September-October 2006

The China Business Review

USCBC THE MAGAZINE OF
THE US-CHINA BUSINESS COUNCIL

Upholding Reforms What's Next?

Special WTO Issue:
The Fifth Anniversary of China's Entry

S$22/HK$220


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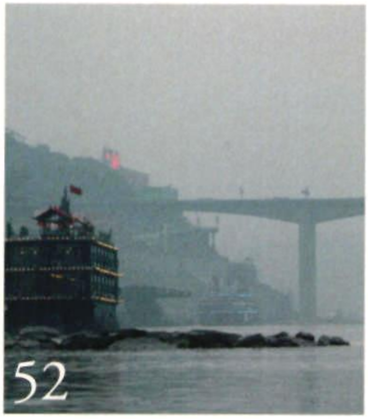
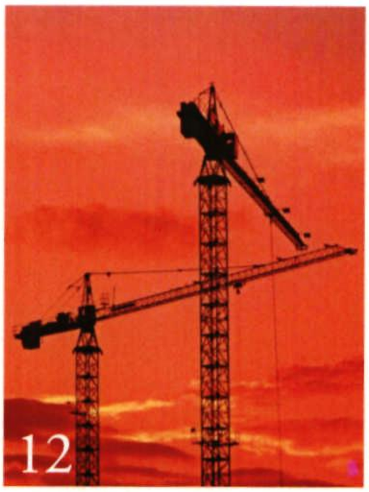
USCBC THE MAGAZINE OF THE US-CHINA BUSINESS COUNCIL

Focus: China's WTO Anniversary



Features

Departments



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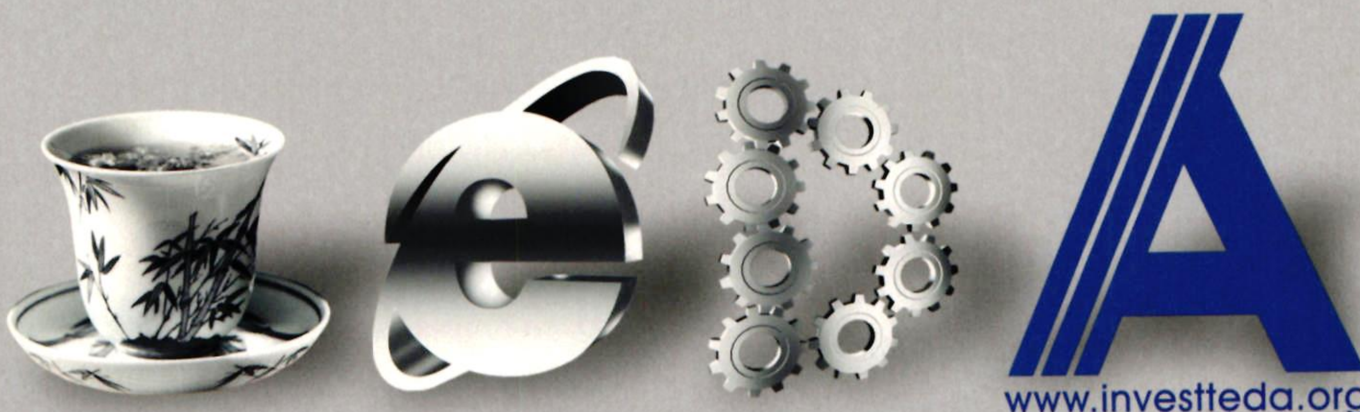


TIANJIN ECONOMIC-TECHNOLOGICAL DEVELOPMENT AREA

TEDA

Vanguard of China's Export-oriented Regions

As one of China' s first batch of state-level development zones, Tianjin Economic-Technological Development Area (hereinafter referred to as TEDA) was founded on December 6, 1984 with the approval of the State Council of China.

Since 1997 the Ministry of Commerce of China (the former Ministry of Foreign Trade and Economic Cooperation) has conducted comprehensive assessments of all the state-level economic development zones. With its comprehensive score topping the assessment list for years, TEDA has become the most attractive region for investment in China and in Asia as well as the most admired industrial park of China.

Location and Transportation

TEDA is situated at the converging point of the Circum-Bohai Economic Ring and the Beijing-Tianjin-Hebei city cluster. Relying on Beijing and Tianjin--two municipalities directly under the jurisdiction of the State Council, Tianjin Binhai New District (TBND) is the gateway to Northwest, Northeast and North China. Facing Japan and South Korea across the sea, TBND directly faces Northeast Asia and the fast growing Asia-Pacific Economic Ring. It is an important window and passage for China' s opening-up. To the east of TEDA is Tianjin Port, the largest international trade port in North China, and it is also adjacent to Tianjin Binhai International Airport, the largest airfreight transportation center of China. It is 145 kilometers away from Beijing International Airport. Expressways, light rails, freight transportation railways, and intercity trains run through TEDA and join a number of key railways within China as well as the national expressway network.

An Ideal Setting for Human Existence

Taking efforts in constructing an eco-industrial park pleasant for residence, TEDA always implements a one veto system for its environmental protection and said no to those energy-intensive and pollution-intensive enterprises when examining project applications. TEDA passed the ISO14000 Environmental Quality Certification in 2001 and was appointed in 2002 as a location for the State Environmental Protection Administration of China and UNEP to launch their pilot project of the environmental management of China' s industrial zones. Therefore TEDA' s international cooperation in environmental protection is further strengthened. TEDA took the lead in China in constructing an eco-industrial park in 2003, making efforts to construct a new high-tech manufacturing base featuring industrial symbiosis and waste recycling within 10 to 15 years.

Technological Innovation

By the end of 2005, TEDA had 23 state-level engineering research centers, 11 enterprise technical centers, 37 multinational R&D centers, 43 enterprise post-doctoral work stations, 7 incubation bases for high-tech enterprise and 6 venture capital companies. All of them have provided great science and technology support for TEDA' s development. Accumulatively 1.45 billion US dollars were put in as science and technology development fund and science and technology venture capital. TEDA also witnessed the emergence of a science and technology innovation system made up of overseas-funded R&D centers, high-tech incubation centers, and industrialization bases and supported by increasingly improved investment and financing channels, talent incentive mechanism, and preferential policies.

The Most Attractive Investment Environment

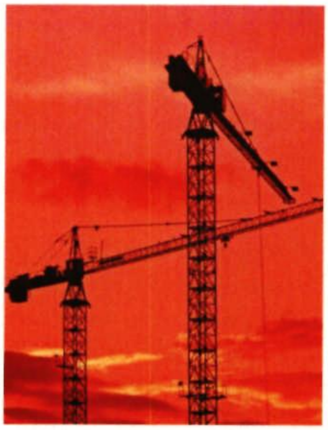
Prosperous economy, favorable investment environment, well-established transportation network, world-level infrastructure, and abundant human resources all lead the multinational companies to TEDA with their investments and lead TEDA to the position of the most admired investment location.

Infinite Development Space

TBND was in the spotlight again in 2005 in the Circum-Bohai Economic Ring. Mr. Wen Jiabao, Premier of the State Council of China, gave it the title of "China's third economic growth pole after the Pearl River Delta and the Yangtze River Delta" and granted it the status of a zone of strategic importance in terms of developing the economy of the Circum-Bohai Region. This has also brought about for TEDA, the kernel part of TBND, another development opportunity. TEDA, along with TBND, is on the way to a higher level of development.

Economy

The PRC economy grew an astonishing 11 percent in the first half of 2006, driven by fixed-asset investment growth of nearly 30 percent. Some analysts insist that China's strong growth rate is not as worrisome as the official numbers suggest, but others have warned of tough times ahead in light of the government's failure to curb overcapacity in key sectors like construction.



Other economic indicators for the first half were also up. Output leapt 18 percent, and retail sales rose 13 percent. Overall inflation, as reflected in the consumer price index, was moderate, but purchase prices of raw materials jumped 6.1 percent while producer prices crept up 2.7 percent.

To rein in bank lending, the People's Bank of China (PBOC) raised the reserve requirements for PRC banks from 8.0 to 8.5 percent on August 15. And to further cool investment, the National Development and Reform Commission and four other central-level ministries ordered local authorities to shut down new industrial projects of more than ¥100 million ($12.6 million) that do not comply with national industrial and environmental protection policies.

Internet

China had 123 million Internet users by the end of June, 77 million of whom had broadband Internet access, according to a China Internet Network Information Center report released in late July. The number of Chinese Internet users in June 2006 rose nearly 20 percent over June 2005.

The PRC Ministry of Information Industry (MII) in late July issued a notice that requires Internet companies in China to own the domain names and trademarks that they use in providing their services. This may force foreign-invested Internet companies that operate in China to restructure their operations. Currently, foreign companies often license their intellectual property to affiliates in China to avoid violating MII's tight restrictions on foreign investment in the sector.

Labor

The Bush administration rejected in late July a petition by US labor unions to impose tariffs on imports from China because of PRC labor policies. The AFL-CIO had argued that China's labor policies constitute an unfair trade advantage that lowers manufacturing costs by 12 to 77 percent.

