and inefficient—and that foreign companies were forbidden to set up their own networks to solve this problem. Another surprise was how quickly major urban markets on the coast became saturated and extremely competitive.

Some companies, amidst the enthusiasm of the early 1990s, entered the market for the wrong reasons. They made basic business mistakes—such as failing to analyze the market for their product or failing to conduct sufficient due diligence, particularly on partners and locations—that came back to haunt them later.

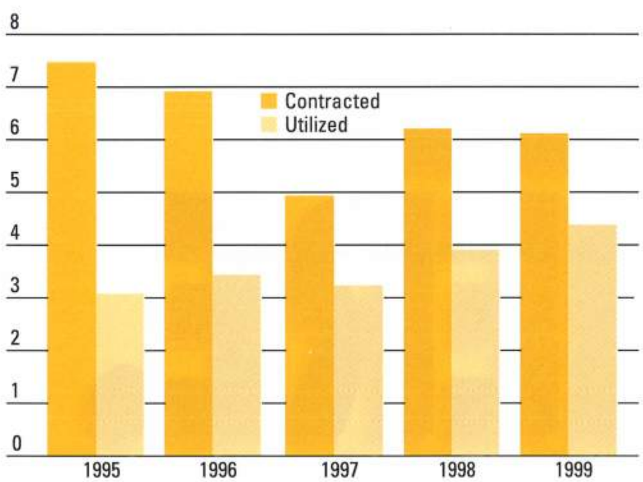
The government's responses to the enormous inflows of foreign investment in many cases only added to investors' difficulties. Beijing's attempt to harness FDI for the country's development goals is one high-profile example. This policy was embodied in the 1995 Catalogue Guiding Foreign Investment in Industry, updated in 1998 and to be released again soon, which classifies industries according to whether foreign investment in them is "permitted," "encouraged," "restricted," or "prohibited." This catalogue barred foreign companies from forming wholly foreign-owned enterprises in industries it considered of national importance, such as automotive vehicles. It prohibited foreign investment entirely in areas, such as telecommunications services, that

Foreign Direct Investment in China

Foreign Direct Investment (FDI) in China, 1990-99 ($ billion)



US Direct Investment in China ($ billion)



Top Ten Foreign Investors in China by Source Country or Region, 1999

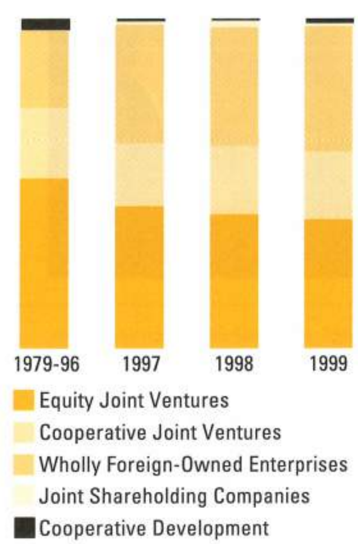
Country/Region	Number of Projects	Amount Contracted ($ billion)	Amount Utilized ($ billion)
Hong Kong	5,902	13.33	16.36
United States	2,028	6.02	4.22
Japan	1,167	2.59	2.97
The Virgin Islands	495	3.49	2.66
Singapore	503	2.26	2.64
Taiwan	2,499	3.37	2.60
Germany	196	0.94	1.37
South Korea	1,547	1.48	1.27
United Kingdom	230	1.09	1.04
France	110	0.47	0.88

Utilized FDI in China by Type of Enterprise, 1999 ($ billion)

Type of Enterprise	1979-96	1997	1998	1999
Equity Joint Ventures	90.72	19.50	18.35	15.83
Cooperative Enterprises	38.03	8.93	9.72	8.23
Wholly Foreign-Owned Enterprises	42.55	16.19	16.47	15.55
Joint Shareholding Companies	0	0.29	0.71	0.29
Cooperative Development*	5.28	0.36	0.18	0.38
Others	—	—	0.04	0.04
Total	**176.58**	**45.26**	**45.46**	**40.32**

NOTES: — = Not available
Totals may not add up because of rounding.
*Includes Hong Kong, Taiwan, Macao companies

Utilized FDI by Type of Enterprise, Percentage of Total



FDI in China by Destination, 1999

Province, Municipality, or Autonomous Region	Number of Projects	Amount Contracted ($ million)	Amount Utilized ($ million)
Anhui	199	558.68	261.31
Beijing	645	1,786.72	1,975.25
Chongqing	169	506.88	238.93
Fujian	1,439	4,869.96	4,024.03
Gansu	67	82.36	41.04
Guangdong	3,013	5,474.51	11,657.50
Guangxi	223	673.63	635.12
Guizhou	43	66.85	40.90
Hainan	158	791.76	484.49
Hebei	520	889.46	1,042.02
Heilongjiang	313	395.24	318.28
Henan	261	646.64	521.35
Hubei	260	821.78	914.88
Hunan	320	501.98	653.74
Inner Mongolia	68	17.74	64.56
Jiangsu	1,926	6,470.72	6,077.56
Jiangxi	245	331.36	320.80
Jilin	355	450.49	301.20
Liaoning	1,147	3,296.87	1,061.73
Ningxia	29	62.28	51.34
Qinghai	15	14.21	4.59
Shaanxi	157	426.93	241.97
Shandong	1,717	3,110.87	2,258.78
Shanghai	1,472	4,103.70	2,836.65
Shanxi	79	234.44	391.29
Sichuan	195	492.88	341.01
Tianjin	575	1,590.54	1,763.99
Xinjiang	52	61.51	24.04
Yunnan	138	325.94	153.85
Zhejiang	1,113	1,947.93	1,232.62
Other*	5	58.50	383.89
Total	**16,918**	**41,223.02**	**40,318.71**

NOTE: Totals may not add up because of rounding.
*Investment received by PRC government organs.

FDI in China by Sector, 1999

Sector	Number of Projects	Amount Contracted ($ million)	Amount Utilized ($ million)
Farming, Forestry, Livestock Farming, Fishing	762	1,471.70	710.15
Mining	130	322.21	557.14
Manufacturing	12,042	25,331.80	22,603.34
Textiles	535	1,198.52	1,370.89
Chemicals	867	1,758.74	1,919.28
Pharmaceuticals	198	692.62	684.41
Ordinary Machinery	485	904.47	976.69
Special Equipment	500	743.33	509.95
Electronic and Telecommunications Equipment	922	3,942.71	3,145.72
Power, Gas, and Water Production and Supply	116	1,635.19	3,702.74
Construction	247	1,096.19	916.58
Geological Prospecting and Water Conservancy	10	53.97	4.52
Transportation, Storage, and Post and Telecommunications Services	205	1,114.01	1,551.14
Wholesale, Retail, and Food-related Services	825	1,204.13	965.13
Finance and Insurance	3	37.08	97.67
Real Estate	669	4,177.85	5,588.31
Social Services (including Hotels)	1,474	3,016.80	2,550.66
Healthcare, Sports, and Social Welfare	28	67.27	147.69
Education, Culture, and the Arts	29	60.72	60.72
Scientific Research Services	62	133.72	110.13
Others	316	1,488.52	752.68
Total	**16,918**	**41,223.02**	**40,318.71**

NOTE: Totals may not add up because of rounding.

SOURCES: PRC National Bureau of Statistics, *China Monthly Statistics, China Statistical Yearbook, 2000;* Ministry of Foreign Trade and Economic Cooperation it considered sensitive from a national security perspective. Other government policies were intended to compel investors to transfer the most advanced technologies to Chinese firms.

Decisions Beijing made for other domestic reasons, such as the phasing out of tax breaks and loopholes to bolster its own finances, threatened to cut into foreign invested enterprise (FIE) revenues significantly. In late 1995, for instance, China announced with little warning plans to phase out a tax exemption on imports of capital equipment. This exemption was popular with FIEs but was costing the government tax revenue. Indeed, some foreign companies estimated that their costs would rise by as much as 20 percent if the duty exemption were to be ended. After vigorous objections by foreign investors, and several delays, the government decided to reinstate the exemption in 1997. But companies that still benefit from this exemption must meet stringent requirements, including scrupulous tracking of each piece of equipment covered by the exemption.

In other cases, China allowed foreign investors to undertake ventures that danced on the edge of legality. The government would review these experiments and either amend PRC law to make them wholly legal or crack down as called for under existing rules. The lack of transparency in China's policymaking process meant that these changes could come swiftly. Many foreign investors had not factored the risks of these experimental ventures into their investment equations.

Some policies, often undertaken for understandable reasons, had unintended effects on legitimate foreign operations. For example, China tightened controls on foreign exchange flows in 1998, a move aimed largely at preventing Chinese companies from sending foreign currency abroad illegally. After relaxing controls in 1994 and liberalizing its current account in 1996, excessive smuggling and foreign currency leakage prompted the central government to pay closer attention to foreign exchange conversions. Though foreign investors were not direct targets of this move, they were drawn into the net. Many saw their shipments languish at Customs for weeks as their trading companies awaited approval to convert currency. Also in 1998, China cracked down on illegal direct-selling operations that were responsible for bilking unsuspecting Chinese of their savings, but the new rules threatened to close down legitimate operations as well.

The turnaround

FDI flows have turned a corner this year, a reflection of the cautious optimism that has emerged in the foreign business community in China. Signings of new contracts in the first half of this year rose almost 25 percent over the first half of 1999, totaling $24.17 billion. This renewed interest in China projects is due in some measure to the completion of China's WTO agreements with the United States and European Union. The far-reaching terms to which China agreed reassured investors about the commitment of China's leaders to further market openings (*see* p.22, and *The CBR*, January-February 2000, p.17).

The resurgence of investment may also be due in part to the government's recent moves to lure foreign investors back. The country needs as much foreign investment as it can get as it embarks on massive economic reforms—FIEs are some of the fastest-growing actors in the economy, and key generators of jobs. Examples of this new awareness include Beijing's issuance of new rules allowing foreign investment in retail ventures in western China, and its solicitation of input from foreign investors with PRC holding companies on ways to improve the attractiveness of that vehicle.

Certainly the new investment activity reflects the economic recovery in Asia, which, on the eve of the crisis, accounted for 40 percent of China's FDI inflows. But more important than Asia's recovery has been Beijing's aggressive economic stimulus plan, which appears to have helped revive economic growth. Second- and third-quarter GDP growth rates both exceeded 8 percent, ensuring that 2000 GDP growth will top last year's 7.1 percent rate. And the Consumer Price Index has, after more than two years of deflation, turned (just barely) positive this year.

But China is not out of the economic woods yet. Consumers' uncertainty over their economic future appears to be tempering the recovery—demand is still not rebounding as strongly as Beijing would like, and the gap between urban and rural incomes is as wide as ever. Consumers' uncertainty may well be warranted. The government appears to be taking more aggressive steps to push ahead with the deepest reforms yet, despite the inevitable, and unpredictable, economic and social disruptions this will cause over the next few years.

Still China

Seasoned foreign investors will be the first to point out that, WTO notwithstanding, the official and unofficial rules of running a successful business in China will not change easily or quickly—if they change at all. For this reason, newcomers and veterans alike will need to understand the current rules, regulations, procedures, and less formal aspects of running an operation in China. They must also identify which WTO-induced changes will affect these rules and practices. Among the most important issues facing foreign investors are

- **The legal limits of the foreign investment regime, specifically the investment structures**

China's updates of its foreign investment laws and regulations to meet WTO commitments are unlikely to affect major features of the country's foreign investment structures. New investors and veterans expanding their operations will find themselves choosing from virtually the same options as investors a decade ago: the representative office, the joint venture, or the wholly foreign-owned enterprise. In recent years more vehicles have emerged, such as the holding company and the foreign-invested share company. But the basic structures are likely here to stay (*see* p.14).

- **China's implementation of WTO commitments**

China must adapt its laws and regulations to accommodate its WTO obligations. This process is at the top of foreign investors' lists of concerns about their future prospects in the PRC. Revisions of existing laws will change the rules in ventures they currently run. The government will also have to enact—and enforce—new laws to guide the market-opening measures that China must phase in during the first decade of its membership. The PRC government has only just begun its own assessment of what is involved in this process, and PRC and foreign companies are doing what they can to prepare as well (*see* p.22).

- **Intellectual property rights (IPR) protection**

Foreign investors are more concerned than ever about protection and enforcement of IPR, part of a larger problem of enforcement of China's growing body of laws and regulations. Past bilateral agreements with the United States helped China develop an international-standard set of laws and administrative rules on IPR. But poor enforcement of these rules, and some spectacular loopholes, have undermined their effectiveness. One major reason foreign investors are feeling good about China's impending WTO entry is that adherence to WTO obligations will require China to enforce its IPR protections more effectively (*see* p.28).

- **Human resources**

The difficulties of hiring, and keeping, valuable employees have plagued FIEs for years. But foreign companies have realized that devoting resources to the development and maintenance of a stable workforce is crucial to their PRC operations' success (*see* p.38).

- **Relations with the PRC government**

Similarly, companies are recognizing that public relations campaigns to develop and maintain their images and brands are not enough, on their own, to cement their position in the China market. Corporations now know that just as they must engage with US policymakers back home, they must also focus on developing relationships with key policymakers in China's government, at both the central and local levels (*see* p.42).

Underlying it all, the economy

Investors recognize that WTO membership is no cure-all. Indeed, they have shown their willingness, for now, to bear with the PRC economy as it moves into a period of significant restructuring. This restructuring will reach down to the roots of the country's system of resource allocation—the basic function of any economy. Beijing appears to realize that SOEs and PRC capital markets must be able to function in an economy more exposed to market forces—not least to meet some of the requirements of WTO membership.

Beijing appears to realize that SOEs and PRC capital markets must be able to function in an economy more exposed to market forces—not least to meet some of the requirements of WTO membership.

The government is finally tackling the task of transforming its largest SOEs into profitable companies, and is stepping up efforts to restructure the burdened financial sector. One of the biggest tasks the government must undertake on its own is the reform of the social welfare system, to accommodate the rising numbers of unemployed and older Chinese.

The central government faces opposition from protectionist forces throughout the economy and government, who want to slow down preparations for the inevitable openings. The government also is facing pervasive corruption that is proving difficult to clean up. Whether Beijing can overcome these forces will determine whether its economic reforms succeed.

Dot the i's and cross the t's

Five years ago *The CBR* published a special issue on the basics of investing in China. The articles addressed how to select a project, an investment vehicle, and a partner, and offered advice on contract negotiations, navigating the approval process, and making an investment in China work. This issue of *The CBR* takes that discussion a step further, updating some of the central topics of that issue but also touching on some of the most pressing questions investors have about the PRC investment environment today. Current investors are not the only ones to benefit from these discussions; newcomers will also need to understand these issues if they are to make informed investment decisions. 完

Investment Vehicles

Investors' Growing Pains

Karen M. Sutter

As their PRC investments mature, foreign companies are finding themselves pushing up against the limits of China's investment structures. These limitations, such as the inability to consolidate multiple operations, interfere with efforts to improve ventures' efficiency. The expiration of tax holidays and other incentives for ventures approved during the investment boom of the mid-1990s have only exacerbated investors' irritation at these limitations.

To their credit, PRC policymakers have offered more investment options in recent years, and have become more willing to approve vehicles that foreign investors prefer, especially the wholly foreign-owned enterprise (WFOE). New legislation enacted since the mid-1990s, such as the Contract Law and regulations on holding companies and mergers and acquisitions (M&A), has facilitated consolidation efforts somewhat.

Nevertheless, many restrictions on foreign investment still exist. Investment is still officially directed by the Catalogue Guiding Foreign Investment in Industry, which designates investment in particular sectors as "encouraged," "permitted," "discouraged," or "prohibited." Central-government approval is still required for projects over $30 million and investments in discouraged sectors. Encouraged projects under $30 million require local government review. Equity and geographic restrictions still exist in many sectors, particularly services; what the PRC terms "pillar industries" like aviation, autos, and chemicals; and in sensitive areas like publishing. Inflexible structures persist, especially in sectors—such as soft drinks, pharmaceuticals, or auto parts—in which foreign investment has been restricted. Expansion in these sectors has often consisted merely of a proliferation of joint ventures (JVs).

New competition, rising costs, the promise of new service rights, and global consolidation have many firms searching for more effective ways to structure investments in China.

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Taking control: The WFOE craze

The wholly foreign-owned enterprise (*waizi duzi qiye*) has emerged as the most popular investment vehicle, constituting nearly half of all new contracts signed between 1997 and 1999. Between 1979 and June 2000, foreign firms signed 100,624 WFOE contracts.

The appeal of the WFOE is control. In WFOEs, foreign investors can make all decisions without any input—or interference—from a Chinese venture partner. WFOEs also offer the best protection for sensitive intellectual property. Most investments that involve secret formulas and processes take the form of WFOEs.

Traditionally, the Chinese government has offered lukewarm support at best for the WFOE, because it does not promise as much transfer of technology and know-how to Chinese counterparts. But these reservations have been outweighed by China's need to boost investment. The WFOE has also proven to be an ideal structure in the tight credit market of recent years, in which Chinese partners have been unable to contribute the necessary startup or expansion capital.

At the same time, the WFOE has its downsides. In sectors in which Chinese firms have grown more competitive, such as consumer goods and high-technology hardware, a WFOE can put an investor at a disadvantage in the competition to secure key contracts. The absence of a Chinese partner able to make the right connections can also make government relations work more difficult. And WFOEs are reportedly scrutinized more closely in such areas as taxation.

Joint adventures not over yet

Despite the growing appeal of the WFOE, joint ventures remain widely used. The Chinese government still insists on partnerships in certain sectors and, in some instances, joint venturing can still make good business sense. For example, high-technology companies often find they need to nurture a Chinese client base that is not yet ready, either technologically or financially, to buy their products. In these instances, many companies have found that a JV structure can help nurture new ventures that need basic inputs from the foreign company, and can help develop applications for the local market.

Equity joint venture

The equity joint venture (EJV, *hezi qiye*) until quite recently was the most common investment vehicle used by foreign investors, not because they preferred it but because PRC regulations required it. Between 1979 and June 2000, foreign companies entered into 201,848 EJV contracts.

An EJV offers several potential benefits, including the use of the local partner's marketing and distribution network and the ability to offer after-sales services. An EJV can also benefit from any government connections the local partner may have. For capital-intensive projects, an EJV is often a lower-cost alternative to a WFOE greenfield project, because the Chinese partner's capital contribution often takes the form of land and existing facilities.

Wholly Foreign-Owned Enterprise (WFOE)

Definition: Solely owned and operated by a foreign investor or investors, who bear all risks and receive all profits

- Has legal-person status—can own, use, and dispose of property; can carry out management and production activities independently; can sue and be sued in Chinese courts
- Organized as a limited-liability company

Major Legislation: PRC Law Concerning Enterprises with Sole Foreign Investment (1986), implementing regulations (1990)

Contributions:

- No specified amount
- May include foreign currency, machinery, equipment, industrial property, or technology

Duration: Must be specified in approval documentation

Tax:

- 30 percent national income tax, 3 percent local income tax
- Tax incentives available under certain conditions

Conditions: A WFOE must either export 50 percent of its output or qualify as a high-technology enterprise. The definition of "high-technology" is open to interpretation, and many firms have successfully negotiated this status.

Contrary to popular belief, equity stake does not necessarily equal managerial control. According to Article 26 of the joint venture law, JVs must obtain the unanimous consent of the board of directors on most major investment decisions. One drawback to this structure is that strong minority shareholders' rights give the Chinese partner the right to block important corporate decisions on expansion (often Chinese partners do not want or cannot afford to pay for expansion), amendments to the articles of association, and restructuring decisions that could include merging with other entities or terminating the venture.

The key to control nonetheless rests in the contract and the choice of partner. Some lawyers argue that if the contract is structured properly, foreign firms can get almost as much managerial

Equity Joint Venture (EJV)

Definition: A limited-liability corporation between Chinese and foreign partners

- Risk, profits, and losses allocated in proportion to contributions
- Has legal person status
- Minority shareholders can exercise veto power over most major decisions.

Major Legislation: Law on Joint Ventures Using Chinese and Foreign Investment (1979), implementing regulations (1983)

Contributions:

- Equity split determined by proportions of partners' contributions
- Foreign partners must contribute at least 25 percent of the venture's registered capital.
- Contributions can take the form of cash (foreign currency or *renminbi*), land-use rights, buildings, equipment, materials, intellectual property, or labor.

Duration: Fixed term must be specified in contract

Tax:

- 30 percent national income tax, 3 percent local income tax
- Tax incentives available under certain conditions

control out of an EJV as they get in a WFOE or a foreign-invested share company (FISC).

On the other hand, some foreign partners of EJVs have 95 percent equity but their Chinese partners still exercise strict control through their veto power. There are also EJVs in which a foreign partner with a minority equity contribution has virtually 100 percent control over the venture, because the Chinese partner has agreed to play a smaller role.

Contractual Joint Venture (CJV)

Definition: Contractual partnership between Chinese and other foreign partners

- Profits and losses shared as specified in the venture's contract, not according to the equity share
- May or may not have legal person status
- No limits on the term or scope of the contract
- No prohibitions for withdrawal of registered capital during the term of the contract
- Partners may unilaterally apply for dissolution approval (such applications have been rare).

Major Legislation: Sino-Foreign Cooperative Contractual Joint Venture Law (1988), Sino-Foreign Cooperative Joint Venture Law Implementing Rules (1995)

Contributions:

- Foreign partners must contribute at least 25 percent of the venture's registered capital.
- Contributions can be in a variety of forms, including cash (foreign currency or RMB), land-use rights, buildings, equipment, materials, and intellectual property.

Duration: Must be specified in contract

Tax:

- 30 percent national income tax, 3 percent local income tax
- Tax incentives available under certain conditions
- If the CJV does not have legal person status, taxes are calculated and paid by the venture's respective partners.
- May apply to pay taxes as a corporate entity

Because the Chinese government still favors EJVs, a foreign partner can often negotiate preferential terms in return for transfer of technology and expertise. These terms may include special access to, and rates for, utilities and inputs.

Despite the growing appeal of WFOEs—and the fact that when China enters the WTO the WFOE will be permitted to engage in areas such as after-sales service and distribution—caps will remain on the amount of foreign equity permitted in auto, retail, telecommunication services, and other sensitive industries, promising a continued role for the EJV.

Contractual joint venture

Contractual joint ventures (CJVs), also known as cooperative JVs (*hezuo qiye*), are more flexible than EJVs because the partners can choose to cooperate as separate legal entities and bear their own liabilities, or may opt to form a limited-liability entity with legal-person status. CJVs have been popular among investors who place a priority on early investment recovery (the methods of which should be defined in the contract and are subject to government approval). CJVs are also popular for investments in which the foreign partner incurs substantial upfront development costs, as in property-development and build-operate-transfer projects. Projects in which foreigners are restricted to less than 50 percent equity share sometimes work best as CJVs because the foreign partner can build an accelerated return on its share of investment into the contract.

The traditional first step: A representative office

Establishing a representative office (*daibiaochu*) is still a popular first step for new entrants to China. It offers a relatively simple and quick way to expand into new regions and restricted sectors. Despite the many limitations on representative-office activities, the offices enable investors to establish a presence, and help companies build government connections and learn about the market.

Representative offices are prohibited from engaging in direct "profit-making" activity—such as receiving fees for services or signing contracts. While representative offices technically cannot engage in sales, many representative offices undertake all aspects of a sale but the final exchange of funds.

Representative offices are also expensive—they are taxed on deemed profits and losses for the whole venture, generally must be located in expensive city centers, and often must hire through the state employment agency, the Foreign Enterprise Service Corp., whose fees are rising sharply.

Representative Office

Definition: Office set up largely to perform liaison work for a foreign company

Major Legislation: Administration of Resident Representative Offices of Foreign Enterprises Tentative Provisions (1980), implementing rules (1995), Administration of the Registration of Resident Representative Offices of Foreign Enterprise Procedures (1983)

Contributions: No specific requirements

Duration: Generally three years, some exceptions

Tax:

- Based on either deemed or actual profits
- Tax bureau determines deemed profits through the cost-plus method (9.76 percent of operating costs) service-agreement method (according to a fixed fee as stated in a service agreement—though this method is rarely used).

Conditions:

- Liaison work only
- One per city
- Application requires Chinese sponsoring organization

Branches: Wave of the future?

While representative offices can legally only perform liaison work, branches can conduct actual business operations. Branch offices (*fengongsi*) are ideal alternatives to representative offices from a tax perspective, because the branch is only taxed on actual profits and losses that occur at that branch. Branch offices do not have legal person status, and liability is borne by the parent company.

Apart from the few service sectors that have specific mention of branching rights in the market-access schedule, the US-China WTO agreement mentions that branching rights will be dealt with in an upcoming PRC law. The future utility of branches thus depends on the answers to two questions: First, how will PRC policymakers adapt Chinese laws to allow foreign firms to establish new branches or convert existing structures, especially representative offices, to branches? Second, how will the State Administration for Industry and Commerce (SAIC) choose to interpret the scope of FIEs' business licenses as they expand through branches? For example, can a company with a business license for after-sales service in one city perform that same service in its branch in another city? These new regulations will determine whether and how FIEs will be able to convert representative or sales offices to branch offices.

Improving efficiency: The drive to consolidate

As foreign investors have expanded their presence in China, their search for ways to integrate and consolidate has intensified. New options such as the holding company, the FISC, and M&A have all improved efficiency somewhat, but many companies are still coping with numerous legal entities not yet effectively under one corporate umbrella in China. Tax and personnel functions, among others, remain decentralized. FIEs are unable to distribute profits, losses, and foreign exchange across business units effectively, and corporate reorganization remains difficult.

