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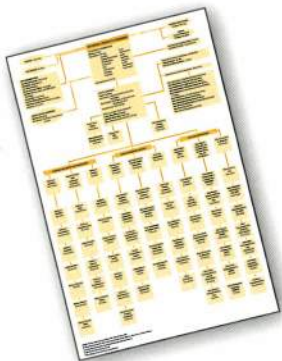
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Recent press reports have claimed that PRC restrictions in the retail sector forced the pullout of Dutch retailer Ahold/Tops, and Hong Kong's Park 'N Shop, and that foreign retailers in Shanghai and elsewhere have been hurting. But these reports have only told one side of the story.

Blaming PRC restrictions...

Although it is true that foreign retailers face a number of restrictions, many, if not almost all of the troubled foreign retailers made their initial investments through "local" deals in order to circumvent national regulations and a time-consuming approval process.

A few entities, particularly Holland's SHV Makro, but also Wal-Mart Stores, Inc. of the United States, spent the time to obtain nationally approved licenses, and as such have fewer restrictions on their operations—although they hold minority stakes as per State Council regulations. In general they are also in better shape financially; in fact, at least one foreign operator turned a profit within the first year of operation.

At the heart of many retailers' problems is that China essentially skipped a step in the traditional development of the retail sector. Historically, the pattern is to go from small "Mom-and-Pop" style neighborhood stores, to supermarkets, then to hypermarkets and warehouse clubs, followed by specialist "category killers" such as Best Buy (electronics) and Petco (animal/pet needs) in the United States.

With the introduction of European-style warehouse centers/hypermarkets by SHV Makro, Metro AG of Germany, and Carrefour of France, as well as the American Wal-Mart format in 1995-96, consumers immediately jumped to what is called in the trade, "Every Day Low Price" format stores. This format usually can only be offered by high-volume retailers because of their stronger buying power. The entry of large-scale, international retailing in effect bypassed the development of traditional supermarkets and left the foreign supermarket hopefuls without a solid customer base.

...or bad commercial decisions?

Almost without exception, the supermarkets that have failed or are currently struggling entered China with flawed strategies, market research, and competitive analysis, and had limited experience operating in a

low-margin, developing-country environment. In many cases, they bought or leased prime sites at the peak of the retail property cycle, and as a result had a much higher cost of entry. Most were also unprepared for the extremely competitive mainland retail conditions, which do not exist in places like Hong Kong. Wellcome and Park 'N Shop have held a virtual monopoly on supermarkets in Hong Kong for years, although they are now under strong margin pressure from the latest Hong Kong market entrant, Admart.

With expensive property and without a strong customer base, foreign supermarket operators were at an immediate commercial disadvantage. Generally speaking, they were competitive neither on price nor on operating costs compared to sophisticated international warehouse/hypermarket operators and strong local retailers like Hualian and Lianhua. Furthermore, the most successful foreign retailers, all of whom possess significant operating experience in Asia, have a high degree of staff localization, and carry about 90 percent locally produced product—which, in turn, generates the volumes needed to get preferential terms from suppliers.

Repeating a well-documented mistake made by Japanese and Hong Kong department store operators in Shanghai and Beijing just a few years before, many of the supermarkets failed to position themselves in the marketplace correctly. They carried a higher percentage of expensive imported products, which led to lower sales, fewer stock turns, decreased purchasing power, and a slow but inevitable decline. None of those reasons can be blamed on PRC market restrictions—these are all fundamental commercial considerations in any competitive market.

Elbow room

The biggest current restriction on foreign retailers is a limitation on geographic expansion, but this will cease to be an issue under the terms of China's World Trade Organization accession agreement. That said, retail competition in the major eastern cities is cutthroat and, on a purely commercial basis, is making life tough for all retailers, both foreign and domestic. There are simply too many players in a limited market. For the moment, international operators continue to work on volume growth as they plan to

expand further afield; local retailers, meanwhile, are looking for ways to reduce high staffing levels and operating costs.

Given the highly competitive nature of the sector, commercial Darwinism is the order of the day. Further consolidation via buy-outs or mergers over the next two years seems likely, as does a general trend toward opening markets outside of the major eastern cities. There are already warehouse clubs in certain secondary cities such as Kunming, Yunnan Province; Shenyang, Liaoning Province; and Tianjin, with more to be rolled out over the next 12 months. Metro recently announced plans to build the largest hypermarket in western China, in Chongqing, where it will compete with Carrefour.

As the larger players (both local and foreign) expand, and as traditional retailers in secondary provinces (many of whom have links to city governments) come under greater commercial pressure, some attempts at local protectionism will probably emerge in these new markets.

—Patrick J. Powers

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

Foreign Firms Encounter PR Problems

The Chinese media has sharply criticized several multinational corporations in recent months over their sale of faulty products and failure to notify or compensate consumers adequately. Recent media reports, which were notable for their marked nationalist tone, have singled out the firms for allegedly deviating from international practice in China.

Toshiba Corp. was lambasted for failing to provide monetary compensation in China for a disk-drive defect for which the company offered compensation in the United States. Similarly, Eastman Kodak Co. and Fuji Photo Film Co. Ltd. have been accused of false advertising of digital cameras. Specifically, press reports claimed the two companies kept misleading information on their Chinese-language websites while correcting the same information on their English-language sites. Kodak is also facing a lawsuit from a Shenzhen, Guangdong

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If the president is to lead on China, he must stay out of the China trap at home. But presidential leadership is itself the best way out of the China trap.

building. It requires allocation of precious talent and time within an administration inevitably beset by limitless demands for both.

6 Far-reaching affinity will not come easily to nations as different as the United States and China. Happily, the world has created a number of structures and systems, including the World Trade Organization, to maintain predictable and stable relations among vastly different nations. China in the past 20 years has committed itself increasingly to participation in the world's principal economic and political regimes.

Wherever possible, the president should position the United States to encourage China's growing commitment to multilateral regimes and norms. He should both ensure that the United States accords China the respect that full participation in international regimes entails, and do his utmost to ensure that China reciprocally displays the same respect and lives up to its own responsibilities.

7 At home, the president must not allow himself to be drawn politically on China. This is perhaps the hardest domestic challenge of all.

For reasons too long to describe here—including real events in China—China sound bites sometimes have special pungency in the American public consciousness. Some will paint a simplistic picture of China—a single memorable phrase, a brilliant moral call to arms, a single riveting photo—and demand that the president “take sides.” They will present China as a morality play, a test of the president's fidelity to elemental values pure and simple. They will suggest that a nuanced and carefully balanced US posture with regard to China is nothing short of “appeasement” or “kowtowing to Beijing.” China's political radioactivity in the United States feeds on itself.

If the president is to lead on China, he must stay out of the China trap at home. But presidential leadership is itself the best way out of the China trap.

8 In guiding American relations with China, the president should understand and draw upon the skills and insights of people of Chinese descent in the United States. People have come to the United States from China for a century and a half—first as exploited coolie labor, later as refugees from war and political convulsion, more recently as students and businesspeople. Some are now tenth-generation Americans. Others are new citizens. Some know their ancestral homeland well; others are total strangers to it. Some

are brilliant, others are dull. Some vote one way, others vote another. But they are Americans of Chinese heritage, and even as they contribute to America's strength, many cherish their roots and their relationships in China. Their position on the cusp of China-US cultural contact is an underutilized American asset.

There is a misguided suggestion afoot in the land that Americans of Chinese origin are somehow vulnerable to the influence of a malevolent oriental despotism. The president should leave no doubt about where the nation stands on this, and should enhance our nation's ability to manage its relations with China by drawing upon our country's Chinese-American resources.

9 The president needs to lead the nation in recognizing that China, more than most countries, is a work in progress. China is in constant motion. Unchanging first principles are few, apart from an abiding sense of historical identity and a deep-seated determination to be respected by others. It is not easy, but the president must anticipate the certainty of uncertainty, the permanence of impermanence, the constancy of inconstancy, in US relations with China. That does not require suspension of ethical standards or of plain common sense. It does demand both strategic long-term vision and short-term flexibility.

10 The president must understand both the power of American example and the limits of American influence. “Sending China a Message” has proven rhetorically popular but substantively unproductive. Telling China to do as we say, on pain of economic punishment, is a fond fantasy. The American president should not take on the impossible burden of remaking China in America's image, whether from the pulpit or the cockpit. He can, though, strengthen America's influence with China.

Many in China study the United States. They look for the sources of this nation's vitality and productivity. Their search has century-old roots. China's willingness to learn from American experience, and the desire to assimilate in some way America's (and other countries') strengths into China's difficult environment, is genuine. It is both a reflection and a source of American strength.

No matter which of you attains the presidency this winter, we wish you well, and we hope that the lessons American business has learned over nearly three decades of work with China may be of service to you and your national leadership. 完

more effective for infectious diseases, acute symptoms and illnesses, and many surgical procedures. The growing trend toward self-medication also boosts the market.

● **Government policy** The government intends to make pharmaceuticals one of China's pillar industries and has pledged to increase investment in the domestic pharmaceutical industry. It aims to develop new high-technology drugs—such as DNA vaccines, gene therapies, and monoclonal antibodies—improve existing ones, and establish high-technology plants and development centers.

The government has offered incentives to domestic pharmaceutical companies to invest in technology transfer and research and development (R&D). Among the government's tariff incentives are duty reductions on raw materials and key components of finished preparations and assembled equipment before WTO accession, and a 3-5 year protection period for certain imports in the wake of entry. Non-tariff measures include establishing industry-specific supervision and administration systems on imports—for example, setting up technical standards in accordance with international conventions, and strictly implementing such standards. The government also seeks to encourage domestic firms by increasing investment in enterprise R&D. This consists of supporting the R&D of certain products by incorporating them into the state industry development plan and budget, and providing additional support to key products that are competitive on the international market.

Traditionally, foreign firms have shied away from extensive R&D investment in China because of the widespread prevalence of generic brands and piracy, coupled with consumers' inability and unwillingness to pay for expensive medicines. But favorable policies conferred on joint ventures and more stringent application of intellectual property laws seem to have enticed some foreign firms into forging partnerships with local companies.

The health insurance headache

All of the government's moves to promote the pharmaceutical industry come amidst difficulties in China's healthcare system. Overall, only 29 percent of China's population is covered by health insurance, according to the National Bureau of Statistics. And only employees of state-owned enterprises (SOEs) and institutions are entitled to virtually free medical care. In most cases, they only have to pay a nominal hospital registration fee. However, payment arrears have been mounting at some enterprises and institutions as they themselves face financial difficulties. National healthcare costs have risen five-fold since 1992, drawing central-government scrutiny to the medical insurance system in China's cities and towns. The government aims to contain healthcare spending to around 5 percent of pro-

jected GDP, and total drug spending to 11-13 percent of total healthcare costs, by 2010.

Experimental reforms have been under way in several major cities. Schemes in Jiujiang, Jiangxi Province, and Zhenjiang, Jiangsu Province, have successfully reduced overall medical costs. The pilot plans have since been implemented in 57 cities in 27 provinces. In most cases, companies themselves have taken on the responsibility of providing healthcare benefits to employees. The quality of a company's insurance policy depends on its general financial performance. It is thus unsurprising that many wholly foreign-owned enterprises (WFOEs) and joint ventures in China provide health insurance plans superior to those of many SOEs.

Medicine men

Though Chinese pharmaceutical firms—primarily SOEs—dominate the medicine market, and in spite of considerable barriers to entry, a few foreign investors have managed to establish a foothold. Almost one-third of China's medicines are from foreign sources or ventures, reflecting the large number of foreign firms that export pharmaceutical products to China and the smaller number of research-based pharmaceutical companies that have investments there.

These firms have had to be persistent. Imports of pharmaceuticals are generally restricted by price considerations, strict import regulations, and complex licensing procedures (see Table 1). China allows imports only of products that are not produced in China, those for which local production cannot meet demand or is of insufficiently high quality, and those for which raw materials for processing can be imported at a lower cost than using domestic inputs.

Leading foreign companies such as Janssen Pharmaceutica, Inc., SmithKline Beecham, and Pfizer Inc. are manufacturing and selling products in China, despite the complex registration and application process (see Table 2). It takes an average of three years to complete the costly process of securing a manufacturing and distribution license.

Recently, to improve the competitiveness of the domestic pharmaceutical industry, many smaller, unprofitable SOEs have been persuaded to merge to optimize economies of scale and to increase investment in R&D and marketing. Most leading producers have acquired smaller companies, and are much bigger than just a few years ago. Among the top 512 enterprise groups in China in terms of sales in 1997, 15 were in the pharmaceutical industry, and they accounted for half of the sector's market. The top three state-owned pharmaceutical companies in 1998 were, in decreasing order of annual sales value, North China Pharmaceutical Group, Sanjiu Enterprise Group, and Shandong Xinhua Medicine Group.