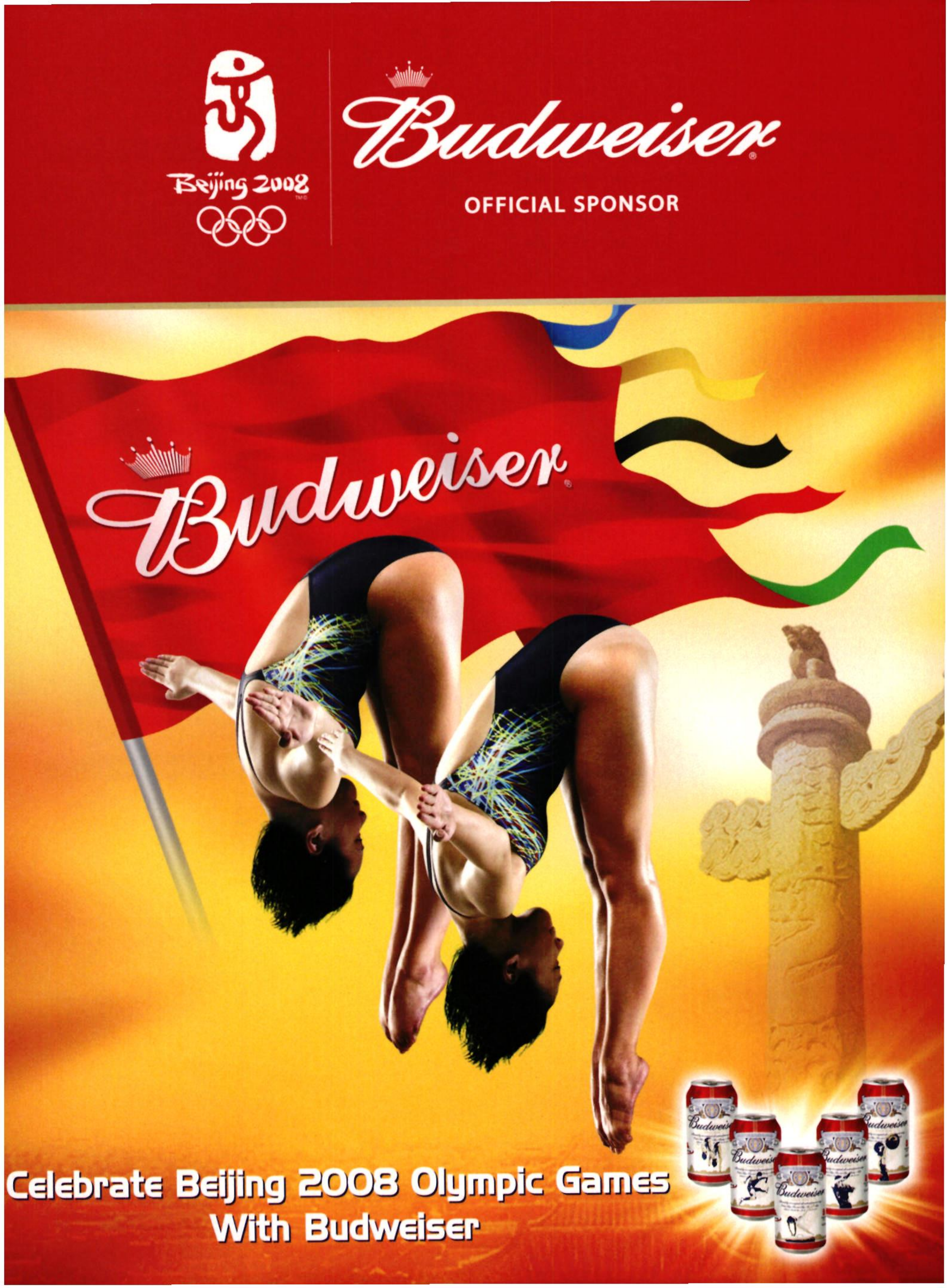
Following the formation of trade unions in several of its stores in late July and early August, Wal-Mart Stores, Inc. announced that it would work with the All-China Federation of Trade Unions (ACFTU) to establish unions at all of its stores in China. Though PRC law currently does not require foreign-invested enterprises (FIEs) to establish trade unions, ACFTU has been encouraging the formation of unions at FIEs.

Trade

China's exports grew 25.2 percent during the first half, a figure that is 7.5 percentage points lower than the first half of 2005. Rising 21.3 percent, imports grew more slowly than exports, but 7.3 percentage points higher than the same period last year. China's resulting global trade surplus hit $61.5 billion, up more than 50 percent over the first half of 2005.

Fifty-seven countries, including Brazil, Russia, and South Korea, have recognized China as a market economy, announced the PRC Ministry of Commerce in late July. Of the 31 countries that have launched antidumping investigations against China, 21 have granted the country market economy status.

The PRC General Administration of Customs postponed until 2008 the implementation of new tariff rates on auto parts that the United States, European Union, and Canada claim violate World Trade Organization (WTO) prohibitions against local content requirements. As the *CBR* went to press, consultations at the WTO had failed to resolve the dispute, but US, EU, and Canadian trade officials had yet to request the formation of a dispute settlement panel.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Banking & Finance

The PRC State Administration of Foreign Exchange in late July and early August granted the first qualified domestic institutional investor (QDII) quotas to commercial banks. The total allotment of $8.3 billion included $300 million for the Bank of East Asia, the first foreign-invested commercial bank to receive a QDII quota.

New rules that took effect September 1 have raised the requirements for foreign insurance companies to set up representative offices in China. Foreign insurance companies with insurance operations must have at least 20 years of experience in insurance; applicants that do not have insurance operations must have been in business for at least 20 years.

Olympics

The Beijing Organizing Committee for the Games of the XXIX Olympiad announced in early August that it plans to sell more than 7 million tickets for the 2008 Summer Olympics, starting in the first half of next year. Ticket prices for most events are expected to be low enough to allow ordinary Chinese to attend the games.

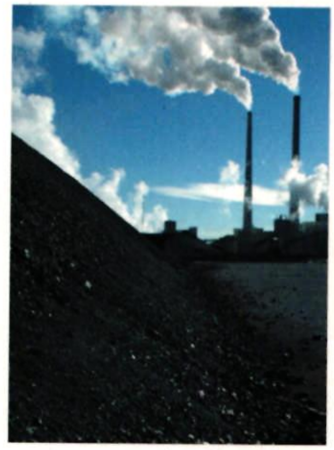
Real Estate

The PRC government has taken several steps to cool the real estate market, which is widely seen to have been responsible for the high fixed-asset investment growth in the first half. In July, six government agencies jointly issued an opinion aimed at slowing foreign investment in real estate.

On August 1, the government also began to impose a 20 percent capital gains tax on property sales. Real estate agencies in Beijing and other cities reported a rush of home deals in late July, as owners sought to avoid the new tax.

Environmental Protection

The State Environmental Protection Administration (SEPA) said in late July that it will set up 11 branch offices to independently investigate serious pollution cases, supervise law enforcement in national reserves and parks, and monitor safety at nuclear facilities. These offices will report directly to SEPA and will be completely independent from local governments.



China emitted roughly 25.5 million tons of sulfur dioxide in 2005, up 27 percent from 2000, SEPA officials said at a news conference in early August. The figures indicate that China has failed to meet the government's goal, set in 2000, of cutting annual emissions to 18 million tons by 2005. SEPA officials noted that coal consumption, the primary source of sulfur dioxide, rose 800 million tons from 2000 to 2005.

The Supreme People's Court in late July issued a judicial interpretation that makes it easier to convict officials in environmental cases. Under the interpretation, officials responsible for environmental incidents that kill at least three people face a prison term of three to seven years.

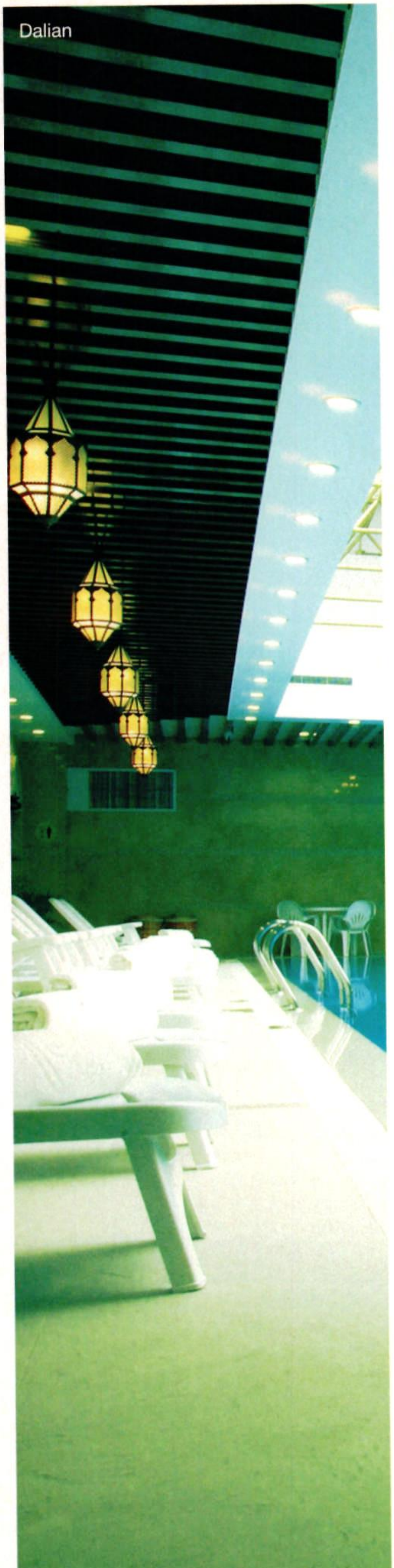
Political Reform

The PRC National Audit Office announced in late July that more than 250 government employees stole, wasted, or misused ¥30 million ($3.8 million) in the first half of this year.

To reduce nepotism, the Chinese Communist Party issued in early August regulations that prohibit family members in the same government or party organ from working for the same supervisor or for each other. The regulations also prohibit officials from working in an agency that oversees an industry in which their family members have business.

Consumer Safety

In a national investigation during the first half of 2006, the PRC Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ) found that more than 20 percent of sampled manufactured and food products failed national standards. AQSIQ officials said that counterfeit and shoddy goods remain a concern despite crackdowns and increased national surveillance.


Dalian


Shenyang

MSC Stays the Course in Global Shipping

One thing that makes Geneva-based Mediterranean Shipping Company unique among steamship lines serving Asia-US trades today is that the company is privately held by owner and founder Gianluigi Aponte and the Aponte family. Another is its hallmark of growing its business one service at a time, one trade lane at a time, and, using hub ports and relay services, MSC has been able to create an ever expanding network of international connections that is second to none.