Holding companies: Unfulfilled potential

The holding company (*konggu gongsi*) has allowed foreign investors to integrate manufactur-

Branch Office

Definition: Office for production and business activities as part of expansion—to date, used only by law firms and banks

- No legal person status

Major Legislation: Company Law (1994), Article 199; Commercial Banking Law (1995); Administration of Foreign Investment Financial Institution Regulations (1994), implementing regulations (1996)

Contributions: *see Conditions below*

Tax: Based on actual branch office profits and losses

Conditions:

- Foreign companies have been waiting for the Branch Office Measures to be passed since 1994.
- The new measures are expected to outline approval requirements and permitted scopes of operation. Measures could require capitalization of up to $10 million, parent firm net assets of up to $200 million, and a foreign bank credit report. WTO accession may give the government impetus to release the regulations, as they are promised in the US-China market-access agreement.

Venture Capital

Venture capital (VC) is a small but increasingly important category of FDI in China (*see The CBR*, November-December 1999, p.6). Most venture capital investments involve 10 to 49 percent passive equity stakes that are structured offshore through a holding company, and operate in China via ancillary contracts managed through representative offices. Such structures enjoy free-port tax advantages and count on an exit strategy of an initial public offering (IPO) or an equity transfer. While offshore exit strategies are easier, they are not trouble free. Share transfers and overseas listings that involve assets in China still require PRC government approvals and are subject to the whims of the international market.

Current market restrictions, especially in services, have boosted VC as an indirect means of acquiring equity interests in closed sectors such as aviation, the Internet, and telecommunications. The information technology sector in particular has looked to VC as a way to form strategic alliances with Chinese enterprises and to develop not only potential partners, but more important, prospective consumers for higher-end products.

The legal framework for VC remains somewhat primitive. It relies on the 1994 Company Law, which defines shareholding ownership, and Establishing a Venture Investment Mechanism Several Opinions, the 1999 joint opinion issued by the Ministry of Science and Technology, State Development Planning Commission, State Economic and Trade Commission, Ministry of Finance, People's Bank of China, State Administration of Taxation, and China Securities Regulatory Commission.

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ing, importation, marketing, sourcing, and training—to some extent. By the end of 1999, Chinese authorities had approved more than 180 holding companies.

But many of these investors remain disappointed that the reality has not lived up to the promise of the regulations. For instance, holding companies can balance foreign exchange among their FIEs, but these transactions are subject to State Administration of Foreign Exchange (SAFE) approval, and SAFE has yet to permit direct swaps among FIEs or between the holding company and FIEs. And although holding companies can invest up to 10 times their registered capital and provide intra-group lending, these transactions are subject to the 1996 Finance Company Provisions, which require People's Bank of China approval, among other cumbersome requirements.

Foreign corporate pressure led the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) to issue interim provisions in August 1999, which granted holding companies new rights in the areas of distribution and after-sales services. Despite some improvements, in many cases the measures do little more than add another bureaucratic layer to operations, and MOFTEC appears to be considering yet another round of revisions to holding company rights. Many firms would like any revisions to give holding companies the right to import even before this right is phased in as a result of WTO commitments. They would also like MOFTEC to allow them to centralize personnel functions and consolidate tax payments.

Because a holding company requires far more investment than a WFOE, PRC authorities are also under pressure to add new rights to make the holding company an attractive vehicle after WTO entry, when the WFOE is expected to assume many functions currently allotted only to holding companies. For example, within three years of accession, WFOEs should gain distribution rights, including the ability to provide warehousing, transportation, and logistics services.

Holding Company

Definition:

- Investment company that allows foreign companies with several investments in China to combine sales, procurement, subsidiary investment, manufacturing, and service activities
- Can be EJV or WFOE (most are WFOEs)

Major Legislation: Establishment of Companies with an Investment Nature by Foreign Investors Tentative Provisions (1995), Supplementary Provisions to the Interim Provisions on Investment by Foreign Businesses in Companies of an Investment Nature (1999)

Duration: Specified in contract

Tax:

- 30 percent national income tax, 3 percent local tax
- Ineligible for tax breaks offered to production enterprises
- Dividends received by its FIEs exempt from enterprise tax
- No withholding tax on dividends that the holding company pays the foreign investor
- 40 percent rebate for re-investing dividend income in its FIEs, 100 percent rebate for export-oriented or technologically advanced FIEs

Conditions:

- At least $400 million in total assets the year prior to application, established enterprises with paid registered capital of at least $10 million, and previous approval for at least three investment projects; *or* 10 FIEs engaged in production or infrastructure construction with minimum paid registered capital of $30 million
- Chinese partners in EJV holding companies must have a minimum asset base of ¥100 million ($12.1 million).
- Foreign investor's capital contribution must be in foreign currency and must be fully paid within two years of receiving the business license.
- RMB profits from existing FIEs cannot be used for the initial capital contribution, but may be used to increase the registered capital of the holding company. Some firms have had to demonstrate evidence of 10 years' presence in China.

Other: As the vehicle has evolved, the Ministry of Foreign and Economic Cooperation has tinkered with options and determined rights on a case-by-case basis, resulting in different rights and business scopes from company to company.

Foreign-invested share companies: For the big fish

Eastman Kodak Co. made a big splash in 1998 as the first company to capitalize on the 1994

Taxes

The primary pieces of legislation guiding taxation of foreign-invested enterprises (FIEs) in China are the 1991 PRC Income Tax Law for Foreign Invested Enterprises and Foreign Enterprises and the 1991 implementing rules. This legislation sets the FIE corporate income rate at 30 percent, and the local-level income tax at 3 percent. The actual tax rates FIEs pay in China, however, vary greatly with incentives based on the location, life span, and business scope of a particular venture. Once, special investment zones offered the most preferential rates. Special Economic Zones (SEZs) offer 15 percent to all types of FIEs. High-Technology Zones and Economic and Technological Development Zones (ETDZs) offer 15 percent to production or high-technology FIEs, while Coastal Economic Open Zones and old urban districts of SEZs and ETDZs offer 24 percent to production FIEs. Now, China's push to develop its interior has allowed other locations to offer similarly attractive rates.

Production ventures of a 10-year minimum duration are typically offered a two-year tax holiday that kicks in from the first profitable year. This two-year holiday is then followed by a 50 percent tax reduction over the subsequent three years. Service ventures of the same duration that invest a minimum of $5 million are typically offered a one-year tax holiday following the first year of profitability, and a 50 percent discount for the next three years.

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Company Law's provisions that allowed for the creation of a foreign-invested company limited by shares. The FISC structure has several advantages. It is the first investment vehicle that allows the venture to have an indefinite lifespan rather than a specific duration. Like the holding company, the FISC vehicle enables foreign companies to integrate the management, marketing, and tax operations of multiple ventures. Within this vehicle a company can centralize and streamline management and human resources, operate multiple manufacturing facilities and marketing operations in different locations under one company, and apportion tax burdens equitably among different jurisdictions.

In a FISC, the foreign investor gains management control as the majority partner, while maintaining the legal status of a domestic Chinese company. Notably, the FISC eliminates the minority shareholder's veto power, and decisions by boards of directors are reached by a two-thirds majority vote, not unanimous consent. The FISC also allows for foreign acquisition of shares in a Chinese company, rather than a direct equity stake as is taken in a traditional JV. This structure makes it easier for the company to raise capital domestically by listing on the PRC stock exchange, and could make offshore exit options easier—provided ready buyers exist.

While other companies have viewed Kodak's FISC favorably and are likely to make similar deals, the FISC is still experimental and the Kodak deal represents a unique case. Potential benefits such as listing on China's domestic exchanges, and exiting through offshore sales of shares, remain untested. Such large-scale investments are also tough going. Kodak's deal required more than five years to negotiate and over $1 billion in investment. While FISCs grant foreign investors the authority to integrate their labor operations and the decisionmaking power necessary to restructure, consolidation is still likely to run into opposition both from Chinese partners and government approval agencies.

Mergers and acquisitions

Most of the M&A activity involving FIEs to date has involved either the sale of one FIE's equity interest in a venture to another FIE or the buyout of a Chinese partner. There have also been cases of Chinese companies acquiring foreign partners' stakes, such as Tsingtao Brewing Co.'s recent buyout of the Asia Strategic Investment Corp. (Asimco).

The Regulations on the Merger and Division of Foreign Invested Enterprises, issued by MOFTEC and SAIC on November 1, 1999, outline M&A procedures for the first time and facilitate the sale and acquisition of parts of FIE investments. Unilever Plc, for example, has quietly consolidated in Shanghai over the past few years, as its holding company has purchased its own business units, effectively moving the units under the holding company. This process is less complicated than the Kodak FISC, since it does not involve crossing local government lines.

The appeal of mergers and acquisitions stems from a general disillusionment with JV partners and the inability to make operations work as planned. Acquisitions of Chinese stakes often occur when the foreign partner wants to expand but the Chinese partner is unable to contribute the necessary capital. Acquisition of a Chinese partner also enhances a foreign firm's managerial control.

Complications often arise during acquisitions over the Chinese partner's willingness to sell, the valuation of assets, the handling of benefits and excess workers, and the granting of permission from the relevant regulatory agencies.

Companies often acquire the stakes of other FIEs for strategic reasons, for instance, to gain a license in a restricted sector such as auto manufacturing. FIE acquisition is also seen as less risky than the purchase of an unknown Chinese company, because the venture often comes with a more reliable foreign accounting and auditing history.

Complications often arise during acquisitions over the Chinese partner's willingness to sell, the valuation of assets, the handling of benefits and excess workers, and the granting of permission from the relevant regulatory agencies. Government permission becomes a bigger headache as the number of agencies involved increases, especially if the deal crosses provincial and city lines of authority. While not insurmountable, these problems can require extensive resources and negotiating time.

Foreign-Invested Share Company (FISC)

Definition: A hybrid investment vehicle that combines elements of the traditional joint venture and the Chinese joint-stock limited-liability company
- No minority veto power
- Ability to list on PRC exchanges

Legislation: Company Law (1994), Securities Law (1999), Interim Provisions on Investment by Foreign Businesses in Companies of an Investment Nature (1995), Provisional Regulations on Several Issues Concerning the Establishment of Foreign Invested Companies Limited by Shares (1995), and Opinions on Standards for Companies Limited By Shares and Limited Liability Companies (1992)

Contributions: At least ¥30 million ($3.62 million) in registered capital

Tax:
- 30 percent national income tax, 3 percent local income tax
- Tax incentives available under certain conditions

Conditions: In theory, MOFTEC should handle the approval process of a FISC as it would other investments. Under the direction of Premier Zhu Rongji, however, a special commission was formed under the State Council to handle the approval process for the FISC established by Eastman Kodak Co., which involved eight PRC companies and four provincial governments.

The recent worldwide trend of corporate consolidation has had an impact on China operations, as FIEs in China have found themselves with new partners or parents and the resulting need to restructure. The Asian financial crisis in the late 1990s also drove many companies to liquidate quickly, further fueling FIE acquisitions.

Foreign companies have been experimenting with a variety of hybrid investment structures in an attempt to bring different corporate services under one roof, to push into sectors largely closed to foreign investment, and to meet demand in such restricted areas as distribution and after-sales services.

Chinese industry, too, is consolidating. There have been instances of US companies awakening to find new PRC bedfellows, which, in some cases, are under new parent companies with their own partnerships with other foreign competitors.

Labs and other experiments

Research and development (R&D) centers

By the end of 1999, there were over 34 foreign-invested R&D institutions in China, focusing on biomedicine, chemicals, information technology, and transportation vehicles. Most of the ventures established in Beijing have been WFOEs, while those in Shanghai and Tianjin have tended to be joint ventures with PRC scientific institutions and universities.

Many firms see these centers as critical to their growth. For example, joint research in software applications can help solve language and other problems specific to China (*see The CBR*, July-August 2000, p.40). The centers also provide opportunities to train and recruit potential employees, although companies are reporting that poaching by local firms from foreign-invested R&D centers is on the rise. An R&D center can also help raise an FIE's profile in China and demonstrate its commitment to the country, thus developing relationships that can help the firm over the long term.

R&D centers in China are one-tenth the cost of similar facilities in the United States, and new PRC government tax incentives make this type of endeavor even more appealing. For example, R&D centers can import certain equipment duty free. By allowing such centers to engage in production, moreover, the government has created a potential loophole for firms to pursue production and distribution of additional product lines in China.

**On the regulatory edge:
Zones, CCFs, and portfolio investing**

Foreign companies have been experimenting with a variety of hybrid investment structures in an attempt to bring different corporate services under one roof, to push into sectors largely

Photo courtesy of William Nitzky

Research and Development (R&D) Center

Definition: Lab or technology center that can be in the form of EJV, CJV, WFOE, or branches or departments of existing FIE

Major Legislation: Questions Relating to Foreign Investors Investing and Establishing Research and Development Centers MOFTEC Circular (2000)

- Beijing and Shanghai issued special measures on R&D center investment in late 1999 and early 2000, respectively.

Contributions:

- Minimum investment of $2 million, specifically allotted for R&D purposes, does not have to be in the form of registered capital.
- R&D centers must have a defined focus and specific projects as well as a permanent site, equipment, and other facilities necessary to support the R&D work.

Tax: According to a September 1999 State Administration of Taxation circular, firms that incurred at least 10 percent more in R&D expenses than in the previous year can deduct an additional 50 percent of the R&D expenses incurred in the current year when determining taxable income.

Conditions: Company that invests in the research owns the intellectual property created

R&D centers in China are one-tenth the cost of similar facilities in the United States, and new PRC government tax incentives make this type of endeavor even more appealing.

closed to foreign investment, and to meet demand in such restricted areas as distribution and after-sales services. PRC government practice is to allow experimentation that may violate the spirit, if not the letter, of directives from the center, and then evaluate the results. Often the government revises central laws after the fact—but not always to the benefit of investors.

Bonded zones and free-trade zones offer foreign firms some opportunities to handle their own trade, distribution, marketing, and after-sales service. Shanghai has been a leader in the area of operational flexibility, and is home to Waigaoqiao, the bonded zone now infamous for its flexible approach to trading and distribution. Once again, Shanghai appears to be leading the pack, enacting a new policy whereby companies can establish an after-sales service JV that acts as an agent or distributor for products made by other FIEs.

In both distribution and telecommunications services, companies have tried to overcome restrictions on investment in services by forming a production JV with a Chinese partner, which in turn establishes a JV with another Chinese firm. While the government attacked this Chinese-Chinese-Foreign (CCF) model in telecom services, not all CCF ventures have been shut down. In sectors such as distribution, the model appears to be alive and well. In retail and other sectors, many companies and local governments have turned their backs on Beijing's insistence on central-level approval and have signed their own contracts. Despite verbal prohibition by the State Development Planning Commission, many CCF ventures continue to operate.

Portfolio investing is a strategy many foreign companies, prohibited from investing directly, use to obtain stakes in Chinese companies. Firms in highly restricted sectors such as petrochemicals, as well as venture capitalists interested in developing China's high-technology firms, have taken this route. Strategic investors differ over how successful the share purchases have actually been, especially in the absence of viable secondary markets and given the government's heavy intervention in these sectors. As China liberalizes domestic capital markets, portfolio investors may eventually find opportunity in Chinese stocks.

The evolution of the investment framework

China's entry into the WTO will bring important new opportunities to foreign firms in the PRC. But the trade agreement's provisions on trade-related investment measures may not spell great changes for investment structure options in China. The laws and regulations China revises and adopts—not the text of the accession package itself—will provide the roadmap local officials will use to implement WTO commitments (*see* p.22). While these commitments will have to be incorporated into such legislation, how and when they are incorporated will define exactly what form any new rights will take.

For instance, China has committed to allow franchising rights within three years of WTO accession, and, in 1999, created a new legal foundation for individual enterprise ownership. But in the absence of a national franchising law—franchising as it is known in the United States is unfamiliar to most Chinese—it may be tough for foreign firms to capitalize on this new option. Currently, quasi-franchise relationships exist in the form of individual joint-venture or WFOE contracts. FIEs have been able to centralize and standardize operations loosely at best, because of interprovincial barriers and contractual limitations, respectively, among other restrictions.

More tinkering to come

China's need to bring its investment and business laws in line with international practices, and satisfy investors' growing demands, will push PRC officials to continue tinkering with existing vehicles and introduce new structures. It is unlikely, however, that the changes will be rapid or deep enough to meet these demands completely. In the meantime, foreign investors will continue to push against the ceilings of the old JV and WFOE frameworks, and experiment with the newer, less clearly defined options. 完

WTO: A Done Deal?

Iain K. McDaniels and Jeremie Waterman

Foreign companies in most industries recognize that China's entry into the World Trade Organization (WTO) has the potential to provide them with great opportunities to invest in and trade with the country (*see The CBR*, January-February 2000, p.17). But they also recognize that before they can realize these benefits, the PRC government must finish its negotiations in Geneva and implement its commitments at the central and local levels upon joining the WTO. Companies are thus watching the process unfolding today, in which Chinese officials and companies are studying and preparing for these new commitments. Foreign firms are also observing the PRC government as it begins to draft the laws that will carry out these new commitments. At the same time, US and other foreign firms are making their own preparations for the impending changes in China's investment and trade environment.

China's plans to implement its WTO commitments are moving forward, but foreign investors are reserving judgment until they see results.

China has cleared many of the hurdles in the way of its WTO entry—particularly the negotiation of bilateral agreements with 37 WTO members. One key obstacle that threatened to block US companies from receiving the full benefits of China's membership has also been cleared: Congress's passage of permanent Normal Trade Relations for China upon the PRC's accession will enable US firms to benefit from all of China's market-opening commitments.

As *The CBR* goes to press, China's negotiations continue over its remaining bilateral agreement with Mexico and its Protocol of Accession (POA) package with the WTO working party. The POA package includes the final, legally binding terms and conditions of China's membership. China's leaders hope to wrap these negotiations up by year's end. Out of necessity, then, the country has begun to get its legislative and regulatory houses in order.

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The research and consideration phase

China's WTO implementation efforts thus far have focused largely on the research and discussion of specific tasks the country must undertake to prepare for accession. The Ministry of Foreign Trade and Economic Cooperation (MOFTEC), the National People's Congress (NPC), the State Council, the State Economic and Trade Commission (SETC), the industrial ministries and bureaus, and academic institutions are among the organizations participating in this process. The activities they have undertaken fall into three categories: regulatory revision, education, and preparation for the new regime.

1 Regulatory revision

The POA package consists of three parts: the protocol itself, the working party report, and the market-access schedules for agricultural goods, manufactured goods, and services. The working party report contains so-called "commitment paragraphs" that provide both the roadmap for future implementation of the PRC's WTO commitments and benchmarks that can be enforced through the WTO dispute settlement mechanism. The report also includes statements from working party members regarding China's intentions to implement the protocol and the WTO Agreement.

The PRC must change its laws and regulations in accordance with its commitments in the working party report and protocol, as a requirement of WTO membership. One of the working party's tasks is to negotiate with China over which laws must change before accession. In the past, WTO members have insisted that the applicant pass new WTO-consistent legislation for obligations that take effect upon accession, which is then usually vetted by the WTO working party. But the large number of laws that the working party will probably require the PRC to change may challenge this tradition. The Chinese have already noted that the WTO-mandated revisions to their trademark and other IPR laws may not be in effect before China becomes a WTO member.

Both new and redrafted PRC laws must conform to the government's WTO commitments. Ultimately, however, PRC laws and administrative regulations, as well as the PRC courts that interpret them, will be controlling in future trade and investment disputes. Only if a WTO member elects to launch a dispute settlement proceeding in Geneva will the actual language of the WTO and its predecessor, the General Agreement on Tariffs and Trade (GATT) become legally relevant. The working party must ensure that the PRC's drafting of new laws and changing of existing laws and regulations to meet its WTO obligations do not sow the seeds of future protectionism—and in turn, future disputes.

To assist working party members in assessing the scope of required legal changes, China must notify the working party about the areas and laws in which China's trade and investment regimes fail to conform to WTO rules. Thus far, China's notification has lacked detailed information on key areas such as non-tariff measures, quotas, subsidies, state trading, trading rights, and distribution. In some instances, information that has been provided is inconsistent with the commitments spelled out in China's bilateral agreements.

Though it has been slow to produce such details in Geneva, the PRC central leadership has, in fact, already launched a top-down review of all laws and regulations to determine their compatibility with WTO commitments. In total, the State Council is reviewing regulations from 35 different ministries or bureaus, including all relevant MOFTEC regulations—most of which relate directly to foreign investment and trade. The State Council will then categorize the regulations according to whether they will have to be abolished, modified, or will remain unchanged. The State Council will also list regulations that will have to be drafted from scratch to comply with WTO obligations.

According to government sources, 22 key laws at the NPC and State Council level are currently under review for probable revision. In addition, each industry (headed by the relevant ministry or bureau) is responsible for conducting its own legal review. These industry groups report to the State Council General Office Legal Task Force, headed by State Councilor Wu Yi.

Among the laws China may issue for the first time are those covering foreign investment and trade—today, there is no overarching law guiding either of these regimes. Laws that have been stalled in the PRC legislative process for years, such as the telecommunications law, may also be finalized (*see The CBR*, May-June 1999, p.16). The NPC Standing Committee met in late October to discuss revisions to the implementing regulations that govern equity and cooperative joint ventures, and wholly foreign-owned enterprises. The government also evidently plans to revise its Catalogue Guiding Foreign Investment in Industry, first released in 1995 and updated in 1998.

Some of the key areas that are likely to require immediate revision include

Though it has been slow to produce details in Geneva, the PRC central leadership has, in fact, already launched a top-down review of all laws and regulations to determine their compatibility with WTO commitments.

- **The tax code** China must alter the provisions of the tax code that subsidize exports outright or act as de facto subsidies to domestic enterprises. China must also change other tax provisions that provide incentives for purchases of domestically made equipment and that provide tax exemptions for domestic enterprises' social welfare expenditures.
- **Subsidies** In addition to subsidization through the tax system, China must verify that it no longer engages in other forms of subsidization incompatible with WTO rules. Such subsidies would include government-directed lending to state-owned enterprises (SOEs) or other specially designated enterprises; subsidies that take the form of goods and services; and subsidies that depend on export performance. China has submitted a list to the working party of the subsidies it grants to domestic companies, but this list reportedly has been less comprehensive than the working party would like. China also appears to be seeking developing-country status, which would permit it to take longer to phase out such subsidies.
- **Trade-related investment barriers** China must change rules that do not comply with the WTO's Agreement on Trade-Related Investment Measures (TRIMs), such as export requirements and rules requiring foreign-invested enterprises (FIEs) to balance foreign exchange. China will need to draft new laws that void these and other WTO-inconsistent provisions in the contracts of FIEs. For example, it must change the provisions in the law on wholly foreign-owned enterprises (WFOEs) that require a WFOE to use advanced technology and equipment and to export all or most of its products from the PRC.

In one high-profile example of the kinds of restrictions China imposes on foreign investment, after Motorola Inc. obtained government approval for a $1.9 billion investment in mobile-phone and chip factories, the Ministry of Information Industry (MII) stated that the Motorola cell-phone manufacturing plant would be the last one it approves. In a Chinese publication, MII underscored that foreign-owned cell-phone manufacturing plants must export at least 60 percent of their product and boost local content to 50 percent by 2001. Such local content and export requirements will be clear violations of China's WTO commitments once it accedes.

Real changes at the provincial and local levels will take time, and will likely be implemented by government officials only after they have received training, education, and some relevant experience.

- **Distribution-related services and trading rights** China must change its laws to open up distribution services to foreign investment under terms no worse than those negotiated in China's bilateral agreement with the United States. China will also have to abolish the current restrictions on foreign firms' trading rights. For the most part, foreign investors currently may not import finished products and may only export products made in China. They must use Chinese trading companies to handle all other trading activities.
- **Intellectual property rights (IPR)** IPR protection and enforcement are enormous problems for foreign and Chinese companies alike. The WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPs) agreement requires that China put in place much more stringent enforcement mechanisms. Its protection regime is fairly TRIPs-compatible, however (*see* p.28).
- **Quota and standards administration policies** Many PRC policies in this area are inconsistent with the WTO's Agreement on Sanitary and Phytosanitary Measures, and the Agreement on Technical Barriers to Trade. The PRC's standards inspection procedures also lack transparency. At recent negotiations in Geneva, the working party reportedly objected to the PRC's intention to maintain two standards inspection bodies after accession, one for domestic products and one for imports. The working party insisted that the uni fication of standards inspection functions within one government body was essential to improve transparency and to prevent China's inspection process from continuing to be a barrier to trade.
- **Sector-specific TRIMs violations** Some industries have specific restrictions that violate WTO rules. For example, the auto industrial policy, promulgated in 1994, imposes both export and local-content requirements on FIEs. China will also have to lift many of its restrictions in the Internet and telecommunications sectors, specifically the prohibition on foreign investment in value-added telecommunications services.

Shanghai Sets the Pace, Again

Shanghai is among a small minority of localities in China that have started to take concrete steps to prepare for World Trade Organization (WTO) entry. Its progress is due largely to the top leadership's commitment to and coordination of the city's WTO implementation efforts. Shanghai Mayor Xu Kuangdi has, in numerous speeches and interviews this year, outlined the benefits and challenges of WTO membership, and promised that Shanghai will be the first locality to publish regulations in a public gazette.

Tasked with putting Xu's pronouncements on Shanghai's implementation of WTO commitments into practice, Executive Vice Mayor Chen Liangyu heads the Shanghai working group on WTO implementation. The working group coordinates implementation plans of the Shanghai municipal government organs, such as the Shanghai Municipal Economic Relations and Trade Commission (SMERT), the Shanghai Planning Commission, and the Shanghai Finance Bureau. One of the key tasks of this group will be to review and revise Shanghai's laws and regulations to bring them in line with WTO obligations.

SMERT will be involved in reforming the foreign trade and foreign investment legal structure (independently and as part of the working group) and will have overall responsibility for training programs. The agency will spearhead a yearlong program to coordinate training for about 20,000 Shanghai officials, who will be required to pass a test on WTO knowledge at the end of their course of study.