Large-scale consolidation is also taking place owing to pressures to globalize, raise quality standards, and navigate the government's com-

Almost one-third of China's medicines are from foreign sources or ventures, reflecting the large number of foreign firms that export pharmaceutical products to China and the smaller number of research-based pharmaceutical companies that have investments there.

ply take orders for hospitals and retailers. As more products flood the market, the power of distributors increases, and they tend to direct orders to drugs with the highest profit margins. To survive, pharmaceutical companies must either generate a distributor-driven push by offering more lucrative margins, or create market pull by generating consumer demand for their products.

In a bid to ensure higher quality and efficiency, MOH has forced this distribution network to consolidate to roughly 6,000 companies. Within five years, it hopes to create 45-50 large distribution groups that would handle 70 percent of sales.

Regulatory and policy migraines

SDA, the state administrative agency for drug supervision, is directly under the State Council. It was formed in August 1998 out of the three-way merger of the former Drug Administration Bureau in MOH, the former State Medical Administration Bureau, and the former State Administration of Traditional Chinese Medicine. These changes in the administration of the industry followed the introduction of the Drug Administration Law (previously known as the Pharmaceutical Administration Law) in 1998. Key elements of the new law include prevention of uncompetitive practices (such as excessive commission payments), a new classification for over-the-counter (OTC) and ethical drugs (prescription drugs), reimbursement lists, and price controls.

As part of its effort to contain spiraling healthcare costs and to tighten control over the pharmaceuticals industry, the PRC government introduced price and profit controls for a range of drugs in 1998 (see p.12). In addition to reforming the healthcare insurance system, it has been implementing increasingly stringent regulations on reimbursement. These policies are driving up price sensitivity among doctors and patients and are causing frustration among drug manufacturers whose products are not included on the reimbursement lists.

Key for some foreign companies: making the list

The reimbursement lists identify pharmaceutical products that are subsidized under the current medical insurance system. If a drug is not on the list, the consumer has to pay for it out of pocket. These lists were created to replace an inefficient reimbursement system through which anyone could be reimbursed for anything, and upon which pharmaceutical companies thrived for years.

To get a drug on the list and keep it there is a long, fragmented, and negotiation-filled process, as both provincial and central authorities have some power to select drugs for the lists. The State Drug List for Basic Medical Insurance (State Reimbursement List) is based, with greater price considerations, on the State Essential Drug List (SEDL) issued by MOH and the former State

Medical Administration Bureau and State Administration of Traditional Chinese Medicine and on the basis of clinical need, safety and efficacy, reasonable pricing, ease of use, and balance between Western and TCM drugs. The State Reimbursement List, compiled by the Ministry of Labor and Social Security in consultation with other relevant central-government departments, consists of more than 1,000 drugs and provides a framework for provinces to formulate their own reimbursement lists. Normally a minimum of 90 percent of drugs on the State Reimbursement List are included on local lists. By the end of 1998, following Shanghai's lead, 26 provinces had introduced reimbursement lists, but very few joint-venture or imported drugs have made it onto the lists. Of the 885 drugs on the Shanghai list, for example, only 4 percent were imports.

Prescription for success

Despite the complex and sometimes unfathomable regulations and controls, the Chinese pharmaceutical market remains dynamic and potentially lucrative. China's large—and largely untapped—market for medicines presents unparalleled opportunities to foreign pharmaceutical companies.

China's impending entry into the WTO will further open the market by introducing internationally accepted trading and regulatory standards. Foreign drug makers will have greater access to the PRC market, as average tariffs on drugs will drop from 9.6 to 4.2 percent by 2003. The general improvement in China's trade and distribution system and in the protection of intellectual property rights should also encourage foreign participation.

Nevertheless, China's administrative barriers could offset some of the benefits of WTO membership. For example, foreign drugs may still find it hard to get on the all-important reimbursement lists, and thus be unable to supply the largest PRC buyer, the state hospital system. And some uncertainty remains as to how the PRC's WTO obligations will apply to the drug distribution system.

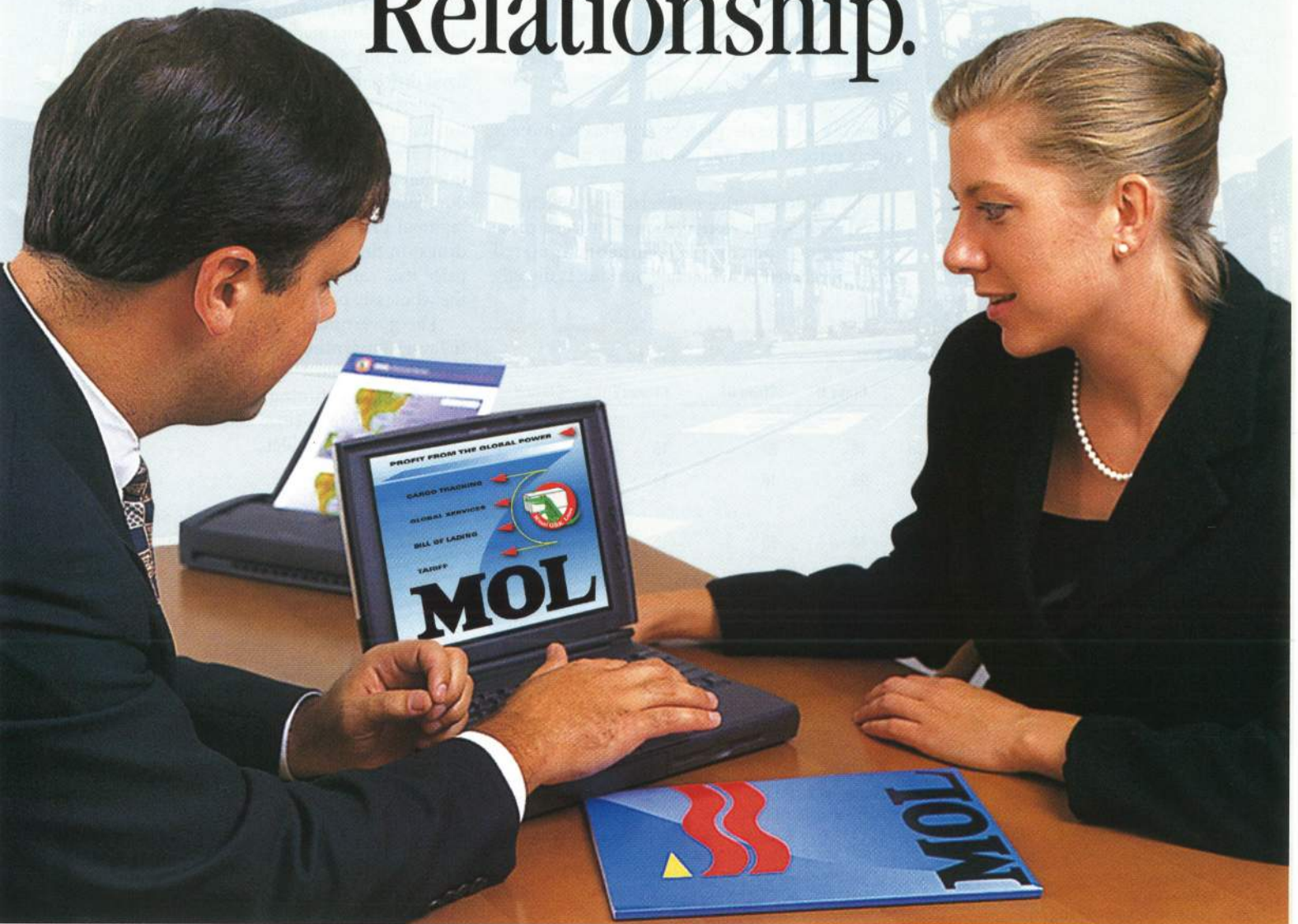
Though the effects of WTO membership are not crystal clear, foreign drug makers may still profit from China investments. The key to a foreign company's success is having a sound strategy and the navigational tools to guide it through the regulatory maze. These include a firm grasp of regulations and how to work with regulators, strategic use of distributors and local partners, and knowledge of real-market practices and competitors. While it does not in any way promise a smooth and easy ride, China does promise opportunities for foreign companies with staying power. 完

Table 2
Top Foreign-Invested
Pharmaceutical Enterprises in
China by Sales, 1999

Rank	Company
1	Dalian Pfizer Pharmaceutical Co. Ltd.
2	Sino-American Shanghai Squibb Pharmaceutical Co., Ltd.
3	Hebei North China Pharmaceutical Group Co., Ltd.
4	Roche (Shanghai) Pharmaceutical Co., Ltd.
5	Chongqing Glaxo Wellcome Pharmaceuticals, Ltd.
6	Xi'an-Janssen Pharmaceutica Co., Ltd.
7	Sandoz
8	Astra Pharmaceutical (HK) Co. Ltd.
9	Merck Sharp & Dohme (China) Ltd.
10	Tianjin SmithKline & French Laboratories Ltd.
11	Beijing Double-Crane Medicine Co., Ltd.
12	Jiangsu Sino-Swed Pharm
13	Astra (Wuxi) Pharmaceutical Co. Ltd.
14	Beijing Novartis Pharma Ltd.
15	Laboratories Serono

SOURCE: State Drug Administration

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rations, biological drugs, and biochemical drugs should not exceed 15 percent.

Retail prices of drugs on the central- or provincial-government price lists can be set below, but not above, the government prices. Drugs purchased directly from the manufacturer should be priced on the basis of the purchase price plus the government-fixed differential rate between wholesale and retail. County-level and rural medical institutions can adjust the differential rate to an appropriately higher level if they lower the standard discount rate and retail price. The adjustment should be within 3 percent for county-level clinics and 8 percent for those in the countryside. Government-regulated drug prices can be set at a higher differential rate if the purchase price is lower than the government-set manufacturer or wholesaler prices and does not exceed the government-set retail prices.

Imported drugs

The pricing of imported drugs also must follow certain guidelines.

Port and wholesale prices

After-tax port-balanced price = cost, insurance, and freight \times (1 + customs duty rate) \times (1 + value-added tax rate) \times (1 + administration fee [export agent fee]) + miscellaneous expenses

After-tax wholesale price = after-tax port-balanced price \times (1 + purchase and sale differential rate)

Internal transfer prices are negotiated within wholesale prices. The purchase and sale differential rates should be fixed at no more than 20 percent for injection and 19 percent for tablets of chemical and biochemical drugs, 20 percent for prepared TCMs, and 22 percent for biological drugs.

Retail price

Retail price = after-tax wholesale price \times (1 + wholesale and retail differential rate)

The differential rate between wholesale and retail for all categories of drugs is 15 percent. The import administration fee is higher for urgently needed drugs that must be imported because they cannot be produced domestically, and moderate for drugs that can be produced domestically but with

inconsistent efficacy and have to be imported in limited quantities. For a drug that is produced domestically in adequate amounts but that is also imported in small quantities, a lower fee applies if the cost of importing the drug is lower than the domestic manufacturer price. Imported drugs that have higher import costs than the domestic manufacturer price should be priced on the basis of the domestic manufacturer's price.

Anaesthetics

The primary anaesthetics-trading businesses (national purchasing organizations appointed by the central government) base the allocation and transfer prices on the fixed manufacturer's price and the transportation and insurance fees incurred in the purchase, plus 17 percent (including transportation and incidental expenses).

The local wholesale price for secondary businesses is based on the allocation and transfer price of the primary dealers, plus the actual transportation, insurance, and incidental expenses, with an additional 10 percent of the integrated differential rate, or an additional 14 percent if sales are made directly to the users.

The wholesale price for tertiary (retail) businesses is based on the price of the secondary level plus the actual transportation, insurance, and incidental expenses with an additional 9 percent of the differential rate.

Retail prices are determined by adding 15 percent to wholesale prices.

Prices set by enterprises

Article 6 of the Price Law stipulates that drugs excluded from government-guided or -fixed price lists can adopt a market-adjusted pricing structure, devised by the medical businesses themselves, within the framework of the Price Law. The price of drugs released from government price controls can be formulated by medical businesses independent of government pricing regulations, while prices of drugs not regulated by government-fixed or -guided pricing, but still subject to price controls, can be priced by the medical businesses in light of government pricing measures.

Other rules and regulations

● **First-in first-out pricing** In the wholesale and retail businesses, different prices are

allowed for the same drugs purchased from different channels. Drug-trading businesses should adopt the principle of first-in first-out pricing. If different prices are paid for the same drug from the same manufacturer owing to differences in purchasing time or channel, priority should be given to the earlier purchases until they are sold out.