The MSC Pamela is one of the company's new 9,200 TEU World-Class vessels.

Another trait is that MSC continues to "stay the course" once it enters a new trade. Unlike some carriers that may offer service solely to capitalize on peak periods, MSC commits to each trade lane it enters. The company does extensive research before committing its resources and equipment to serve a particular region, and remains steadfast to its customers once its service is established.

MSC's container shipping services to and from Asia are no exception.

MSC first began service in Asia in 1996 via a joint service that linked Northern Europe with the Mid East and Asia. A year later, MSC extended its Australia/Asia service to Tianjin and commenced its own service between Europe and Asia.

Intent on expanding its global reach, MSC commenced weekly, independent transpacific container service linking the U.S. ports of Los Angeles and Oakland with ports in the Far East in April of 1999. Initiated in Hong Kong, the service featured six dedicated vessels with capacities of 2,500 to 3000-TEUs each. Asian ports of call included Yokohama, Busan, Hong Kong, Chiwan and Shanghai.

In 2002 the company restructured its TRANSPAC service to create a Pendulum Service connecting Asia not only to the U.S. West Coast, but to the East Coast of the United States as well. This new service commenced in Shanghai and was comprised of weekly sailings using eight container vessels. Port calls at that time included Shanghai; Chiwan; Hong Kong; Busan; Tokyo; Los Angeles; Manzanillo, Mexico; Panama; Freeport Bahamas; Savannah; and New York.

Today, MSC offers a transpacific Pendulum Service that calls at Busan, Chiwan, Hong Kong, Ningbo, Tokyo and Yantian. Its Pearl River service calls at Chiwan, Hong Kong, Xiamen and Yantian with links to Long Beach and Oakland, CA on the U.S. West Coast.

In addition, the company upgraded its Orient Service at the start of this year from the Far East to the U.S. West Coast, offering direct express weekly service using five vessels of 6,750-TEU capacity each. The port rotation for this upgraded service is: Tantian— Shanghai— Ningbo — Tokyo— Long Beach, CA— Busan— Qingdao—Yantian.

The upgraded Orient Service gives shippers superior transit times from Central and Northern China to the United States. For example, from Shanghai to Long Beach, CA the transit time is only 13 days; Ningbo to Long Beach, 12 days; and Tokyo to Long Beach a speedy 9-days.

Fleet Expansion Underway

MSC's service expansions have been accompanied by a dramatic build-up of vessels. MSC has added a series of 5,000-TEU ships (the largest size able to transit the Panama Canal); a series of new post-Panamax vessels with capacities of up to 6,700-TEUs, and, most recently, MSC has begun taking delivery of newly built 9,200-TEU ships that are among the largest containerships at sea today.

These developments underscore the company's commitment to further expansion and service enhancements to come. They also help to assure MSC's position as one of the top three ocean carriers serving global commerce today.

China Conference Calendar

China-related events near you

September–October 2006

Please confirm dates and venues with the organizer prior to attending events. To suggest an event for our next issue, send your event announcements to Jesse Marth (jmarth@uschina.org). You can also post your events on the *China Business Review*'s website at www.chinabusinessreview.com/conference-calendar.php

Hua Ai

China Power 2006 (September 5–7) and Exhibition on Electric Power Equipment and Technology (October 31–November 3)

The 15th China Urumqi Foreign Economic Relations and Trade Fair

SEPTEMBER 1–5

Displays the latest in the region's imports and exports and hosts international leaders in their respective markets
Location: Urumqi, Xinjiang: International Exhibition Center
Organizers: Xinjiang Department of Foreign Trade and Economic Cooperation, Municipal People's Government of Urumqi
Tel: 86-991-285-0497
E-mail: service@urumqifair.com

China Power 2006

SEPTEMBER 5–7

Covers growth opportunities in China's power equipment imports and latest industry technology
Location: Hong Kong: Asia World Expo
Organizer: PennWell Conferences & Exhibitions
Contact: Nick Ornstien
Tel: 44-199-265-6600
E-mail: exhibitchina@pennwell.com
http://chp06.events.pennnet.com

Shenzhen International New Digital Time Products Fair

SEPTEMBER 7–10

Boasts one of China's largest exhibitions for digital time products
Location: Shenzhen Convention & Exhibition Center
Organizers: China Council for the Promotion of International Trade (CCPIT), Shenzhen Electronics Industry Association
Tel: 86-755-8323-9797
E-mail: trade@chinawatchnet.com
www.watch-clock.net

The 10th China International Fair for Investment and Trade

SEPTEMBER 8–11

Features comprehensive seminars on China's trade and investment climate
Location: Xiamen, Fujian: International Conference and Exhibition Center
Organizers: Provincial Government of Fujian; Municipal Government of Xiamen; PRC Ministry of Commerce, Investment Promotion Agency
Tel: 86-592-266-9828
E-mail: ciipc5@chinafair.org.cn
www.chinafair.org.cn

TeleManagement Forum: Beijing Regional Summit

SEPTEMBER 14–15

Brings together business and technical leaders to discuss challenges facing the management of next-generation networks and services
Location: Beijing: Sheraton Great Wall
Organizer: TeleManagement Forum
Contact: Collette McGannon
Tel: 44-78-0252-5501
E-mail: cmcgannon@tmforum.org
www.telemanagementworld.com

The Ninth China International Golf Expo

SEPTEMBER 15–17

Features famous brands from Europe and the United States
Location: Shenzhen Convention & Exhibition Center
Organizer: China Sports Promotion Ltd.
Tel: 852-2851-2831
E-mail: csp@cnintergolfexpo.com
www.cnintergolfexpo.com

China International Exhibition on Financial Banking Technology and Equipment

SEPTEMBER 17–20

Exhibits technical solutions used by financial institutions around the globe
Location: Beijing Exhibition Center
Organizer: The Organizing Committee of China Financial Banking Technology & Equipment
Contact: Peng Aiqun
Tel: 86-10-6465-0495
E-mail: cif@ciftee.com.cn
www.ciftee.com.cn

China Irrigation and Fertilizer Expos 2006

SEPTEMBER 19–21

Brings together buyers and suppliers in China's fertilizer and irrigation industries
Location: Beijing: National Agricultural Exhibition Center
Organizers: Specialized Sub-Council of Agriculture, CCPIT
Contact: Linda Jiang
Tel: 86-10-6419-4402
E-mail: linda@ccpit-ssa.org.cn
www.irrigation-fertilizerexpo.com

China Magnetics

SEPTEMBER 19–21

Brings users, producers, and suppliers together to discuss progress, challenges, and opportunities in China's magnet and magnetic materials industry
Location: Sofitel Shanghai Hotel
Organizer: Intertech Corp.
Tel: 207-781-9615
E-mail: jvermette@intertechusa.com
www.intertechusa.com/chinamag.html

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Company ______________________ Telephone Number ______________________

Mailing Address ______________________

City, State/Country, Postal Code ______________________

E-mail address ______________________

Countries where you currently conduct business ______________________

Catherine Gelb

China Irrigation and Fertilizer Expos (September 19–21) and Jiangsu International Agriexpo (September 22–24)

Jiangsu International Agriexpo

SEPTEMBER 22–24

Showcases opportunities for agribusiness modernization in Jiangsu
Location: Lianyungang, Jiangsu International Exhibition Center
Organizer: Jiangsu Provincial Department of Agriculture and Forestry
Contact: Mr. Dai
Tel: 86-25-8622-6887
E-mail: agriexpo@jsagri.gov.cn
www.jsagriexpo.com

Metal Working China 2006

OCTOBER 10–13

Accompanied by a series of conferences, seminars, and corporate lectures on China's metal industry
Location: Shanghai New International Expo Center
Organizer: Hannover Fairs China Ltd.
Contact: Judy Zhu
Tel: 86-21-6886-2355
E-mail: mwc@hfchina.com
www.metalworkingchina.com

China Sourcing Fair: Electronics and Components

OCTOBER 11–14

Includes a series of lectures on the best methods of sourcing electronics and their components
Location: Hong Kong: Asia World Expo
Organizer: Global Sources Ltd.
Tel: 852-8199-7308
E-mail: visit@chinasourcingfair.com
http://tradeshow.globalsources.com

China's Financial Markets V

OCTOBER 12

Features panel discussions on China's financial markets, including banking, capital markets, overseas listings, and mergers and acquisitions
Location: New York City: The Pierre
Organizer: The Asia Society
Contact: Alfonso Cortes
Tel: 212-288-6400
E-mail: alfonsoc@asiasoc.org

The 100th Chinese Export Commodities Fair

OCTOBER 15–20

Features industrial products, textiles and garments, consumer goods, and more
Location: Guangzhou: Pazhou and Liuhua Complexes
Organizer: PRC Ministry of Commerce
Tel: 86-20-2608-9999
E-mail: info@cantonfair.org.cn
www.cantonfair.org.cn

CIE Radar 2006

OCTOBER 16–19

Focuses on the research and development aspects of radar technology
Location: Shanghai Everbright Convention & Exhibition International Hotel
Organizer: Chinese Institute of Electronics
Contact: Zhu Qingming
Tel: 86-55-1513-2998
E-mail: qmzhu@163.com
www.cie-china.org/radar2006/index.htm

Shanghai International Franchise Show

OCTOBER 17–19

Features leaders from the chain store and franchise industry, as well as representatives from the US Consulate
Location: Shanghai International Expo Center
Organizer: China Chain Store & Franchise Association
Contact: John He
Tel: 86-10-5191-6555 x 8038
E-mail: 2004@ccfa.org.cn
www.ccfa.org.cn