Other commissions and bureaus in Shanghai are working both to support Shanghai's implementation efforts and to make Shanghai a more attractive investment destination. For example, the Shanghai Technical Supervision Bureau has established the Shanghai Foreign-Invested Enterprises Anticounterfeit Work Liaison Office to act as an intermediary between foreign companies and PRC government organs in handling intellectual property rights problems. The office will assist foreign companies with established operations in China, foreign companies that trade with China, and also foreign companies that have no connection with China but discover that their products, packaging, or trademarks are being copied in Shanghai.

In addition to the efforts of the Shanghai municipal government, the government of the Pudong district (which was recently officially incorporated into the Shanghai municipality) will be on the front lines of WTO implementation. The appointment of WTO expert and law professor Zhou Hanmin as the deputy magistrate of the Pudong government indicates Shanghai's commitment. According to a soon-to-be-released national action plan on WTO, Pudong will be the site of future WTO implementation experiments.

Other important players in Shanghai's WTO implementation process are Professor Wang Xinkui of the Shanghai Foreign Trade University and Professor Wang Zhan, head of the Shanghai Development Research Center. Wang Zhan will head up a non-governmental WTO implementation center that was slated to open on October 25, 2000. Billing itself as "a window and a bridge" between the Shanghai government and foreign and domestic industry, the center will conduct research projects (for a fee) on WTO implementation for both the government and private sector. The center has leased office space from the Pudong government and will be housed in the Pudong government complex.

—Iain K. McDaniels

It will prove difficult for the working party to compel China to implement all of its commitments from day one. At the September 28-29 session of the working party in Geneva, Chinese negotiators reportedly balked at the working party's efforts to clarify WTO-inconsistent legislation and regulations in key areas. Moreover, many of China's numerous WTO-inconsistent laws at the provincial and local levels are unlikely to be addressed directly in China's accession package. Real changes at the provincial and local levels will take time, and will likely be implemented by government officials only after they have received training, education, and some relevant experience. Indeed, experts have noted that although a clean WTO agreement is crucial, it is not the sole determinant of whether the concessions granted by a WTO member will be carried out effectively.

The WTO also does not require acceding members to make legal changes immediately for commitments that enter into effect in the years after accession. Thus, even after it enters the trade body, China may still have many laws and administrative regulations on its books at the central level that contravene WTO rules. It will be up to the WTO—either the General Council or a special working party appointed to monitor implementation of China's commitments—to ensure the country meets to its obligations in subsequent years.

2 Education

MOFTEC has held seminars in Beijing and across China in recent months to educate officials and companies about WTO principles and procedures and the implications of membership for local economies. Specifically, MOFTEC's seminars are telling companies that they will no longer be able to rely on subsidies and must prepare for international competition. MOFTEC has drawn on the expertise of members of the Chinese WTO negotiating team, the MOFTEC Treaty and Laws Division, and academic institutions to speak at these seminars. In addition to MOFTEC, individual bureaus and governments have conducted their own programs. For example:

- In interviews, the Office of Standards under the State Quality and Technical Supervision Bureau reported that it has held conferences for local officials to clarify their responsibilities under the WTO. The conferences have, for instance, explained that local officials will have to set up open and transparent standards and inspection processes, so that the bureau's procedures do not violate WTO rules against non-tariff trade barriers.
- Local governments like Shanghai are planning training programs for their officials (*see* p.24).
- The Beijing People's Court will hold a two-week training program for local judges to brief them on IPR commitments under the WTO.
- Two thousand county-level Communist Party chiefs will take part in a six-month training program at the Central Party School on management and the WTO.

Prominent research institutions, including the State Council's Development Research Center, have begun serious analyses of the WTO and the Chinese economy. The Chinese press has also run regular stories on the impact of WTO accession on different industries and parts of China, and has published analyses of WTO rules and how compliance will affect China's existing regime.

Though most government agencies are participating in the WTO preparation process, some are, at the same time, trying to enhance their resources before the new rules no longer allow them to win concessions from foreign investors.

3 Preparation for new competition

The PRC government and Chinese companies are attempting to prepare for the new rules of WTO membership with varying levels of commitment. Industrial sectors, for example, began this review process in spring 2000. SETC asked each sector ministry or bureau to detail the impact of WTO rules on its industry and submit the preliminary findings to SETC by mid-April.

Though most government agencies are participating in the WTO preparation process, some are, at the same time, trying to enhance their resources before the new rules no longer allow them to win concessions from foreign investors. Until the TRIMs-compliant changes are written into PRC law, for example, ministries will be able to demand that FIEs comply with current Chinese rules on local-content and export ratios.

The central government has its own set of priorities in the run-up to WTO accession. Near the top is establishing an effective national social safety net, which has been a growing necessity for years. Several pilot programs have been in place for some time, but WTO accession adds urgency. The WTO-induced rise in foreign competition, coupled with the removal of trade barriers, will accelerate the restructuring of PRC industry, with a predictable effect on unemployment. The NPC expects to pass a social security law in 2001, and the Ministry of Labor and Social Security has announced plans to implement a complete social security system within three years. In a related move, in September the government appointed former Ministry of Finance chief Liu Zhongli head of a national social security fund.

China's WTO commitments to open its financial sector and the resulting specter of foreign competition similarly leave China's policy-

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makers with little choice but to carry out essential financial reforms more rapidly. Specific efforts to prepare China's financial sector for WTO-mandated liberalization include plans for a new bourse in Shenzhen for companies with strong growth prospects; new alliances among domestic banks, and cooperative agreements between domestic and foreign banks; moves to allow open-ended mutual funds and permit domestic insurance companies to invest a larger percentage of their holdings in China's stock markets; consolidation in the securities industry; and the rollout of new financial products and e-banking services by domestic banks.

The central government has also accelerated mergers among domestic companies to create economies of scale and to secure domestic market share in sectors likely to face the strongest competition after WTO entry. Examples, in addition to the consolidation of financial services firms, include the restructuring and international public listing of PetroChina and Sinopec as part of oil industry overhauls; the recent government-mandated consolidation among China's 30-plus airlines; and the creation of large telecommunications and cable companies. The power, auto, infrastructure, petrochemicals, consumer electronics, beer, pharmaceuticals, and photographic film industries are also consolidating. And the reported merger of Nanjing Medicine and Jinling Pharmaceutical Group would create one of the PRC's largest pharmaceutical companies.

Sink or swim: Chinese companies

While the government moves ahead with its legal and regulatory reforms, opposition is emerging from protectionist forces within China. Local governments, industrial ministries not yet effectively refashioned into independent regulatory bodies, and PRC enterprises form the core of this opposition.

But not all enterprises fear WTO accession. The reaction of Chinese companies to the small amount of WTO information they have obtained to date has been decidedly mixed. Haier Group, Legend Group, Huawei Technologies Co., Ltd., and other large Chinese companies with realistic aspirations of growing into competitive multinational corporations are eager to take advantage of the influx of new business and technology. These companies emerged as leaders in sectors that are already competitive domestically. Many of them are staffed at the highest levels by Chinese with foreign MBA degrees, who understand the difficulties WTO membership will impose on their operations, but see future competition as a mechanism to help them improve their own practices. Haier, for example, recently hosted and participated in a seminar on strategic planning during the fall Qingdao Investment Fair.

These firms also look forward to the benefits of membership in the trading club. They are aware that under WTO rules they will be able to challenge other countries' protectionist policies within a multilateral dispute resolution framework.

Leading PRC companies have sought to tap western capital markets over the last year, partly in anticipation of new WTO-induced competition from foreign companies. In addition to the oil firms, PRC telecommunications and Internet firms have actively sought such listings. China Mobile, China Unicom, and a number of Internet service and content providers have been forced to adapt to the more rigorous disclosure requirements of the New York Stock Exchange, NASDAQ, and Hong Kong's Growth Enterprise Market. They have also been forced to shed redundant workers.

Rusty state-owned enterprises (SOEs), on the other hand, are unlikely to make any moves to restructure until they feel the bite of competition—and until they are relieved more fully of their obligations to provide medical, pension, and unemployment insurance to their employees. SOEs are also having trouble preparing because of their poor access to information about China's WTO terms and the changes WTO membership will bring.

In fact, most Chinese companies have little information about China's bilateral commitments. Press articles have provided general information about the WTO and the impact of WTO accession on specific industries and regions, but an official Chinese version of the US-China bilateral agreement has not been made available to PRC companies, and the EU and other bilateral agreements are unavailable in any language. To be sure, the release of the US-China agreement was an unprecedented step taken mainly for US domestic political reasons; the texts are generally kept secret until the POA is complete. In the absence of such key information, however, companies have made few significant adjustments beyond those the government has orchestrated.

Much of the government leadership, however, is still researching the implications of membership, and the central government's education efforts have only just begun. Further, most SOEs have traditionally relied on guidance from the government before taking action, especially when it comes to the complicated issues of laying off workers and closing down uncompetitive product lines. SOEs have also traditionally relied on the government for funding, if indirectly through the state banks. Unless some of these issues are resolved in the months preceding accession, the majority of China's SOEs will be unprepared for the effects of WTO entry.

US companies: Reading the roadmap

US companies in China have reacted in a number of ways to the prospect of China's imminent accession. Many companies that have long been denied access to the market are scurrying to position themselves so that they can take advantage of market openings as they happen. Some companies, especially those that have been unsatisfied with their performance in China to date, are using this opportunity to conduct top-to-bottom reviews of their company structure in China to find areas for growth. New entrants to the market are exploring options in the traditional manner: conducting market research, meeting prospective partners, and looking at areas for cooperation.

The majority of US companies in China are not yet making any decisive moves, however. Their efforts focus on

- **Research and discussion** US investors, like the Chinese, are researching the WTO regime in general, as well as specific WTO commitments China has made in their industries. They are also trying to understand the potential changes in areas such as tax, distribution, after-sales services, and IPR protection that will affect all industries.
- **Government relations** Many firms are reevaluating their government-relations strategies (*see* p.42). Companies realize that they must have strong government contacts not just in Washington but also Beijing and the localities in which they have business. It may no longer be enough for foreign companies to deal just with PRC government-designated intermediaries such as MOFTEC. This is because MOFTEC is largely an approval organization, not a decision-making authority. Its role is to make sure that all paperwork is in order and that other relevant ministries and commissions have signed off on approval paperwork. Even today, SETC and the State Development Planning Commission (SDPC) play a more important role in the decisionmaking process. After foreign firms receive national treatment under WTO rules, many approval procedures that apply only to foreign firms will disappear. Foreign investors will thus be better served by going directly to the decisionmaking bureaus. MOFTEC will continue to promote investment and trade, but individual investment issues will probably require more direct involvement with SETC and SDPC.
- **Education of local governments** Companies are starting to talk to local governments in China about the importance of implementation. Some are developing comprehensive education efforts. As in the past, they are also relying on third parties, such as US government diplomats and commercial association representatives, to bring issues that are sensitive or cross company or industry lines before PRC government officials.

Other preparations foreign investors are making focus on the WTO commitments themselves. For example, some companies in China are resisting pressure from PRC officials and companies to make deals under terms that do not comply with WTO standards. They are also taking steps to time their market strategies to coincide with China's opening commitments.

No matter their approach, all foreign companies are coming to grips with what China's WTO entry will mean and what it won't. WTO membership will mean that China's markets will become more open to foreign companies. It will mean that foreign companies will receive national treatment and benefit from a more uniform, rules-based system of trade. Regulations will become more transparent, eliminating some of the unpleasant shocks that result from the current practice of sudden regulatory change.

China's WTO membership does not mean that all of the problems foreign companies face in China will go away. WTO requirements do not cover China's process of doling out operating licenses, for example, though the criteria companies will have to meet to obtain such licenses may change. There will still be competition from domestic and foreign competitors—although companies with operations in China may also find that the impact of tariff reductions on their competitors' imports is minimal because so many products come into China without paying full duty rates. Operational barriers—whether the result of infrastructure or bureaucratic limitations, or both—between different regions in China will persist, even after companies become able to conduct business across the country. And the market itself will take time to mature, particularly during the next several years of intense restructuring. Companies may find, for example, that while there is no longer an import tariff on their product, there is no market for it yet in China.

Revision of WTO-inconsistent rules and regulations and drafting of new WTO-compliant legislation are unlikely to benefit foreign companies across the board. A number of recent PRC statements and papers indicate that officials at SETC and other government think tanks are closely scrutinizing so-called "supernational treatment" of foreign companies in China. Foreign companies in China have long benefited from tax holidays and other preferential investment incentives. While these investment incentives are likely to continue in the medium term, a gradual leveling of the playing field is likely over the longer term.

Thus, some companies will continue to operate in China the way they always have. They will evaluate the economic and investment environments and identify and seize opportunities that fit their China plans. They will rely on the basic strategies for doing business successfully in China. This approach is probably wise, as even Chinese officials committed to WTO implementation will be looking to enhance the advantages of WTO membership for China—and these will not always coincide with the goals of foreign companies. 完

China's WTO membership will not put an end to all of the problems foreign companies face in China. WTO requirements do not cover China's process of doling out operating licenses, for example, though the criteria companies will have to meet to obtain such licenses may change.

IPR Protection and Enforcement: A Guide

Ann M. Weeks

Despite China's achievements in developing a comprehensive body of laws on intellectual property rights (IPR), effective IPR enforcement in China remains a serious problem. Economic and legal reforms have contributed to a greater appreciation of the importance of IPR among PRC government officials and Chinese businesspeople. China's frequent regulatory revisions and its commitment to abide by the World Trade Organization (WTO)'s Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) promise better protection in the next decade. But China's government structure still lacks an effective chain of command from central directive to local implementation. And local protectionism, combined with the sophistication of IPR infringers, has complicated the efforts of both PRC officials and legitimate foreign and Chinese companies to stamp out IPR violations.

Companies can—and should—take steps to protect their intellectual property and punish counterfeiters.

These weaknesses mean that in the near term, foreign companies will continue to encounter trademark, copyright, patent, and trade-secret infringements in virtually every sector. Problems are worst in the software, entertainment (particularly video compact disc), apparel, food and beverage, pharmaceutical, personal hygiene product, and chemical sectors. Besides eroding a company's sales and market share, IPR infringements damage brands' reputations and raise health and safety concerns. Some firms also face related problems, including overproduction by licensed factories, distribution fraud, gray-market distribution, and industrial espionage. Companies thus need to take their own steps to combat and prevent IPR infringements, as some of the companies most successful in curbing IPR violations have done.

An unfinished framework...

Only by understanding China's regulatory and enforcement regimes, and their weaknesses, can foreign companies craft appropriate intellectual property (IP) protection strategies. Though China is 30-50 years behind the United States and European Union in developing a modern IPR legal system, today it has more than 30 laws that cover trademarks, patents, copyright, computer software, technology transfer and licensing, and trade secrets. For the most part, these regulations meet international standards, including those required under TRIPs (*see The CBR*, May-June 2000, p.22).

China's regulations are far from perfect, however. The average patent approval process for some products, including semiconductors, takes five to eight years, compared to three to four years in the United States. China's trademark system is based on the first-to-file, rather than the first-to-use, principle. And China's IPR protection system lacks transparency, though its accession to the WTO should remedy that somewhat.

...leads to enforcement headaches

Enforcement has proved an even greater weakness in all but the most developed cities. Beijing, Shanghai, and Guangzhou, Guangdong Province, have particularly good records. The effectiveness of enforcement efforts has been hindered by poor coordination among PRC central and local authorities; inadequate penalties; structural impediments that make it difficult to move cases from administrative to criminal actions; uneven education and training of PRC law enforcement officials; the pervasiveness of IPR violations throughout the supply chain; and the involvement of organized crime, especially from Taiwan. The lack of financial and human resources available for IPR enforcement, especially at the local level, also

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contributes to poor enforcement. Officials in some areas have been known to re-sell confiscated counterfeiting equipment to the highest bidder—sometimes the original counterfeiter—instead of destroying it as required.

Local protectionism in less-developed regions of China further complicates the enforcement picture. This is in part because IPR-violating enterprises often account for a disproportionate share of the local economy and are major employers. During periods of economic stagnation or downturn, local protection of counterfeiters tends to increase.

In still another complication, disputes about which PRC government body has jurisdiction over a particular geographic region or type of IPR often arise because enforcement authorities answer to different laws. Counterfeiters can sometimes claim that a certain authority cannot investigate in a given jurisdiction.

Meanwhile, counterfeiters are more savvy than ever. Some infringers mix fake and genuine products so that if a shipment is seized, only part of it consists of fakes. Their facilities can mass produce authentic-looking packaging and labels. And some companies will produce one fake component and sell it to another operation for assembly with either fake or authentic components. All of these practices make detection and prosecution of counterfeiters more difficult than in the past.

An ounce of prevention

While companies can catch and punish IPR violators, preventing infringements is preferable. Companies that decide not to spend money on preemptive measures usually end up spending money on prosecution. Prevention entails using legal protection options, dedicating resources to IP protection efforts, establishing relationships with relevant PRC officials, and including strong confidentiality and licensing clauses in contracts, among other practices. Both established companies and those not yet active in the China market should consider

- **Dedicating corporate resources** IP protection budgets will depend in part on the size of the company, the importance of IP issues vis-à-vis other business concerns, and the type(s) of IPR infringements encountered. One multinational, which identified IP protection as a top business concern in China, has budgeted more than $500,000 annually for IP protection in China. That amount includes IP registration and renewal fees, in-house and external investigation costs, and legal fees, among other items. The company also hired a senior director with extensive IPR enforcement experience to coordinate and supervise a network of in-house and independent contractors based both in China and at US corporate headquarters. Another multinational corporation spends $3-4 million each year on IPR enforcement alone.

Administrative vs. Court Enforcement Routes

Companies can take either of two basic enforcement routes to seek redress in China for intellectual property (IP) infringements: administrative measures or prosecution through the courts. The administrative route involves a network of PRC administrative agencies that have regulatory and enforcement authority over IP matters, including the State Administration for Industry and Commerce (SAIC), the State Intellectual Property Office (SIPO)—formerly the China Patent Office (CPO)—the National Copyright Administration (NCA), the Public Security Bureau (PSB), the State Quality and Technical Supervision Bureau (SQTSB), and the PRC General Administration of Customs (Customs). Local governments may also have their own offices. Shanghai, for example, recently established the Shanghai Foreign-Invested Enterprises Anticounterfeit Work Liaison Office to help foreign companies interact with PRC government organs.

China's court structure consists of four tiers, with the district-level Basic People's Court at the bottom, and the Supreme People's Court in Beijing at the top. Intermediate People's Courts are found at the city and prefecture levels, and the Higher People's Courts convene at the provincial level. Special IP courts were introduced in 1993 at the intermediate and higher levels in Shanghai and Tianjin municipalities; Guangzhou, Shenzhen, and Zhuhai in Guangdong Province; Fuzhou and Xiamen in Fujian Province; and Haikou, Hainan Province, as well as in the Basic People's Court in the Pudong New Area of Shanghai. They now number more than 40.

In general, the IP courts have better-trained and more experienced judges than their civil counterparts, as well as the right to confer with technical experts, but regional differences abound. Many regard the Haidian District IP court in Beijing as a model IP court, and view the court systems in major cities such as Beijing, Shanghai, and Guangzhou as better than average. Outside of these cities, the courts tend to be ruled by judges with inadequate training and education.

Judges in the higher courts tend to be better educated and have a deeper understanding of the law. More important, decisions issued by lower courts are rarely overturned by intermediate and higher courts, unlike in the US appellate system. This is in part because lower courts consult with higher courts before rendering a decision. China's administrative law reforms, in particular, should help correct this problem over time.

An informal survey of foreign companies revealed that they prefer administrative protection for trademark and patent matters, but resort to the courts for copyright infringements, in part because they can receive compensation through the courts. To date, roughly half of patent infringements and 95 percent of trademark infringements in China have been addressed administratively. The administrative actions are generally less expensive, quicker, and more effective than the court route. For instance, government bodies can close infringing factories immediately, and an entire case can be resolved in a matter of months. In contrast, courts have higher evidence requirements, and cases typically last one year, if not longer, because the judicial system imposes no time limits on cases involving foreign IP rights holders.

But the administrative route has its disadvantages too. Because fines are paid to administrative bodies, not the company whose rights have been violated, administrative authorities have no incentive to move a case from the administrative to the criminal channel.

—Ann M. Weeks

At a minimum, a company should assign staff to monitor its production facilities and distribution networks in China to ensure that the facilities are not overproducing illegally and that parts suppliers are not providing authentic components to counterfeiting operations.

● **Establishing an intelligence-gathering and monitoring network** At a minimum, a company should assign staff to monitor its production facilities and distribution networks in China to ensure that the facilities are not overproducing illegally and that parts suppliers are not providing authentic components to counterfeiting operations. The network also helps a company keep abreast of which regions have the highest counterfeiting rates for the company's products. Monitoring efforts should also track pricing strategies as well as production and distribution networks suspected of illegal activity. These can be undertaken by trained sales staff and customer complaint hotlines, or by independent investigative firms that can use their lists of known infringers to assist companies in identifying problem regions.

● **Training staff** Companies should train all staff about the importance of IP protection and how to identify infringing products. A company's local sales representatives, for instance, are closest to the markets and best positioned to monitor distribution networks for potential IPR infringements. Data gathered by the sales staff can feed into a company's intelligence network.

● **Ensuring legal protection** Companies should register all patents, designs, trademarks, and other IP. Registration often proves to be the best weapon in ensuring cooperation from local PRC authorities when a company decides to take action against an infringer. Local administrations for industry and commerce (AICs), for instance, typically enforce protection of registered trademarks without question. Customs acts in a similar manner, taking action against the counterfeits of products that companies have registered with Customs. Early registration is particularly important, not only because delays in the registration process are common, but also because China's first-to-file principle puts late registrants at risk. Some companies use a computer system that tracks their own registration applications.

● **Building bridges with PRC government agencies** Foreign companies often report that strong ties with government agencies have made a difference in addressing IPR concerns. Companies should build relationships with officials in IP-specific bodies (*see* Table) and ministries, commissions, and bureaus under the State Council specific to the company's industry as well as the Ministry of Foreign Trade and Economic Cooperation. Finally, but probably most important, companies should get to know officials at the local level. While the central government takes the lead in setting regulatory policies and coordinating action on a particular matter, local authorities allocate the resources for and enforce IP protection.

● **Using anticounterfeiting strategies in production** Many foreign firms, under pressure to reduce production costs and raise profit mar-

PRC Intellectual Property Government Contacts

Agency	Contact Information	Jurisdiction
State Intellectual Property Office (SIPO) (Formerly China Patent Office [CPO])	6 Xitucheng Lu, Jimenqiao, Haidian District, Beijing 100088 Tel: 8610.6209.3114 Fax: 8610.6201.9615 Website: www.cpo.cn.net	Patents; coordination of IPR enforcement among PRC authorities and lead office on foreign-related IPR matters
State Administration for Industry and Commerce (SAIC)	8 Sanlihe Donglu, Xicheng District, Beijing 100820 Tel: 8610.6802.2771; 6803.2233 Fax: 8610.6801.0463 Website: www.saic.gov.cn	Trademarks
National Copyright Administration (NCA), International Division	85 Dongsi Nandajie, Dongcheng District, Beijing 100703 Tel: 8610.6512.4433 ext. 2708 Fax: 8610.6512.7875 Website: www.ncac.gov.cn	Copyright
State Quality and Technical Supervision Bureau (SQTSB)	4 Zhichun Lu, Haidian District, Beijing 100088 Tel: 8610.6202.2288 Fax: 8610.6203.1010 Website: www.cqi.gov.cn	Primarily patent and trademark issues involving product quality and human health concerns, especially counterfeits
General Administration of Customs (Customs)	6 Jianguomennei Dajie, Dongcheng District, Beijing 100730 Tel: 8610.6519.4114 Fax: 8610.6519.4558 Website: www.customs.gov.cn	Enforcement of Customs-registered IP
Public Security Bureau (PSB)	9 Qianmen Dongdajie, Beijing 100740 Tel: 8610.6524.2840 Fax: — Website: www.cei.gov.cn/homepage/gov/buwei/bw011.htm	Raids and criminal cases
Shanghai Foreign-Invested Enterprise Anticounterfeit Work Liaison Office	Room 406, No. 7 Building, 1226 Changle Road, Shanghai Tel: 8621.6248.9678 Fax: 8621.6249.8708 Website: —	Liaison office between foreign companies and PRC anticounterfeiting organs

SOURCE: Compiled by the US-China Business Council
NOTE: — Not available

gins, have simplified production processes, making counterfeiters' jobs easier. Companies should consider incorporating into the production process technologies and techniques that are difficult to copy. Such techniques might involve special chemicals, foils, inks, labels, papers, and threads. For instance, a textiles company might slightly alter the fabric color of a garment, or the design on buttons or snaps to distinguish the year and the facility in which it was produced.

● **Engaging distributors** Anticounterfeiting technologies are not always feasible and are almost never 100 percent effective, so companies might consider IP protection tactics that engage distributors. Distributors of counterfeit products often pass inspection because they display the original product even though they sell counterfeits. One company began using an electronic anticounterfeiting code, but it was almost instantly counterfeited. The company then introduced a label pre-design for its products that constituted a legal undertaking between the distributor and consumer and that stated the distributor would refund or compensate the consumer if the product was not authentic. The campaign was publicized to alert consumers and introduced as a pilot project in four provinces. Sales of authentic products jumped 100 percent in the first four months.

● **Enlisting the help of consumers** Companies can implement programs that encourage the consumption of legitimate products and that use customer complaints to track down infringers. Some companies hold contests based on authorized receipts or proofs of purchase. Other companies combine contests with consumer hotlines to collect complaints. Complaints related to qualities uncharacteristic of a legitimate product can help identify counterfeiting production and distribution facilities. Other companies have established hotlines expressly to gather tips concerning counterfeit goods, and often give rewards to individuals with tips that result in the seizure of counterfeit products or the closure of a counterfeiting facility.