● **Discount rate** The discount rate for the drug sales of medical businesses should not exceed 5 percent of the price. The sellers should state on the sales invoice the actual price after the discount for the transaction. The price before the discount, and the discount rate, can be noted on the sales receipt or in the discount contract signed by the purchaser and seller. The purchaser (including wholesale and retail businesses and medical institutions) should base its price on the real purchase price, minus the discount rate of no more than 5 percent given by the seller, and the fixed differential rate between purchase and sale. China bans all other forms of discounting.

● **Drug sales registration** The drug prices set by businesses under autonomous pricing rules should be registered with the local government where the drug is produced or sold. The provincial administrations where the drugs are produced should publicize the manufacturer's price and retail price in appointed newspapers and periodicals. The provincial administrations where the drugs are sold at the retail level should regularly publicize prices they register, as well as those already registered in the producer's province. The seller's province should not require the re-registration of drugs already priced by SDPC or provincial price administrations, or registered in the manufacturer's province. The seller's province can register drugs not registered in the manufacturer's province according to the price provided by the manufacturer, if they publicize it and inform the manufacturer's provincial price administration.

Provincial price administrations should not entrust the registration of drug prices to other government agencies, companies, and organizations; request cost data from enterprises; or charge them any fees. Price administrations below the provincial level should not request enterprises to complete price registration.

—Qi Bao

cessed into juice. These leftovers are insufficient to fuel a full-time processing plant. Second, the local variety of orange tree produces fruit for only two months a year, not long enough to provide the steady source of raw material necessary for a commercially viable operation.

Seagram also had to convince the Chinese to grow juice oranges. Though farmers would not earn the best fresh-fruit market prices, Seagram assured the Chinese that the eventual processing plant would offer farmers a decent, steady income from juice oranges. (Fresh fruit sells for ¥1-2 [\$0.12-0.24] per kg, while juice fruit brings ¥0.6-1.5 [\$0.07-0.18] per kg.) This argument resonated with officials faced with the difficult tasks of resettling people displaced by the Three Gorges Dam project and trying to raise rural incomes, and they agreed that the citrus project should concentrate on building orange groves.

Though interested in the proposed citrus project, neither CRI nor the local governments had the money to fund it. But TGCG was able to obtain funding from various levels of government for economically viable projects in the Three Gorges resettlement area.

Finding the right spot

When Seagram first started to explore a citrus project in the mid-1990s, the firm owned Tropicana Products, Inc., which had a packaging plant in Huizhou, Guangdong Province. Seagram initially examined the possibility of buying a grove owned by Dole Food Co., Inc. in neighboring Guangxi Zhuang Autonomous Region, and using it as a base for community outreach to poor farmers in Guangxi. The central government, however, did not consider development of the citrus industry in Guangxi a priority, so Seagram decided to look for a site that was more consistent with Chinese development priorities.

Seagram's search moved north to the Three Gorges region. The climate in this area is suitable for oranges, and until very recently, the region was free of citrus diseases. The region's cool winters control pests and disease, and give the fruit a deeper color than oranges grown in more tropical areas. As winter in this region comes on slowly, trees can adjust. There are few of the cold snaps that can be deadly to citrus trees. For these reasons, Seagram recognized the Three Gorges area's potential to become the center of orange juice production in China.

Seagram began surveying the area to find the best location for the center and groves. Zhongxian was chosen for the center site in 1997 because it was suitable for growing citrus and lies within the Three Gorges resettlement region. Seagram wanted to locate the project within this region not only to address the needs of low-income farmers in these counties, but also to qualify for government resources earmarked for counties involved in resettlement. Three percent of Zhongxian's total land area—nearly 5 percent of cultivated land—will be inundated once the reservoir is full.



And almost 6 percent of its 1 million people will have to be resettled, according to the Resettlement and Development Bureau of the State Council's Three Gorges Project Construction Committee.

Choosing the right location was one way to ensure that the intended beneficiaries of the project became the actual beneficiaries. Only people willing to live in this rural area—usually only existing residents—will choose to work at the technology center. By building the center in the countryside, rather than in Zhongxian City, the

The Seagram Citrus Technology Center's state-of-the-art greenhouse provides a sterile environment in which to grow rootstocks from seed.

To regulate temperature, fans are activated by thermostat and the interior roof can be adjusted to control the amount of sunlight. In winter, the greenhouse can be heated.

Photos courtesy of Virginia A. Hulme



project also avoided having to employ relatives of local-government officials.

Zhongxian already grows 25,000 mu (1,675 hectares [ha]; 1 mu equals roughly 0.067 ha or 0.164 acres) of the local Jincheng orange variety, but these groves are in need of improvement. Soil samplers selected another 3,000 ha in the county as worth putting under oranges. Next year, the

The screenhouse, also a sterile environment, shelters the scion trees.

Scion trees provide the buds that, once grafted onto rootstocks, grow into the fruit-bearing part of the orange tree. Fans and a misting system help cool the screenhouse.

Despite the fact that many Chinese citrus experts have visited US groves, some doubt that the techniques and standards used in the United States will work in China. Some believe that Chinese trees will never achieve yields as high as American ones, in part because China's manual pruning and spraying techniques mean that average tree size will be smaller. After more than a year of discussion, the two sides finally agreed that the project groves should have an average density of 40 trees per mu, with a maximum of 50.

Another outstanding issue concerns the Chinese custom of planting secondary crops, such as beans, between trees. According to Seagram consultants, intercropping is possible as long as farmers keep a wide radius around the tree so as not to damage roots.

Growing citrus

The center's first batch of 150,000 trees will be ready for planting this year. Trees budded this summer (see p.21) will be ready to plant in 2001, and 250,000 trees will be ready for planting in 2002.

The center originally planned to produce approximately 200,000 trees per year. But TGCG asked Seagram to expand its production so that it could take advantage of currently available government funding. As a result, the center will

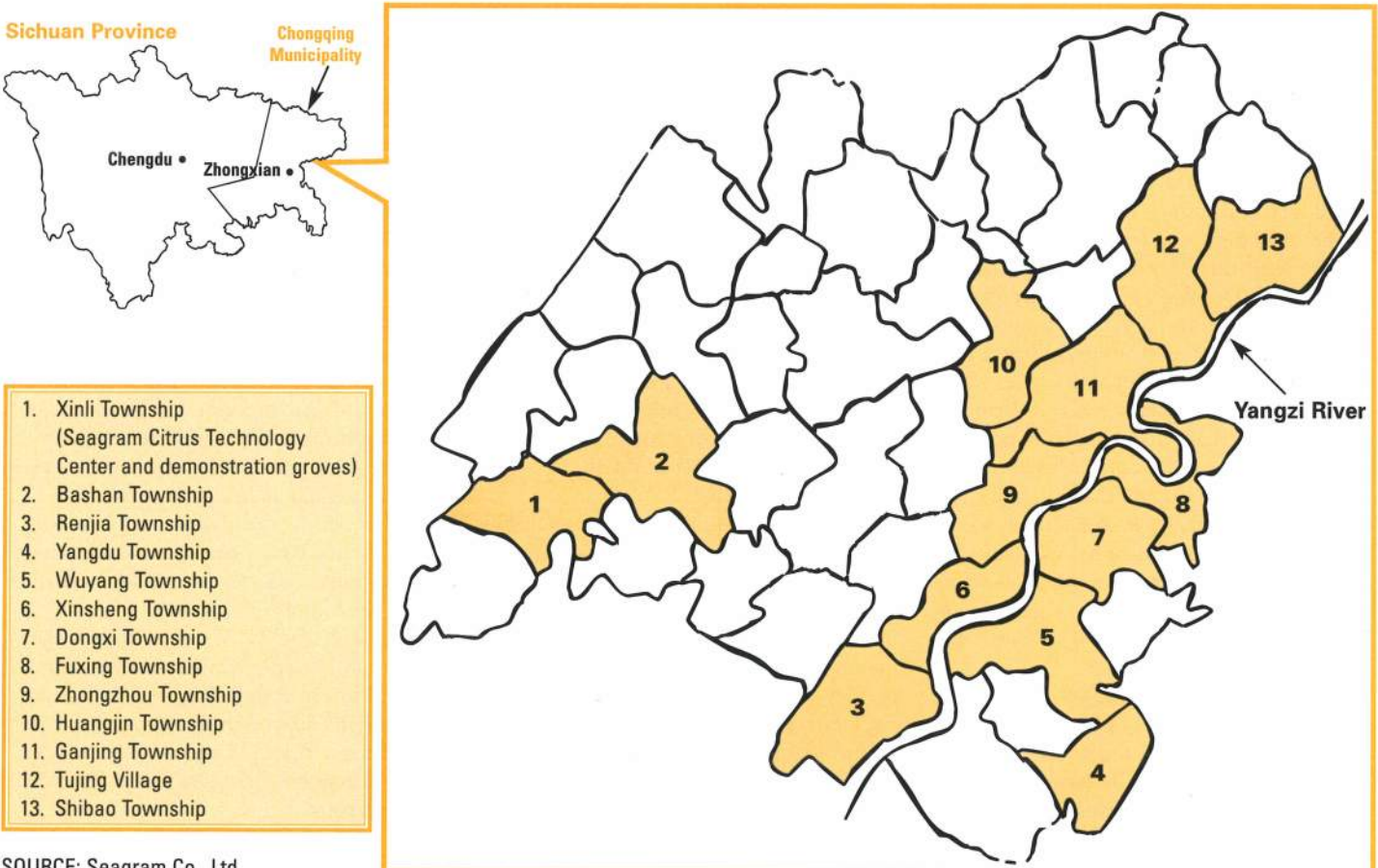
plant two batches of 200,000 trees every year, for a total annual output of about 400,000. (In comparison, a large nursery in California produces 200,000-300,000 trees a year.) By 2002, trees at four different stages of development will be growing at one time—one batch in the greenhouse and three in the nursery. Finding enough flat space for the huge numbers of potted seedlings poses a challenge.

Originally, the project MOU required all trees to come from the center's greenhouse, because the imported rootstocks and buds are all certified disease free. But because construction delays slowed initial production and TGCG requested Seagram to expand output, CRI will now provide a small percentage of trees. While CRI will do its best to ensure the trees are healthy, it cannot guarantee that all of them will be free of disease. These trees will be planted in more isolated areas as an extra precaution.

Grove management

Each family will receive about 20 trees from Seagram at no cost, as well as training on how to care for them. Specific arrangements will vary from village to village, but in general, individual farmers will provide labor, while management will be cooperative. Coordinated management is important to control disease and pests. For in-

Seagram Citrus Technology Center and Grove Locations, Zhongxian, Chongqing Municipality



SOURCE: Seagram Co., Ltd.

roles in the company. TGCG will manage some groves directly and pay wages to the farmers. Others may have a stronger cooperative initiative and weaker links to the management company.

In general, grove workers will earn wages for their labor, while those who supplied land to the project will be compensated from the fruit proceeds, according to how much land each family supplied. While relatively labor intensive, citrus farming is less so than the unmechanized traditional grain farming still prevalent in the project area. Thus, the groves will be unable to employ all farmers in the area.

A new local employer

The citrus technology center already employs five senior staff: an administrator, an engineer, an accountant, one nursery supervisor, and one demonstration-grove supervisor. The center also employs two kitchen staff and 23 guard, greenhouse, and screenhouse staff.

The nursery now employs 20 workers. By 2001-02, up to 30 more employees will be needed for budding and transplanting. With 800,000 trees in various stages of growth, the project will eventually need 30 budders and 30 tapers and movers, twice a year for six to eight weeks, for budding alone. Three shifts of 10 people will be needed to mix and sterilize potting soil. And twice a year, extra staff will be required for transplanting.

When the nursery is running at full capacity, 800,000 pots will need to be cared for and watered at one time. The "Blue Duck Pisser" (BDP), as it is affectionately called by staff, is the center's experimental fertigation device. The BDP will automate watering and fertilizing to some extent, but watering will still require 24 more people.

For unskilled work, such as hoeing, the project pays ¥16 (\$1.93) per day, the local going rate. Skilled work, including watering, fertilizing, and applying pesticide, earns ¥18-19 (\$2.17-2.29) per day.

Eventually the project will need four supervisors, plus a slew of seasonal employees. Some staff are now hired by the day as needed, but there is work nearly every day. At peak times, Seagram estimates, the nursery will need up to 300 people. Most of these workers will come from the surrounding villages. Local hiring requires a lot of training, but is one of the project's objectives. Seagram also encourages local hires to move up within the organization. For instance, one of the three housekeeping staff is currently learning how to manage the center's inventory.

Technical extension

Seagram is not just supplying trees, but is also setting up a technical assistance center. Technical staff can be divided into three levels based on expertise. The highest level consists of US-based experts brought over from the United States and Chinese experts from CRI and local universities.