Eighth International Conference on Solid-State and Integrated-Circuit Technology

OCTOBER 23–26

Features technical presentations and concludes with an exhibition featuring the latest equipment and materials used in the industry
Location: Shanghai Hotel Equatorial
Organizer: Chinese Institute of Electronics
Contact: Ting-Ao Tang
Tel: 86-55-1513-2998
E-mail: tatang@fudan.edu.cn
www.cie-china.org/icsict2006/index.htm

Intertextile Shanghai Apparel Fabrics

OCTOBER 26–28

Features more than 1,500 exhibitors from 25 countries and regions
Location: Shanghai New International Expo Center
Organizer: Messe Frankfurt (HK) Ltd.
Contact: Wilmet Shea
Tel: 852-2238-9967
E-mail: textile@hongkong.messefrankfurt.com
www.messefrankfurt.com.hk

China Alcoholic Drinks Markets Conference

OCTOBER 30–31

Covers several key elements of the industry including consumer behavior, safety regulations, packaging, and distribution
Location: Shanghai: TBA
Organizer: INC Global Conferences
Contact: Cecille Gonzales
Tel: 65-6220-2577
E-mail: marketing@inc-global.com
www.inc-global.com

The 11th International Exhibition on Electric Power Equipment and Technology

OCTOBER 31– NOVEMBER 3

Brings together key international energy companies to display the latest power equipment, including renewable energy technology
Location: Beijing: China International Exhibition Center
Organizers: China Electricity Council International, Adsale Exhibition Services Ltd.
Contacts: Sally Ko and Edward Tang
Tel: 852-2516-3346 x 376
E-mail: power@adsale.com.hk
www.adsale.com.hk

Legal and Financial Strategies for Doing Business in China

NOVEMBER 6–7

Examines key regulations, policies, and trends affecting US businesses in China
Location: New York City: Helmsley Hotel
Organizers: Atlas Information Group, Inc., Structured Finance Institute
Contact: Lynne Strauss
Tel: 800-207-4432
E-mail: lynne@atlas-sfi.com
www.atlas-sfi.com

The IET International Conference on Wireless, Mobile and Multimedia Networks

NOVEMBER 6–9

Features academic lectures on China's wireless multimedia networks
Location: Grand Metropark Hangzhou Hotel
Organizers: Institute of Engineering and Technology, Hangzhou Dianzi University
Contact: Li Baoyu
Tel: 86-10-6825-9365
E-mail: libao@libao-tour.com.cn
http://icwmmn06.njtu.edu.cn/location.htm

Second National Symposium on Mergers and Acquisitions in China

DECEMBER 6–7

Covers topics from investment vehicles to dispute resolution and includes presentations from corporate counsel, investment bankers, and consultants
Location: New York City: Roosevelt Hotel
Organizer: American Conference Institute
Tel: 888-224-2480
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Event Wrap-Up

WASHINGTON

July

Issues Luncheon: Farewell for US Department of Commerce (DOC) Deputy Assistant Secretary Hank Levine
Featured Hank Levine, who after a long career in the Foreign Service, retired from the US government in August.

August

Roundtable with US DOC Undersecretary for International Trade Frank Lavin
Lavin briefed companies on his recent China trip.

BEIJING

July

Luncheon with Former Washington Governor Gary Locke
Locke, also chair of the Preparation Committee for PRC President Hu Jintao's April visit to Seattle, WA, spoke on current issues in US-China relations.

Issues Breakfast: Antidumping and Subsidies with David Spooner
Featured US DOC Assistant Secretary for Import Administration David Spooner and Deputy Assistant Secretary for Policy and Negotiations in Import Administration Joe Spetrini; cosponsored by USCBC and the American Chamber of Commerce (AmCham) Beijing.

Breakfast with US DOC Undersecretary Frank Lavin
Lavin discussed key issues in US-China trade; cosponsored by USCBC and AmCham-Beijing.

August

Breakfast on China's Financial Sector Reforms
Featured Kevan Watts, chair of Merrill Lynch International

Evening Reception with US Senate Delegation
Featured members of a US Senate delegation led by Senators Ted Stevens (R-AK) and Daniel Inouye (D-HI), as well as US Embassy staff. Co-sponsored by USCBC, AmCham-Beijing, and the US Chamber of Commerce.

SHANGHAI

July

Luncheon on Best Practices: Sourcing and Procurement in China
Featured Matthew Duffy, general manager, Global Sourcing (China), the Goodyear Tire and Rubber Co.

August

China's Macroeconomic Outlook: Forecasts for 2007
Featured Andy Rothman, China macro strategist, CLSA; and Joan Zheng, senior director, head of China research, and China strategist, Merrill Lynch

Upcoming Events

WASHINGTON

Issues Luncheons
September 21, 2006
October 19, 2006
November 16, 2006
December 14, 2006

SHANGHAI

China Operations Conference
October 26, 2006

WASHINGTON

Forecast 2007

Reception and Conference
February 7–8, 2007

For more event information, see www.uschina.org

USCBC Hosts Evening Reception for New USCBC Chair

The USCBC hosted a reception for new USCBC Chair W. James (Jim) McNerney Jr. McNerney is chairman, president, and CEO of the Boeing Co. The event featured speeches from McNerney, Senators Ted Stevens (R-AK) and Max Baucus (D-MT), Representative Jim Kolbe (R-AZ), US Deputy Secretary of Commerce David Sampson, and PRC Embassy Deputy Chief of Mission Zheng Zeguang, while other US and PRC government officials and other USCBC board members, members, and guests attended the reception. Special thanks to the Boeing Co. for underwriting this event.


W. James (Jim) McNerney Jr., new USCBC chair and chairman, president, and CEO, the Boeing Co.


McNerney; Phil Ruter, vice president, Legislative Affairs, the Boeing Co.; and Senator Max Baucus (D-MT)


Senator Ted Stevens (R-AK)


Reception guests

Photos: sardari.com

USCBC Holds 33rd Annual Membership Meeting

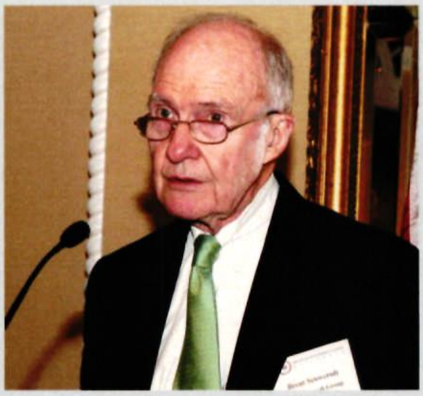
The US-China Business Council's (USCBC) 33rd Annual Membership Meeting, held in Washington, DC, on June 5, began with a mid-year update on China's economy, currency policy, and financial sector reforms led by Raghuram Rajan, economic counselor and director, Research Department, International Monetary Fund. Andrew M. Shore, partner, Mayer Brown Rowe & Maw LLP (formerly chief of staff, House Republican Conference), and Timothy E. Punke, partner, Preston Gates Ellis LLP (formerly chief minority international trade counsel, Senate Finance Committee), spoke on congressional trade politics and China. Robert W. Poole, vice president, China Operations, USCBC, reported on top operating issues in China. Two speakers discussed corporate case studies: Lenovo Group Ltd.'s Senior Vice President and Chief Marketing Officer Deepak Advani told "The Lenovo Story," and President of UPS International David Abney discussed "Building a Business in China: Lessons Learned." US Air Force Lt. Gen. (Ret.) Brent Scowcroft, president of the Scowcroft Group, delivered the luncheon keynote address.

Raghuram Rajan, economic counselor and director, Research Department, International Monetary Fund

Andrew Shore, partner, Mayer Brown Rowe & Maw LLP; Timothy Punke, partner, Preston Gates Ellis LLP; Robert W. Poole, vice president, China Operations, USCBC

Deepak Advani, senior vice president and chief marketing officer, Lenovo

David Abney, president, UPS International



US Air Force Lt. Gen. (Ret.) Brent Scowcroft, president, the Scowcroft Group

Photos: sardari.com

Annual Membership Meeting guests listen to the luncheon address

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A Message from the US Secretary of Commerce

Carlos M. Gutierrez

Congratulations to the US-China Business Council (USCBC) for publishing this special issue of the *China Business Review*, focusing on the fifth anniversary of China's World Trade Organization (WTO) accession. The nature of US-China trade and commercial relations has been transformed dramatically in these five years. Likewise, through WTO accession, China has begun a process of "remaking" its economy, and in doing so has become an increasingly important partner in the world economy.

American exports to China have more than doubled since China joined the WTO in 2001. China is the fastest-growing major market in the world. It is now the third-largest trading nation, America's third-largest trade partner, and is poised to become our third-largest export market. Total bilateral trade between China and the United States in 2005 was $243 billion. US exports to China increased 21 percent in 2005, and China provides excellent opportunities for American exporters in a number of sectors. As evidence of this, through May 2006, US exports grew an additional 37 percent over the same period last year.

Of course, changes of this magnitude do not occur without challenges and growing pains. The underlying changes in US-China trade and economic relations brought on by growth and opportunities, while strengthening our bilateral partnership, have led to concerns over many issues. These include market access, transparency, and weak intellectual property rights protection and enforcement. A major focal point for both the US government and businesses is assessing how satisfactorily China is meeting its WTO commitments, as agreed to in its 2001 accession agreement.