● **Launching public relations campaigns** Public relations campaigns can help deter infringers and improve enforcement by local officials. Using the press to publicize successful raids and administrative or court cases that levy penalties on the IPR infringer can work as a deterrent, while public commendation of PRC officials for a job well done can encourage enforcement. For instance, some companies hold ceremonies to honor authorities for a successful raid, or place an appreciative letter in an IPR trade magazine.

A public relations campaign that promotes the company's long-term commitment to China, its charitable works, and other aspects of its operations in China that are beneficial to the country, has also been known to facilitate enforcement action. Enforcement authorities, court judges, and the media tend to respond more favorably to companies perceived as "friends of China."

Companies should register all patents, designs, trademarks, and other IP. Registration often proves to be the best weapon in ensuring cooperation from local PRC authorities when a company decides to take action against an infringer.

● **Pricing products reasonably** It is no secret that larger profit margins, especially for established, well-known products and brands, lure counterfeiters. Companies might consider the impact of counterfeits on their bottom lines when devising their pricing strategies. For instance, lowering a product's retail price could simultaneously deter counterfeiters and increase the consumer base—and thus sales of legitimate products. Another pricing strategy might entail negotiating a discounted price for the sale of legitimate products to government agencies and state-owned enterprises that are notorious for consuming counterfeit equivalents. This strategy appears to be working for companies trying to increase the sale of authentic software products and reduce enduser piracy.

● **Exchanging information and cooperating with other companies** Companies should build alliances with their foreign and Chinese counterparts, especially those with similar products and IP problems. These alliances can increase company effectiveness in lobbying PRC officials, conducting joint raids, and carrying out publicity campaigns, while reducing the cost that any one company bears. Cooperative efforts can take the form of membership in a structured organization, such as the China Anticounterfeiting Coalition or the Motion Picture Association, or an ad hoc coalition of companies to address a particular issue at a given time. Cooperating with domestic and foreign companies facing similar problems is a good way to prevent PRC agencies from playing companies off against one another.

● **Transferring technology cautiously** When sophisticated technology is transferred as part of an investment in China, particularly a joint venture, a company should try to phase the technology in over a period of time. This practice raises the dependence of the Chinese joint-venture partner on the foreign party, and gives the foreign party greater leverage in obtaining the Chinese partner's cooperation. Other protective measures can also be adopted in the workplace to safeguard against the theft of trade secrets (*see* p.32).

● **Educating the public** Companies should consider education campaigns to promote the idea among Chinese that IP has a commercial value worth protecting and safeguarding. Companies can endow chairs for IPR study at Chinese uni-

Experts recommend that firms consider setting a threshold, based on the value or amount of product involved, that would determine whether the administrative or court route is used.

versities, or co-sponsor educational seminars with other companies or PRC authorities for the general public, Chinese companies, and venture partners.

When it's too late for prevention

Even when a firm employs preventive measures, counterfeiting can still occur. Often, all a company can do is try to minimize damage and stop further IPR infringements. Reactive measures include choosing between administrative and court channels (*see* p.29), facilitating the evidence-gathering process, investigating IPR violations, and conducting raids and seizures. Some preventive measures also work as reactive measures, particularly publicity campaigns and cooperation with other companies. Others include

- **Evaluating enforcement methods** Companies should base their selection of an enforcement method on their objective, the type of IPR violation, the available options, and the options' success records. Experts recommend that firms consider setting a threshold, based on the value or amount of product involved, that would determine whether the administrative or court route is used. If the objective is to halt the infringing action immediately, companies might find more success via the administrative route. One Chinese law firm recommends the court route if raids and seizures are ineffective because of local protectionism, or if the infringer is a larger company with assets that would cover any court-awarded damages.

When opting for action through the court system, companies should research the court(s) with jurisdiction and seek a hearing in the highest court possible—most likely an Intermediate People's Court. Seeking a hearing in a higher court does not guarantee success; it simply helps ensure that a case will be heard by better-educated judges and safeguard against face-saving decisions by higher courts. When an IPR violation could endanger human health, some companies have turned to technical supervision bureaus instead of, or in combination with, AICs.

- **Hiring independent investigators** Investigative firms, such as Kroll Associates Ltd., Pinkerton's Inc., and Markvess Company Ltd., offer due diligence, monitoring, and raid and seizure services. Such services are particularly helpful in identifying violators and conducting raids and seizures. One such company noted that leads from its own network of contacts account for up to 85 percent of all raids and seizures conducted for clients. No one network has a national reach, however, and clients are often advised to engage the services of more than one company. Some foreign companies find that local investigative firms can offer effective services more cheaply.
- **Collecting evidence** Whether in cooperation with other companies or investigative firms, a company should actively seek evidence of infringing activities. One company regularly hires a notary to accompany staff to purchase counterfeit products and to notarize sales receipts. Most often, however, evidence is collected during raids and seizures aided by AIC. Having a company representative accompany local officials to a raid site can increase the raid's chance for success, because company representatives are most knowledgeable about the authentic and infring-

Trade Secret Protection Tips

Intellectual property (IP) problems related to trade secrets generally occur in two types of situations: when technology is transferred to a joint-venture (JV) partner or a licensee, or when an employee leaks sensitive information. To help protect trade secrets, companies can implement these simple measures, which require minimal financial resources:

- **Require confidentiality agreements for employees.** IP experts recommend confidentiality agreements for all employees, but particularly for technical engineers with access to trade secrets used in or developed by the JV. Secrecy clauses in employee contracts are also an option.
- **Limit modes of communication that can be tapped.** One US company prohibits the use of voicemail, e-mail, and videoconferencing to communicate sensitive information among staff in China, and between US- and China-based personnel. Some companies also establish a written protocol for discussions conducted by telephone.
- **Conduct due diligence on JV partners and local employees—both new hires and JV staff.** Due diligence, even after a joint venture has started operating, can uncover any business connections and practices among partners and staff that expose a joint venture to IP theft. For example, if an employee's spouse works for a (potential) competitor, there is a greater risk of leakage of sensitive information. The company can then take appropriate action—to minimize sensitive information divulged to the employee, release the employee, or require a confidentiality agreement.
- **Track access to process designs.** Cooperating with a local organization increases the risk of information leakage. To track when and how long employees of other organizations have access to sensitive information, some companies require them to sign sensitive documents in and out.
- **Establish a transfer protocol.** One US company requires the use of couriers rather than electronic means to pass formulations among relevant parties. Other companies minimize the risk of leaks by designating a technical manager as the recipient, using a harder-to-duplicate paper for formulations, or disseminating information on a need-to-know basis.
- **Consider the facility's layout.** Firms can minimize the risk of leakage or unauthorized photocopying of designs and formulations by keeping sensitive documents in an isolated part of the office far from photocopiers, fax machines, scanners, and telephones.
- **Disperse knowledge among staff.** Companies can make sure that no one employee knows all the steps in a sensitive process or design, to foil attempts by a single employee to run off with the company's trade secrets and set up a competing operation.
- **Implement employee retention schemes.** Some companies use incentive schemes to minimize the risk of a disgruntled employee absconding with sensitive information. Such schemes might include overseas training, family-oriented social events, and a housing allowance.

—Ann M. Weeks

ing products and can help ensure that key evidence is not overlooked.

Some companies have offered to help local officials offset enforcement costs by paying to store confiscated goods and equipment. In these cases, companies carefully document the amount and purpose, and obtain stamped receipts from the relevant authorities. US companies worry, however, that such payments could be interpreted as bribes under the Foreign Corrupt Practices Act, and seek to avoid paying such fees whenever possible. One company that has successfully enforced its IPR boasts that it has never been asked to make such contributions and attributes its success to having a senior company representative and the company's legal counsel accompany the local company representative on raids.

- **Offering alternatives to infringers** In some cases, companies find that the simplest enforcement method is to offer infringing enterprises an alternative way of doing business. In remote regions where an infringing enterprise may account for much of a community's livelihood, and in cases in which the infringer's distribution networks would boost sales of legitimate goods, companies have, on occasion, licensed or transferred technology. But such agreements do not guarantee that the erstwhile infringer will not violate that contract and revert to illicit activities in the future. Companies should thus exercise this option only with extreme caution and after a thorough risk assessment.

Laws in the pipeline

Foreign companies are no longer the only voices clamoring for better protection. Chinese companies hurt by illegal operations are calling for adequate protection of their own IPR. For instance, widespread counterfeiting of *Cihai*, the Chinese equivalent of the *Oxford English Dictionary*, has led the Shanghai Dictionary Publishing House to become more vocal in its request for adequate protection. Such cases illustrate that lax IPR enforcement hurts domestic companies and should prompt PRC authorities to move swiftly to remedy the problems.

Fortunately for foreign and Chinese companies, China is steadily strengthening its regulatory regime. National People's Congress (NPC) sessions passed revisions to the Patent Law in August 2000 and the Product Quality Law in July 2000, strengthening IP protection (at least on paper). Although the Product Quality Law revisions will help raise fines, average assessed penalties remain low and often fail to deter violators.

The NPC is also considering amendments to the Copyright Law, the Trademark Law, and the Anti-Illegal Competition Law. According to National Copyright Administration Commissioner Yu Youxian, China is planning to revise the Copyright Law to incorporate international standards and new technology. The revised Copyright Law is also expected to contain stronger criminal injunctions against infringers.

Proposed revisions to the PRC Trademark Law include enhancing AIC authority, raising fines, and allowing the first company to use a trademark to continue use, even if the trademark has been registered by another company under the first-to-file system. This would enable a company to use the trademark while it is taking action to cancel the registration of the company that was first to file.

Having a company representative accompany local officials to a raid site can increase the raid's chance for success. Because company representatives are knowledgeable about the authentic and infringing products, they can help ensure that key evidence is not overlooked.

Local-level legislation is also improving. November 1999 regulations passed in Guangdong Province set a new standard for tackling counterfeiting. Because the Guangdong regulations extend the scope of counterfeiting to trademark, patent, and copyright alike, they reduce jurisdictional conflicts, as all local authorities now act in accordance with the same law. In addition, the regulations dictate that fines be based on a multiple of the market value of the legitimate goods, rather than the market value of the counterfeits.

The WTO TRIPs agreement will support China's own efforts. China's commitment to abide by the TRIPs provisions upon accession requires the country to adjust both its regulatory and enforcement regimes immediately. Much of the change will occur on the enforcement side, as all but a few regulations are currently compliant with WTO requirements. Under TRIPs, China will, for the first time, be bound to multilateral commitments regarding IPR enforcement. WTO members may seek corrective action for inadequate enforcement through the WTO dispute resolution mechanism.

Living with reality

WTO membership promises both a better legal framework for and stricter enforcement of IPR in China, although it may be several years before companies notice a marked improvement. IP protection will improve and infringements taper off as China's economy matures, indigenous research creates new products and processes, public awareness of IP spreads, training of officials improves, and penalties become stiffer. In the interim, companies will implement a variety of creative strategies to help curb infringements and punish IPR violators. 完

trends & issues

PRC Trade Strong in First Half

China's trade performance in the second quarter was as strong as in the first, resulting in a 37.3 percent increase in overall trade in the first half of the year. Exports surged 38.3 percent, driven by the same factors that bolstered them in the first three months of the year: the low comparison basis of the same periods in 1999, a number of export-promotion schemes, and strong global demand, especially in Asia. A recovery in domestic investment, most notably in telecommunications infrastructure, and high world oil prices helped propel imports up 36.2 percent. Trade growth, particularly exports, should slow in the second half of the year, if only because the comparable figures for the second half of 1999 were higher than figures for the first half of 1999.

Trade surplus, imports rise

China's trade surplus surged 57 percent in the first half of 2000, a development no doubt welcomed by leaders in Beijing, who have watched the trade surplus fall precipitously since late 1998. In addition to the revival of demand from Asia, rising prices and general global demand for special steel varieties—sheet, medium plate, tube, and quality sections—all contributed to the jump in China's iron and steel exports.

Import growth, though strong, slowed in the second quarter compared to the first. Power-grid upgrades and new telecommunication cables accounted for much of the sharp rise in copper imports in the first half of 2000. Government spending on infrastructure, and the re-opening of a Chinese copper mine in Zambia, also contributed to the rise. High oil prices accounted for much of the growth in the value of mineral fuel and oil imports. Notably, aircraft failed to make the top 10 list, thanks to the continuation of a 1999 ban on the import of large and mid-sized passenger aircraft.

US-China trade as lopsided as ever

Overall bilateral trade continued to climb, buoyed by strong growth in both US exports to and US imports from China. China became the United States's 11th-largest export market, up from 12th place at the end of 1999. US exports to China bounced back from last year's falloff, registering a 14.1 percent increase in the first six months of 2000 (*see* Table 1). PRC imports of US copper and agricultural products helped account for this rise. The bilateral agricultural agreement, China's demand for telecommunications and Internet infrastructure components, and the ban on aircraft imports shook up the composition of top US exports to China somewhat.

In contrast, the composition of top US imports remained similar to that of last year and early 2000 (*see* Table 2). China remained the fourth-largest source of US imports. The bilateral deficit grew by almost 25 percent, according to US Department of Commerce figures.

Slower growth ahead

China's trade balance will moderate, for a couple of reasons:

- Because growth figures for the first half of 2000 were based on low levels in the first half of 1999, the export growth rate will likely drop off. It may finish much stronger than the 7.7 percent prediction made earlier this year by the Chinese Academy of International Trade and Economic Cooperation, however, because growth was much stronger than expected in the first half.
- High oil prices and China's strong demand for imported oil will no doubt affect China's year-end trade surplus. Beijing is clearly concerned about the extent to which oil imports are drawing down foreign exchange reserves—the leaders have recently renewed discussions about the establishment of a strategic oil reserve.

—*Ann M. Weeks*

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Table 1: Top US Exports to China ($ million)

HTS #	Harmonized Tariff Schedule Commodity	H1 1999	H1 2000	% change
84	Power generation equipment	1,221.6	1,425.3	16.7
85	Electrical machinery & equipment	988.3	1,308.1	32.4
88	Air & spacecraft	1,312.5	711.3	-45.8
12	Oil seeds & oleaginous fruits	71.4	492.3	589.8
47, 48	Paper & paperboard	269.9	363.8	34.8
90	Medical equipment	391.8	360.1	-8.1
39	Plastics and articles thereof	249.8	314.8	26.0
31	Fertilizer	466.0	303.2	-34.9
29	Organic chemicals	118.5	207.3	74.9
74	Copper and articles thereof	45.3	170.0	275.3

Table 2: Top US Imports from China ($ million)

HTS #	Harmonized Tariff Schedule Commodity	H1 1999	H1 2000	% change
85	Electrical machinery & equipment	6,224.4	8,523.6	36.9
84	Power generation equipment	4,913.7	6,286.2	27.9
64	Footwear & parts thereof	4,396.7	4,877.7	10.9
95	Toys & games	4,589.5	4,836.4	5.4
94	Furniture	2,850.8	3,762.5	32.0
61, 62	Apparel	2,601.8	2,774.3	6.4
42	Leather & travel goods	1,262.7	1,635.9	29.6
39	Plastics and articles thereof	1,268.8	1,552.0	22.3
90	Medical instruments	1,049.7	1,252.9	19.4
72, 73	Iron & steel	799.5	1,144.0	43.1

SOURCE: US International Trade Commission, US Department of Commerce

www.China

www.chnlaw.com LawinfoChina.com, a subsidiary of Chinalawinfo Co. Ltd., is affiliated with Beijing University's Law School and its Center for Legal Information. Users may access roughly 300 Chinese laws—translated into English—free of charge. To access more laws, visitors choose one of two subscription options. For $500 a year, a Golden User has unlimited access to the site's contents. Basic Users pay $10 for each document they access. The site also features a legal forum, news, case analysis, and information on China's legal community.

www.moftec.gov.cn/moftec/official/laws_and_regulations.html The website of the PRC Ministry of Foreign Trade and Economic Cooperation features English translations of laws relating to foreign investment and trade, finance, foreign exchange, customs, taxation, and the environment, among other topics. The original Chinese versions may be found at *www.moftec.gov.cn/moftec_cn/flfg/flfg_cn.html.*

www.chinasite.com/Business/VentureCapital.html ChinaSite.com's venture capital page features links to venture capital and investment firms, Internet holding companies, and investment industry associations. ChinaSite.com, which boasts over 3,000 China-related links, is owned and maintained by Chicago-based Aweto.com.

www.sinopolis.com Owned by Sinofile Information Services Ltd., Beijing-based Sinopolis posts daily translations from the Chinese press, covering business, technology, and the environment, among other subjects. The site also offers four free weekly newsletters: general, business, technology, and law.

www.chinabidding.com.cn/ehome/index.html China Public Procurement and Bidding Network, the only website authorized to publicize bidding notices in the PRC, features tender notices and legislation related to bidding. The Chinese version *(www.chinabidding.com)* contains more projects and information than the English version.

www.asian.gu.edu.au The Australian Center of the Asian Spatial Information and Analysis Network is a research institution specializing in geographical information system databases for Asia and the former Soviet Union. Data available for China includes administrative divisions and capitals, cities and towns, post codes, transport routes, drainage basins, and land use. All data sets may be licensed for use.

www.chinainvestguide.org Xiamen, Fujian Province, which touts itself as the cleanest city in China, has put together a website that contains information about the city's climate, infrastructure, banking, human resources, and business costs, to attract foreign investment.

www.ddz.gov.cn/english In addition to basic information about living conditions, the Dalian Economic and Technical Development Zone's website features information on favorable policies implemented in the zone and guidelines for investors.

Four official Chinese news websites have set up mirror sites in the United States to improve access speeds:

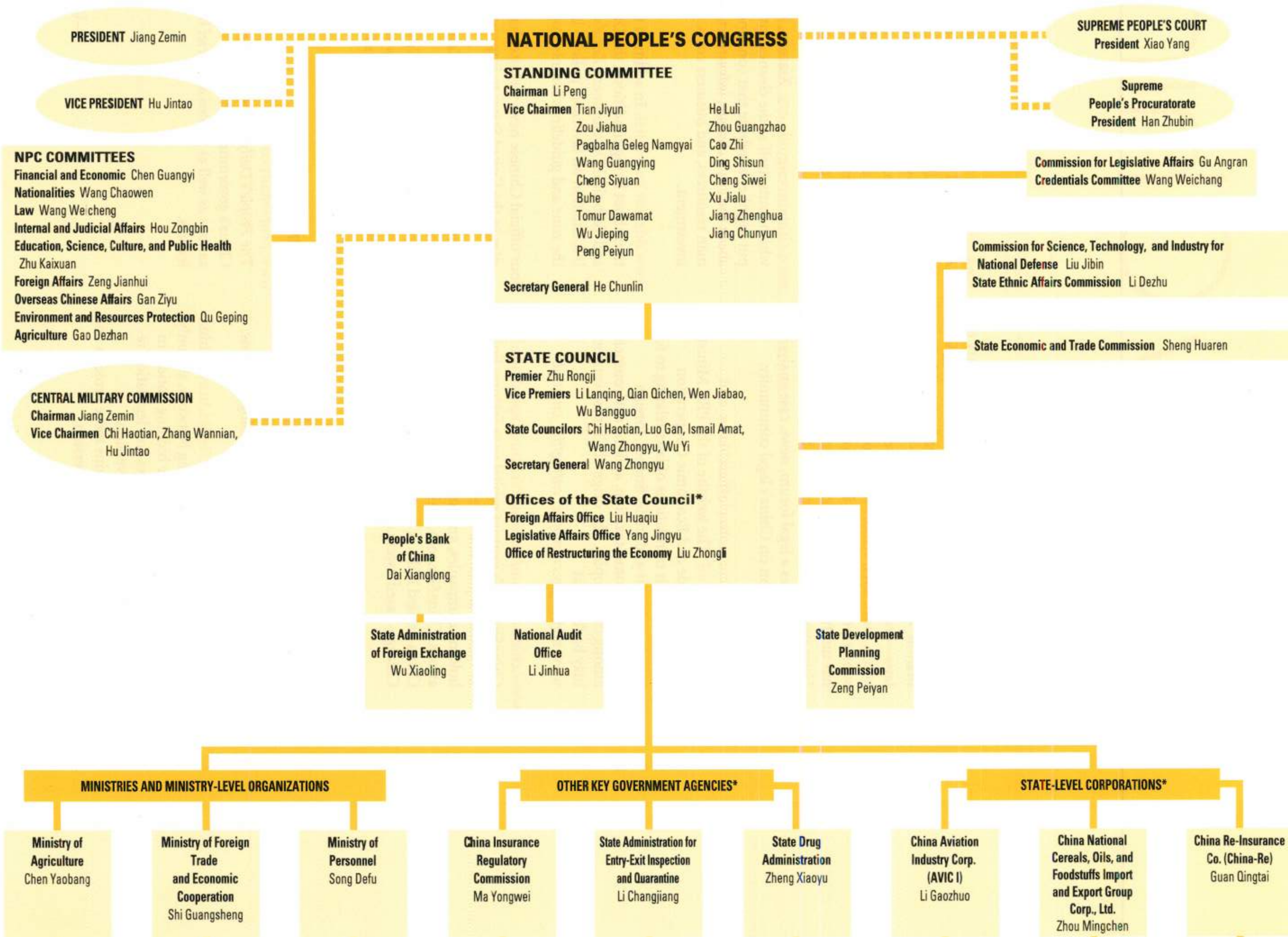
China Network Information Center *(www.chinaguide.org)*
People's Daily *(www.peopledaily.net)*
China Radio International *(www.crinews.com)*
China Daily *(www.chinadaily.net)*

SITES IN CHINESE

www.peopledaily.com.cn/item/zgjgk/jgmd/gwyjg.html The *People's Daily* has posted a helpful outline of China's government structure, with links to organizations as well as photos and brief biographies of top leaders.

—*Virginia A. Hulme*

China's Government Structure



Ministry of Civil Affairs Doje Cering	**Ministry of Health** Zhang Wenkang	**Ministry of Public Security** Jia Chunwang	**China Securities Regulatory Commission** Zhou Xiaochuan	**State Administration for Industry and Commerce** Wang Zhongfu	**State Family Planning Commission** Zhang Weiqing	**China Everbright Group Ltd.** Liu Mingkang	**China National Chemicals Import and Export Corp. (SINOCHEM)** Liu Deshu	**China Resources Corp.** Shen Jueren
Ministry of Communications Huang Zhendong	**Ministry of Information Industry** Wu Jichuan	**Ministry of Railways** Fu Zhihuan	**Civil Aviation Administration of China (CAAC)** Liu Jianfeng	**State Administration for Physical Culture and Sports** Wu Shaozu	**State Forestry Bureau** Wang Zhibao	**China Great Wall Industry Corp.** Zhang Xinxia	**China National Minerals and Metals Import and Export Corp.** Miao Gengshu	**China Shipbuilding Industry (Group) Corp. (CSIC)** Huang Pingtao
Ministry of Construction Yu Zhengsheng	**Ministry of Justice** Gao Changli	**Ministry of Science and Technology** Zhu Lilan	**Development Research Center of the State Council** Wang Mengkui	**State Administration for Religious Affairs** Ye Xiaowen	**State Intellectual Property Office** Jiang Ying	**China Huaneng Enterprise Group** Liu Jinlong	**China National Nuclear Corp.** Li Dingfan	**China State Shipbuilding Industry Corp. (CSSI)** Chen Xiaojin
Ministry of Culture Sun Jiazheng	**Ministry of Labor and Social Security** Zhang Zuoji	**Ministry of State Security** Xu Yongyue	**General Administration of Customs** Qian Guanlian	**State Administration of Radio, Film, and Television** Xu Guangchun	**State Press and Publication Administration** Yu Youxian	**China International Trust and Investment Corp. (Group)** Wang Jun	**China National Offshore Oil Corp. (CNOOC)** Wei Liucheng	**China Telecommunications Group Corp. (China Telecom)** Zhou Deqiang
Ministry of Education Chen Zhili	**Ministry of Land and Natural Resources** Tian Fengshan	**Ministry of Supervision** He Yong	**National Bureau of Statistics** Liu Hong	**State Administration of Taxation** Jin Renqing	**State Technical Supervision Bureau** Li Chuanqing	**China Life Insurance Co. (China Life)** He Jiesheng	**China National Petroleum Corp. (CNPC)** Ma Fucai	**China United Telecommunications Corp. (China Unicom)** Yang Xianzhu
Ministry of Finance Xiang Huaicheng	**Ministry of National Defense** Chi Haotian	**Ministry of Water Resources** Wang Shucheng	**National Tourism Administration** He Guangwei		**Xinhua News Agency** Tian Congming	**China Mobile Telecommunications Corp. Ltd. (China Mobile)** Zhang Ligui	**China Ocean Shipping (Group) Co. (COSCO)** Wei Jiafu	**The People's Insurance Co. of China (PICC)** Sun Xiyue
Ministry of Foreign Affairs Tang Jiaxuan		**State Environmental Protection Administration** Xie Zhenhua				**China National Automotive Industry Corp.** Chen Xulin	**China Petrochemical (Group) Corp. (SINOPEC)** Li Yizhong	**Investment Association of China** Wang Huisheng

SOURCE: US-China Business Council files, FBIS, China Directory 2000,
US-China Business Council: *China's Government Restructuring: Who's In, Who's Out, and What it Means for US Business* (www.uscbc.org/members/washington/other/restructure)

*These listings are not meant to be comprehensive

Human Resources Take Center Stage

Sheila Melvin

Foreign firms now recognize that a comprehensive approach to human resources is important to the success of their China operations.

Once overlooked, if not downright ignored, the human resources (HR) function in China-based foreign-invested enterprises (FIEs) is entering the final stages of a dramatic transformation. For years a sideshow to core business functions, its primary responsibility ensuring that employees were paid, the HR department increasingly acts as a key partner in business decisions and a valued conduit linking the enterprise to its employees. HR departments are called on to address the increasingly complex personnel issues that face companies with multiple operations in China. A company's success in addressing these issues can be a deciding factor in its success in China.