The Life of a Citrus Tree

A cultivated citrus tree is made of two elements: the rootstock and the cultivar. The Seagram Citrus Technology Center has chosen a hardy trifoliolate rootstock that is not native to China, but is suitable for local soil conditions, pest resistant, and compatible with the chosen cultivar. The local trifoliolate is also hardy and disease resistant, but grows more slowly. The center is experimenting with other trifoliate, including a faster-growing US variety. The key is to find a happy medium among resistance, fast growth, and good fruit production.

The project will use three cultivars: Valencia, Hamlin, and Jincheng. Jincheng is a good-quality, local, dual-purpose (fresh fruit/juice) sweet orange. The three types were chosen not only for the quality of fruit they produce, but also because they bear fruit at slightly different times of the year. Hamlin fruits from October to December, Jincheng from December to February, and Valencia from March to June.

At the Seagram project, rootstocks are grown from seed in the greenhouse, which can hold 300,000 seedlings, or about two batches. The project is already growing about 300,000-350,000 rootstocks from imported Californian seeds. Every four months, the project will plant 300,000 seeds in the greenhouse. Because seeds must be planted within a few months of harvesting, seeds for the second of the two annual batches will probably come from Australia and South Africa.

The project also makes its own sterile potting soil to protect the seedlings from soil-borne diseases. Local peat is broken up and mixed with sand (for drainability) and rice husks (for nitrogen). The mixture is then sterilized by steam.

At 12-15 months, depending on whether the seeds were planted in winter or summer, the seedlings are usually old enough to be budded. Budding is necessary to produce a tree that is both disease resistant and that bears good fruit. Seagram imported the first batch of buds from California, but importing buds is expensive, so Seagram has imported scion trees as a

permanent source of budwood. The imported scion trees are kept inside the screenhouse to keep them disease free. Jincheng, the local cultivar, is kept outside, as the center cannot be sure the local plants are 100 percent disease free.

Seagram also brought in a US expert to teach budding techniques. Budding involves grafting a cultivar bud onto a rootstock. Technicians slice a bud from a scion tree and implant it into a slit in the rootstock. The stem is then wrapped with plastic tape just above and below the bud, to keep it in place. This bud grows into the main, fruit-bearing part of the tree. After the bud takes hold and starts to grow, the top of the rootstock is clipped off. The end result is a tree whose roots and trunk are pest and disease resistant, but whose top bears good-quality fruit.

How large the rootstock should be before budding became a contentious issue between the Chinese and US sides of the Seagram project. US citrus growers prefer to bud about six inches up the stem, when the rootstock is a quarter of an inch in diameter. But Chinese farmers tend to bud lower down, when the tree is younger, to speed up the growing process and shorten the interval between budding and the first harvest. US growers argue that the higher the bud, the less likely it is to be splashed with mud containing fungus or other disease. Though the rootstock is disease resistant, the cultivar—which will form all of the tree from the point of budding and up—is vulnerable.

At the Seagram project, the young trees will remain in the nursery for up to a year and a half, until they become rootbound and ready for planting. The whole process from seed to planting in the grove takes two to two-and-a-half years. Once planted in a grove, some trees live as long as 50 years, but many are replaced earlier. Ideally, trees are replaced gradually as they sicken or as their yields taper off. Most are replaced within 25 years.

—Virginia A. Hulme

The middle level consists of center extension technicians. Once the project is under way, extension agents will spend most of their time in the project groves, teaching farmers how to grow and care for trees, as well as how to identify and treat tree diseases. Currently, the center employs two technical extension agents to help in the demonstration groves and with pest and disease surveys. One, a CRI staffer originally from

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than the 0-2 percent range targeted by the United States and Europe. Reasons for this higher inflation expectation include the absence of a fully independent central bank and the lack of an anti-inflation mandate. Moreover, current monetary tools available for controlling inflation are rustic. A more flexible RMB is thus needed to offset the loss of competitiveness through higher inflation.

Central bank credibility improves

Some analysts believe that a weak central bank warrants a currency peg, as a way to build confidence in combating inflation. This argument is weakening in China's case, as the authorities are moving towards strengthening the credibility of the People's Bank of China (PBOC).

PBOC is restructuring along the lines of the US Federal Reserve System. The bank has formed a monetary policy committee that meets every month. It has moved to reduce political interference by slashing the number of provincial and municipal offices from over 30 to 9. Beijing is also issuing more Treasury bonds and bills (see Figure 2) and nurturing the growth of the inter-bank market to facilitate the implementation of monetary policy.

Premier Zhu Rongji has shown determination in fighting inflation since 1994, when retail price inflation peaked at 25 percent per annum. PBOC also kept monetary policy tight throughout the Asian crisis despite mounting deflation. Gradual improvement in PBOC credibility, coupled with the policy control it enjoys under a closed economy, reduces the need for an RMB peg.

A fixed rate is incompatible with reform

More subtly, fixing the RMB exchange rate before structural reforms take a firm hold may be inconsistent with China's economic fundamentals. Under current economic conditions, the fixed exchange rate would amount to a wealth transfer from the efficient exporters to inefficient domestic firms. Why?

China needs to implement an export-switching strategy to enhance external competitiveness. Export switching involves shifting exports from sunset (low-technology) to sunrise (high-technology) industries through structural reforms (see *The CBR*, March-April 1999, p.50). Before that process is firmly under way, a flexible exchange rate can help absorb the shock to the domestic economy that arises from lower Chinese productivity relative to foreign producers.

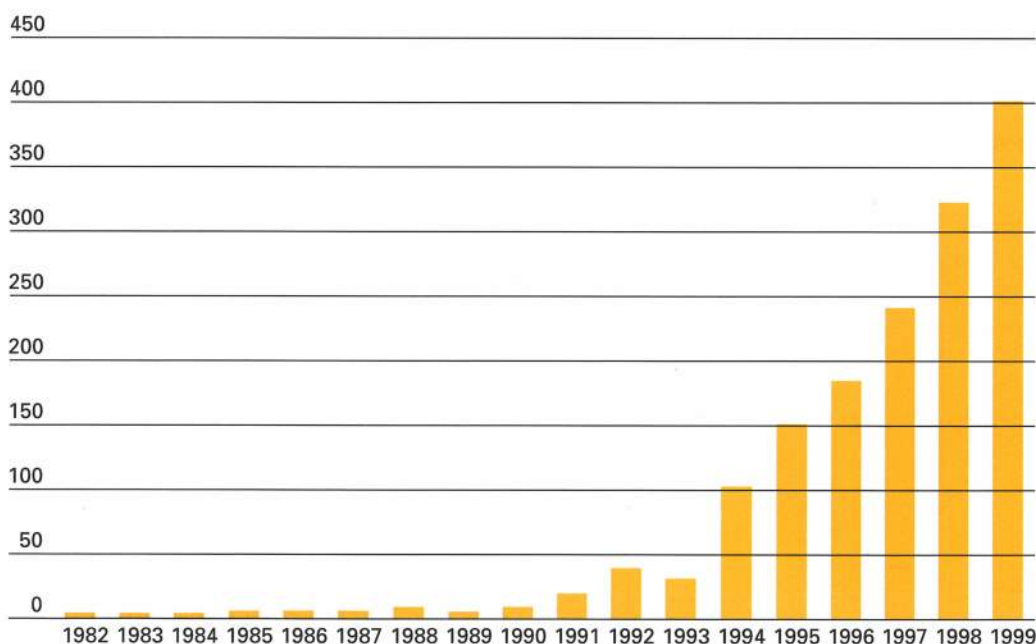
The current exchange-rate regime will eventually hurt exports—especially after China enters the WTO—as it bars the RMB from falling to reflect China's competitiveness. The fixed exchange rate, in effect, imposes a tax on exporters by making their goods more expensive on world markets. And maintaining an overvalued RMB effectively subsidizes domestic corporate borrowers by helping reduce their foreign-debt burdens. Since China is striving to improve economic efficiency, this redistribution of wealth is undesirable.

Middle ground—a more flexible RMB

A fixed peg will always be a target for speculators, especially when China opens up further to global influences. A more serious problem, as seen in the Asian crisis, is that by eliminating

The fixed exchange rate, in effect, imposes a tax on exporters by making their goods more expensive on world markets.

Figure 2
Chinese Domestic Treasury Bonds and Bills Issued (RMB billion)



SOURCE: CEIC Data Co.

adoption of a more flexible exchange rate politically more acceptable.

In a nutshell, declining cyclical risk and sliding BOP under rising competitive pressures from WTO entry will likely prompt China to liberalize its exchange rate regime next year. Some hints about band-widening are likely to emerge after next spring's meeting of the National People's Congress.

Where will the RMB go?

A cautious PBOC will test a wider trading band gradually. It may not even announce an official range, but just keep the RMB within its desired limits through intervention, as in the present situation. It may implicitly enforce a 5 percent trading band initially, and widen it gradually when the economy starts feeling the competitive pressures of WTO membership.

The BOP position will determine the direction of the RMB. Since there is little in the way of portfolio flows in China, the basic balance (the sum of the current account and long-term capital account balances) will be the deciding factor.

The current account may start moving into a deficit next year if China enters the WTO. However, continued strong FDI inflows will keep the basic balance, and hence the BOP, in surplus in the next 12 months. This will underpin the RMB.

Investment plans of foreign investors, as seen in contracted FDI, have been held back in the last year or so by the uncertainty about China's WTO entry. With China's accession a certainty now, investment plans are already reviving. A 20 percent year-on-year rise in FDI inflows (to \$46 billion) this year is in sight (see Figure 4).

Chinese sources also indicate that many European companies, especially information-technology firms, are planning to increase invest-

ment in China upon its accession to the WTO. And many joint ventures are considering swapping debt for equity with their Chinese partners. Such swaps would mean that there would not be significant capital outflows for debt repayment. All of this suggests that if the currency band is widened, the RMB could rise, not fall as many were recently expecting. Favorable short-term forces will likely make the RMB appreciate to the upper limit of the new trading band initially.

But competitive forces from the WTO will build between 2002 and 2005, most likely constraining China's export growth before efficiency-enhancing structural reforms are completed. In the meantime, imports are set to rise more quickly as a result of stronger consumption and rising demand for capital goods and raw materials for industrial upgrading. The BOP should deteriorate in the medium term, putting downward pressure on the RMB after an initial rise.

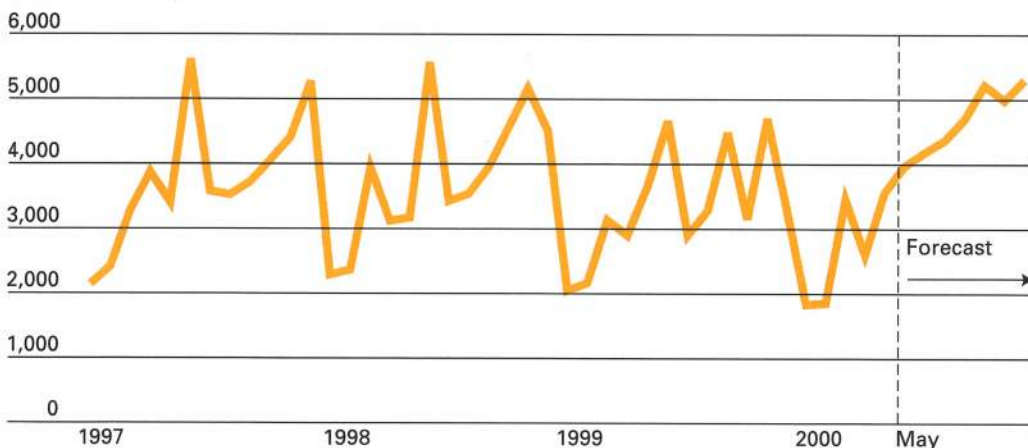
Full convertibility—no time soon

While PBOC is moving toward a more flexible RMB exchange rate, this does not mean it has imminent plans for full currency convertibility. A lesson from the Asian crisis is that an open capital account is not necessarily a good idea, especially if the economy in question does not have a robust financial system.