I steadfastly believe that we are steering the right course by engaging China through consultations and negotiations to continue to move progressively in liberalizing its trade and

Continued on page 87

美国商务部部长卡洛斯·古铁雷斯致词

祝贺美中贸易全国委员会为纪念中国加入世贸组织五周年出版了这期的《美中商贸评论》特刊。在这五年时间里，美中商贸关系的性质发生了巨大的转变。同样地，通过加入世贸组织，中国开始“脱胎换骨改革” 其经济，进而成为了世界经济中日益重要的伙伴。

自2001年中国加入世贸组织以来，美国对中国的出口总量增长了一倍多。中国是世界上增长最快的主要市场，是目前世界上第三贸易大国、美国的第三大贸易伙伴，并不久将超过日本跃居成为美国的第三大出口市场。2005年中美双边贸易总额为2,430亿美元，美国对中国的出口增长了21%，与此同时中国为美国出口商在诸多领域提供了极好机会。这一趋势的一个见证就是，到2006年5月底，美国对中国的出口比去年同期又增长了37%。

当然，各种挑战和成长之痛是不可能不伴随着这些巨大的变化。美中贸易和经济关系通过增长和各种机会所带来的深层变化，一方面加强了我们的双边伙伴关系，同时也带来了值得关切的许多问题。这其中包括市场准入、透明度和知识产权保护和执法不力等问题。对于美国政府和美国商界来说，一个主要的关键是评估中国是否满意的执行了在2001年入世协议中中国所做出的承诺。

我始终坚信，我们通过磋商和谈判促使中国继续不断前进并放宽其贸易和经济政策的方向是正确的。我们决不能屈服于保护主义的压力，而应该继续信守我们对发展自由和公平的贸易的承诺。中国应欣然接受其成为主要国际贸易伙伴的新角色，并实施促进自由和公平这两个核心原则的贸易和经济政策。尽管严重的障碍依然存在，我仍然乐观，我们会在已有的基础上继续前进。我期待通过美中商贸联委会，在有关的问题上取得更多的进展。美中商贸联委会为加强贸易关系提供了一个建设性的双边对话机制，使美中两国的人民都从中受益。确切地说，正是美国和中国富有活力的经济增长在推动全球的经济。

发展国与国之间坚实有力的贸易关系，仅靠政府之间的对话是远远不够的。美中贸易全国委员会为从事对华贸易的美国商界在组织、传递信息、咨询建议和提供服务方面发挥了极其宝贵的作用。没有更好的语言能表达我对美中贸易全国委员会的赞美，我只能说，如果没有这个委员会，我们将不得不创建这一个组织。

我感谢美中贸易全国委员会对美中商务关系进一步发展所做出的贡献，我期待着阅读这期的《美中商贸评论》特刊。

A Message from
PRC State Council Vice Premier Wu Yi

Upholding the opening-up policy
Promoting mutually beneficial cooperation
Achieving common development

—Written for the *China Business Review*'s special issue on the fifth anniversary of China's entry into the World Trade Organization

Wu Yi

中华人民共和国国务院副总理吴仪致词

坚持对外开放

促进互利合作

实现共同发展

——为《美中商贸评论》“中国加入WTO五周年”特刊题

A Message from the US Trade Representative

Susan C. Schwab

As we approach the fifth anniversary of China's accession to the World Trade Organization (WTO), we are given a chance to review progress made since 2001 and look ahead to the next five years and beyond. As the world's third-largest trader, China has a far-reaching impact on economies throughout the world, including the United States. Together, the United States and China have accounted for almost half of global economic growth in the past four years.

China's integration into the world economy and the international trading system has been beneficial to both countries. Since 2001, when China joined the WTO, US exports to China have grown five times faster than they have to the rest of the world, and China has gone from being the ninth-largest to the fourth-largest export market for our farmers, ranchers, manufacturers, and service providers. US consumers now have access to a wider variety of less costly goods from China, and this has helped spur US economic growth while helping to check inflation. Access to Chinese inputs has also helped make US companies and workers more competitive in the global economy.

At the same time, however, it is apparent that China has not yet fully embraced the key WTO principles of nondiscrimination and national treatment, nor has China fully institutionalized market mechanisms and made its trade regime predictable and transparent. Despite many positive reforms, China continues to use an array of industrial policy tools to promote or protect favored industries, and these tools at times appear to collide with China's WTO obligations. In addition, enforcement of intellectual property rights continues to need significant strengthening.

These sector-specific and cross-cutting challenges form a pressing agenda for the coming years. We applaud the US-China Business Council for contributing to the dialogue on these and other areas of concern. The business community provides an essential on-the-ground perspective that helps to guide our cooperative and constructive engagement with China. In our view, the enormous benefits China gains from being a WTO member carry with them the responsibility to be a constructive and responsible stakeholder in the international trading system. We look forward to working closely with the business community to build on the progress of the past five years and move toward this goal.

美国贸易谈判代表苏珊・施瓦布致词*

值此中国加入世贸组织五周年之际，我们有机会回顾2001年以来取得的进步，并展望今后五年和更远的未来。中国作为世界第三贸易大国，对包括美国在内的世界各个经济体都有着深远的影响。在过去的四年时间里，美国和中国两国的经济增长几乎占了全球经济增长的一半。

中国与世界经济及国际贸易体系接轨使两国都受益。自中国2001年入世以来，美国对中国的出口增长相较对世界其他国家的出口增长快了五倍。中国作为我们农业、牧业、制造业和服务业的出口市场，已从第九大出口市场跃居为第四大出口市场。美国消费者现在可以从中国获得更多品种和更低价的商品，这不仅促进了美国经济的成长，同时又遏制了通货膨胀。通过中国所提供的生产所需的投入物，美国的公司和从业人员也提高了它们在全球经济中的竞争力。

但同时显而易见的是，中国尚未完全接受世贸组织的非歧视和国民待遇的关键原则，也没有完全使其市场机制制度化，使其贸易体制具有可预测性和透明度。尽管有许多积极的改革，中国继续以各种产业政策为工具，促进或保护某些特定产业。这些政策工具在某些时候显得与中国作为世贸组织成员的责任不相符。此外，对知识产权的保护也需要大大加强。

这些涉及具体行业和跨行业的挑战已成为今后几年内紧迫的议事日程。我们赞扬美中贸全国委员会在这些方面和其他有关领域与中国的对话中所作出的贡献。工商界提供了一个非常重要的从实际出发的观点，这些观点有助于指导我们与中国的合作性和建设性交往。我们认为，中国加入世贸组织获得的巨大好处使其肩负一个责任，那就是在国际贸易体系中，成为一个建设性的和负责任的利益相关者。我们期待与工商界紧密合作，基于我们过去五年中所得到的进步来取得更多的进展，并继续朝这一目标前进。

* Translation by USCBC

A Message from PRC Ambassador to the United States Zhou Wenzhong

On December 11, 2001, after more than ten years of difficult negotiations, China finally became an official member of the World Trade Organization (WTO). In an instant, five years have already passed. I hereby would like to simply present the significant efforts and work that China has done since entering the WTO to fulfill its commitments.

Since entering the WTO, our country's government has faithfully adhered to its WTO commitments and made comprehensive adjustments to its trade system and policies.

In the area of trade in goods, our country's average tariff rate has dropped from the pre-WTO-entry level of 15.3 percent to 9.9 percent in 2006. In particular, the average tariff rate for industrial goods is now 9.0 percent, and the average tariff rate for agricultural goods is 15.2 percent.

In the area of import management, our country on January 1, 2005 completely eliminated nontariff import measures for 424 Harmonized System categories of goods, namely import quotas and licenses. Our country has also established a complete, open, and transparent tariff-rate quota management system for the import of grain, cotton, oil, sugar, chemical fertilizers, and other staple goods that are important for people's livelihoods.

In the area of foreign trading rights, our country liberalized foreign trading rights and implemented a registration system for foreign traders on July 1, 2004, half a year earlier than the commitment deadline.

In the area of trade in services, our country has promulgated and revised laws and regulations related to banking, insurance, securities, telecom, architecture, distribution, legal services, tourism, transportation, and other service sectors, thereby providing ample legal basis and assurance for expanding market access opportunities in the realm of services trade.

In the area of intellectual property rights (IPR), our country, before and after entering the WTO, has made massive revisions to IPR legislation. In particular, our country has revised principal IPR legislation such as the Patent Law, Trademark Law, and Copyright Law and their implementing rules. The domestic IPR legal framework has completely met WTO requirements. At the same time, China has continuously augmented its enforcement and protection of IPR, and people's awareness of IPR protection has significantly increased.

In April 2006, the WTO conducted its first Trade Policy Review for our country and affirmed our country's fulfillment of our WTO commitments. WTO members have given high marks to China's work—since it began to reform and open up and especially after it entered the WTO—in continuously deepening reforms, expanding the country's opening up, and earnestly fulfilling its commitments and furthering trade liberalization. WTO members have also expressed their congratulations to China for its achievements in developing its economy, expanding foreign trade, elevating the people's standard of living, and reducing poverty. They believe that our country's performance in numerous areas of economic and trade policy since it entered the WTO has been good; that our country has shown a clear and definite political will in fulfilling our WTO commitments; that our country's trade system and trade environment is more stable and more predictable; and that our country has become an important engine of global economic growth.

While attaining development for itself, China has not forgotten to contribute to the stable development of the world economy and of international trade. In the Doha round of negotiations, China always actively and constructively participated in negotiations on each topic, strove for progress in the talks, and clearly made active contributions based upon its level of economic development and the level of what it can bear. China is willing to continue to strive and make contributions together with other members to resume and complete the Doha round of negotiations as early as possible.