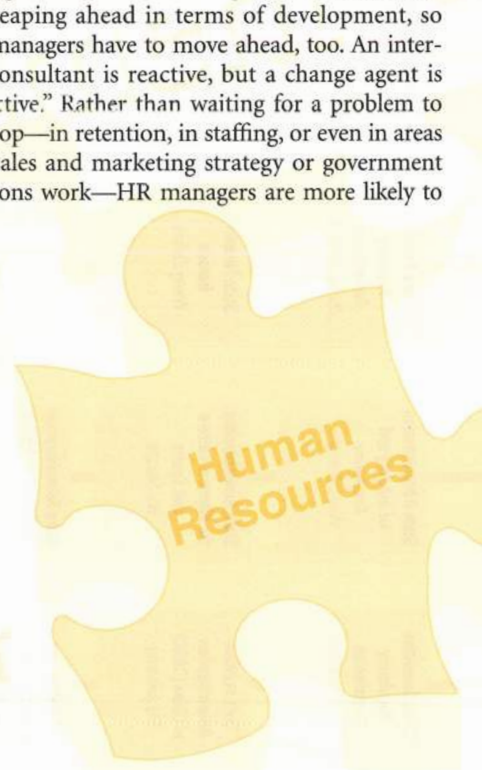
HR strength and the FIE structure

As is the case with so many aspects of China business, the degree to which individual HR departments have evolved has depended in large part on the individual FIE's investment structure. In general, HR departments at holding companies and representative offices have moved from an almost exclusive focus on record keeping and compliance to active involvement in implementing business goals. They work closely with line managers and are more involved in setting goals and creating plans for such business issues as sales, marketing, public relations and even distribution. In contrast, HR departments in operational enterprises—especially joint ventures—still tend to be hobbled by burdensome administrative work and labor relations.

A second determinant of an HR department's role in an FIE, which may be illustrative of the chicken-and-egg phenomenon, relates to the overall success of the China venture: HR departments in successful FIEs are able to undertake more creative initiatives than those in enterprises that are struggling just to stay above water.

Regardless of the degree of actual transformation, an attitudinal sea change among HR managers is apparent in FIEs of all kinds, at least in developed markets like Shanghai and Beijing. Human resource managers in China—who are generally PRC nationals—now speak the same corporate language and espouse many of the same goals as HR managers at multinationals everywhere.

"HR managers used to function as internal consultants," explained one Chinese HR manager in Shanghai. "But in the last two years the HR manager has become a change driver. China is really leaping ahead in terms of development, so HR managers have to move ahead, too. An internal consultant is reactive, but a change agent is proactive." Rather than waiting for a problem to develop—in retention, in staffing, or even in areas like sales and marketing strategy or government relations work—HR managers are more likely to



formulate preventive policies and suggest ways to improve standard practices than they once were.

A shared lingo

Using remarkably similar terms, HR managers from FIEs of varying structure, size and sector explain that their role—or aspiration—is to serve as a bridge, an architect, or a trusted partner. "If employees trust you, they will help you much more," explained one manager. "You need to capitalize on the power of trust."

There is widespread recognition that gaining this trust involves keeping employees happy, and that nowadays this means far more than just monetary compensation. "I don't have much international exposure," said one local HR manager at an FIE holding company. "But China is so capitalist now. If an employee's income [demands are] satisfied, then his next needs must be satisfied through HR doing a proper job—this is the Hierarchy of Maslow"—a reference to the widely

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accepted model of human needs developed in the 1940s by psychologist Abraham Maslow.

Other HR managers stress that they see their role not only as a liaison with employees, but with management. "I have to be a bridge between the people and the company," said an HR manager at a joint venture. "And I'm the only Chinese on the senior management team. I advise the managers [about] what to do on certain things, and try to help them establish relationships."

However, while HR managers profess similar goals, their own evaluations of the degree to which it is possible to implement these in China, and in their particular enterprises, vary considerably. Some seem to feel like besieged islands in a sea of people—both local and expatriate—who fail to understand their policies. They speak repeatedly of the need to explain the reasons for everything they do, to avoid being perceived as "the policy police" or "Mr. No." Similarly, they emphasize the importance of being "sensitive" and "customer-oriented" towards both line managers and employees. And many lament that they are still forced to devote far more time to fighting fires than planning for the long term.

"As an HR director in a joint venture, 90 percent of my time is spent on compensation and benefits, staffing, training development, and labor relations," sighed one overworked HR manager. "The bigger you are, the more complicated it becomes," worried another. "What is fair, what is right, what is equitable, what makes sense?"

So even as HR managers strive to play an active role in their company's China business, most are still preoccupied with more prosaic concerns. Perhaps unsurprisingly, these concerns have changed far less over the past few years than have the stated roles of HR departments, or the way HR directors perceive their departments.

Bread-and-butter tasks

Asked about their most pressing daily concerns, human resources directors in FIEs of all kinds still cite bread-and-butter basics such as:

• Recruitment and retention

Finding skilled employees is the number one concern of many HR managers. Some companies now use Internet job sites like 51job—which sounds like "I want a job" in Chinese—to fill lower-level positions. But most HR managers still find employees through job fairs, specialized publications, Foreign Enterprise Service Corp. (FESCO) and its competitors, and referrals. For high-level positions, they turn to headhunters. On-campus recruiting is also popular, particularly with companies that like to hire young people with no experience. An on-campus presence can also be a valuable way to raise an FIE's "brand recognition," which in turn makes recruiting easier down the road. In third-tier cities with less-developed employment markets, many companies rely on government-run talent centers.

Once hired, employees must be retained. Retention of valued high-level employees is a pressing concern for all FIEs. HR managers spend considerable time and energy working with management to create incentives and an environment that will keep key staff happy and loyal. The packages that are designed to this end are often quite complex, including high salaries and such benefits as shadow stock options, overseas assignments or travel, supplementary housing allowances, car allowances (the hottest trend these days), medical and accident insurance, partial health insurance for one child, and supplementary pension plans.

HR managers also see career-development programs and plans as important to retaining the best performers. Such plans can include participation in the corporation's own training programs, or attendance at university training courses. Many companies complain that they are losing their brightest young managers to top MBA programs in the United States. While some do not even try to fight against a Harvard University MBA, others offer to reimburse tuition if the employee returns after graduation and stays for a certain number of years.

One Shanghai-based executive recruiter points out that expectations management is also a critical factor in retention. "Companies don't think enough about local employees—they want what you want. They have the same expectations of corporate as you do. You have to plan, develop, stretch—it's a fine line, but local people have high expectations. And managing these expectations is so hard." Such expectations naturally include good compensation and excellent benefits, but also the opportunity for further training and promotion, real decisionmaking authority and responsibility, and recognition for work well done and goals achieved.

• Creation and maintenance of a corporate culture

HR managers view building and maintaining a viable corporate culture as critical to the success of the overall business, and to the goal of retaining employees. Corporate culture should be simultaneously distilled through the example of high-level management and instilled by way of direct training programs. HR managers agree that this two-pronged approach should begin the moment an employee is hired and continue as long as he or she is with the company.

Corporate culture of course varies from company to company, but HR managers nonetheless cite many of the same desired elements. These include encouraging leadership and action-oriented behavior; emphasizing ethics, by never making exceptions to stated ethics policies; organizing activities and creating a sense of "family"; and empowering employees by giving them support, autonomy, and recognition. It is also important to create a participatory culture, one in which talented employees can shine and be recognized.

"If you [corporate management] are very dominant," explained one HR manager, "People will follow, but in the long term, the really good people will leave. Get them involved in decisionmaking, in practice formulation—then they are so happy."

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Localization

Commonly defined as replacing an expatriate manager with a PRC citizen, localization is an ongoing struggle for HR managers in all FIEs. It is integral to a company's business goals in China, since local Chinese are generally perceived as better able to function in the China market and local managers usually cost less than expatriates. It is also plays a role in retention—if expatriates fill all top-level jobs, talented local managers unable to break through a glass ceiling will simply go elsewhere. Because localization touches so many aspects of an FIE's internal functioning—including the job security of any expatriate bosses—its ultimate success is beyond the purview of the HR department alone, requiring the commitment of key leaders in the FIE and even in corporate headquarters. So while HR managers devote time to crafting localization plans and carrying out the recruitment, retention, and training work that makes localization feasible, the power to localize successfully lies outside their departments.

Standardization of HR policies

As the number of companies with multiple ventures, branches, and representative offices in China grows, more attention is being paid to the standardization of HR policies, including compensation and benefits. Such standardization sounds like common sense and is immensely appealing to the HR departments back at headquarters. But in the fiercely competitive, dynamic, and diverse China market, it is often an elusive goal. Some companies attempt to standardize benefits at grade levels. They set salaries based on a combination of position, investment structure, and geography, with a certain position receiving 100 percent, 80 percent, and 60 percent of the salary for that position in first-, second-, and third-tier cities, respectively. Other approaches, which are even more complex, testify to the fact that standardization is an issue with which HR departments will be grappling for some time to come.

Government work

Government relations work is not generally thought of as a human resources function, but in fact HR managers must spend considerable amounts of time building relationships with relevant ministries and bureaus (*see* p.42). The local labor bureau—described by many HR managers as a "court" for employees' rights—is an obvious one, but HR managers also need to have good connections with social insurance officials, the Ministry of Foreign Trade and Economic Cooperation and its local affiliates, and the Public Security Bureau, among others. While some HR managers describe this kind of government work as "painful," others note that the main goal of these agencies is to ensure that no labor dispute ever spills out onto the streets—if this is guaranteed, government agencies can often prove helpful.

While they actively build relationships with government officials, HR managers advocate passivity in responding to the ever-changing regulations that spew forth from government departments. "Don't respond right away when you hear a new announcement," advised one HR manager. "It will change." Warned another, "Don't pay attention to anything you hear or anything you read in the newspapers—wait for the labor bureau to come banging on your door with a chopped [officially stamped] document before you do anything."

"Many JVs fail because the HR function is controlled by the partner," said one local HR manager at a JV. "They don't get the right people. If you give up the management, the development, the control of people, you are giving up control of the business."

Changing ideas, shifting problems

As the overall business climate has evolved in recent years, executives have changed their views regarding some of the traditional problems of FIEs. In years past, for instance, control of the HR function was left to the Chinese partner in joint ventures (JVs), an action viewed as disastrous by many HR professionals. "Many JVs fail because the HR function is controlled by the partner," said one local HR manager at a JV. "They don't get the right people. If you give up the management, the development, the control of people, you are giving up control of the business."

This view has become more commonly accepted in recent years, and many foreign companies now insist on control of the HR function. But as this view has become more prevalent, dissenting voices have appeared. "Give HR to your partner," said another local HR manager. "They can't have finance, they can't do technical—give them HR. If you control the top position, you can control HR through it."

While most HR managers still argue that the foreign partner should try to control HR functions, they also point out that it is necessary for the Chinese partner to agree to all major HR decisions. "HR decisions are easy in a WFOE [wholly foreign-owned enterprise]," said one HR manager at a holding company. "But in a JV, you have to win [over] the partner. Do your homework and anticipate questions—be able to logically explain your proposal, and include him in implementing it."

Because they wished to control their own hiring decisions, not to mention costs, foreign companies long detested FESCO, which for many years was the sole employment agency through which representative offices could hire staff. However, in the years since FESCO competitors have entered the market, this attitude has changed. Many HR managers now see FESCO

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Council Bulletin

Ken Levinson/Elisa Ruiz

Council Co-hosts Lunch for PRC President

The US-China Business Council held a lunch for Chinese President Jiang Zemin in New York on September 8, together with the National Committee on US-China Relations, the Asia Society, the Committee of 100, the Council on Foreign Relations, and the US-China Policy Foundation. Jiang was in New York to attend the United Nations Millennium Summit along with nearly 250 other world leaders. More than 300 US-China Business Council members and other guests attended the lunch, at which Jiang delivered his only public remarks to a US audience. The full text of the president's remarks, which he delivered in English, is available on the Council's website, at *www.uschina.org.*

Beijing Office Dispatch

In September, China-based Council representatives visited several major cities in Shandong, Liaoning, and Fujian provinces to meet with senior local officials and discuss World Trade Organization (WTO) issues. Discussions focused on local preparations for WTO accession, explanations of key WTO concepts, and how local authorities can successfully attract foreign investors in the future. While few municipalities have seen the entire WTO agreement, many have been regularly holding training courses, sponsored by themselves and/or central officials, covering WTO concepts. The Council, via public and private forums, advised that the cities most successful in attracting future investment will be those that develop a reputation for adhering closely to WTO guidelines, help local firms add real partnership value, institute a policy of financial and governmental transparency, eliminate local protectionism, and unilaterally begin to crack down on local intellectual property rights violations. In the months ahead the Council will be visiting a number of other provinces to discuss the same issues.

Event Wrap-Up

Washington

July

Issues Luncheon: Making US China Policy: A State Department Perspective Featured Stephen A. Schlaikjer, director of Chinese and Mongolian affairs at the US Department of State

August

Briefing on Status of China's WTO Accession Negotiations Featured Don Phillips, assistant US Trade Representative for China, Hong Kong, Taiwan, and Mongolia

September

Luncheon Featured President Jiang Zemin of the People's Republic of China *(see above)*

Luncheon Featured Minister Zeng Peiyan, State Development Planning Commission, and Senior SDPC Delegation

Reception Honored outgoing PRC Minister Counselor for Commercial Affairs Shi Jianxin and Minister Counselor Designate Dai Yunlou

Luncheon Meeting: Hong Kong: Environmental Challenges in a Region of Rapid Growth Featured Lily Yam, Hong Kong's Secretary for the Environment and Food

Export Controls Roundtable Featured Richard T. Cupitt, Ph.D., associate director and Washington liaison, University of Georgia's Center for International Trade and Security

Issues Luncheon: China's Internal Politics: Leadership Dynamics and Their Effect on US-China Relations Featured Kenneth Jarrett, director of Asian affairs at the National Security Council

October

Reception Celebrated passage of permanent Normal Trade Relations with selected members of Congress

Reception Honored PRC Minister of Finance Xiang Huaicheng and PRC delegation to the US-China Joint Economic Committee and Financial Sector Dialogue, as well as senior officials from the US Department of the Treasury

Issues Luncheon: WTO Commitments and National Legislation: How China Should Revise its Investment Regulations Featured Howard Chao, Esq., partner in charge of O'Melveny & Myers's China practice

Beijing

September

Luncheon: How a Foreign Business Can Deal Efficiently with the Government, Party, and Army Featured Jean-Christophe Iseux, director of China policy studies RPRC at Oxford University and adviser to the government

Upcoming Events

Forecast 2001, Washington, DC
January 31 Evening Reception

February 1 Meeting

Topics: Economic, Political, and Investment Trends
Structuring China Strategy to Ensure Success
US-China Relations in the New Administration

China Business 2001: Trends and Market Opportunities

February 5 Houston

February 6 Chicago

Featuring: Patrick J. Powers and Karen Sutter, The US-China Business Council

For more information, see advertisement in this issue.

A New Relationship Network

Alfred Che

How to establish a strong public affairs office in Beijing.

A properly functioning public and government affairs (PA) office in China's capital has become an important part of any foreign company's China operation. Despite the PRC government's efforts to move toward a more market-based economic system, Chinese government agencies and regulatory bodies still oversee most major aspects of foreign investment. A strong PA team based in Beijing is indispensable to any foreign company looking to secure the licenses and navigate the legal procedures necessary to start up and manage a China operation. In this and many other ways, a PA office can enhance a company's overall operation in China.

In many sectors, companies simply cannot do without a PA office in China. For instance, in oil and financial services, companies with strong PA capabilities are able to participate in central government agencies' strategic planning processes as advisers. This advice may not only find its way, directly or indirectly, into national programs, but also may help the company subsequently obtain government support—which would not otherwise be available—for major projects. Rivals without effective PA capabilities are thus at a significant disadvantage.

A growing necessity

Maintaining a PA office in the United states has long been standard practice for corporate America. Most companies have a PA office in the nation's capital, or at corporate headquarters, headed by a vice president or executive of comparable rank. Usually this PA office engages in regulatory management, legislative monitoring, and in developing legislative- and executive-branch lobbying strategies. The goal of such an office is to enable the company to anticipate legislation and participate in the public debates that are integral to the US policymaking and legislative processes.

Comparatively few US companies have government affairs offices in Beijing. Though the activities of a Beijing PA office differ somewhat from those of a US-based office, they are no less important. In contrast to the transparent and structured work of an American PA office, Beijing PA offices must perform the less-formal task of building relationships with key PRC government officials. This is crucial in a culture where major business and political decisions are often based on good faith and personal relations.

Further, China's political system traditionally has been characterized by a delicate relationship between the central and local governments. A successful PA office thus needs to establish good relations with local officials in the province and county where the company operates. The need for relationships at the local level will only increase once China begins to implement its many World Trade Organization (WTO) commitments.

The PA office should be sure to keep the corporate office in China updated on all major changes in PRC policy, personnel, regulation, and other key issues. Such monitoring puts it in a good position to support other corporate functions, such as the company's recurring need to obtain approval for new licenses as it expands in China. A significant amount of work at a China-based PA office is devoted to identifying the right officials at the right agencies for the right issue in a timely manner. It is also responsible for issue and crisis management. A China government-relations office will tend to spend more time monitoring policy and regulatory changes, and identifying which issues demand its attention, than a US office, which has a more predictable portfolio.

For instance, suppose a food-products association, as part of an effort to bring international manufacturing standards to China, wants to set up a branch of its association in China. The process not only involves diplomatic skill in coordinating national and multinational manufacturers, but also requires the support and approval of the Ministry of Public Health, the National Association of Light Industry, and the State Economic and Trade Commission. If a particular food-products company, as a member of the association, were able to establish relationships with all of these agencies, it could play a leading role in facilitating the process, thus enhancing its own market standing.

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The three-legged stool

A company must often coordinate efforts to advance a certain China-related policy goal through both its Beijing and Washington PA offices, to ensure that the administration and Congress support its activities in China. Conduits such as the US diplomatic missions in China and US business and trade organizations in both Washington and Beijing can be valuable resources toward this end. The Washington PA office can also help the Beijing office by using Chinese diplomatic missions in the United States as channels to gain additional access to high-ranking Chinese delegations. The PRC PA office thus makes up one of the three legs in a "Beijing-corporate-Washington" stool that supports a multinational's China operations. Such a three-legged approach is common in such industries as telecommunications, agriculture, and financial services.

Indeed, one industry that has taken this strategy to heart is insurance. China tends to base its decisions to award insurance licenses to foreign companies on political criteria—for instance, the foreign insurer's home country. This politically based process was, in fact, a major point of discussion in the WTO negotiations between China and the United States.

In such an environment, many US insurance companies have had no choice but to coordinate their PA efforts between Washington and Beijing. Many insurance companies' Washington PA offices work closely with their PRC-based colleagues in efforts that include regularly bringing China managers to Washington to meet with US policymakers. Many (not just insurance) companies used this approach in the fight to pass permanent Normal Trade Relations for China.

In addition to relations with US offices, PA offices in China must coordinate with the company's other China offices—particularly with the public relations and media efforts to position the company in the PRC market. As public relations battles in China's maturing marketplace grow ever more fierce, PA and public relations offices need to work side by side in carrying out corporate image and branding efforts for a company's products, as well as its strategic goals in China (*see The CBR*, September-October 2000, p.5). In many service sectors, where competition to win operating licenses is intense, foreign firms' media relations and other public relations techniques target the same audience as their PA efforts, namely government officials.

Advice for the newcomer

Companies looking to set up an effective PA office or presence in Beijing can find the prospect daunting, in part because of the difficulty of finding qualified staff. Several options have worked well for companies in the past:

Option 1 A company establishes a PA office as a department within its head office or as its representative office in Beijing. A senior executive heads up the office, reporting to the company's head in China. The PA head leads and manages all PA efforts in Beijing and across China.

For companies in the process of obtaining an operating license, however, the chief representative of the company in China generally takes on all PA tasks directly. This is not only because government relations will be crucial to the still politically based licensing decision, but also because the participation of the chief representative indicates the importance a company attaches to its license—and to the China market.

Option 2 In cases where the company's head China office is outside Beijing, some companies have set up an independent office in Beijing to fulfill PA functions. As with Option 1, a senior official from the company takes the lead in this office, reporting to the head China office.

Option 3 In cases where a company is not ready to establish a standalone PA presence in Beijing, it can engage an independent consultant or a professional firm. The PA officer at the company's China head office or corporate headquarters in the United States then relies on such hired services to perform its China PA functions. This option works best when consultants are treated as integral members of the PA team and are kept up to date on the company's strategies and decisions.

Option 4 For a committed foreign investor, a combination of Options 1 and 3, or of Options 2 and 3, can make a real difference in its PA efforts in China. By drawing on outside resources and professional counseling in addition to in-house experience, the company is in a good position to respond to often-unexpected regulatory changes.

Making music: a PA quartet

No matter which option a company selects, the people it chooses to staff the PA office will be the key to making it work. A strong government background and ties in China (and perhaps in the United States too) are the primary criteria for selecting both the right executive to head the PA office and any outside consultants. Relevant industry expertise is also essential.

The best PA offices or teams consist of, at minimum, a quartet of expertise. One executive is an expatriate sent from the corporate headquarters, not necessarily familiar with China, but certainly invested with the full mandate and trust of the top management. Also part of the team are two cross-cultural executives, one raised in China and the other in the United States, each well educated in the other's culture. Such expertise helps avoid miscommunications. The fourth executive is native to China, and has strong relationships with Chinese government officials. Experience has indicated that the quartet may be composed of both in-house staff and independent consultants. In any case, a company

Continued on page 49

PNTR, WTO, and Government Relations

While the US business community celebrates the passage of permanent Normal Trade Relations and looks forward to an end to annual confrontation with Congress, it should recognize that the risk of conflict in US-China commercial relations still exists.

There are good reasons to be prepared for conflict in the coming years. For instance, World Trade Organization (WTO) terms for China are now being finalized in Geneva. These negotiations are bound to result in ambiguities—the seeds of future trade disputes. The US government will also continue to face political dilemmas as the trade deficit with China persists. Other potential sources of friction could come from US government restrictions on US-Chinese commercial activities in some high-technology sectors, and from the ban on participation in China of the Overseas Private Investment Corp., the US-Asia Environmental Partnership, and the US Trade Development Agency.

In China, companies will have to deal with all Chinese government agencies, from the central to various local levels, as implementation of WTO obligations gets under way. Solid company relations with the PRC government will not only continue to matter for US business, but will also be able to serve a new purpose—as a quiet dispute-resolution alternative to confrontational WTO mechanisms or US government channels.

From a business perspective, then, there is little doubt that companies will continue to find it worthwhile—if not essential—to spend their own resources on public affairs, in both Washington and Beijing, for the foreseeable future.

—Alfred Che

The Great Western Development Strategy

Thomas L. Sims and Jonathan James Schiff

China launches a plan to develop its western regions—but will it work?

The provinces that lie inland from China's coast cover 56 percent of the country's land area and hold 23 percent of its population—including most of the country's minorities—but their per capita gross domestic product is only 60 percent of the national average. In an effort to close this economic gap, the central government launched the Great Western Development Strategy (*Xibu Da Kaifa*) in January 2000 to attract and allocate money and other resources for the development of China's poorer, and historically more neglected, central and western regions. A secondary goal of this strategy is to better develop the minority areas, which will tie them closer to the rest of China.

The area covered by the plan includes six provinces (Gansu, Guizhou, Qinghai, Shaanxi, Sichuan, and Yunnan), three autonomous regions (Ningxia, Tibet, and Xinjiang), and one province-level municipality (Chongqing). Inner Mongolia and Guangxi Zhuang Autonomous Region may also be included, as exactly which areas comprise "the west" and thus will fall under the plan is still under discussion (*see* Map).

The movement to open the west is not new. Within the last 60 years alone there have been two major efforts to transform it. The first was the movement of the Nationalist government to Chongqing during the war against Japan, which included the transportation of industries up the Yangzi River. Then, in the 1960s, fearing a Soviet attack, China relocated its critical defense industries to western China.

The latest effort aims to address, and alleviate, the tangible and intangible obstacles to development in western China. The tangible obstacles include poor infrastructure, minute levels of outside investment, an ailing environment (especially in Chengdu, Sichuan Province, and Chongqing Municipality), and a weaker education system than the rest of China. The key intangible obstacle that is holding back development is the business philosophy that underlies the region's economy. According to a key member of one province's planning commission, the western development strategy has been designed to introduce the people of western China to new ways of doing things. Another Chinese official noted that changing the way people think is crucial to the success of China's latest drive to develop its west.

The grand scheme

Chinese Premier Zhu Rongji laid out the major objectives of the plan at the March 2000 session of the National People's Congress. The strategy focuses on five areas:

- **Infrastructure development** The government will focus principally on expanding the region's highway network. The highway density in eastern China is 35.4 km per 100 km^2, while the density for western China is only 7.1 km per 100 km^2. The plan also calls for building more railway track, airports, and gas trunk pipelines. Electric power grids and telecommunications, radio, and television facilities will be expanded, as will support infrastructure in large and medium-sized cities. The plan also calls for "rational" exploitation of water resources and water conservation in general.

- **The environment** The strategy encourages projects to protect natural forests along the upper reaches of the Yangzi River and the upper and middle reaches of the Yellow River. Terraced fields on steep slopes (more than 25 percent

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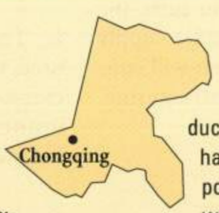
China's West

Chongqing Municipality*

Population: 31 million
Area: 82,400 km²



As the largest city in southwest China, Chongqing is pivotal to the success of the Great Western Development Strategy. Its proximity to Chengdu, Sichuan Province, dictates that these two powerful cities will have a symbiotic relationship. Chongqing and Chengdu, along with Xi'an, Shaanxi Province, are the three focal points for the development strategy.