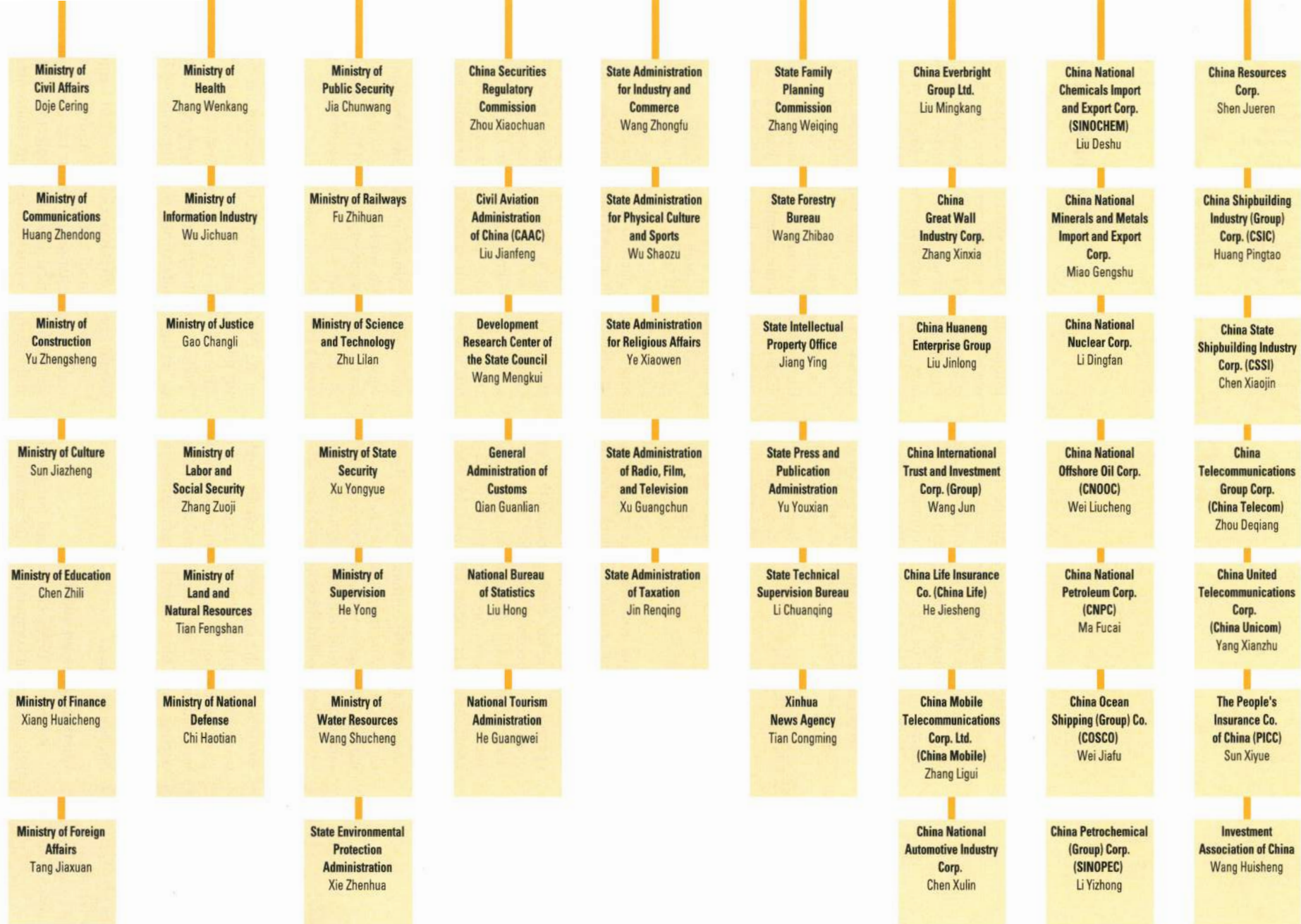
China has just started banking reform, which involves significant institutional and regulatory changes (see *The CBR*, November-December 1999, p.16). Opening up the capital account too quickly could introduce external volatility to the local system that could slow, if not upset, the country's reform plans. Fixing China's banking woes over the coming decade will be a protracted process, as President Jiang Zemin admitted recently. A fully convertible RMB could be a decade away. 完

A slowdown in the US economy will make China's adoption of a more flexible exchange rate politically more acceptable.

Figure 4
Actual Foreign Direct Investment Inflows (\$ million)



SOURCES: Standard Chartered Bank, CEIC Data Co.



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)
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*These listings are not meant to be comprehensive

(connectors for telecommunications and computer products). The PRC-based laser printer group of Hewlett-Packard Co. (HP) has successfully pulled foreign suppliers to the Shanghai area, and IBM Corp. has done so in Shanghai and Shenzhen, Guangdong Province. The Beijing factories of Oy Nokia AB and LM Ericsson AB, and General Motors Corp.'s Buick plant in Shanghai, have together attracted at least 25 foreign suppliers to China.

A second reason for the emergence of a base of world-class sourcing firms was the rise of IPOs in the PRC. In the early 1990s, Motorola Inc.'s cellular and paging operations at its WFOE in Tianjin hired a manager from Taiwan to head up its procurement group. The group started out with a very small staff, purchasing locally made products in very limited quantities. After five years of adhering to China's local-content rules (*guo chang hua*), which required Motorola to source from domestic suppliers, Motorola's use of locally made parts in its cellular and paging operations in Tianjin leapt from zero to 60 percent. Production of cellular phones and pagers rose to more than 6 million units a year from zero. The sourcing/purchasing department handled over \$700 million in products annually and achieved yearly inventory turnover—the ratio of annual sales to average inventory—of 12 in manufacturing parts.

The rise of the IPO

As China-based suppliers multiplied, companies realized that they could achieve significant cost savings if their other worldwide divisions took advantage of these PRC-based components suppliers. Multinationals set up wholly owned IPOs, typically funded from the company's headquarters, to improve the efficiency of purchasing components for the company's global needs. These operations are responsible for locating components suppliers, bringing them under contract, and managing factory and product specifications. Most IPOs charge a 1.3 to 4 percent commission to their internal company divisions for the service of supplying these parts. Siemens AG's IPOs in Beijing and Shanghai now service over 40 of the company's divisions around the world. HP's IPO has helped develop well over 60 factories in China to service their global procurement needs.

The most successful China operations are independent profit-and-loss centers that integrate manufacturing, manufacturing engineering, marketing and sales, production planning, product customization/design, and supplier development independent of the purchasing department. Dynamic IPOs have also set up intranet web pages, which their worldwide divisions can access.

The key to the success of an IPO is finding the right combination of expatriate and PRC national staff (see Box). In a typical IPO, a senior

expatriate manages Hong Kong and PRC engineers who have three to five years of experience in electronic or mechanical engineering. Engineers in most IPOs source \$15-30 million a year in component parts from anywhere from 3 to 10 factories in China. They are typically on the road at least 10 days a month. Though travel expenses vary greatly, direct expenses average under ¥10,000 (\$1,208) per month.

Localization pressures

Though most PRC-based manufacturing firms prefer using foreign-invested suppliers, local governments in certain parts of China, and sometimes Chinese partners, have been known to pressure firms to use state-owned suppliers. This situation tends to arise in joint ventures in which the Chinese partner has significant leverage. Some governments have set up localization bureaus that have reportedly directed companies to use certain suppliers even when the suppliers' products fail to meet the standards of the manufacturing firm. Some state-owned suppliers apparently have even bribed inspectors to obtain ISO certification. The consequences of this situation—a final product of inferior quality—are hard to reverse.

Unfortunately, the quality of products produced by most SOEs is unlikely to improve after China enters the World Trade Organization (WTO), at least in the short term. Lower import duties, prompted by WTO terms, may initially decrease foreign firms' incentive to manufacture in China, much less use SOE-made inputs. Foreign firms may choose instead to export products to China. Over the long term, however, as domestic Chinese firms adjust to the new, more competitive environment, the importance of China-based IPOs in an MNC's global sourcing network should increase considerably.

Here to stay

The number of IPOs has grown remarkably since 1996, as have their purchases. Within four years of beginning operations, IBM's IPO in Hong Kong handled \$1.5 billion in products. HP's IPO has several offices throughout Greater China (the PRC, Hong Kong, and Taiwan). It now procures over \$2 billion in goods a year.

Multibillion-dollar MNCs are not the only companies that can profit from the IPO model. If a smaller company can source more than \$2 million a year from China, it should consider hiring a PRC engineer to develop its sourcing initiatives. Many US manufacturing companies are missing out on important opportunities because they fail to trust their China-based manufacturing operations sufficiently. By taking advantage of China's low-cost, educated labor and developing sourcing operations within their China-based manufacturing facilities, companies can stay ahead of the pricing curve and greatly improve worldwide profitability. 完

Tips on Staffing a PRC Procurement Office

Not all companies hire PRC nationals. But those for which sourcing activities may exceed \$2 million a year should consider hiring PRC engineers to develop company sourcing initiatives. The average monthly salary for PRC engineers ranges from ¥5,000 to ¥12,000 (\$604 to \$1,449) plus benefits and bonuses. Companies can subcontract management of these individuals through foreign-invested human resources firms or their own local representative offices.

Companies should look for employees with:

- A masters or bachelors degree in electrical and/or mechanical engineering
- English proficiency at the working level
- Knowledge of mechanical design and circuits
- Three years of work experience in manufacturing
- Knowledge of Asian suppliers and technology
- Experience working on the business side of supplier relationships
- Integrity and a personal value system that meshes well with that of the company.

—Dwight Nordstrom

Dispute Settlement in the World Trade Organization: Practice and Procedure

by David Palmetter and Petros C. Mavroidis. Boston: Kluwer Law International, 1999. 325 pp. \$70, softcover.

In *Dispute Settlement in the World Trade Organization: Practice and Procedure*, David Palmetter and Petros Mavroidis have provided a practical and readable book on World Trade Organization (WTO) dispute settlement for the many China hands beginning to focus on the nuts and bolts of WTO procedures. The authors are both lawyers who have represented and advised clients for dispute-settlement panels in Geneva.

Particularly helpful for newcomers is the book's historical overview of the evolution of the WTO dispute-resolution mechanism. It discusses how the international trading system developed the consensus principles of General Agreement on Tariffs and Trade (GATT) conciliation. These GATT principles eventually evolved into the WTO dispute-resolution mechanism that exists today, as outlined in Annex II of the Uruguay Round Agreement.

The book also analyzes questions of jurisdiction, sources of law, special rules and procedures, the appellate process, the adoption and implementation of reports, and remedies. Most useful is Chapter Four, which features a strong discussion of the WTO dispute-resolution panel process. The charts in this section outline the flow of action and serve as a concise reference tool. Other topics explored include a discussion of the special requirements for developing countries that dispute-resolution procedures take into account, subsidies, local-government measures, the exhaustion of local remedies, and the ability to alter WTO commitments in services. In addition to the rich material presented in the main text, footnotes provide references to other useful resources on WTO rules and procedures.

—Karen M. Sutter

Karen M. Sutter is director of Business Advisory Services at the US-China Business Council in Washington, DC.

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China: Mission Impossible?

by Rainer Thomm. Beijing: World Affairs Press, 2000. 230 pp. ¥480 (\$58), softcover.

Is success in China impossible for the foreign businessperson? Some frustrated expatriates may reply with a resounding yes. Beijing-based consultant Rainer Thomm offers some practical advice to reassure them that there is room for optimism.

In *China: Mission Impossible?*, Thomm points out basic cultural differences between China and the West, particularly in the business arena, and suggests ways a Westerner should approach them. Much of the advice Thomm doles out is common sense: listen, be polite and friendly, make an effort to learn the local language and customs, don't hurry, be patient, and persevere. He offers little in the way of facts and figures, but draws on 20 years of his own business experience in Asia—much of it in China. He also offers nuggets of wisdom from other experienced foreign businesspeople in China.

In one example, Thomm advises foreign businesspeople to stop business meetings and negotiations before they run into their hosts' mealtimes. The message here is that the Westerner is a guest, and must respect local habits and timetables. On the other hand, the Westerner who hopes to do business in China cannot simply return to his or her hotel and relax at five o'clock. Banquets and karaoke sessions are, in many cases, needed to build the trust and friendship that the Chinese side will likely require before signing any deal.

Perhaps one of the most common causes of misunderstandings between Chinese and Westerners arises from the importance Chinese place on the concept of face, and the resulting belief that it is rude to say "no" or otherwise refuse a request outright. While most Westerners would characterize someone who says "yes" when the answer is definitely "no" as a liar, Chinese would disagree. To such Westerners, Thomm advises, "you will do yourself a service (and possibly save your company some money) if you are able to understand the different meanings of 'yes'."

These are just a few examples of the topics included in *China: Mission Impossible?*, which also covers negotiating, gaining approvals, and due diligence, among other aspects of investing in China. The volume is short, and according to the preface, is meant to be read in the plane on the way to China. But as part of the book focuses on preparations companies should make before coming to China, the reader would benefit more from perusing it while planning his or her business trip.

The book's conversational tone makes it easy to read, though in places it could have been better organized and edited. And many topics relegated to a subsection of a chapter could be explored in more depth. Nevertheless, *China: Mission Impossible?* is a good introduction to the complexities and nuances that characterize business dealings—and that often flummox foreign businesspeople—in China.