中国驻美国大使周文重致词

2001年12月11日，经过十几年的艰苦谈判，中国终于成为世界贸易组织（WTO）的正式一员。转眼间，已是五年过去了，我在此简单介绍一下中国入世以来为履行自己的承诺所做出的大量努力和工作。

加入世贸组织以来，我国政府信守入世承诺，对贸易体制和政策做出了全面调整。

在货物贸易方面，我国的平均关税水平从入世前的15.3%逐步降至2006年的9.9%。其中，工业品平均税率为9.0%，农产品平均税率为15.2%。

在进口管理方面，2005年1月1日全部取消424个税号产品的进口非关税措施，即进口配额和许可证。还对粮、棉、油、糖、化肥等关系国计民生的大宗商品的进口，建立了完整、公开、透明的关税配额管理体制。

在外贸经营权方面，2004年7月1日起我国对外贸易经营权放开，对外贸易经营者开始实行登记备案制度，比承诺时间提前半年。

在服务贸易方面，我国制定并修改了银行、保险、证券、电信、建筑、分销、法律、旅游、交通等服务行业的法规和规章，为扩大服务贸易领域市场准入机会提供了充分的法律依据和保障。

在知识产权方面，我国在入世前后进行了大规模的知识产权立法修改工作，对主要的知识产权立法，如《专利法》、《商标法》、《著作权法》及其实施细则，都进行了修改，知识产权国内立法已经完全符合WTO的要求。同时知识产权保护执法力度不断加大，全民知识产权保护意识极大提高。

2006年4月，世贸组织对我国进行了第一次贸易政策审议，肯定了我对入世承诺的履行。WTO成员对我国改革开放以来，尤其是入世以后，不断深化改革、扩大开放、认真履行承诺、推进贸易自由化给予了高度评价；对我国在发展国民经济、扩大对外贸易、提高人民生活水平和减少贫困方面取得的成绩表示祝贺。他们认为，入世以来，我国在经济和贸易政策许多方面的表现堪称良好；我国在履行入世承诺上体现出了明确的政治意愿；我国贸易体制和环境更加稳定，更具可预见性；我国已成为世界经济增长的重要引擎。

在自身得到长足发展的同时，中国也不忘为推动世界经济和国际贸易的稳定发展尽一己之力。在多哈回合谈判中，中国一直积极地、建设性地参加各项议题的谈判，努力推动谈判取得进展，并明确将根据自身经济发展水平和承受能力做出积极贡献。中国愿意继续努力，与其他成员一道为尽早恢复和结束多哈回合谈判作出贡献。

Thoughts on the Occasion of China's Fifth Anniversary of WTO Accession

Clark T. Randt, Jr., United States Ambassador to the People's Republic of China

No country in recent history has benefited more from World Trade Organization (WTO) membership than has China, and no country has greater potential to strengthen the WTO than does China. Approaching the fifth anniversary of its accession to the WTO, China has become the world's third-largest trading nation and established itself as a major force on the global economic scene. As a result, millions of China's people have been lifted from poverty as its economy has grown at nearly 10 percent per year.

The United States has derived substantial benefits from China's greater participation in the global economy. The United States and China together have accounted for almost half of global economic growth over the past four years. China is currently the United States' third-largest trading partner, and it will soon become the United States' third-largest export market.

When it acceded to the WTO in December 2001, China committed to make substantial structural reforms to its economy. It agreed to undertake systemic rule of law reforms to introduce transparency, predictability, and fundamental fairness into business transactions. During its first five years of WTO membership, China has phased in the vast majority of its commitments. This is a significant accomplishment for which China justly deserves the world's praise.

China's work in honoring its WTO commitments, while laudable, remains unfinished. China needs to do more to honor its WTO obligations to protect intellectual property rights domestically and to move forcefully to eliminate market access barriers to foreign goods and services. As China's WTO accession transition period nears an end and China has earned a position among the ranks of global trading powers, it can no longer remain a passive bystander. Instead, China should actively seek out opportunities to break down international trade barriers and become a more active, creative, and constructive participant in multilateral trade-liberalizing negotiations, such as the Doha Round.

We in the United States government congratulate China for seizing the opportunity of WTO accession to put in place a framework of laws that, if consistently enforced, will keep China among the ranks of the world's great economies. The United States government looks forward to continued cooperation with China to further strengthen an open and fair global trading system.

中国入世五周年之际随想

美国驻中华人民共和国大使雷德

近代史上，没有任何一个国家比中国从世贸组织成员地位中获得更大的利益，也没有任何一个国家比中国更有能力加强世贸组织。在入世近五周年的时刻，中国已经成为世界上第三大贸易国，并成为全球经济舞台上的一支主要力量。因此中国经济以接近百分之十的速度连年递增，使得数百万中国人民脱离贫困。

美国从中国更广泛地参与全球经济中得到了实质利益。美中两国的经济增长几乎占了过去四年中全球经济增长的一半，中国目前是美国的第三大贸易伙伴，并将很快的成为美国的第三大出口市场。

中国在2001年12月加入世贸组织时曾承诺，对其经济体制进行实质性的结构改革。她同意进行有系统的法治改革，以便在商业交易中引进透明度、可预测性和基本的公平性。入世五年来，中国已分阶段实施了大部分承诺。中国所取得的这个成绩是十分有意义的，值得全世界赞赏。

中国为履行其世贸的承诺所做的工作值得称赞，但仍未完成。中国需要付出更多的努力以履行其在国内保护知识产权的世贸义务，也需要采取强而有力的措施以消除外国货物和服务所面临的市场准入障碍。中国入世的过渡期即将结束，中国在全球贸易大国中已争得了自己的地位，不可能再是一个被动的旁观者。相反的，中国应该积极寻求机会，打破国际贸易壁垒，成为多边贸易自由化谈判---例如多哈回合---中更有积极性、创造性和建设性的参与者。

我们美国政府的工作人员祝贺中国抓住了入世的契机，构建了一个法律框架，若始终如一坚持执行这些法律，中国必将保持自己在世界伟大经济体中的地位。美国政府期待着继续与中国合作，以进一步加强公开、公平的全球贸易体系。

Toward the "Win-Win"

Long Yongtu
Secretary-General, Boao Forum for Asia, and former Chief Negotiator for the PRC Ministry of Foreign Trade and Economic Cooperation

I would like to thank the US-China Business Council for the kind invitation to deliver a message to commemorate the fifth anniversary of China's accession to the World Trade Organization (WTO).

In writing these words, what I remember most is the China-US trade negotiations, which were the most difficult, most torturous, and most complicated, but also the most important in the course of all negotiations of China's accession to the WTO.

At the beginning of those long negotiations, there was much mistrust between the two parties, and this caused many misunderstandings, much suspicion, and even anger. Every step one side took in the negotiations was often interpreted by the other side as a new "trap" or "conspiracy." This doomed the negotiations to progress slowly and sometimes even regress or stall completely.

It seemed imperative at the time for changes in mindset and attitude in the negotiations, and after years of engagement, a new "win-win" approach began to prevail.

The US side gradually came to realize that supporting China's WTO accession was not a "favor" to China. It was not only in the interest of the global multilateral trading system, but was first of all beneficial to the United States. The Chinese side also gradually came to realize that accepting the many conditions for entry was not a "concession" to the United States. It benefited China's establishment of a market economy system, and it would help China more actively and effectively participate in economic globalization.

As China-US negotiations embarked on the road of searching for a win-win outcome, the negotiations took a turn onto the right track. The atmosphere of the negotiations improved, the positions of the two sides got closer, and they quickly reached consensus on many technical details. Finally, in November 1999, the two countries reached a historic agreement, creating the most important condition for China to accede to the WTO in 2001.

Over the last five years, China-US economic and trade relations have, on the whole, been encouraging. As China's trade and economy are growing rapidly, however, some misunderstandings and suspicions have emerged between the two sides, leading to unnecessary frictions from time to time.

In commemorating the fifth anniversary of China's WTO entry, the most important thing, I believe, is that the two countries continue to work together toward the goal of win-win outcomes. To this end, both sides need some changes in their perspectives.

The most important thing for the United States is to understand China's rapid rise correctly.

To some extent, China's WTO entry has demonstrated the nature of China's rise and the direction of its development. When China joined the WTO, it made two basic commitments: first, to comply with internationally accepted rules, and second, to open its markets gradually. Over the last five years, China has earnestly fulfilled these commitments and has become a responsible and open partner for cooperation. The United States should look at China's rise as a peaceful rise that brings opportunities to the world.

As for China, it is important to understand objectively China-US economic and trade relations, especially the trade frictions.

China should not always view US demands as "pressure." In recent years, the most discussed issue has been the protection of intellectual property rights (IPR). The Chinese side already recognizes that IPR protection will not only protect US business interests but will first and foremost aid China's efforts to promote innovation and raise the quality of foreign investment. China should view China-US trade frictions with "an easy mind" and distinguish normal trade frictions from trade protectionism.

In sum, neither side should politicize trade issues, and both should strive to seek win-win results in economic and trade matters.

In commemorating the fifth anniversary of China's WTO entry, I send with this message my best regards to those American colleagues who worked with us to seek a win-win result in the negotiations and thank them for their valuable contributions to the development of economic and trade relations between China and the United States.