The demands of the gargantuan Three Gorges Dam project and the need to refocus development initiatives on the overlooked interior contributed to the central government's decision to transform Chongqing into a province-level municipality, under its direct control, in 1997. Chongqing is the fourth such municipality, after Beijing, Shanghai, and Tianjin.

The city is a center of heavy industry and is home to major automobile and motorcycle manufacturers, plus related parts and engine plants. (Its previous heavy involvement in defense production has faded.) Chongqing has a long history as a central point for river commerce in west China, a role that will only increase once the completion of the Three Gorges Dam in 2009 allows barge traffic of up to 10,000 tons to navigate the river year-round.

As the principal administrative unit for the Three Gorges resettlement program (the bulk of the affected population lies within Chongqing Municipality), Chongqing received central-government funds to relocate populations and industries from the future reservoir area of the new dam. The relocation of a million people and almost 1,000 small and medium-sized enterprises is currently under way, with attendant risks and opportunities. The central government is supporting a massive infrastructure program that involves the building of whole towns and cities, as well as new roads, bridges, railways, and airports in the resettlement areas.

Beijing has also decreed that no polluting industries will be relocated. Thus, an estimated 450 enterprises will be closed down, and the labor force will be redirected into other industries. Although the authorities are using this as an opportunity to upgrade the technology of the factories that will be moved, the effort requires significant investment in new equipment and retraining of the workforce. Foreign capital and technology are welcome in this process, and the government is offering special incentives to attract such investment.

Chongqing Mayor Bao Shuding recently stated that the city will invest ¥240 billion ($29.6 billion) in 107 key infrastructure projects over the next 10 years, according to Xinhua News Agency. Of these 107 projects, 50 are already under way. These include communication facilities, ecological and environmental protection in the Three Gorges Reservoir, development of water resources, and urban infrastructure facilities. The other 57 projects are expected to start either this year or under the next five-year plan, which starts in 2001.

*** This and the sidebars that follow cover the regions in the US Consulate-Chengdu's portfolio.**

grade) should be returned to forests or pastures. Water conservancy efforts will also include improving the biological environment, constructing efficient irrigation systems, using water resources efficiently, and implementing cross-valley water-supply projects. According to *China Economic Information*, the gross water-resource reserves and exploitable water resources in China's southwest make up 70 percent and 77 percent, respectively, of the country's total.

- **Local industry** Rather than forcing a "cookie-cutter" approach to development, the government is encouraging different regions to develop industries that maximize local comparative advantages in geography, climate, resources, and other conditions. Where possible, these regions are also urged to capitalize on high- and new-technology industries.

- **Science, technology, and education** The strategy states that regions should develop different levels of expertise in the workforce, as well as improve its overall quality. The strategy also recommends that the regions accelerate product development from scientific research.

- **Investment environment** The government hopes western provinces will take steps to attract more foreign investment, capital, technology, and managerial expertise by improving industrial structure and reforming state-owned enterprises (SOEs). The wealthier and more developed eastern and coastal provinces are also being asked to play a major role. Beijing expects them to develop new markets and bring advanced management and innovative production styles to less-developed western enterprises. In turn, the west will provide markets, energy, and a supply of raw and semi-finished materials that will contribute to the east's own economic restructuring.

Under this strategy, the majority of China's government spending will shift from coastal provinces to the west. Earlier this year, Zeng Peiyan, minister of China's State Development Planning Commission (SDPC), reportedly remarked that the state would pour 70 percent, or ¥4.78 trillion ($580 billion) of this year's fixed-asset investment and foreign loans into the west—a 10 percent increase over 1999. In March, Zeng announced that the first investment of ¥31 billion ($3.7 billion) would be made for infrastructure development.

Attracting investors

The central government's sponsorship of the strategy does not mean that all investment will come from Beijing. Regions will be responsible for finding investors for projects that conform to the plan's objectives. Beijing has given greater authority to local governments in western areas to suggest their own strategies. And the central government is helping in other ways. For instance, Beijing recently raised the provincial-level special economic zones of Changsha, Hunan Province; Chengdu, Sichuan Province; Guiyang, Guizhou Province; Hefei, Anhui Province; Kunming, Yunnan Province; Xi'an, Shaanxi Province; and Zhengzhou, Henan Province to national-level status, allowing them to offer more generous incentives to investors. All seven locations are viewed as strategically important to the development of China's interior.

At a May press conference, Director General Zhang Xiaoqiang of SDPC's Department of Foreign Investment outlined six policies to attract foreign investment into western China:

- The percentage of foreign preferential loans used towards western development will be increased from 60 to 70 percent. Chinese financial institutions will provide more loans to foreign-invested projects.

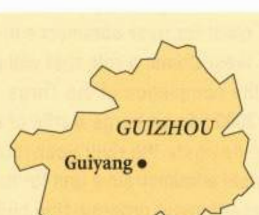
- The State Council has approved the Directory of Dominant Industries in the Middle and Western Region, which will encourage the efficient allocation of foreign funds invested in industrial sectors.

- Foreign-funded projects listed on the forthcoming Catalogue Guiding Foreign Investment in Industry will enjoy advantageous tax rates. For three years after the current preferential tax policy has ended, investors in these projects will enjoy an income tax rate as low as 15 percent. Enterprises with export volume exceeding 70 percent of total production may pay a rate as low as 10 percent.

- Beijing is relaxing its restrictions on where foreigners may invest. Foreign-funded retail firms, for example, may now establish operations in the provincial capitals of western China, and

Guizhou Province

Population: 36.6 million
Area: 176,000 km²
Capital: Guiyang



Guizhou Province is making a strong push to propel itself out of the ranks of China's poorest provinces. The geographical features of Guizhou point to the potential for developing a strong hydropower industry—92.5 percent of the land is either mountains or hills. The government has additionally stated a desire to increase development in the areas of automobile parts production and tourism.

Guizhou has proposed seven large-scale projects this year that fall under the goals of the Great Western Development Strategy:

- Anshun power plant phase II (2 x 300MW)
- Yinzhidu hydroelectric power station
- Guiyang-Huangguoshu four-lane highway
- Kaili pulp factory
- Recycling of solid waste products
- A series of products based on CATV, Internet, and PSTN in a combined network
- Development of a hot-spring tourism district

Total investment for these projects is $3.49 billion.

allowances for investment in telecommunications and insurance are expected to follow.

- The government has pledged to help overcome foreign-exchange related problems in preferential projects.

- Methods of commercial cooperation will be expanded to include build-operate-transfer projects, security financing, and others.

Officials from the central and relevant local governments are also drawing up comprehensive lists of preferential policies similar to those employed in the coastal provinces, and a policy to guide the selection of investments is under discussion. This policy, which was to have been completed by the third quarter of 2000, will guide the creation of a catalogue that will identify key areas for foreign investment in western China. As with the existing catalogue, this will help allocate funds to the most necessary projects.

A chance for success

Previous efforts to develop the west have not succeeded. Why should this one be any different? While the chance of failure does exist, this strategy has the potential to succeed, for a number of reasons.

Perhaps most important, the present strategy concentrates more on market-opening economic theories than on political ideology. Indeed, the Great Western Development Strategy is proof of the central government's realization that to preserve social stability, the standards of living and economic conditions in western China must continually improve.

In addition, the plan of action that the government is adopting—namely to improve infrastructure and implement policies to attract investment—has proven successful in the east. Shenzhen, Guangdong Province, and Pudong, Shanghai, were both rural and relatively backward areas that have been transformed by such development strategies. However, they were also located next to economic powerhouses (Hong Kong and Shanghai), which is not the case for most of the west.

Finally, eastern China, most prominently Shanghai, is showing true commitment to funding the program. Shanghai has already signed 200 cooperative contracts with a total value of over ¥10 billion ($1.21 billion). While the government is no doubt encouraging such assistance, the east does have some reasons of its own for wanting the west to develop. For instance, the environmental and ecological programs in the upper reaches of the Yangzi River will reduce flooding in the eastern provinces. Better infrastructure will allow the east to move its goods more easily to the west's 300 million consumers. And improvements in electrical grid distribution

Lower-level leaders who have closely administered their regions for decades will have to adopt a fresh approach. These individuals may either be too close to a situation to realize problems that an outsider can spot immediately, or, because of local conflicts, be unable to confront such problems.

Sichuan Province

Population: 83.2 million
Area: 485,000 km^2
Capital: Chengdu

Sichuan Province, with China's third-largest population—after Henan (93.2 million) and Shandong (88.3 million)—is generally considered to be the strongest base of economic and development activity in southwest China. Sichuan boasts one of the most diversified industrial bases in the country, in part because Mao Zedong moved much of the PRC's military-industrial complex to Sichuan in the 1960s.

At the heart of all this activity is the province's capital, Chengdu, with a population of 10.04 million. The primary urban area covers 192 km^2 and contains 3.26 million people. Chengdu is a financial center and the new regional headquarters of the People's Bank of China. It is a key manufacturing center for the aviation industry and the national headquarters for feed-grain companies. Many private companies—more flexible, creative, and based on market principles than most traditional state-owned enterprises—are based in Chengdu. In many ways, Chengdu represents a new market within China—one particularly eager to do business with the United States. Mianyang, another important city in Sichuan, will likely become one of the two primary production bases for electronics equipment in western China (the other being Xi'an in Shaanxi Province).

Both the governor of Sichuan Province and the mayor of Chengdu have publicly supported the sanctity of contracts, declaring that Chinese policy considerations are to be solved internally once a contract is approved and signed. Some commercial disputes with the local government have been resolved successfully, others have not. But by and large, the Sichuan government has been much more responsive to the needs and concerns of foreign business entities than their east China counterparts, in part because western China is relatively new to the game, and in part because of a hunger for investment in these regions. Foreign companies, specifically US companies, including those in the semiconductor, engine manufacturing, airplane construction, chemical, and DVD/CD production industries, share a generally positive outlook on the Sichuan business environment. Quality levels approach world standards in some of these industries, at a fraction of the labor cost.

This year the Sichuan government has selected 30 priority projects, totaling an estimated ¥200 billion ($24.1 billion). These projects fall into three phases, with each phase contain-

ing 10 projects. The first 10 projects are pacesetters that are meant to raise the value of investment (assets) flowing into the province significantly. These Phase 1 projects concentrate on basic infrastructure with a focus on improving transportation and power facilities. Phase 2 projects have been designed to further the province's technology industry. Phase 3 projects are intended to speed up development in the province. Phase 3 projects, none of which have yet been approved, also address the need to improve transportation and energy facilities. The completion period for these projects is a "long period of time," and as the plan progresses, the importance of certain projects may rise or fall.

US companies must look at the plan's high-technology requirements: the engineering studies, the management, the high-tech systems for infrastructure projects, and the newer, better materials that are not yet available in China.

and the construction of more pipelines will directly benefit the east.

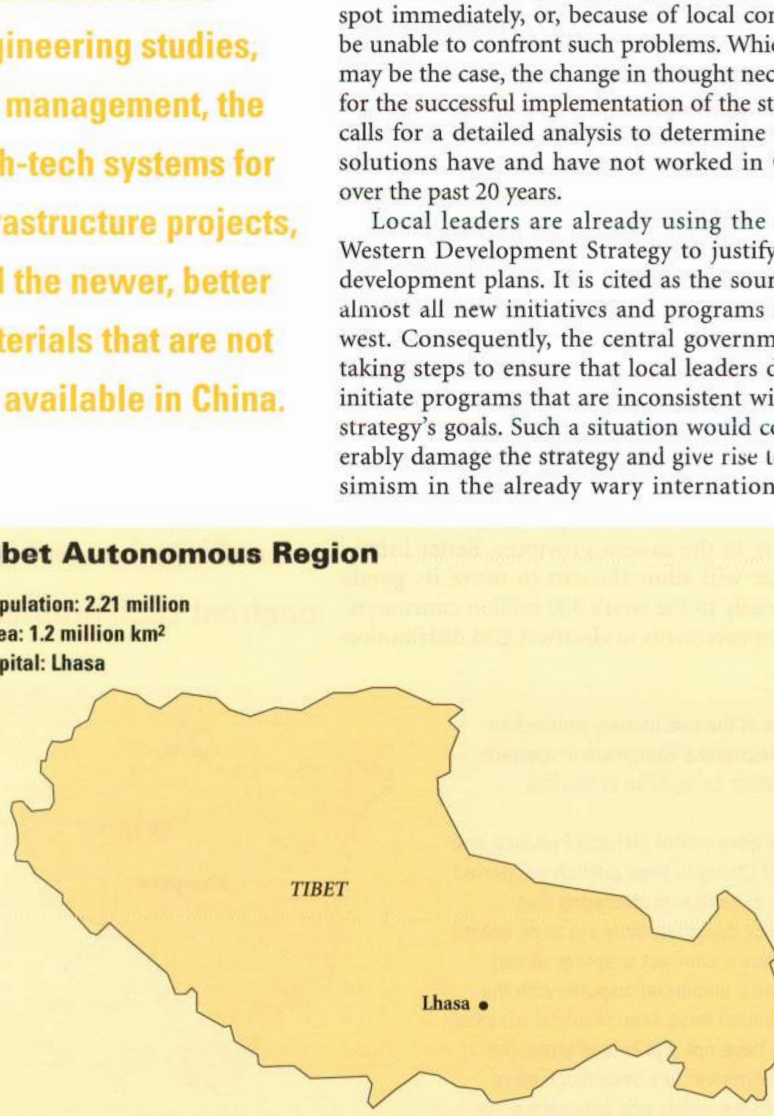
But for the plan to succeed, political and business leaders must acknowledge obstacles and deal with them objectively. Lower-level leaders who have closely administered their regions for decades will have to adopt a fresh approach. These individuals may either be too close to a situation to realize problems that an outsider can spot immediately, or, because of local conflicts, be unable to confront such problems. Whichever may be the case, the change in thought necessary for the successful implementation of the strategy calls for a detailed analysis to determine which solutions have and have not worked in China over the past 20 years.

Local leaders are already using the Great Western Development Strategy to justify their development plans. It is cited as the source for almost all new initiatives and programs in the west. Consequently, the central government is taking steps to ensure that local leaders do not initiate programs that are inconsistent with the strategy's goals. Such a situation would considerably damage the strategy and give rise to pessimism in the already wary international investment community. (It should be noted that the central government is trying to define its role largely as an overseer whose job is to maintain the master plan and ensure that development schemes fall within the parameters of the plan.)

Another obstacle is the lack of a published financing plan. Without such a plan, there is no way to identify which government body will be directly responsible for funding which projects. Support for some national-level projects will come from the central government, while a mix of provincial and national funds will support other projects. Support for still more projects will come from small townships and municipalities. In addition to government grants, some projects will be funded by private or semi-government funds, such as bank loans, equity financing, and bonds. In some cases, preferential financing will come from the government via preferential interest rates or repayment schedules. In other cases, SOEs will go to the market in an attempt to raise equity financing. Another possibility is that coastal provinces will help by providing special subsidies and establishing joint-ventures with western entities. And last, but not least, foreign investment will be eagerly sought to make up shortfalls.

Tibet Autonomous Region

Population: 2.21 million
Area: 1.2 million km²
Capital: Lhasa



Roughly the size of Western Europe, Tibet has achieved international fame as home to the world's tallest mountains and a center of Buddhism. Tourism is possibly the region's strongest industry.

Present government initiatives concentrate on improving Tibet's infrastructure and transportation systems and attracting foreign investment. Major areas highlighted for foreign participation include

- Development of agriculture, husbandry, and forestry, and processing of the resulting products
- Infrastructure construction and operation in water resources, energy, transportation, urban development, and public facilities
- State-owned enterprise restructuring
- Exploration and extraction of mineral resources
- Tourism development
- Development and processing of medicinal resources
- Products for ethnic needs
- Environmental protection, especially waste disposal and utilization, management of eco-environment, and energy saving projects
- Construction of two new airports, Lhasa Gongga Airport and Changdu Airport, though they have yet to be approved

Where's the beef?

American companies must consider where the real opportunities lie among these many projects. While the total numbers sound impressive, it is too soon to tell whether real opportunities will be available to US firms. Many of these projects are in basic infrastructure development, an area in which Chinese firms have expertise. US companies, then, must look at the plan's high-technology requirements: the engineering studies, the management, the high-technology systems for infrastructure projects, and the newer, better materials that are not yet available in China.

Many Chinese companies are interested in obtaining foreign investment, particularly if they can obtain the investment with minimal restrictions on the product's local content. Likewise, they prefer to obtain technology with few restrictions on local production. However, technology-transfer and in-country content terms are increasingly open to negotiation, and US companies should not be shy in their approach to such discussions. Indeed, the Chinese are quite concerned over the competitive pressure from entry into the World Trade Organization (WTO), and they are increasingly willing to compromise to obtain access to critical technologies that will make them world-class competitors.

The rewards of patience

Premier Zhu has mentioned that this is to be a "long-term" program—one with a timeline of 20 or 30 years. This statement is likely an effort to make sure participants understand that the program will be around for some time and to give them an opportunity to get their individual programs into the plan. This is also a realistic assessment, as China cannot afford to do everything at once, and the rate at which projects are approved will depend upon financing.

The initial list of projects, those identified for implementation this year, are by and large extensions of existing programs that local governments have resubmitted under the plan. A number of local planning commissions have stated that first-year projects are, for the most part, those that have already received approval and begun construction. In one province, officials simply gave out the 1999 list of investment projects and told prospective investors that any project that had not been completed would be automatically included in their Great Western Development Strategy list for 2000.

By practicing the virtues of determination, focus, and patience, China has a good chance of succeeding in developing its inland economy. The key will be whether officials are able to make an honest evaluation of both old and new business and development methods. China must combine the successful practices of the past with innovative techniques of the future. Many people may discover that when looking forward, it is not wise to leave behind the lessons learned. 完

Yunnan Province

Population: 41.4 million
Area: 394,000 km²
Capital: Kunming

Yunnan, located in the southwestern corner of China, borders Vietnam, Burma, and Laos. Tobacco and tourism are the pillars of its economy. Tobacco products alone accounted for a quarter of Yunnan's total industrial production (by value) in 1998. Tourism was the province's most dynamic sector, with overall revenues growing by nearly 50 percent in 1999. Yunnan is also developing its traditional medicine and power industries.

Yunnan's development strategy, most of which adheres to the national initiative, focuses on its unique characteristics. Accordingly, Yunnan plans to cultivate and exploit its biological resources, improve education and living conditions for the province's minority population (33 percent of the total), and develop major transportation and communications routes into neighboring Southeast Asian countries. To achieve these goals, the province aims to use science and technology more widely, continue urbanization efforts, and improve relationships with the international community.

Yunnan's plan emphasizes infrastructure development with a focus on constructing railways, expanding hydropower generation facilities, and installing a fiber-optic network; environmental efforts, including reforesting 9 million *mu* (59.4 million acres) of land and imposing penalties upon polluting industries; industrial restructuring; and technology and education improvements. Yunnan has secured ¥30 billion ($3.6 billion) from the State Development Bank to finance its key projects for 2000. The list focuses on wastewater treatment and purification, mineral refining, power generation, and biological cultivation.

Human Resources Take Center Stage

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and the other service corporations as convenient buffers between the enterprise and the government. FESCO has, in turn, become far more accommodating to the needs of businesses; where FESCO once saw captives, it now sees clients. So the same FESCO that five years ago was publicly referred to as "the enemy" is now often called an "intermediary" or even an "ally." HR managers negotiate with FESCO over payments, and avail themselves of its services not only in handling contributions to the various social insurance funds, but in learning what new labor-related laws are in the pipeline.

WTO "wolf" at the door

While HR managers recognize that World Trade Organization (WTO) membership will ultimately be good for their corporations' prospects in China, many fear that the arrival of the WTO "wolf" will lead to a new round of staff poaching by companies entering the China market for the first time or significantly expanding their presence.

"Now we have WTO and all that wonderful stuff," commented one HR manager. "All those new corporations coming in and looking to hire the same 5,000 trained, English-speaking people." Fears of the impact of WTO accession were echoed by many other HR managers who, for the foreseeable future, will be engaged in bread-and-butter HR tasks like recruitment and retention, even as they accelerate their efforts to plan strategically and to deepen their cooperation with FIE business units.

At the basic level, companies most likely to attract and retain the best employees—and thus to prosper—will be those that have a dynamic, challenging work environment; open channels of communication; excellent career development and training opportunities; realistic localization policies and succession plans, to which they adhere; and integrated, standardized systems that are accepted and understood by management and workers alike. Such an environment can exist only when HR departments come out of the wings and stand stage center with a company's other business divisions. 完

A New Relationship Network

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that has such a quartet in place can be confident of meeting almost any PA demand in China.

Help with WTO implementation

As China prepares to enter the WTO, it is embarking on an almost unprecedented overhaul of its regulatory and legal systems. The PA office, at ground zero, can ensure that PRC policymakers hear a company's concerns, as well as its recommendations on how to implement WTO commitments in a manner friendly to foreign investment. To succeed, however, companies must devote sufficient managerial resources and attention to their Beijing PA offices or presences. And corporate management should take extra care in identifying staff and building a cross-cultural task force to help the company negotiate this period.

As China's legal and regulatory infrastructures develop, China-based PA offices will come to resemble US offices more closely than they do today. US companies thus would do well to take the time and effort to institutionalize their own PA offices in Beijing, as these offices will prove invaluable to their long-term success in this rapidly changing marketplace. 完

INVESTOR RESOURCES

A Checklist for the Investor

In general, the most successful investments in China are the result of the careful selection of a location and vehicle that best suits a company's China strategy, and the successful negotiation of contract specifics. For those considering an investment in China, the following questions are important to answer before making any major decisions. But they are not the only questions, especially as they focus mainly on issues of concern to manufacturers. For more information, see the investors' bibliography on page 59.

Strategy

1. Are you planning to produce for export, the local market, or a combination of both? How might this strategy evolve over time?

2. How will China's implementation of its World Trade Organization (WTO) commitments affect your strategy? For example, will it be more cost effective to import directly to or manufacture in China? If you are investing, have you taken into account the potential for imported products to gain a competitive advantage in the future?

3. How will you handle government affairs, if appropriate to your scale of investment, on the national level? Have you met key local government officials and discussed your project with them?

4. What is your head office's acceptable level of risk exposure and commitment to the local operation?

5. What is your exit strategy? Have you considered the pros and cons of locating offshore versus onshore? (Many investors prefer to structure offshore and in free ports such as the Cayman Islands or the British Virgin Islands, which are fast approaching Hong Kong as the most popular havens for China-bound investment. Offshore locations offer tax advantages, easier exit strategies, and, for some investors, a way around government restrictions.)

Preparatory analysis and procedures

1. Is your proposed investment compatible with PRC government investment priorities? Are there any restrictions on location or equity levels?

2. Are the market conditions in China such that there will be a sustained demand for the proposed product or service?

3. What is the size of the venture you are planning? (If the venture is under $30 million and in an encouraged sector, approval can be obtained at the local level. Otherwise, your investments will require central-government approval.)

4. Is a partner important to your China strategy? If so, you must evaluate potential partners. Questions to ask include: Do your interests coincide in the short-to-medium term? How might they diverge over the long term? Would a partner add value in the long term? If not, are you willing to reconsider your decision to partner, or accept a slower start-up phase, in return for management control?

5. Have you developed a comprehensive plan to conduct due diligence, not just on financial matters, but on environmental and qualitative issues such as the reliability of PRC commercial partners? (Failure to do proper quantitative and qualitative due diligence in China is one of the most common causes of unsatisfactory investments.)

6. Who are your potential foreign and domestic competitors in China?

7. Is there a risk of intense competition from local Chinese companies, other FIEs, or imports as China implements its WTO commitments and tariffs and non-tariff barriers fall?

8. Are any foreign companies proposing similar projects in other provinces?

9. Are you prepared to handle unexpected changes in China's regulatory structure?

10. Have you incorporated your key concerns explicitly into your feasibility study and contract?

11. Have you identified all of the relevant government approval agencies? Have you kept them informed about the details of your project throughout the process?

Technology

1. Are you transferring sensitive technology and processes?

2. How important to your company is protecting intellectual property?

3. Do you have a system in place to protect sensitive technology and processes?

4. Does this transfer comply with US government export-licensing requirements?

Location

1. What investment incentives is your project eligible for (e.g., access to land, preferential tax rates, utility rates)? How do they compare with those for other types of ventures and locations?

2. Have you looked at other possible locations for your business? (Hundreds of cities are competing for foreign investment.)

3. Does your location grant you adequate physical access to local supplies of suitable quality, target markets, and reliable power sources?

4. What is the state of existing transportation and distribution networks, and how might these networks evolve?

5. What is the environmental condition of your proposed site? (You may be responsible for cleaning up any contamination.)

Operations

1. Have you assessed your personnel costs carefully, not only salaries but also benefits? Do you have access to quality personnel, control over hiring decisions, and the ability to train and retain? Have you considered the difficulty of transferring local staff within the PRC?

2. How do you plan to access and balance foreign exchange? How will you hedge against currency risk?

3. If this is your first investment in China and you are currently only selling on an export basis via local or Hong Kong agents, will you receive complete sales and marketing information from them? If not, have you assessed the impact of the absence of such information on your long-run sales?