—Virginia A. Hulme

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

Critical Details of China's Economy

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The rate of conversion has begun to slow of late, reflecting the sharp reduction in OS development sites granted by the Shanghai municipal government after the mid-1990s. Such land grants peaked at 450 sites in 1995, dropped sharply to 258 sites in 1996, and plummeted to a total of 7 in 1997 and 1998. As of mid-2000, 28 OS residential developments have offered 7,450 discounted units for sale to the high-end domestic housing market.

Mixed reviews

The first two discounted OS residential properties sold well at the outset. This was largely due to their novelty—for the first time, OS properties were within the reach of more affluent domestic buyers—and also because of the sizeable gap in quality that then prevailed between OS and DS residential properties.

While the price drop initially caused quite a stir in the Shanghai property market, the infatuation of Shanghai home buyers with the two properties faded fairly swiftly after the first set of buyers ran into obstacles arranging mortgages. Shanghainese who succeeded in financing their purchases soon began to feel the pinch of substantially higher building management fees than they had paid in comparable DS developments. Despite this unpleasant surprise, market response to discounted OS residential properties in 1998 and 1999 was still fairly satisfactory, largely because of a change in the nature of the property offered for sale.

OS properties discounted in 1997 had already been on the market for some time. It was only after sales ground to a standstill that developers resorted to the discount and market repositioning strategy. Despite their concessionary pricing



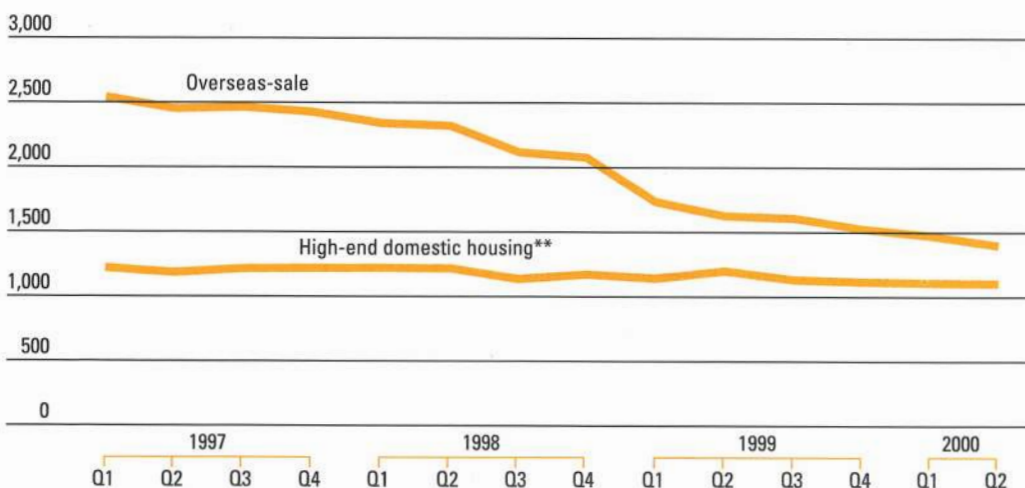
By the 1990s, a genuine two-tier market had sprung up not only in Shanghai but in virtually all major urban centers in China that had attracted substantial foreign investment.

structure, these properties, in every feature of their conception, design, and execution, were built for overseas buyers. But by 1998, as developers holding undeveloped, secondary-quality OS residential sites watched the meltdown of the capital and rental market for deluxe OS residential property, they, too, realized that their properties were unlikely to succeed if they continued to target solely overseas buyers. Hence they reviewed their calculations of construction cost and established specifications comparable to those for medium to high-end domestic com-

The Jinma Apartments, completed in 1993, are typical of medium to low-end overseas-sales apartments. The complex features elevators, building management, and onsite security, but few other amenities.

Photos courtesy of CB Richard Ellis

Figure 1
Average Price of Overseas-Sale* Apartments and High-End Domestic Housing in Shanghai, Q1 1997–Q2 2000 (\$ per m²)



SOURCE: CB Richard Ellis Global Research & Consulting

* For sale to foreigners

** Over ¥7,000 (\$845) per m²

Who is buying?

While discounted OS housing appeals to a fairly broad spectrum of more affluent local buyers, the most conspicuous buyers of these properties to date have been younger and middle-aged Shanghainese natives returning from extended periods of work or study abroad, many of whom

work for overseas firms and enjoy relatively high incomes (see Figure 2). For these buyers, an important motivation for their purchase is the prestige of residing in a dwelling developed by an overseas developer. (Nearly all OS units have been developed by Sino-foreign joint ventures, while most DS units have been built by domestic devel-

These municipal governments are clearly under pressure to come up with some kind of scheme for compensating developers who acquired sites and paid higher land premiums under the two-tier price structure. However, it will be impossible for these governments to compensate qualifying developers in cash, since the land premiums paid earlier have long since

been spent on ambitious municipal infrastructure projects and urban redevelopment schemes. Rather, it seems that the only feasible way to compensate such developers will be to reduce the various fees they have yet to pay for properties still on the drawing board or actively under development.

—Andrew Ness

Status of Two-Tier* Property Market in Selected PRC Cities

Distinction Never Established	Distinction Maintained	Distinction Effectively Abolished
Changchun, Jilin Province	Beijing Municipality	Shenzhen, Guangdong Province
Changsha, Hunan Province	Dalian, Liaoning Province	
Changzhou, Jiangsu Province	Fuzhou, Fujian Province	
Chengdu, Sichuan Province	Guangzhou, Guangdong Province	
Chongqing Municipality	Hangzhou, Zhejiang Province**	
Datong, Shanxi Province	Kunming, Yunnan Province	
Guiyang, Guizhou Province	Kunshan, Jiangsu Province	
Harbin, Heilongjiang Province	Nanjing, Jiangsu Province	
Hefei, Anhui Province	Qingdao, Shandong Province	
Hohhot, Inner Mongolia Autonomous Region	Shanghai Municipality	
Jinan, Shandong Province	Shaoxing, Zhejiang Province	
Lanzhou, Gansu Province	Suzhou, Jiangsu Province	
Lhasa, Tibet Autonomous Region	Tianjin Municipality	
Lianyungang, Jiangsu Province	Wuxi, Jiangsu Province	
Nanchang, Jiangxi Province	Xiamen, Fujian Province	
Nanning, Guangxi Zhuang Autonomous Region		
Ningbo, Zhejiang Province		
Shenyang, Liaoning Province		
Shijiazhuang, Hebei Province		
Taiyuan, Shanxi Province		
Urumqi, Xinjiang Uygur Autonomous Region		
Wuhan, Hubei Province		
Xi'an, Shaanxi Province		
Xining, Qinghai Province		
Yantai, Shandong Province		

SOURCE: CB Richard Ellis Global Research & Consulting

Notes: This table is based on a survey of 41 major PRC cities by CB Richard Ellis Global Research & Consulting. This list is not exhaustive, but merely indicates the overall trend in the maintenance of a two-tier property market.

* The two-tier property market divides properties according to whether the units are for sale to PRC citizens (domestic sale [DS]) or to foreign purchasers (overseas sale [OS]).

** In Guangzhou, distinction between OS and DS properties exists as a matter of law, but is de facto no longer recognized with respect to advertising and marketing of property.

*** In Hangzhou, until recently, only Hangzhou residents could buy DS properties; OS properties were for sale to all others, regardless of citizenship.

So-called super-deluxe domestic housing, targeted at affluent Shanghainese, actually began to appear as early as 1995, with the launching of the Wutong Garden development.



Yongxin Garden, completed in 1999, is an example of the new luxury domestic housing developments that have recently become available in Shanghai. These developments are virtually indistinguishable from medium to high-end overseas-sale housing developments in terms of features and overall quality. In contrast to the Jinma Apartments, Yongxin Garden provides a wide array of amenities, including tennis courts, a swimming pool, an outdoor children's playground, and green areas.

One easy, immediate step, which can be taken by larger municipalities that have attracted substantial investment in OS property development, will be to relax restrictions on purchases of domestic commodity housing by certain categories of buyers. The Shanghai government, for one, is doing just that. In 1999, the administration issued a regulation allowing Shanghai residents who still retain their PRC citizenship to purchase DS housing.

Mindful of how any sudden merger of the two markets could upset some of the major regional and multinational developers, who had earlier been among the largest purchasers of land-use rights in their cities, the Shanghai municipal government is in no hurry to move on this issue. Rather, for the time being, it prefers to keep the possible eventual merger of the two markets at the discussion stage.

The discussions themselves are further complicated by the fact that the Shanghai authorities will have to come up with different approaches for developers of OS residential developments in varying stages of construction, marketing, or sale. While no proposal has yet been put forward as to how to deal with these cases, the Shanghai Municipal Real Estate and Land Administration Bureau has reportedly recently been asked to put together a detailed internal schedule of all OS sites granted to date in the city (the number exceeds 1,350). The schedule will list how many sites have been developed; how many are actively under development; and how many have been developed as projects offered for pre-sale or sale to date. This information will be used to create a

spreadsheet that would allow the administration to estimate the scale of the compensation that might be involved should such compensation be deemed necessary.

One method under discussion calls for developers who presently hold OS residential sites for which they paid OS land premiums to be compensated by the government in the form of concessions on the taxation of income accruing from the sale or rental of such property. However, no easy

or simple solution has emerged to the question of how to prevent a major price correction in the OS housing market should the differential in premiums for OS residential sites and domestic commodity housing sites be suddenly eliminated.

This subject gets to the very heart of the rationality of the PRC urban land-value and ground-rent system. As such, it has implications touching upon virtually every type of property developed on commercial sites. For this reason, developers can expect the two-tier system to remain in place in the short term. China's national and municipal land-use and real estate administration authorities are approaching this subject very gingerly indeed, not wanting to upset the elaborate edifice of a property-development market that it has spent such enormous time and effort nurturing over the past decade. 完

The WTO Effect

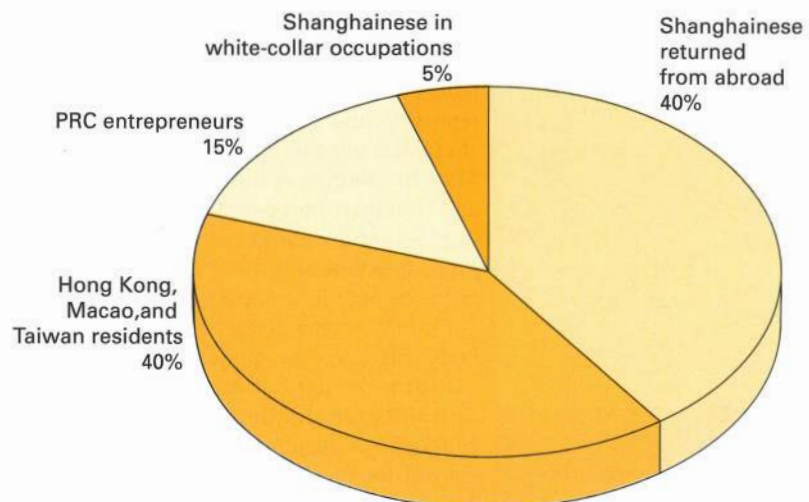
China's eventual accession to the World Trade Organization (WTO) will accelerate the merger of the two tiers in the commodity housing market for a couple of reasons.

- First, China's requirement that all investment in tertiary-sector enterprises be in the form of Sino-foreign joint ventures—a regulation that has, in effect, banned wholly foreign-owned enterprises from engaging in property development—will have to be revised upon China's accession to the WTO, which requires equal treatment for foreign and PRC companies.

- Second, as China's financial system continues to open and become more integrated into the international financial system, maintaining the two-tier economic structure on which the difference between domestic- and overseas-sale housing depends will become increasingly untenable.

—Andrew Ness

Figure 2
Buyers of Discounted Overseas-Sale* Properties in Shanghai



SOURCE: CB Richard Ellis Global Research & Consulting
* For sale to foreigners

**After months
of delay, draft
telecom regulations
finally emerged from
MII's dungeons in
June, and have been
making the rounds
of foreign telecom
and Internet
companies.
The proposed
rules essentially
divide China's
telecommunications
firms into those that
operate networks and
those that provide
services over those
networks, including
paging services.**

petition (see *The CBR*, May-June 2000, p.12). But just in case foreign telecom-equipment manufacturers were expecting life to get easier following China's WTO accession, MII researcher Lei Zhenzhou is helping to set them straight. During a speech before a US audience, Lei confided that domestic equipment manufacturers would, by 2003, capture 70 percent of the mobile switching market, 50 percent of the base station market, and 30 percent of the handset market. Given Lei's speech, may we point out that Adam Smith looks likely to be left on the shelf a little while longer?