走向“双赢”之路

龙永图
博鳌亚洲论坛秘书长
中国前对外贸易经济合作部首席谈判代表

感谢美中贸易全国委员会邀请我为纪念中国入世五周年发表感言。

在写这篇感言时，我想得最多的是中美为此进行的贸易谈判。这是中国入世历程中最困难、最曲折、最复杂但又是最重要的谈判。

在中美谈判最初的很长一段时间里，双方之间曾充满了不信任、造成了许多误解、猜疑甚至愤怒。一方在谈判中采取的每一个步骤，往往都被另一方解释成一个新的“陷阱”，新的“阴谋”。这就注定了谈判进展缓慢，有时甚至倒退或是止步不前。

谈判确实需要观念和态度的转变，经过多年的较量，一种新的观念，一种争取“双赢”的观念开始占上风。

美方逐渐认识到，同意中国入世不是美国对中国的“施舍”(Favor)，它不仅有利于全球多边贸易体制，首先有利于美国。中方也逐渐认识到，为入世接受的许多条件不是对美国的“让步”，它有利于中国建立市场经济体制，有利于中国更积极有效地参与经济全球化。

中美谈判一旦走上了寻求“双赢”之路，谈判就出现了转机，气氛改善了，双方立场开始接近，在许多技术细节上迅速形成共识，并最终在1999年11月达成历史性的协议，为中国在2001年入世创造了最重要的条件。

中国入世五年来，中美经贸关系总的来说是令人鼓舞的。但是，随着中国贸易和经济的高速增长，双方之间也产生了不少误解、猜疑，导致了一些不必要的摩擦。

在纪念中国入世五周年时，我认为最重要的是中美应该共同努力，继续走一条寻求双赢之路。为此，双方都需要一些观念上的改变。

对于美国来说，我认为最重要的是正确认识中国的迅速崛起。

从某种意义上讲，中国入世已经表明了中国崛起的性质和发展方向。中国入世时作了两个基本承诺：一是遵守国际通行的规则；二是逐步开放市场。中国入世五年，认真履行了这些承诺，成为一个负责任的开放的合作伙伴。美国应把中国的崛起看成一个给世界带来机遇的和平崛起。

对于中国来讲，重要的是客观评价中美之间的经贸关系，特别是贸易摩擦。

中国不要总是把美国的要求看成是“施加压力”。这些年谈得最多的是保护知识产权。中方已经认识到，保护知识产权不仅仅是为了保护美国的商业利益，它对中国提倡创新和提高吸引外资的质量都是至关重要的。中国更要以“平常心”对待中美的贸易摩擦，并把正常的贸易摩擦与贸易保护主义区分开来。

总之，双方都要避免把贸易问题“政治化”，努力在经济贸易方面寻求双赢的结果。

在纪念中国入世五周年之际，我希望通过这篇感言，问候那些和我们一起在谈判中寻求双赢的美国同事们，感谢他们为中美经贸关系的发展所作的宝贵的贡献。

A Message from the Chair of the US-China Business Council

W. James McNerney Jr.
Chairman, President and Chief Executive Officer, The Boeing Company

As chair of the US-China Business Council, it is my pleasure to commemorate the fifth anniversary of China's entry to the World Trade Organization (WTO) on December 11, 2001.

China's WTO entry was a landmark event in the development of China's economy and in our bilateral trade relationship. In the five years since then, much has changed. China has lowered tariffs dramatically, opened sectors to foreign investment in which it was previously prohibited, and continued reforms aimed at separating government from business. China has reviewed and revised thousands of laws to ensure that they conform to WTO rules. Perhaps most important, China has joined the international trade system and is becoming more integrated into the global economy.

The results have been clear: The United States is now China's largest trade partner, and China is now the fourth-largest export market for US companies—third-largest, when combined with Hong Kong, trailing only Canada and Mexico. As China implements its remaining WTO obligations and US companies pursue the new opportunities that result, I expect US exports to China to continue expanding, in turn providing new jobs and benefits to the United States economy.

China has made great strides in the last five years. As our large trading partner continues to grow its economy, we must work with China's government and business leaders to strengthen our ties and ensure there is support in both the US and China for our business partnerships. Issues such as intellectual property rights, transparency in government, and government licensing procedures have been of concern, and we need to work together to find effective solutions so that companies in both countries can truly realize the benefits brought by WTO entry.

On behalf of the member companies of the US-China Business Council, we congratulate China on all it has achieved in the last five years. We also look forward to working closely with China to achieve even greater progress in the *next* five years.

美中贸易全国委员会主席致词

吉姆•迈克纳尼 (W. James McNerney Jr.)
波音公司董事长、总裁兼首席执行官

从2001年12月11日到今天，中国加入世界贸易组织已经有五个年头了。在这个值得纪念的日子里，作为美中贸易全国委员会主席，我谨此致以衷心的祝贺。

无论对中国的经济发展还是对中美双边贸易关系而言，中国加入世贸组织具有划时代的意义。我们看到，这五年里出现了诸多可喜的变化：中国大幅度降低了关税，更多以前的投资禁区向外资开放，政企分离的改革进一步深化。此外，中国政府审阅和修订了大量法律条文，使之符合世贸组织的要求。也许更加重要的是，中国加入了国际贸易体系，愈发紧密地与全球经济融为一体。

这些努力的成果有目共睹：美国已经成为中国最大的贸易伙伴，而中国则已成为美国公司的第四大出口市场；如果包括香港在内，中国则是仅次于加拿大和墨西哥的美国第三大出口市场。随着中国进一步履行世贸组织成员国的义务，以及美国公司从中获得新的机会，我期待着美国将继续扩大对中国的出口，转而为中美两国创造更多就业机会和更大的经济利益。

五年里，中国的进步是惊人的。在中国加快经济发展的同时，我们必须与中国政府及企业界领袖加强联系，携手合作，为推动中美商业伙伴关系的发展赢得来自两国国内的支持。我们需要共同寻求有效的办法，解决在保护知识产权、政府事务透明化以及政府许可等领域存在的问题，使中美两国企业真正从中国加入世贸组织中受益。

我谨代表美中贸易全国委员会的成员公司，对中国在过去五年中取得的辉煌成就表示祝贺。我们期待着与中国密切合作，迎接下一个丰收的五年。

Retrospect and Prospect: US-China Business Relations on China's Fifth WTO Anniversary

Wan Jifei, Chairman, China Council for the Promotion of International Trade

After 15 years of difficult negotiation, China was formally accepted into the World Trade Organization (WTO) on November 10, 2001. This year, 2006, marks the last year of China's post-WTO-entry transition period. For five years, China has earnestly honored its pledges, maintained a healthy pace of economic development, and achieved great socioeconomic progress. At this time, looking at the US-China economic and trade relationship, I must say that the achievements over the past five years have been considerable and that the future prospects of the relationship are bright.

The US-China relationship plays an important role in the stability of the international system, and bilateral business ties are an important foundation for stability in the bilateral relationship. In the five years since China entered the WTO, business relations, thanks to the economic complementarities of the United States and China, have developed rigorously and positively. Despite differences over certain issues, the ever-expanding trade volume and the sound economic development of both China and the United States over the past five years prove that "win-win" cooperation is of strategic interest to the development of China-US economic and trade relations.

After five years of rapid growth, China is now America's fourth-largest export market, second-largest source of imports, third-largest trade partner, and the fastest-growing export market among all of America's major trade partners. America is, in turn, China's second-largest trade partner and one of the biggest sources of foreign direct investment in China. I am convinced that with the continuing perfection of WTO rules, the United States and China, as the largest developed nation and largest developing one, respectively, can, within the WTO family, share rights and obligations and maintain the harmonious development of trade and economic relations.

On the fifth anniversary of China's entry into the WTO, the US-China Business Council's (USCBC) publication of this special issue of the *China Business Review* is very meaningful. As promoters of US-China economic and trade rela-

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回首五年，成绩斐然；展望未来，前景光明

——中国入世五周年的中美经贸关系

中国国际贸易促进委员会会长万季飞

2001年11月10日，在经历了15年的艰苦谈判之后，中国正式加入了世界贸易组织（WTO）。2006年是中国加入世贸组织后过渡期的最后一年。在过去的五年里，中国认真履行“入世”承诺，保持良好的经济发展速度，并得了巨大的社会经济进步。此刻，看待中美经贸关系，则是“回首五年，成绩斐然；展望未来，前景光明”。

中美关系在世界格局的稳定中扮演着重要的角色，中美经贸关系则是两国关系稳定的重要基础。入世五年来，以互补性为基础的中美经贸关系积极健康地发展。尽管在某些特定领域中美双方存在着一定分歧，但五年来，中美双方贸易额的不断扩大和中美经济的良好发展势头已表明，合作双赢是中美经贸关系发展的战略利益所在。

经过最近五年的快速增长，中国已经成为美国的第四大出口市场、第二大进口市场和第三大贸易伙伴地位，并且是美国主要贸易伙伴中增长最快的出口市场；美国则是中国第二大贸易伙伴和对华直接投资最大的来源地之一。我深信，随着WTO规则的不断完善，中美两国作为最大的发展中国家和发达国家，一定能在WTO大家庭中，共享权利，分担义务，保持经贸关系的和谐发展。

在中国入世五周年之际，美中贸易全国委员会出版《美中商贸评论》专刊是一项很有意义的工作。作为中美经贸关系的促进者，美中贸委会和中国国际贸易促进委员会一道见证了中国改革开放、经济发展的历程，见证了中国加入WTO的整个历程。

入世五年来，中国贸促会和美中贸委会为帮助中国经贸界了解、学习和运用WTO规则，为推动中美两国在WTO框架下解决分歧，互利合作，开展了很多有创意的活动。我们将不遗余力，为继续构建健康和稳定的中美经贸关系做出更多努力。

Five Years On

John Frisbie

Ten years ago, I was working for General Electric Co. (GE) in Beijing, helping to establish their business units in China. I spent most of my time trying to put together a structure that would allow us to do some pretty basic things without having to go through too many contortions. These included

- Hiring our employees directly;
- Setting up our own after-sales service capability in-country;
- Figuring out how to convert currency for our in-country operations; and
- Importing our own product ourselves and controlling our own inventory.

Ten years on, these problems have nearly all disappeared. Some of the changes were initiated by China as it became more comfortable with foreign enterprises, and some were achieved by China's entry into the World Trade Organization (WTO) in December 2001.

Benefits for both sides

China's WTO entry agreement set out a series of market opening measures that China has been obliged to implement over a period of five years or so. The first five years have nearly passed, and only a few new commitments remain ahead. China has made great efforts to achieve these sector openings—it has reviewed and revised thousands of laws and administrative processes to comply with its WTO commitments.

China's WTO entry has clearly benefited US businesses. The entry agreement has introduced significant market openings in China and, as a result, US companies enjoy far greater market access than they did five years ago. China has

- Cut import tariffs by nearly 40 percent and eliminated tariffs on information technology products;
- Virtually eliminated import licenses and quotas;
- Relaxed many ownership restrictions on foreign businesses in China;
- Allowed foreign companies to participate in many sectors in which they were previously prohibited; and
- Eliminated or reduced restrictions on foreign investment in banking, insurance, freight and courier services, packaging, and distribution and trading services.