—Karen M. Sutter

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	State Administration for Industry and Commerce (SAIC)	8 Sanlihe Donglu Xicheng District Beijing 100820 Director: Wang Zhongfu	8610.6802.2771	—	www.saic.gov.cn
	State Bureau of Technical and Quality Supervision	4 Zhicun Lu Haidian District Beijing 100088	8610.6202.2288	8610.6203.1010	—
	Ministry of Labor and Social Security	12 Hepingli Zhongjie Dongcheng District Beijing 100716 Minister: Zhang Zuoji	8610.8420.1235	8610.6421.8350	www.molss.gov.cn
	General Administration of Customs	6 Jianguomennei Dajie Dongcheng District Beijing 100730	8610.6519.4114	—	www.molss.gov.cn
	State Administration of Taxation	5 Yangfangdian Xilu Haidian District Beijing 100038 Director: Jin Renqing	8610.6341.7303	8610.6341.7205	www.customs.gov.cn
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	Chongqing Foreign Trade and Economic Relations Commission	23-24/F Foreign Trade Building 65 Jianxin Beilu Jiangbei District Chongqing 400020 Director: Xue Wanqi	8623.6785.3525	8623.6785.3458	cqftcc@ft.cq.cn www.ft.cq.cn
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	Guangdong Foreign Trade and Economic Relations Commission	351 Tianhe Lu Guangzhou 510620 Guangdong	8620.3880.7168	8620.3880.2219	—
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	Guangzhou Customs Bureau	29 Yanjiang Xilu Guangzhou 510130 Guangdong	8620.8110.3575	—	203.207.171.4/gdnnet/advertis/custom/menu.htm
	Guangzhou Tax Bureau	154 Dongfeng Xilu Guangzhou 510170 Guangdong	8620.8136.6088 8620.8333.8651	8620.8333.8442	—
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	Shanghai Economic Commission	—	8621.6321.2810	8621.6258.6443	webmaster@shec.gov.cn www.shec.gov.cn
	CCPIT, Shanghai Sub-Council	5/F Jinjiang Mansions 28 Jinling Xilu Shanghai 200021	8621.6386.5572; 5306.0228	8621.6387.8454	ccpitllb@online.sh.cn www.ccpitshm.asiansources.com
	Shanghai Administration for Industry and Commerce	4/F, 301 Zhaojiabang Lu Shanghai 200032	8621.6422.0000	8621.6422.6672	www.sgs.gov.cn
	Shanghai Technical Supervision Bureau	Room 403, 7/F, 1226 Changle Lu Shanghai 200040	8621.6249.7684	8621.6249.8708	sbts@stn.sh.cn www.sbts.sh.cn
	Shanghai Labor and Social Security Bureau	865 Zhongshan Nanlu Shanghai 200011	8621.6368.9900	—	—
	Shanghai Customs Bureau	13 Zhongshan Donglu Shanghai 200002	8621.6323.2410	8621.6323.2410 ext. 6449	www.tpsha.gov.cn/stp/custom/ccustoms.htm
	Shanghai Tax Bureau	60 Zhejiang Lu Shanghai 200002	8621.6321.9610	8621.6351.7463	—
Shenzhen, Guangdong Province	Shenzhen City Government	5 Shennan Zhonglu Shenzhen 518006	86755.210.0000	—	www.shenzhen.gov.cn
	Foreign Affairs Office	Guangdong	86755.210.4139	—	—
	Shenzhen Foreign Investment Bureau, Business Promotion Office	5 Shennan Zhonglu Shenzhen 518006 Guangdong	86755.209.9312; 210.4117	86755.209.9760	szipc@szonline.net www.fdi-shenzhen-cn.com
	Shenzhen Development Planning Commission	5 Shennan Zhonglu Shenzhen 518006 Guangdong	86755.209.9293	86755.209.9294	www.szpb.gov.cn
	CCPIT, Shenzhen Sub-council	5/F, 3009 Xinzhou Lu Shenzhen 518048 Guangdong	86755.356.1535	86755.330.1702	szccpit@public.szptt.net.cn www.ccpitsz.org
	Shenzhen Administration for Industry and Commerce	Lane 1, Red Garden 1 Guiyuan Lu Shenzhen 518001 Guangdong	86755.559.4611	86755.557.6530	www.szaic.gov.cn
	Shenzhen Technical Supervision Bureau	6 Shennan Zhonglu Shenzhen 518006 Guangdong	86755.209.9772; 210.4450	86755.209.9305	www.szbts.gov.cn
	Shenzhen Labor and Social Security Bureau	East Tower, Xinchen Building 13 Xinchen Zhonglu Shenzhen 518031 Guangdong	86755.227.4467	86755.227.4469	www.shenzhen.molss.gov.cn
	Shenzhen Customs Bureau	1087 Heping Lu Shenzhen 518017 Guangdong	86755.589.8000	—	—
	Shenzhen Tax Bureau	28 Futian Nanlu Shenzhen 518033 Guangdong	86755.333.6333	86755.333.7525	—
Tianjin	Tianjin Municipal Government	167 Dagu Lu Heping District Tianjin 300040	8622.2332.6524	8622.2331.1956	www.tianjin.gov.cn
	Foreign Affairs Office	Contact: Geng Jianhua	8622.2331.4764	8622.2331.6640	—
	Tianjin Economic Restructuring Office	167 Dagu Lu Heping District Tianjin 300042	8622.2339.7088	8622.2330.2171	—
	Tianjin Foreign Trade and Economic Cooperation Commission	80 Qufu Lu Heping District Tianjin 300042 Contact: Pi Qiansheng	8622.2330.4840	8622.2331.5231	—

City/Province	Office	Address/Contact	Telephone	Fax	E-mail/Website
Tianjin (continued)	Tianjin Development Planning Commission	157 Dagu Lu Tianjin 300042 Director: Li Yali	8622.2331.1818	8622.2330.3169	—
	Tianjin Economic and Trade Commission	8 Tai'an Lu Tianjin 300040 Director: Yang Dongliang	8622.2332.5935	8622.2330.1952	—
	CCPIT, Tianjin Sub-council	World Trade Building 84 Jianshe Lu Tianjin 300042	8622.2330.1343	8622.2330.1344	—
	Tianjin Administration for Industry and Commerce	38 Minzhu Lu Hebei District Tianjin 300010 Contact: Shi Dong	8622.2446.8334	8622.2445.6321	—
	Tianjin Bureau of Technical Supervision	265 Erma Lu Nankai District Tianjin 300100 Contact: Liu Bozong	8622.2702.1017	8622.2702.1009	—
	Tianjin Labor and Social Security Bureau	18 Jianshe Lu Heping District Tianjin 300040 Contact: Hua Shaozeng	8622.2339.3680	8622.2303.0872	—
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	Tianjin Tax Bureau	4 Qufu Dao Tianjin 300042	8622.2330.3740	8622.2331.3455	—
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	Xiamen Trade Development Commission	12/F, Information Building, Huli Xiamen 361006 Fujian	86592.530.2555; 602.1017; 602.1902	86592.530.2666; 530.2777	—
	Xiamen Planning Commission	5/F, City Government Building 61 Hubin Beilu Xiamen 361012 Fujian	86592.505.2377; 505.2372	86592.505.2659	www.xm.cei.gov.cn/jiwei
	Xiamen Economic Development Commission	8/F, East City Government Building 61 Hubin Beilu Xiamen 361012 Fujian	86592.505.2408; 505.4285; 505.2405	86592.505.4289	www.xmjfw.xm.fj.cn
	CCPIT, Xiamen Sub-council	11/F Information Building, Huli Xiamen 361006 Fujian	86592.602.1772; 562.3595; 565.2439; 602.2027	86592.602.2377	ccpitxm@public.xm.fj.cn www.etic.net.cn
	Xiamen Administration for Industry and Commerce	43 Hubin Nanlu Xiamen 361004 Fujian	86592.220.4812	86592.220.4811	—
	Xiamen Technical Supervision Bureau	78 Hubin Nanlu Xiamen 361004 Fujian	86592.221.3326	86592.222.0824	—
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SOURCE: Compiled by the staff of the US-China Business Council.
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THE US-CHINA BUSINESS COUNCIL'S

Forecast 2001

EVENING RECEPTION
Capitol Hill
Wednesday, January 31, 2001

MEETING
Thursday, February 1, 2001 8 AM - 3 PM
JW Marriott, 1331 Pennsylvania Avenue, NW, Washington, DC

Economic, Political, and Investment Trends

The Implications of China's Economic Reforms for Foreign Companies

Who are the Rising Fourth Generation Leaders?
What are Their Views on Economic Reform, Foreign Trade, and Investment?

Emerging Investment Trends: The View from China

Headquarters, Washington, and the Local Team: Structuring China Strategy to Ensure Success

Corporate Case Studies

US-China Relations in the New Administration

Luncheon Address

Registration fee by Jan. 5: $350 ..... includes reception, meeting and luncheon
..... **$100 luncheon only**

Registration after Jan. 5: $375 ..... entire program
..... **$125 luncheon address only**

Hotel Accommodations for Wednesday, January 31: Please call Marriott Worldwide Reservations at 1.800.228.9290 or JW Marriott directly (1331 Pennsylvania Avenue, NW, Tel: 202.393.2000) for reservations at a special group rate: $189 single/double + tax. Indicate that you are with the US-China Business Council's meeting group. The cut-off date for this rate is Friday, January 5. All reservations must be guaranteed with a major credit card or accompanied by a first night room deposit.

For more information, or to register, contact: The US-China Business Council
Gloria González-Micklin, Director of Programs, Tel: 202.429.0340; Fax: 202.775.2476; or visit our website:
www.uschina.org/members/programs/upcomingevents.html

CHINA BUSINESS 2001
A members and prospective Council members* event
Monday, February 5, 2001 (Houston)
Tuesday, February 6, 2001 (Chicago)

* For information on China Business 2001 and Council membership please visit our website: *www.uschina.org*

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Commercial: 212.330.7428
Visas: 212.502.0272

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A Foreign Investor's Bibliography

The following list includes *CBR* articles and other publications that foreign investors might find useful. It is not meant to be comprehensive.

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China Business

Sales and Investment

JULY 15-SEPTEMBER 15, 2000

Compiled by Mark Dunn

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

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

Accounting and Insurance

INVESTMENTS IN CHINA

International Finance Corp., a unit of the World Bank Group, Meiji Life Insurance Co. (Japan), Zurich Insurance Co. (Switzerland)

Purchased 24.9% of New China Life Insurance Co. of Beijing. $120.77 million. 8/00.

OTHER

The Chubb Corp. (US)

Received license from CIRC to sell non-life insurance in Shanghai. 8/00.

Agricultural Commodities and Technology

INVESTMENTS IN CHINA

Deere & Co. (US)/Tianjin Tractor Manufacturing Co.

Established joint venture, John Deere Tiantuo Co., Ltd., to make and sell four tractor models. $21 million. (US:51%-PRC:49%). 8/00.

OTHER

Australia-China Development & Trading Co., Ltd. (Australia)/Beijing Julian Husbandry Breeding Center

Signed agreement to promote comprehensive technological exchanges and meat trade. 9/00.

Government of the United Kingdom

Will provide financial and technical assistance to the PRC for water resource management and rural water supply and sanitation. $10.8 million. 9/00.

Government of the PRC

Offered the Government of Bangladesh a $54 million credit to build a di-ammonia phosphate plant to produce fertilizer. $54 million. 9/00.

Government of Ghana, United Nations Food and Agriculture Organization/Government of the PRC

Agreed to send Chinese agricultural experts and field technicians to assist farmers in Ghana for three years. 8/00.

Government of the Philippines/Government of the PRC

Agreed to expand cooperation in agriculture and fishing. 8/00.

Government of the PRC

Will provide interest-free loan to the Government of Pakistan for the construction of 1,000 cement watercourses. $11.3 million. 8/00.

Government of Thailand, Government of Vietnam/Government of the PRC

Will establish a fund to sell rice from the three countries on the world market. 8/00.

Banking and Finance

INVESTMENTS IN CHINA

The Hartcourt Companies, Inc. (US)

Will acquire controlling interest in Shanghai Wind Information Co., Ltd., a financial research content provider. 8/00.

OTHER

American Express Co. (US)

Named the official card of tourism for China for 2001-2003 by the China National Tourism Administration. 9/00.

China Merchants Bank

Will open branch office in Hong Kong. 9/00.

Deutsche Bank AG (Germany)/Bank of Communications

Signed agreement to allow Deutsche Bank to use its own electronic systems to access its customers' accounts via the Bank of Communications. 9/00.

SK Global Co., Ltd. (South Korea)/Sinobit (Beijing)

Signed alliance to exchange information and business networks to help each other's overseas business projects. 9/00.

Standard Chartered Plc (United Kingdom)/ICBC

Will begin cooperation in international trade and cash settlement in emerging markets and strengthen relationships in RMB settlement, trade, treasury, and staff training. 9/00.

Abbreviations used throughout text: ADB: Asian Development Bank; BOC: Bank of China; CAAC: Civil Aviation Administration of China; CATIC: China National Aero-Technology Import-Export Corp.; China Telecom: China Telecommunications Group Corp.; China Unicom: China United Telecommunications Corp.; CIRC: China Insurance Regulatory Commission; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CNOOC: China National Offshore Oil Corp.; CNPC: China National Petroleum & Gas Corp.; ETDZ: Economic and Technological Development Zone; ICBC: Industrial and Commercial Bank of China; MII: Ministry of Information Industry; MOU: Memorandum of Understanding; NA: Not Available; NORINCO: China North Industries Corp.; P&T: Posts and Telecommunications; PBOC: People's Bank of China; RMB: Renminbi; SEZ: Special Economic Zone; 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

United Overseas Bank Ltd. (Singapore)/Bank of Communications
Signed MOU to share market information and cooperate on openings in loans, trade bills, banknotes trading, and foreign exchange. 9/00.

Alibaba.com (Hong Kong)/ICBC
Signed deal to develop an online payment system for Alibaba's business-to-business e-commerce site. 8/00.

American Express Co. (US)/ICBC
Signed accord to share automatic teller machines in the PRC. 8/00.

Fleming Investment Management Ltd., a unit of Chase Manhattan Corp. (US)/Hua'an Fund Management (Shanghai)
Signed agreement to cooperate in providing consulting and fund management services. 8/00.

Gerling-Konvern Allgemeine Versicherungs AG (Germany)
Established Gerling-Kovern Allgemeine Versicherungs AG Credit Information Inquiry (Shanghai) Co. to offer credit management services. 8/00.

The Hongkong and Shanghai Banking Corp. Ltd., a unit of HSBC Holdings Plc (United Kingdom)/BOC
Signed agreement to offer RMB remittance and clearing through BOC's national network. 8/00.

The Hongkong and Shanghai Banking Corp. Ltd., a unit of HSBC Holdings Plc (United Kingdom)/ICBC
Signed agreement to offer RMB remittance and clearing though ICBC's national network. 8/00.

Standard Chartered Plc (United Kingdom)/ICBC
Signed payment settlement business agreement. 8/00.

Malayan Banking Berhad (Malaysia)/BOC
Signed reciprocal agreement to open branches in each other's countries. 7/00.

Chemicals, Petrochemicals, and Related Equipment

INVESTMENTS IN CHINA

BASF AG (Germany), Huntsman Corp. (US)/Shanghai Chemical Industry Park Development Co., Shanghai Gaoqiao Petrochemistry, Shanghai Huayi (Group) Co.
Will build joint-venture methylenediphenyl di-isocyanate chemical industry plant in Shanghai. 9/00.

Bayer AG (Germany)/Shanghai Chlor-Alkali Chemical Co.
Signed contract to build polycarbonate plant in Shanghai. (Germany:90%-PRC:10%). $406 million. 9/00.

Kyocera Corp. (Japan)
Will invest $90 million to construct a high-tech industrial park in Shilong, Guangdong Province. $90 million. 9/00.

Dead Sea Bromide Group (Israel)/Haihua Group (Shandong)
Established joint-venture bromide factory in Shandong Province. $300 million. 8/00.

General Chemical Canada Ltd., a subsidiary of General Chemical Group Inc. (US)/Tangshan Shanyou (Alkali) Group Ltd. (Hebei)
Signed letter of intent to form joint venture to produce, market, and sell calcium chloride and to market and sell soda ash. 8/00.

International Finance Corp., a unit of the World Bank/Chengdu Chemical Industry Co., Ltd. (Sichuan), Sichuan Xinxiwang Group
Formed joint-venture potassium chemical company, Chengdu Huarong Chemical Industry Co. Ltd. $30.2 million. 8/00.

Korea Kumho Petrochemical Co., Ltd. (South Korea)/Shanghai Rizhishen'ge Corp.
Agreed to form joint venture to produce plastic material for cars and home electronic appliances. (South Korea:50%-PRC:50%). 8/00.

OTHER

State Scientific Research Center of Applied Chemistry (Russia)/Juhua Group Corp. (Zhejiang)
Will build a high-technology chemical industrial zone in Quzhou, Zhejiang Province, to accelerate the development of flourine products. 8/00.

Kryton International Inc. (Canada)
Started construction of a chemical product manufacturing facility near Shanghai. 7/00.

Consumer Goods

CHINA'S INVESTMENTS ABROAD

Konka Three-Dragon Electronics Philippines Corp., a unit of Konka Group Co., Ltd. (Guangdong)
Will establish a television set assembly plant in Cebu, the Philippines. $2.2 million. 8/00.

INVESTMENTS IN CHINA

Auchan Group (France)/Hangzhou Gongshu District Commercial Co., Hangzhou Tiancheng Silk Industry and Trade Co. (Zhejiang)
Formed joint venture, Hangzhou Auchan Supermarket. $20 million. 8/00.

American Champion Entertainment, Inc. (US)
Acquired 50.01% of 21e-sports Co., Ltd. of Beijing. 7/00.

The Home Shopping Network, a unit of USA Networks, Inc. (US)/TVSN Ltd. (Australia)
Formed joint venture to bring television shopping to the PRC. 7/00.

OTHER

Metro AG (Germany)
Opened a 40,000 m^2 warehouse supermarket in Fujian Province. $20 million. 8/00.

Arrow (US)
Opened store in Beijing to sell men's apparel. 7/00.

MasterCard International Inc. (US)/Founder Computer System Co. (Beijing), ICBC
Issued "dual name" credit card: the Peony-Founder Computer Credit Card (MasterCard). 7/00.

Electronics and Computer Software

CHINA'S EXPORTS

Huajian Group Co., Ltd., an enterprise of the Chinese Academy of Sciences
Sold multilanguage software to Fly Bridge of Australia. $400,000. 8/00.

CHINA'S IMPORTS

IBM Corp. (US)/Shanghai Dongrong Network Information Technology Co., Ltd.
Agreed to use IBM's AS/400 system to expand the WAP market in the PRC. 8/00.

IBM Corp. (US)/Shenyang Heguang Group (Liaoning)
Won a joint bid to sell computer equipment to the State Administration for Entry-Exit Inspection and Quarantine. $3.6 million. 8/00.

Labcal Technologies Inc. (Canada)
Signed deal to provide 20,000 portable fingerprint readers to Global Magnetic Card Co. of Tianjin. $12 million. 8/00.

MPMan.com, Inc. (South Korea)
Will provide the Founder (Group) Corp. of Beijing with 80,000 MP3 players. 8/00.

Orckit Communications Ltd. (Israel)/Capital Networks (Beijing)
Will roll out Orckit's splitterless FastInternet IP DSLAM system to accelerate the development of an IP-based access network in the PRC and to provide broadband DSL technology. 8/00.

Oztime.com, a subsidiary of Zi Corp. (Canada)
Will sell online training services to develop e-commerce courses for Qinghua University. 8/00.

PNX Computers (Shanghai) Co., Ltd., a subsidiary of PDX Computers Sdn. Bhd. (Malaysia)
Will provide structured cables and network installation for Motorola Inc.'s plant in Tianjin. $2.63 million. 8/00.

SyChips Inc., a venture of Lucent Technologies (US)
Won contract to supply chips for wireless handsets to CEC Wireless R&D Ltd., of Beijing. 8/00.

Trigyn Technologies (India)
Will develop a procurement exchange for bEssential.com of Beijing, to connect retail stores with suppliers in the PRC. $750,000. 8/00.

Trigyn Technologies (India)
Will build an industrial gas and chemical Internet marketplace for eChemworld in Shanghai. $750,000. 8/00.

Ramp Networks, Inc. (US)
Signed agreement to have XiaoTong Electronic Co., Beijing, distribute Ramp's broadband, security, and analog WebRamp products in the PRC. $10 million. 7/00.

INVESTMENTS IN CHINA

Adobe Systems Inc. (US)/Beijing Broadcasting Institute
Established the Adobe Digital Video Software Authorized China Training Center as the first digital-video software authentication and training base in China. 9/00.

Oniva NV (the Netherlands)/Sparkice.com Inc. (Beijing)
Agreed to form joint venture to collaborate on e-business development products in China. 9/00.

Philips Semiconductors, a unit of Koninklijke Philips Electronics NV (the Netherlands)
Opened semiconductor assembly and test plant in Guangzhou, Guangdong Province. $24 million. 9/00.

Tom.com Ltd. (Hong Kong), an associate of Cheung Kong Holdings Ltd. and Hutchison Whampoa Ltd. (Hong Kong)
Acquired 163.net, a subsidiary of Freenet Corp. of Guangzhou, Guangdong Province. $48 million. 9/00.

Toolex International NV (the Netherlands)/Tsinghua Tongfang Optical Disc Ltd. (Beijing)
Will form joint venture to manufacture, deliver, and service parts, modules, and lines for optical media production. 9/00.

ABB Ltd. (Switzerland)
Will set up a distribution transformer company in Hefei, Anhui Province. $20 million. 8/00.

ADI Corp. (Taiwan)
Will finance and build worldwide display production center in Wujiang, Jiangsu Province. 8/00.

Cando Corp. (Taiwan)/Chunlan Group Corp. (Shanghai)
Will form joint venture to produce LCD panels in Taizhou, Jiangsu Province. 8/00.

eRing Solutions Inc. (Canada), New China Technologies Inc. (US)
Signed partnership to launch an Internet call management service, itRings!, in Beijing and Changsha, Hunan Province. 8/00.

First International Computer; Hung Jen Group; VIA Technologies, Inc. (Taiwan)
Will construct 8-inch wafer fabrication joint venture in the PRC. $643 million. 8/00.

IBM Corp. (US)/China Great Wall Computer Shenzhen Co. (Guangdong)
Will establish joint venture, Beijing Xing Chang Ke International Electronics Co., to develop, design, assemble, and manufacture electronic components. (US:70%-PRC:30%). $25 million. 8/00.

Intenna Technology AB (Sweden)/Nanjing Panda Electronics Co., Ltd. (Jiangsu)
Will form joint venture, Intenna Nanjing Co. Ltd., to market, develop, and produce advanced antennas for mobile telecommunications. 8/00.

NEU Alpine Software Co., Ltd. (Liaoning), a joint venture of Japan Alpine and Baoshan Steel & Iron Neusoft/Chongqing Golden Abacus Financial Software Co., Ltd.
Established joint venture, NEU Golden Abacus, to market the "Golden Abacus 6F" series products to small and medium-sized enterprises. 8/00.

Nortel Networks (Canada)
Will invest $25 million over three years in the Guangdong Nortel Research and Development Center for high-speed Internet and mobile communications technologies. 8/00.

Reuters Group Plc (United Kingdom)/Shanghai You Li Graphics and Text Data Co.
Launched the Times-Reuters Star system to provide the online version of Reuters's financial and economic information service to the PRC. 8/00.

The Stanley Works
Acquired equity interest in MeetChina.com. $5 million. 8/00.

Toshiba Corp. (Japan)/Henan Pinggao Electric Co., Ltd.
Established joint venture to manufacture top-class high-voltage switch gears for the PRC's power industry. (Japan:50%-PRC:50%). $21 million. 8/00.

Casio Computer Co., Ltd., Mitsubishi Corp. (Japan)
Will set up joint venture in Shanghai to market and sell personal electronics. $3.24 million. 7/00.

Chinadotcom Corp. (Hong Kong)/CCIDNet.com
Will form e-commerce joint venture. (Hong Kong:50%-PRC:50%). $10 million. 7/00.

Epson (China) Co., a unit of Seiko Epson Corp. (Japan)/China Electronics Industrial Co.
Formed joint venture, Epson (Beijing) Technology Service Co., to provide after-sales service in the PRC. (Japan: 60%-PRC: 40%). 7/00.

OTHER

Agilent Technologies, Inc. (US)/Wuhan Science Research Institute of MII (Hubei)
Will jointly develop a chip specialized for Internet applications. 9/00.

Apple Computer, Inc. (US)/Qinghua University (Beijing)
Agreed to set up a digital photo laboratory at Qinghua University. 9/00.

BOC
Will provide Matsushita Electric (China) Co., a subsidiary of Matsushita Electric Industries Co. of Japan, with a loan for its expansion. $362.32 million. 9/00.

Compuware Co. (US)
Will establish a company in Beijing and representative offices in Shanghai and Guangzhou, Guangdong Province. 9/00.

Dell Computer Corp. (US)
Will set up a research and development center and an international procurement center in the PRC. 9/00.

Hewlett-Packard Co. (US)/Dalian Shenghong Software Co., Ltd. (Liaoning)
Will jointly develop a material flow management software system. 9/00.

Lotus Development Corp. (US)/Chongqing Lejie Network Services Co.
Will jointly develop Internet application platforms and provide service solutions. 9/00.

24/7 Media Asia, a subsidiary of Chinadotcom Corp. (Hong Kong)/Sohu.com Inc. (Beijing)
Signed agreement for 24/7 to provide worldwide online advertising placement services to Sohu.com. 8/00.

Broadcom Corp. (US), Skyworth (Group) Co. Ltd. (Hong Kong)
Will cooperate to develop the PRC cable TV network market. 8/00.

Communication Intelligence Computer Corp., Ltd., a joint venture of Communication Intelligence Corp. (US) and the Jiangsu Information Industry Bureau
Signed licensing agreement for its InkTools and Office Automation System Solutions with Shenyang NEU-ALPINE Software Co., Ltd. of Liaoning Province, a joint venture of Japan Alpine and Baoshan Steel & Iron Neusoft. 8/00.

Flash Electronics, Inc. (US)
Constructed electronics-manufacturing facility in Shanghai. 8/00.

Hughes Network Systems, a unit of Hughes Electronics Corp. (US)/Nanning Win Electronics Co. (Guangxi)
Signed agreement to provide DirecPC products to the Chinese market. 8/00.

IBM Corp. (US)/Shanghai Wonders Information Co., Ltd.
Established an online and telephone inquiry center for the Shanghai Labor and Social Security Bureau. 8/00.