Meanwhile, on the services side, the draft regulations on foreign investment now circulating make the task ahead look even tougher. Foreign companies seeking to engage in the operation of telecom networks must have booked at least

\$10 billion in revenue each year in the two years prior to application. The rare few that leap this hurdle must then find a state-owned partner that has at least \$360 million in revenues. This narrows the field down to about a dozen serious contenders on one side of the equation and three on the other—the names of which all begin with “China.” The Chinese partner has the power to pick the chairman of the joint venture and to “recommend” the general manager. We're not quite sure that that's what the telecoms trade negotiators had in mind!

Commenting on the draft regulations, Beijing University's Guanghua Management Institute Deputy Director Zhang Weiyang reportedly took a less charitable view, complaining that MII had issued “strange rules

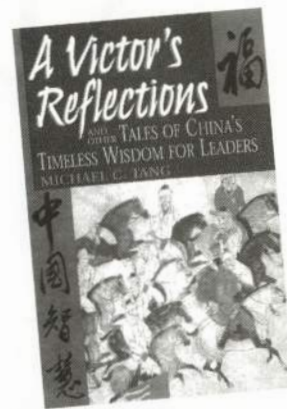
and random regulations to boost [its] own power.” Zhang, however, did not see this as a new problem. Evoking a great new economy image, he likened the ministry's penchant for regulation to the cravings of a drug addict.

Taxation: a new threat?

Unlike their American counterparts, Chinese officials don't get squeamish when talking about taxing Internet commerce. Just vague. Zhang Yunqing of MII informed the China Internet Venture 2000 audience that the government was drafting rules on Internet taxation, noting that rigorous enforcement of these rules would prevent “tax evasion on the Internet.” We're wondering if the rules on Internet taxation will be out before or after the still breathlessly anticipated Internet regulations....

More recently, State Administration of Taxation Director Jin Renqing disclosed that China will likely impose taxes on online transactions—a decision that runs against the collective vision of leading developed nations. “If I were to attend an international conference on e-commerce, as the minister of a developing country, I would have to disagree” with tax exemptions for e-commerce, Jin said.

However, government beancounters probably shouldn't plan on streams of cash flowing into the coffers just yet. According to disappointed tax collectors in Beijing's Xicheng District, of the 67 Internet companies located in their jurisdiction, only 3 have scored a profit. Combined income of these companies totaled a less-than-revolutionary \$5.5 million. 完



By MICHAEL C. TANG
333pp. \$14.00 paper, \$22.00 cloth

Treat this as a story book, and you will be entertained; treat this as a history book, and you will learn the richness of Asia's past; treat this as a book of wisdom, and you will be inspired.

— NICHOLAS D. KRISTOF
Pulitzer Prize-winning journalist
and co-author of *China Wakes*

A Victor's Reflections opens a fascinating world of ideas and experience, from statecraft to family values, from warfare to human relationships, which I believe will delight and inspire many readers.

— ROSS TERRILL
Research Fellow in East Asian Studies, Harvard University
Author of *China in our Time*, *Madame Mao*, and *Mao*

Read it: The 19th century was the century of the U.K.; the 20th century was the American century. China will be the most important country in the world in the 21st century.

— JAMES B. ROGERS, JR.
Well-known international investor and author of
Investment Biker: Around the World with Jim Rogers

This is a wonder book for readers of any race or culture because the wisdom of China belongs to all mankind. I find it a truly enriching and rewarding experience to discover and rediscover the gems in the treasure trove of China's wisdom through this exceptional encyclopedic volume.

— WANG MENG
Former Minister of Culture of China

Three thousand years' accumulation of China's wisdom in one masterly volume that offers knowledge, pleasure as well as practical wisdom related to our work, business, career or life.

— ZHU YINGHUANG
Editor-in-Chief, China Daily

Michael C. Tang was born in Shanghai and attended East China Teachers University. He later graduated with honors from the London School of Economics. In 1983, he entered Harvard Business School and graduated in 1985 as the first Harvard MBA from mainland China since the founding of the People's Republic in 1949. He divides his time between homes in New York City and Shanghai, managing venture capital investment.

Website: www.michaeltang.com
E-mail: michael@michaeltang.com

**Prentice
Hall Press**

OTHER

American Express Co. (US)

Will open its China headquarters in Beijing. 6/00.

Bank of America Corp. (US)/ICBC (Beijing)

Signed agreement under which Bank of America will handle the drawing of bank bills in RMB as an agent of the ICBC. 6/00.

State Street Corp. (US)/ICBC (Beijing)

Signed MOU under which State Street will serve as external asset manager and provide custody services to ICBC. 6/00.

Metropolitan Bank and Trust Co. (the Philippines)/BOC

Signed reciprocal agreement to open branches in each other's countries. 5/00.

Chemicals, Petrochemicals, and Related Equipment

INVESTMENTS IN CHINA

BASF AG (Germany)/SINOPEC

Will form \$2.65 billion joint venture, Nanjing Yangzi-BASF Integrated Petrochemical Site, to produce 1.77 million tons of high-quality chemical products annually. 7/00.

BASF China Ltd., a division of BASF AG (Germany)

Purchased remaining 9% of joint venture, BASF Colorants and Auxiliaries Co. Ltd., from Shanghai Dyestuff Chemical Co. Ltd., making venture wholly foreign owned. 6/00.

Owens Corning (US)

Established Owens Corning Extrusion Plastic Foam Board Co. in Nanjing, Jiangsu Province. \$15 million. 5/00.

OTHER

Celanese AG (Germany)/Shanghai Wujing Chemical Corp., a subsidiary of Huayi Group

Signed letter of intent to explore formation of joint venture to produce acetic acid in Shanghai. 6/00.

Consumer Goods

INVESTMENTS IN CHINA

Eastman Kodak Co. (US)/ICBC (Shanghai)

Will jointly fund Kodak's individual franchisers. 6/00.

Japan Atsugi Co. Ltd., Japan Asahi Kasei Co. Ltd., China Resources Light Industry Co. Ltd., a subsidiary of China Resources (Holdings) Co., Ltd. (Hong Kong)

Signed contract to set up joint-venture stocking plant in Yantai, Shandong Province. \$8.8 million. 6/00.

Japan Tobacco, Inc./Shanghai International Tobacco Co.

Formed partnership to make and sell Mild Seven and Mild Seven Light cigarettes. 6/00.

Teco Electric and Machinery Co. (Taiwan)

Will invest to produce air conditioners and components in Zhongshan, Guangdong Province. \$13 million. 6/00.

Wal-Mart Stores, Inc. (US)

Will construct a Sam's Club store in Fuzhou, Fujian Province. \$20 million. 6/00.

OTHER

The Walt Disney Co. (US)

Will conduct a feasibility study on the establishment of an Asia Disney theme park in Shanghai. 7/00.

Lane Crawford (Hong Kong), Ltd., a subsidiary of Wheelock and Co., Ltd. (Hong Kong)

Opened flagship mainland store in Shanghai. 6/00.

Eastman Kodak Co. (US)

Opened its 5,000th Kodak Express chain store in China in Chengdu, Sichuan Province. 5/00.

Electronics and Computer Software

CHINA'S EXPORTS

Government of the PRC

Signed contract to provide Nepal Television with a television-transmission facility in Kathmandu. \$7.77 million. 6/00.

Shanghai Industrial Investment (Group) Co., Ltd.

Will supply Myturn.com Inc. of the United States with 3.72 million GlobalPC brand personal computers. 6/00.

CHINA'S IMPORTS

CNS Technology (South Korea)

Signed a two-year contract to sell videophone handsets to Great Dragon Information Technology Corp., Ltd. in Beijing over the next two years. \$53 million. 6/00.

CNS Technology (South Korea)/Great Dragon Information Technology Corp. Ltd. (Beijing)

Signed agreement to establish joint venture to produce videophones. \$1 million. 6/00.

IBM Corp. (US)

Will provide software and hardware for an information management system for the Shanghai Agriculture, Industry, and Commerce Supermarket Co. 6/00.

Keycorp Ltd. (Australia)

Signed agreement to supply Beijing Aerospace Sino-Technology Co. with GSM Sim card technology. 6/00.

NDS Group Plc., a unit of The News Corp., Ltd. (Australia)

Was selected by the Information Network Center of the State Administration of Radio, Film, and Television to provide encryption technology for cable television broadcasts. 6/00.

Comverse Network Systems, a division of Comverse Technology, Inc. (US)

Won contract from Guangdong Mobile Communications Co. Ltd. to provide its high-capacity, large-scale mobile data system, enabling wireless Internet applications. 5/00.

Trimble Navigation Ltd. (US)

Will provide 40 Global Positioning System survey systems to the PRC Ministry of Railways. 5/00.

INVESTMENTS IN CHINA

bex.com (Singapore)/Taiji-HuaNeng Corp., Taiji-ZongTi Corp. (Beijing)

Will form R&D joint venture to promote the use and development of business-to-business e-commerce in the PRC. (Singapore:49%-PRC:51%). 7/00.

Lianhe (United) Disk Co., a Sino-Japanese software manufacturer (Shanghai)
Will manufacture Microsoft Corp.'s original equipment manufacturer (OEM) products. 6/00.

Microsoft Research China, an arm of Microsoft Corp. (US)
Established information-technology center at Xi'an Transportation University, Shaanxi Province. 6/00.

Microsoft Corp. (US)
Donated more than \$120,800 worth of software to the Xi'an Transportation University, Shaanxi Province. 6/00.

Natsteel Electronics Ltd. (Singapore)
Will purchase a Shanghai circuit board plant from Eastman Kodak Co. of the United States. \$6 million. 6/00.

QuotePower International Ltd. (Hong Kong)
Opened technology center in Shenzhen, Guangdong Province, to focus on regional development and customer service enhancement. 6/00.

Toshiba Corp. (Japan)
Unveiled new product line at its facility in Jinqiao Modern Technology Park in Shanghai. 6/00.

Et-China.com (Guangdong), jointly owned by Et-China.com Investments Pty. Ltd. (Australia) and China Southern Airlines Co., Ltd. (Guangdong)
Will allow China Merchants Bank's "All in One Card" to participate in Et-China.com's travel and tourism e-commerce services. 5/00.

GMAI-Asia.com, Inc., a 48% owned subsidiary of Greg Manning Auctions, Inc. (US)/Rong Bao Zhai (Beijing)
Will jointly develop the high-end auction portion of GMAI-Asia.com's e-commerce website, www.iAtoZ.com. 5/00.

Hewlett-Packard Co. (US)
Launched an electronic-services technology center in Beijing. \$1 million. 5/00.

Lycos Inc. (US), Singapore Telecommunications Ltd.
Launched four Internet search engine portal sites for the PRC, Hong Kong, and Taiwan. 5/00.

Vertex Portal Ltd. (Hong Kong)/China Textile Information Center (Beijing)
Will form partnership to provide the Chinese textile industry with e-commerce services and information. 5/00.

Environmental Technology and Equipment

INVESTMENTS IN CHINA

Engelhard Corp. (US)/SINOPEC International Co., Ltd., a subsidiary of SINOPEC
Will establish a joint venture, Shanghai Engelhard SINOPEC Environmental Technologies Ltd. in Shanghai, to produce 1 million catalytic converters annually. (US:60%-PRC:40%). 7/00.

OTHER

Government of France/Government of the PRC
Agreed to undertake a joint project in Tianjin to recycle 10,000 tons of waste annually. \$8.85 million. 6/00.

MPM Technologies, Inc. (US), ONYX P.M. Inc. (Canada)
Signed MOU to establish a joint venture to produce and market synthetic wood made from organic waste and plastic. (US:70%, Canada:30%). 6/00.

The World Bank
Approved a loan for air pollution control and wastewater disposal facilities in Beijing. \$349 million. 6/00.

The World Bank
Approved loan to help strengthen the Yangzi River banks in Hunan and Hubei provinces. \$210 million. 6/00.

The World Bank
Approved loan to help improve environment in Chongqing Municipality. \$200 million. 6/00.

The World Bank
Approved loan to improve environmental and water quality in Hubei Province. \$150 million. 6/00.

Airtech International Group, Inc. (US), Aurora Products Inc., a subsidiary of Aurora Wireless Technologies, Inc. (Taiwan)
Signed an agreement to help lower PRC air pollution levels. \$1 million. 5/00.

Ekolog (Poland)
Signed letter of intent to invest in the Nantaizi Sewage Treatment Plant and the Dunkou Sewage Treatment Plant in Hubei Province. \$85 million. 5/00.

Food and Food Processing

CHINA'S EXPORTS

Bainian Brewery Co. Ltd. (Beijing)
Exported 1,000 cases of Bainiangudu liquor to South Korea and the United States. 5/00.

INVESTMENTS IN CHINA

Pepsi Co. Investment (China) Ltd., a unit of PepsiCo Inc. (US)/Tianjin Development Holding Co. Ltd., Tianjin Economic and Technological Development Co.
Formed the Tianjin Pepsi-Cola Beverage Co. joint venture. (US:44%-PRC:56%). \$18 million. 7/00.

Metro AG (Germany)
Will build the largest supermarket in western China in Chongqing. \$15 million. 5/00.

Machinery and Machine Tools

CHINA'S EXPORTS

Shanghai Toothpaste Factory Co. Ltd.
Sold toothpaste production equipment to North Korea. \$840,000. 6/00.

INVESTMENTS IN CHINA

Alstom (France)/Wuhan Iron and Steel Group Automation Co. Ltd. (Hubei)
Signed contract to establish joint venture, Alstom Wuhan Automation Co. Ltd., to manufacture industrial products and systems. (France:60%-PRC:40%). \$2.9 million. 6/00.

OTHER

PCC Specialty Products, a unit of Precision Castparts Corp. (US)
Opened marketing office in Shanghai. 7/00.

Medical Equipment and Devices

OTHER

Liberty Mutual Research Center (US)/Medical School of Fudan University (Shanghai)
Established Liberty Mutual Safe Work Center to research prevention of occupational diseases and industrial accidents. 6/00.

OTHER

Apache Corp. (US)/PetroChina Co., Ltd. (Beijing)

Agreed to proceed with development of portions of the Zhao Dong block in Bohai Bay. 6/00.

Government of Italy/Government of the PRC

Will cooperate to develop hydrogen energy. 6/00.

Pharmaceuticals

INVESTMENTS IN CHINA

Servier Research Group (France)/Huajin Pharmaceutical Corp. (Tianjin)

Agreed to establish joint venture, Servier-Tianjin Pharmaceutical Corp., in Tianjin to manufacture 15 types of drugs. \$31.4 million. 7/00.

Hemofarm, Mag (Yugoslavia)/Jinan Yongning (Shandong Province)

Launched Jinan-Hemofarm Pharmaceutical Co. Ltd. joint venture to produce bottles, pills, and capsules. (Yugoslavia:51%, 19%-PRC:30%). \$30 million. 6/00.

Unigene Laboratories Inc. (US)/Shijiazhuang Pharmaceutical Group Co. Ltd. (Hebei)

Entered into joint venture to manufacture and distribute injectable and nasal calcitonin products for the treatment of osteoporosis. 6/00.

Bayer AG (Germany)/NA

Launched an animal healthcare products joint-venture plant in Chengdu, Sichuan Province. \$10 million. 5/00.

Ports and Shipping

CHINA'S EXPORTS

Tianjin Machinery Import and Export Group, Tianjin Xingang Shipyard

Will produce six 32,000-ton bulk cargo ships for the Clipper Group of Denmark and the Unicorn Co. of South Africa. \$100 million. 6/00.

OTHER

China Ocean Shipping Co. (Beijing)

Opened container shipping line between Lianyungang, Jiangsu Province, and Los Angeles, California. 6/00.

China Ocean Shipping Co. (Beijing)

Opened express shipping route between Qingdao, Shandong Province, and Japan. 6/00.

China Shipping Corp. (Shanghai)

Opened Far East-US shipping route between Shanghai and Los Angeles, California, via Japan. 6/00.

China Ocean Shipping Co. (Beijing)

Established a new container line in the Panama Canal. 5/00.

Power Generation Equipment

CHINA'S IMPORTS

Alstom Power (France)

Won the right to provide a governor system for the hydraulic turbine generators of the Three Gorges Dam. 5/00.

Vanatome (France)

Awarded contract by Sino-Russian consortium to install isolation and pressurization valves at Lianyungang power station, Jiangsu Province. \$8.3 million. 5/00.

Voith Siemens Hydroelectric Power Generation Co. (US)

Will build an excitation system for the hydraulic turbine generators of the Three Gorges Dam. 5/00.

CHINA'S INVESTMENTS ABROAD

Bangladesh Power Development Board/China National Electric Wire and Cable Import-Export Corp. (Beijing)

Signed agreement to upgrade electricity transmission networks across Bangladesh. \$100 million. 6/00.

OTHER

Atomic Energy of Canada Ltd./China Machinery Import and Export Corp. (Beijing)

Signed cooperation agreement for construction of Qinshan nuclear power plant in Zhejiang Province. 7/00.

Ovonic Battery Co., Inc., a subsidiary of Energy Conservation Devices, Inc. (US)/BYD Battery Co., Ltd. (Guangdong)

Entered into patent license agreement for BYD to make, use, and sell consumer nickel-metal hydride batteries for non-propulsion applications. 7/00.

Framatome (France)/Liangong Valve Plant (Shanghai)

Signed agreement under which Framatome will offer technical support for Liangong's production of safety valves for China's next nuclear power station. 6/00.

Government of Thailand/Government of the PRC

Signed letter of consent to jointly build Jinghong Power Station on Lancang River in Xishuangbanna, Yunnan Province. (Thailand:70%-PRC:30%). 6/00.

China National Electric Wire and Cable Import and Export Corp. (Beijing)

Agreed to provide credit to government of Bangladesh to enhance the capacity of and renovate existing substations and transmission lines. \$74 million. 5/00.

Property Management and Development

INVESTMENTS IN CHINA

Hilton Hotels Corp. (US)/Xingya Group (Henan)

Signed agreement to cooperate in operating a hotel in Zhengzhou, Henan Province. 6/00.

OTHER

The Bass Group (UK)

Signed agreement to manage the New Asia Tomson hotel in Pudong, Shanghai. 6/00.

Government of the US/Government of the PRC

US Department of Housing and Urban Development will help design and build two 50-acre housing projects, one in Shanghai and one in Beijing, and help develop a secondary mortgage market in China. 5/00.

Republic of Korea

Offered Gansu Province a long-term loan to upgrade its running water system. \$50 million. 5/00.

LG Information and Communication (South Korea)/Zhongxing Telecom Corp. (Guangdong)

Will set up joint venture, Shenzhen ZTE-LG Mobile Communications Ltd. in Guangdong Province to produce and distribute CDMA equipment. \$30 million. 6/00.

Lucent Technologies Microelectronics Group (US)/Shenzhen Huawei Technologies Co. (Guangdong)

Established joint telecommunications lab to develop more comprehensive broadband communications network systems. 6/00.

Oy Nokia AB (Finland), Shenyang NEU-ALPINE Co. (Liaoning), a joint venture between Japan Alpine and Baoshan Steel & Iron Neusoft

Established joint venture, Dalian NEU-ALPINE Nokia Telecommunications Co., to develop, sell, and market wireless applications products, services, and other telecom products. \$25 million. 6/00.

Qualcomm Inc. (US)/Datang Telecom Technology Co., Ltd. (Shaanxi)

Will jointly develop CDMA equipment for China. 6/00.

Qualcomm Inc. (US)/Eastern Communications Co., Ltd. (Zhejiang)

Signed agreement to develop CDMA. 6/00.

Siemens AG (Germany)

Will invest \$1 billion in mobile communications in China over the next 2-3 years. 6/00.

OTHER

China Telecom (Hong Kong)

Opened branch office in Beijing. 7/00.

Elcoteq (Finland)

Will begin producing mobile phone and GSM network equipment in Beijing. 7/00.

Cisco Systems, Inc. (US)/China Unicom

Signed MOU for Cisco to provide technology products and consulting for China Unicom's new projects. 6/00.

Cisco Systems, Inc. (US)/China Unicom

Signed MOU to cooperate on technological development, and to exchange visits of top management. 6/00.

Compaq Computer Corp. (US)

Opened the Shanghai Telecommunications Competency Center to provide support for e-business. 6/00.

Global Telecom Inc. (US)

Established representative office in Beijing. 6/00.

Harris Corp. (US)/Wuhan Research Institute of Posts and Telecommunications (Hubei)

Agreed to establish point-to-point microwave radio market distribution streams. 6/00.

Lucent Technologies (US)/China Unicom

Signed partnership making Lucent the preferred vendor for China Unicom. 6/00.

Lucent Technologies Optic Network (China), a unit of Lucent Technologies (US)

Will build a research and development center in Shanghai. \$15 million. 6/00.

Lucent Technologies Optic Network (China), a unit of Lucent Technologies (US)

Will set up branch offices in Beijing and Shenzhen, Guangdong Province. 6/00.

NTT DoCoMo Inc. (Japan)

Opened representative office in Beijing. 6/00.

Oy Nokia AB (Finland)

Received network-access license from MII for digital subscriber line broadband access repeater equipment and network terminal equipment. 6/00.

Vodafone AirTouch Plc (UK)/China Unicom

Will cooperate on mobile technology and to provide global roaming capability. 6/00.

Globalstar (US)/CHINA SPACECOM (Beijing), a partnership of China Telecom, CHINASAT, and China Space Technology Group

Started commercial service in PRC, bringing easy-to-use communications systems to areas of the country beyond the range of existing cellular and wireline telephone systems. 5/00.

LM Ericsson AB (Sweden), Netalone.com Ltd. (Hong Kong)

Formed partnership to capture the mobile e-commerce ("m-commerce") business in Greater China. 5/00.

MII

Will offer loans to the Cuban Ministry of Information Technology and Communications to expand its service lines to over 1 million. \$200 million. 5/00.

Xin De Telecom, a joint venture of Siemens AG (Germany) and CITIC (Beijing)

Will direct more than \$2 billion into the PRC's telecommunications market in the next few years to help Chinese operators expand Internet and data networks. 5/00.

Textiles and Apparel

CHINA'S EXPORTS

Government of the PRC

Signed agreement to supply Papua New Guinea Defense Force with 400 sets of uniforms, shirts, boots, and other equipment. \$401,000. 7/00.

INVESTMENTS IN CHINA

ITOCHU Corp., Marubeni Corp., Mitsubishi Corp., Mitsubishi Rayon Co., Ltd. (Japan)/Ningbo Investment Co., Ltd. (Zhejiang)

Established joint venture to produce acrylic fibers. \$120 million. 6/00.

Charoen Pokphand Petrochemical Co., Ltd. (Thailand), OMNOVA Solutions Inc. (US)

Acquired a Shanghai PVC coated fabric business to form joint venture, CG_OMNOVA Decorative Products (Shanghai) Co., Ltd., to produce medium to high-end PVC coated fabrics. 6/00.

Transportation

CHINA'S EXPORTS

NORINCO (Beijing)

Will build metro line for Iran Urban and Suburban Railway Co. \$650 million. 7/00.

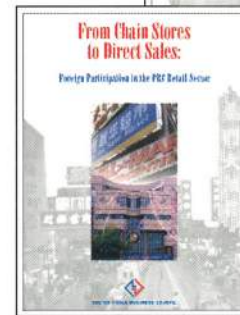
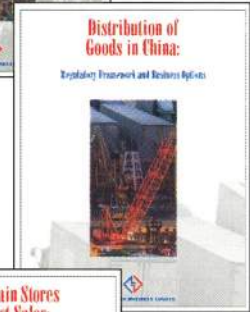
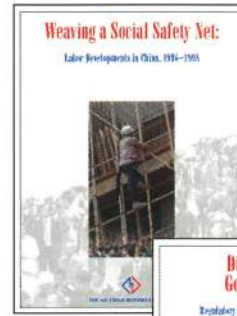
Harbin Aircraft Manufacturing Corp. Group. (Heilongjiang)

Sold six Yun-12 transport planes to Kenya. 6/00.

US-CHINA BUSINESS COUNCIL PUBLICATIONS

I would like to order the following US-China Business Council publications (please check):

- Environmental Trends and Policies in China: Implications for Foreign Business***
March 2000 (USCBC members \$25, non-members \$75)
 China's efforts to clean up its environment mean new laws and new market opportunities for foreign firms.
- Weaving a Social Safety Net: Labor Developments in China, 1996-1998***
February 1999 (USCBC members \$25, non-members \$50)
 How China's social insurance reforms affect foreign firms.
- Distribution of Goods in China: Regulatory Framework and Business Options***
June 1998 (USCBC members \$25, non-members \$50)
 How foreign firms navigate the PRC's distribution system.
- From Chain Stores to Direct Sales***
November 1997 (USCBC members \$25, non-members \$25)
 Foreign participation in the PRC retail sector.



Total Amount of Order _____
 (DC residents please add 5.75% sales tax)

Method of Payment
 Check or Money Order
 Credit Card (MasterCard, Visa, American Express)

Please fill out the applicable information below:

CREDIT CARD NUMBER _____ EXPIRATION DATE (MM/YY) _____ NAME OF CARD HOLDER _____

Billing/Shipping Information

NAME: _____ COMPANY: _____

TYPE OF BUSINESS: _____

ADDRESS: _____

CITY/STATE _____ ZIP _____

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