Imaging Technologies Corp. (US)/Kong Yue Electronics & Information Industrial Ltd. (Guangdong)
Signed agreement to manufacture and distribute Imaging Technologies' products in the PRC. 8/00.

Intel Corp. (US)
Will establish Internet Exchange Architecture Development Center in Beijing to provide network and telecommunications services. 8/00.

Intel Corp. (US)
Will expand its sealing and testing plant in Shanghai by 397,689 m^2. 8/00.

MIH Holdings Ltd. (South Africa)/China Central Television
Signed three MOUs to co-produce television shows. 8/00.

NEC Corp. (Japan)
Will invest $64 million to raise the chip production of Shougang-NEC Electronics Ltd., a joint venture with Beijing's Shougang Steel Co. Ltd., by 60%. $64 million. 8/00.

Nortel Networks (Canada), Guangdong Nortel Telecommunications Equipment Co., Ltd., a joint venture between Nortel Networks (Canada); Guangdong, Hebei, and Hunan P&T bureaus; and Guangdong Wanjiale Group Co.
Signed licensing agreement for Guangdong Nortel to manufacture 10-gigabit optical networking systems in the PRC. 8/00.

Outside Technology Ltd., a unit of eForce Holdings Ltd. (Hong Kong)
Will buy an 18% minority stake in Beijing Infohighway Information and Technology Ltd. $897,400. 8/00.

The Stanley Works (US)/MeetChina.com
Formed alliance to develop a customized Internet-based procurement marketplace in the PRC. 8/00.

Xerox (China) Ltd., a unit of Xerox Corp. (US)/8848.com (Beijing)
Agreed to offer Xerox's small-office and home-office products for sale on 8848.com's website. 8/00.

Xerox Industry Development (Shanghai) Co., Ltd., a unit of Xerox Corp. (US)
Began design and production of new line of digital copy machines. 8/00.

Autodesk, Inc. (US)
Established Autodesk (China) Corp. in Beijing to promote software in the PRC. 7/00.

Compaq Computer Corp. (US)
Established subsidiary, Compaq Computer (Shanghai) Ltd., to focus on storage, trade, production, and sales of computers and related products. 7/00.

Et-china.com, a joint venture of Et-china.com Investments Pty. Ltd. (Australia) and China Southern Airlines Co. Ltd./Jitong Communications Co. Ltd. (Beijing)
Formed alliance to develop e-commerce in the PRC. 7/00.

IBM (China), a unit of IBM Corp. (US)/Beijing University, Qinghua University (Beijing)
Signed MOU to establish the United Innovative Research Institute. 7/00.

IBM (China), a unit of IBM Corp. (US)/Shanghai Zhonglu Communication Technology Co.
Signed agreement to provide telecommunications services in Shandong Province. 7/00.

IBM Corp. (US)/International Software Development Co. (Guangdong)
Agreed to develop application software based on the IBM S/390 platform. 7/00.

Lienhwa-Mitac Group (Taiwan)
Will set up large-scale data center in Shanghai. 7/00.

MasterCard International Inc. (US)/Xianzai Ltd. (Beijing)
Will collaborate to allow Xianzai.com users to search MasterCard's database for lifestyle and entertainment information. 7/00.

Siemens Shanghai Mobile Communications, a joint venture between Siemens China Ltd., First Research Institute of Telecom Scientific Technology, Shanghai Mobile Communications Corp., and Shanghai Video and Audio Corp./Intrinsic Technology (Shanghai)
Signed agreement to develop mobile Internet services in the PRC. 7/00.

Engineering and Construction

CHINA'S EXPORTS

Major Bridge Engineering Bureau, a unit of the Ministry of Railways
Won contract to build 1.12 mile bridge over the Padma River at Paksey, Bangladesh, from the Bangladesh Roads and Highways Department. $121 million. 8/00.

CHINA'S IMPORTS

Unicor GmbH Plastmaschinen, a German subsidiary of Uponor Oyj (Finland)
Signed three-year contract to provide Shenyang Ginde, Liaoning Province—a subsidiary of the Hong Yuan Group, Jiangsu Province—with composite pipe technology. $42.99 million. 9/00.

OTHER

Honeywell (US)
Launched website, MyConstruction.com, in Beijing to provide online tools and value-added services to the Chinese construction industry. 8/00.

Government of Brazil/Government of the PRC
Signed agreement to develop a satellite to monitor geological, oceanic, and meteorological conditions. 7/00.

Government of the PRC
Signed joint-venture agreement to provide a $12 million loan to the Government of Cambodia to construct a factory to recycle wood and rubber. 7/00.

Environmental Technology and Equipment

INVESTMENTS IN CHINA

Montgomery Watson (US)/Boda (Beijing)
Formed joint venture, MW-BODA Environmental Engineering Co., Ltd., to provide design and construction services in the PRC. 7/00.

OTHER

Government of Germany/Government of the PRC
Will cooperate on a reforestation and sand-control project in Chifeng, Inner Mongolia. $13.73 million. 8/00.

Government of the Netherlands
Agreed to provide the PRC with $6.87 million to help protect and improve its environment. $6.87 million. 8/00.

The Montreal Protocol Multilateral Fund
Will loan $52 million to the PRC to help stop the manufacture and use of detergent chemicals CTC, CEC-113, and TCA. $52 million. 8/00.

Global Environment Fund
Donated $25 million to help fund Beijing's environmental protection projects. $25 million. 7/00.

Pollution Research and Control Corp. (US)/Shenyang Dongyu Group Co., Ltd. (Liaoning)
Signed MOU for air-pollution-instrument manufacturing facility. 7/00.

The World Bank
Approved loan for second phase of Beijing's environmental protection projects. $349 million. 7/00.

Food and Food Processing

INVESTMENTS IN CHINA

Asahi Breweries Ltd. (Japan)/Tsingtao Brewery Co., Ltd. (Shandong)
Will form joint venture to produce tea beverages. (Japan:60%-PRC:40%). 8/00.

Carlsberg Brewery Hong Kong Ltd., a joint venture of Carlsberg A/S (Denmark) and Swire Pacific Ltd. (Hong Kong)/Tsingtao Brewery Co., Ltd. (Shandong)
Agreed to establish joint venture, Tsingtao (Songjiang) Brewery, after Tsingtao acquired 75% share of Carlsberg Brewery (Shanghai) Ltd. (Hong Kong:25%-PRC:75%). $18.6 million. 8/00.

Pizza Hut Inc., a division of TRICON Global Restaurants Inc. (US)
Will invest $16 million to open 30 new outlets in the PRC within the next two years. $16 million. 8/00.

OTHER

China Premium Food Corp. (US)/Shanghai Jie Qiang Tobacco, Sugar, and Wine Co., Ltd.
Signed agreement to distribute China Premium's Looney Tunes brand regular and flavored milks. 9/00.

The Coca-Cola Co. (US)/Xingyun Industry Co.
Agreed to market and sell Coca-Cola and Dasbro potato chips together as the "perfect combination of tastes." 7/00.

Medical Equipment and Devices

INVESTMENTS IN CHINA

Neurotech Development Corp. (US)/Xi'an Municipal Government (Shaanxi)
Signed agreement to build a geriatric hospital, an assisted living facility, a skilled nursing facility, and a senior housing facility in Xi'an. $43 million. 8/00.

OTHER

Roche Pharmaceuticals, a unit of Roche Holding Ltd. (Switzerland)
Will provide $120,800 annually to help China's Ministry of Health train medical professionals to treat sexually transmitted diseases. 9/00.

Government of Singapore/Government of the PRC
Signed MOU to formalize bilateral coordination, liaison, and cooperation in traditional Chinese medicine research and development. 8/00.

Metals, Minerals, and Mining

INVESTMENTS IN CHINA

Furukawa Electric Co., Hitachi Cable Ltd. (Japan)/NA
Will set up a joint venture, Shanghai Sunshine Copper Products Co., to manufacture copper tubes for air conditioners. (Japan: 47.5%, 47.5%-PRC: 5%). 9/00.

Sumitomo Corp., Sumitomo Metal Industries Ltd. (Japan)/Baoji Petroleum Steel Pipe and Tube Works, an affiliate of CNPC
Agreed to establish joint venture, Baoji-SMI Petroleum Steel Pipe Corp., to manufacture steel pipe. (Japan:12%, 25%-PRC:63%). $40.35 million. 9/00.

Miscellaneous

CHINA'S IMPORTS

SPACEHAB Inc. (US)
Won contract to fabricate and install an Earth Exploration exhibit for the new Shanghai ScienceLand science and technology museum. $6 million. 9/00.

APC-2000, Inc. (US)
Won three-year contract to supply Beijing (China) Animal Protection Agency with pet-care products. 8/00.

INVESTMENTS IN CHINA

CIGNA Corp. (US)/Beijing Medical University
Established the Health Insurance Association of America Testing Center in Beijing. 9/00.

ITOCHU Corp. (Japan)/NA
Reached agreement to produce and sell fire-fighting equipment in Sichuan Province. 8/00.

Pipelife International Holdings GmbH (Austria), a joint venture between Solvay SA (Belgium) and Wienerberger Baustoffindustrie AG (Austria)/Changzhou Reinforced Plastics Factory
Signed agreement to form plastic-pipe joint venture, Changzhou Pipelife Reinforced Plastic Pipe Co, Ltd. (Austria:65%-PRC:35%). 8/00.

Pipelife International Holdings GmbH (Austria), a joint venture between Solvay SA (Belgium) and Wienerberger Baustoffindustrie AG (Austria)
Will acquire remaining 25% stake in Wienerberger Plastic Pipe Manufacturing Ltd., in Guangdong Province. 8/00.

OTHER

Government of Indonesia
Will open a tourism office in Beijing. 8/00.

Government of Japan/Government of the PRC
Signed agreement to collaborate on 89 new science and technology programs. 8/00.

Government of Nepal/Government of the PRC
Signed technical cooperation agreement for projects to be named later. $6 million. 8/00.

School of Management at Boston University (US)/Dong Hua University (Shanghai)
Established a four-course International Management Program in Shanghai. 8/00.

The World Bank
Provided loan to Guizhou Province to develop local tourism resources. $360,000. 8/00.

Government of the PRC
Will provide Kazakhstan with $1.23 million in aid. 7/00.

Jurong Town Corp. International (Singapore)/Beijing Economic and Technological Investment Development Corp.
Signed MOU to build an industrial park, the Beijing Economic-Technological Development Area. 7/00.

Packaging, Pulp, and Paper

CHINA'S INVESTMENTS ABROAD

Myanmar Paper and Chemical Industries/China Metallurgical Construction (Group) (Beijing)
Signed agreement to construct the Thabaung pulp factory in the Ayeyarwady Division of Myanmar. 7/00.

OTHER

Asia Pacific Resources International Holdings Ltd. (Singapore)
Will sell its 51% interest in China's Chuangshu paper mill to UPM-Kymmene Corp. of Finland. $150 million. 8/00.

Petroleum, Natural Gas, and Related Equipment

CHINA'S EXPORTS

CNPC
Won contract from the National Iranian Oil Co. to drill 19 gas wells in southern Iran. $85 million. 8/00.

INVESTMENTS IN CHINA

AsiaDemand Inc. (US), CNPC (Hong Kong) Ltd., a subsidiary of CNPC and China Petroleum Economics and Information Research Center
Established joint venture to provide high-tech infrastructure to enable CNPC's procurement processing to use AsiaDemand's web-based management tools and services. 9/00.

The Lubrizol Corp. (US)/PetroChina (Gansu)
Will expand existing joint venture to become the largest integrated lubricant additive manufacturing and marketing company in China. (US:50%-PRC:50%). $60 million. 9/00.

Caltex Corp. (Singapore)/Shantou Ocean Petroleum and Chemical Co., Ltd. (Guangdong)
Formed joint venture to provide the PRC with liquefied petroleum gas. (Singapore:90%-PRC:10%). 8/00.

Hong Kong Electric Holdings Ltd.
Acquired 3% stake in liquefied natural gas project in Shenzhen, Guangdong Province. 8/00.

OTHER

Digital Gas, Inc. (US)/Dong Sheng Corp. (Shandong Province)
Signed three gas and oil contracts for engineering, education, and production sharing. 9/00.

Kerr-McGee China Petroleum Ltd., a subsidiary of Kerr-McGee Corp. (US)
Was awarded block 09/18 in the Bohai Bay by CNOOC. 9/00.

Shell Overseas Investments NV, a member of the Royal Dutch/Shell Group (the Netherlands)/Sinopec
Signed strategic alliance to develop opportunities in coal gasification, and oil and gas exploration, production, and marketing. 9/00.

BP Amoco Plc (United Kingdom)
Will expand its investment in the Yangzijiang Acetyl Chemical Industrial Co., Ltd. of Jiangsu Province over the next three years. 8/00.

Royal Dutch/Shell Group (the Netherlands)/CNOOC
Signed MOU for Royal Dutch/Shell to become a strategic investor in the initial public offering of CNOOC Ltd. 7/00.

Pharmaceuticals

CHINA'S IMPORTS

SmithKline Beecham Plc (United Kingdom)
Will provide Shandong Xinhua Pharmaceutical Co., Ltd. with three tenders for 122 tons of pure caffeine. 9/00.

Ports and Shipping

CHINA'S EXPORTS

China International Marine Containers (Group) Ltd. (Guangdong)
Won order to provide Hanjin Shipping Co., Ltd. of South Korea with 20,000 20-foot-equivalent-unit freight containers. $30 million. 8/00.

INVESTMENTS IN CHINA

Ocean-Land Group Ltd. (Hong Kong)/China National Container Corp. (Sichuan)
Will form container logistics joint venture. 8/00.

OTHER

American President Lines Ltd. (US)
Will establish a documentation center in Shanghai. 9/00.

Tianma Shipbreaking Co. (Tianjin)
Purchased 25-year-old aircraft carrier from the Russian navy for scrap metal. 8/00.

Power Generation Equipment

CHINA'S EXPORTS

China Henan International
Won contract for partial revamp of power plant at Kafue Gorge, Zambia. $26.6 million. 9/00.

China Electric Power Technology Import and Export Corp.
Won contract to reconstruct one earth-filled dam and rebuild two turbines at the Kiriom 1 Hydropower Project in Cambodia and reinstall a 120 kilowatt-hour transmission line to Phnom Penh, Cambodia. 8/00.

INVESTMENTS IN CHINA

Swiss Life Group (Switzerland)
Will purchase three to four small and medium-sized power plants in Sichuan Province. $100 million. 9/00.

Meiya Power Co. Ltd. (Hong Kong)/Jingbian Natural Gas Power Plant (Shaanxi), a unit of China Zhenglian Sanbei Group Co. Ltd.
Will jointly invest in a large natural-gas power plant in Shaanxi Province. (Hong Kong:85%-PRC:15%). $700 million. 8/00.

NA (Japan)/Shuimen Animal Husbandry Co. (Guangdong)
Formed fuel battery joint venture to create power by using pig excrement and urine. $12.68 million. 8/00.

Property Management and Development

INVESTMENTS IN CHINA

Tung Fong Hung (Holdings) Ltd., Star East Holdings Ltd. (Hong Kong)
Will form a joint venture to manage their real estate in the PRC. 8/00.

OTHER

Century 21 (China), a subsidiary of Century 21 Real Estate Corp. (US)
Opened second franchise office in the PRC, Beijing Haixu. 7/00.

Telecommunications

CHINA'S IMPORTS

Alcatel (France)
Signed contract with Sichuan Unicom, a unit of China Unicom, to provide equipment and technical support for an expansion of Sichuan's GSM network. $20 million. 9/00.

LM Ericsson AB (Sweden)
Will provide China Telecom Group Guangdong Corp. with a new-generation fixed network. $100 million. 9/00.

LM Ericsson AB
Signed contract with China Mobile to supply equipment for China's first national Internet protocol network. 9/00.

Shanghai Siemens Mobile Communications Co., Ltd., a unit of Siemens AG (Germany)
Signed contract with Hebei Unicom to help with the fourth-phase expansion of the GSM network. 9/00.

Alcatel (France)
Delivered the PRC's first WAP-over-GPRS trial network in Hangzhou, Zhejiang Province, for Zhejiang Mobile Communications Co., Ltd. 8/00.

Datacraft Asia, Ltd. (Hong Kong)
Awarded contract by China Unicom to deploy VoIP Network in the PRC. $2 million. 8/00.

LM Ericsson AB (Sweden)
Signed contract to supply China Unicom with GSM 900 equipment in Jilin, Jiangsu, Sichuan, Anhui, and Hubei provinces. $176 million. 8/00.

Motorola Inc. (US)
Signed contract with China Unicom to upgrade GSM 900 networks in Shenzhen SEZ, Fujian and Shanxi provinces, and Xinjiang Uygur Autonomous Region, and the GSM 1800 system in Guangdong Province. $258 million. 8/00.

NetSpeak Corp. (US)
Won contract from China Unicom to deploy an extensive VoIP Virtual Private Network solution in the PRC. $1.9 million. 8/00.

Oy Nokia AB (Finland)
Signed contract to provide Yunnan Telecom with D50e broadband services. 8/00.

Siemens (China), a unit of Siemens AG (Germany)
Won contract to provide GSM and pre-paid service network expansion in Shanghai from China Unicom. $17 million. 8/00.

Siemens AG (Germany)
Will supply MII with equipment for a telecommunications backbone connecting Xi'an, Shaanxi Province, and Hefei, Anhui Province. $6 million. 8/00.

UTStarcom, Inc. (US)
Signed contract to install city-wide wireless mobile PAS access equipment in Handan, Hebei Province, and Putian, Fujian Province. $10 million. 8/00.

UTStarcom, Inc. (US)
Signed contract to expand the existing city-wide wireless mobile PAS access system in Zhangzhou, Fujian Province. $7.3 million. 8/00.

UTStarcom, Inc. (US)
Will deploy its AN-2000 telecommunications access network in Beijing and Guangdong Province. $6 million. 8/00.

UTStarcom, Inc. (US)
Signed contract to deploy its AN-2000 telecommunications access network product in Shandong and Zhejiang provinces. $5.8 million. 8/00.

LM Ericsson AB (Sweden)
Signed contracts with China Mobile Communications and China Unicom to expand the GSM network in Inner Mongolia Autonomous Region, and Yunnan, Jiangsu, and Hainan provinces. $86 million. 7/00.

Lucent Technologies (US)
Will expand and boost the capacity of the GSM network of Liaoning Unicom. 7/00.

Oy Nokia AB (Finland)
Won contract to supply Zhejiang Mobile Communications Co., Ltd., a subsidiary of China Mobile (Hong Kong) Ltd., with a complete GSM 1800 network. $60 million. 7/00.

TS Telecom Technologies Ltd. (Hong Kong)
Signed agreement to provide power monitoring system for Shanghai branch for China Unicom. $666,640. 7/00.

INVESTMENTS IN CHINA

Hutchison Telecommunications, a unit of Hutchison Whampoa Ltd. (Hong Kong)/China Unicom
Established joint venture, Beijing Unicom-Hutchison Telecommunications Technologies Co., to provide technical support and marketing consultation services. (Hong Kong:49%-PRC:51%). 9/00.

Sony Corp. (Japan)
Will build a mobile telephone battery plant in Wuxi, Jiangsu Province. $23 million. 9/00.

Motorola Inc. (US)
Will invest $1.9 billion to expand its semiconductor and telecommunications plants in Tianjin. $1.9 billion. 7/00.

OTHER

LM Ericsson AB (Sweden)
Signed contract with Guangdong Mobile Communications Co., Ltd. to expand the existing GSM network in that province. $450 million. 9/00.

Motorola (China), a unit of Motorola Inc. (US)/Shanghai Huateng Software Corp.
Established business application laboratory for WAP mobile phones. 9/00.

Network Development Consulting Plc (Finland)/China Unicom
Agreed to provide short-message service and WAP-based Internet services in Shanghai. 9/00.

Singapore Telecommunications/China Netcom Corp. (Beijing)
Formed alliance to provide corporate communications services between China and international cities. 9/00.

Motorola Inc. (US)/Shenzhen Huawei Technologies Co. (Guangdong)
Agreed to cooperate to provide GSM communications equipment and end-to-end solutions for the PRC and the Asia-Pacific region. 8/00.

Phonecalls.com, Inc., a subsidiary of Tianrong Internet Products and Services, Inc. (US)
Began satellite telephone service to the PRC. 8/00.

Textiles and Apparel

CHINA'S INVESTMENTS ABROAD

Myanmar Textile Industries/Tianjin Machinery Import and Export Corp. (Group)
Signed agreement to build the Pwintbyu textile mill in the Magway Division of Myanmar. 7/00.

INVESTMENTS IN CHINA

Daito Woolen Spinning and Weaving Co., Ltd., Eiko Gendai Co. (Japan)/Ningbo Shanshan Co. (Zhejiang)
Will form joint venture, Ningbo Shandong Garments Co., to manufacture and sell apparel. (Japan:48%, 6%-PRC:46%). $5.6 million. 8/00.

Creative Fashion Network Ltd. (UK)/Shanghai Baromon Clothing Corp.
Will establish fashion joint venture. 9/00.

Transportation

CHINA'S EXPORTS

Changhe Aircraft Group (Jiangxi)
Sold 51 minibuses to Sudan. 9/00.

FAW Sanyou, a joint venture of First Automotive Corp. (Thailand) and Changchun Dali Co. (Jilin)
Will ship four compression-type garbage trucks to Iraq. 8/00.

CHINA'S IMPORTS

Air International Chongqing Co., Ltd., a joint venture of Air International, a unit of Futuris Corp., Ltd. (Australia) and Changjiang Electrical Appliance Co., Ltd. (Chongqing)
Will supply Chongqing Chang'an Automobile Group with heating, ventilation, and air conditioning systems. $111.84 million. 9/00.

China Eastern Airlines Corp. Ltd.
Purchased Airbus-319 passenger plane from Airbus Industrie of France. 8/00.

General Electric Co. (US)
Won 10-year contract to repair GE90 engines for China Southern Airlines Co. Ltd. $215 million. 8/00.

Hainan Airlines
Purchased Boeing 737-800 passenger airplane from The Boeing Co. of the United States. 8/00.

Sainco Trafico, a subsidiary of Abengoa SA (Spain)
Signed contract to centralize the traffic system of Zhengzhou, Henan Province. $4.35 million. 8/00.

Rolls-Royce Plc (UK)
Will supply Sichuan Airlines with engines for AE 3007 jets. $30 million. 7/00.

INVESTMENTS IN CHINA

Fuyao Glass Group Industries Co., Ltd. (Hong Kong)
Will establish subsidiary, Fuyao Group Changchun Ltd., in Jilin Province, to deal with manufacturing and after-sales maintenance service of automobile-related glass. $12 million. 9/00.

Hyundai Motor Co., a unit of Hyundai Group (South Korea)/Yueda Automotive Manufacturing Factory (Jiangsu)
Will establish a joint venture to produce 50,000 vehicles annually. (South Korea:50%-PRC:50%). $650 million. 9/00.

World Transport Authority, Inc. (US)/WorldStar Auto Utility, Inc. (Beijing)
Signed definitive master license agreement to build 358 factories over three years. $900 million. 9/00.

Hutchison Whampoa Ltd. (Hong Kong), NA (US)/China Southern Airlines Ltd. (Guangdong)
Formed aircraft maintenance joint venture. (Hong Kong:25%, US:25%-PRC:50%). 8/00.

Hyundai Precision & Industry, a unit of Hyundai Group (South Korea), Shanghai Reeferco Container Co., Ltd., a subsidiary of Singamas Container Holdings Ltd. (Hong Kong)
Signed joint-venture agreement to develop a refrigerated-container manufacturing business in the PRC. 7/00.

Volkswagen AG (Germany)/Shanghai Automotive Industry Corp.
Established joint venture to handle the sales responsibilities of Shanghai Volkswagen. (Germany: 50%-PRC: 50%). $29.98 million. 7/00.

OTHER

Government of Japan
Will grant $162.4 million loan to finance the construction of a railway in Beijing and an airport expansion project near Xi'an, Shaanxi Province. $162.4 million. 9/00.

ADB
Will provide loan to aid construction of a railway linking Hefei, Anhui Province, and Xi'an, Shaanxi Province. $300 million. 8/00.

Asiana Airlines, Inc. (South Korea)/China Southern Airlines Co., Ltd. (Guangdong)
Signed agreement to develop the passenger market and tourist industry in South Korea and the PRC. 8/00.

China Eastern Airlines Corp., Ltd. (Shanghai)
Launched charter flight from Ningbo, Zhejiang Province, to Bangkok, Thailand. 8/00.

China Eastern Airlines Corp., Ltd. (Shanghai)
Launched charter flight from Shijiazhuang, Hebei Province, to South Korea. 8/00.

China Northwest Airlines
Opened air route from Lanzhou, Gansu Province, to Okinawa, Japan, via Shanghai. 8/00.

Far East Airlines (Russia)
Launched route from Harbin, Heilongjiang Province, to Khabarovsk, Russia. 8/00.

Government of Indonesia/Government of the PRC
Agreed to expand cooperation in the production of commercial aircraft and the exchange of aerospace technology. 8/00.

Hong Kong Dragon Airlines, Ltd.
Launched weekly cargo service from Hong Kong to Shanghai. 8/00.

Moscow International Airlines (Russia)
Launched route from Shenyang, Liaoning Province, to Moscow, Russia. 8/00.

Ansett Australia, a unit of Air New Zealand
Won contract to maintain three Sichuan Airlines Airbus A320s. $583,700. 7/00.

The Proctor & Gamble Co. (US)/Et-china.com, a joint venture of Et-china.com Investments Pty Ltd. (Australia) and China Southern Airlines
Signed agreement for Et-china.com to be the exclusive, in-house travel provider for Proctor & Gamble in the PRC. 7/00.

Vietnam Airlines/China Southern Airlines
Signed code-sharing and seat-exchange contract. 7/00.

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