These changes have had an impact on the US-China trade relationship. US imports from China have been growing quickly—creating a $202 billion trade deficit last year—but few people realize that US exports to China have more than doubled since China's WTO entry, jumping from $19.2 billion in 2001 to $41.8 billion in 2005.

Earlier this year, China surpassed the United Kingdom to become the fourth-largest market for US exports. China and Hong Kong combined have passed Japan to become the third-largest US export market, after Canada and Mexico—both neighbors with which the United States has free-trade agreements.

Besides being one of our largest export markets, China is also growing far faster than any other major market for US products. US exports to China grew more than 20 percent a year, on average, from 2000 to 2005—nearly five times faster than exports to our second-fastest-growing major export market, Belgium. And US exports to China have accelerated this year, increasing 36 percent between January and May 2006 over the same period of 2005.

These figures show the positive impact of China's first four years of WTO membership, when US companies were just beginning to take advantage of many of the phased-in market openings. A few more openings, mostly in services, where US companies have strong competitive advantages, are yet to come. As China opens its markets further, US goods and services companies will increase their sales and operations there, bringing real economic benefit to the United States.

China is also benefiting from its WTO entry. Foreign investment has poured into the country in recent years, creating jobs and helping to reduce poverty. Even more important, China's WTO entry commitments have pushed it to begin making systemic reforms—improving transparency, reforming the legal system, and overhauling the financial system, to name a few—that, with further progress, will create a more predictable business environment for all firms operating in China and lay a foundation for sound economic growth over the long term.

But problems remain

That is not to say that challenges do not exist—they do, and some are significant. The enforcement of intellectual property rights (IPR) and further improvements in transparency, market access in services, and the setting of product and technical standards are all examples of areas where improvements need to be made.

Intellectual property

The creation and enforcement of a workable legal framework for the protection of IPR is one of the most important issues facing foreign companies in China. IPR

It's time to take stock of China's progress—and look at what still needs to be done

problems affect a broad range of industries: media, software, publications, industrial goods, consumer goods, pharmaceuticals, and even food products. China has yet to ensure that the rights of patent, copyright, and trademark holders are adequately protected within China and to curb the export of counterfeit products to other countries. Importantly, the central government now appears to understand that IPR protection is in China's interest if it is to foster its own innovative capability and continue economic growth over the long run. The application of criminal sanctions to deter IPR violators and consistent enforcement of relevant laws throughout the country are now the key issues.

Market access in services

In many instances, PRC regulators are using a two-pronged approach to implement China's services commitments. China often enacts basic laws that "allow" or "permit" new investment in previously restricted sectors as required by its WTO commitments, but sets the bar for entry prohibitively high. US investors in China's service sectors, including financial services, telecom, insurance, direct selling, and construction, say these restrictions and the lack of transparency in the regulatory system prevent complete market openings. Such market openings would also benefit China. The introduction of international practices and more competition into the domestic market would create stronger Chinese firms and provide better services to Chinese customers.

Transparency

Though government transparency has improved since 2001, industry rules and regulations are still frequently issued without adequate comment periods. National laws, regulations, decrees, and any other type of administrative act should be published for comment, and interested parties notified, prior to their issuance or amendment. Regulatory decisionmaking also needs to be more transparent. Lack of transparency creates an uncertain regulatory environment for all firms operating in China, whether foreign or Chinese. The PRC State Council's new requirement that all government agencies publish new trade-related regulations in the Ministry of Commerce gazette helps to address this concern.

Standards

US companies continue to face difficulties related to China's standards-setting process. The standards development process remains opaque, and comment periods on standards, when offered, are often too short to allow meaningful response. US companies are also concerned that China formulates standards outside of the established international system and uses technical standards to promote domestic companies at the expense of international competition. Although such an approach could give domestic companies within China an advantage, it could in the long run hurt Chinese companies that want to compete internationally. China would be best served by a more transparent standards-setting process and by more actively participating in international standards-setting processes.

The next stage

China has made great efforts thus far to implement the vast majority of its WTO commitments. But differences in interpretation, ambiguous laws and regulations, and in some cases, the unwillingness of local or industry officials to implement them still create difficulties for foreign companies in China. Matters have been complicated over the last year by rising protectionist sentiment in both the United States and China. Neither side will be well served by protectionist measures, and the business community must continue to educate policymakers and the general public in both countries about the benefits of trade and investment.

To take its economic development to the next level—to move to an economy less dependent on exports and investment and to create world-class companies—China will have to make even more changes. The first five years of change resulting from China's WTO entry is just the beginning. China needs to make more adjustments to integrate fully into the world economy. Such integration is the best way for China to achieve long-term economic growth and prosperity, as well as the level playing field required to ensure a mutually beneficial trade relationship between the United States and China for decades to come. 完

***John Frisbie** is president of the US-China Business Council.*

China in the WTO: A Chinese

Jing Wei/Imaginechina

View

How is China assessing its first five years with the WTO, and what does the future hold?

Wang Yong

The year 2006 marks the fifth year of China's accession to the World Trade Organization (WTO). The country is set to fulfill the bulk of its WTO commitments by the end of this year and, in the words of PRC Premier Wen Jiabao, is entering the "post-WTO transition period." But governments and businesses inside and outside China have different expectations for the future. Some warn that the real challenges facing the country are further market openings and the ability of the PRC leadership and economy to withstand such tests. Others, however, are looking forward to more market opportunities and progress on issues such as the protection of intellectual property rights (IPR).

China—and the world—transformed

When PRC leaders decided to speed up WTO accession negotiations in the late 1990s, they had a clear goal in mind: to accelerate domestic reforms by introducing external pressures. By committing to China's WTO accession agreement, they attempted to overcome stumbling blocks that hindered the government's reform efforts. These reforms have been aimed at weakening the links between state-owned enterprises (SOEs) and bureaucrats and at streamlining and reinvigorating the declining state-owned sector, inefficient but powerful government agencies, and the poorly performing financial sector.

In the five years since China joined the WTO, the country has changed in many positive ways. The ideas of market economy and trade and investment liberalizations have been integrated into popular thinking. More important, the Chinese public now widely accepts core WTO concepts such as transparency, accountable governance, and national treatment. For example, private domestic companies, with the support of media and scholars, have pressured policymakers to treat them on par with SOEs and foreign companies. In 2004, the PRC Constitution was revised to include concepts of property rights and human rights. The public has become more involved in policymaking than in the past in part because the media frequently publishes commentary

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on government policy that stimulates public discussion. In addition, government bodies release draft laws and regulations for public comment and often host public hearings to which companies and private citizens are invited. That these developments have happened in the first five years of China's WTO accession seems to support the argument that economic liberalization helps foster greater openness.

China's WTO accession has also changed the global economic landscape. The Chinese economy has grown rapidly over the last five years and recently surpassed the United Kingdom to become the world's fourth-largest economy. China has also become the world's third-largest trading country after the United States and Germany, with trade expanding nearly 29 percent annually, on average, between 2001 and 2005; its total trade volume hit a record $1.4 trillion in 2005. The country has also become one of the most popular destinations for foreign direct investment, attracting nearly $230 billion between 2002 and 2005.

The inflow of international capital has deepened China's integration with the global economy. First, the country has become a major global manufacturing center. Though consumers around the world benefit from the lower prices of products made in China, the country's rapidly rising exports have become the frequent target of antidumping suits. In addition, when its foreign exchange reserves hit $875 billion at the end of March, China surpassed Japan as the world's largest holder of foreign exchange. At the end of 2005, roughly $257 billion of this foreign exchange was held in US Treasury bills, raising concern in the United States.

While encouraging foreign investment in China, the PRC government has also promoted outbound investment to help the country secure access to energy, raw materials, and foreign markets. The country's outbound direct investment totaled more than $50 billion between 2001 and 2005. Some mergers and acquisitions involving Chinese companies, such as China National Offshore Oil Corp.'s attempted acquisition of Unocal Corp., have raised concerns and even political opposition abroad.

Though China's economic expansion has brought certain pressures to bear on the rest of the world, the Chinese economy, along with the US economy, is one of the world's greatest engines of economic growth. Since its WTO entry, China's imports have soared. For example, from 2001 to 2005, imports from the United States rose more than 21 percent each year on average, while overall imports grew 28.6 percent annually on average. China has also actively participated in regional and global economic integration. Indeed, it signed the landmark free-trade agreement (FTA) with the Association of Southeast Asian Nations in 2002 and also inked an FTA with Chile in 2005. China is currently negotiating FTAs with more than 20 countries (see p.70).

China's economic relations with the rest of the world are still in flux as a result of its WTO entry. Although problems have emerged, China has more in common with the rest of the world than it did before 2001. Both China and the global community benefit from international investment and trade, and the country now has a higher stake in keeping the multilateral trading system open.

> When PRC leaders decided to speed up WTO accession negotiations in the late 1990s, they had a clear goal in mind: to accelerate domestic reforms by introducing external pressures.

Timeline: China and the WTO

1999

November

United States and China sign agreement on the terms of China's World Trade Organization (WTO) accession

2000

September

US Congress grants China permanent Normal Trade Relations status

2001

July

PRC State Council brings China's Equity Joint Venture (JV) Law into compliance with WTO rules

Amended PRC Patent Law takes effect, streamlining the patent application process and providing more rights for patent holders

PRC State Economic and Trade Commission (SETC) approves first foreign-invested wholesale enterprise, Shanghai No. 1 Department Store Co., Ltd.

Ministry of Foreign Trade and Economic Cooperation (MOFTEC) begins to liberalize trading rights for foreign-invested enterprises (FIEs)

China's attitude toward its WTO commitments

The PRC government is serious about meeting its WTO obligations and has reviewed and revised thousands of laws and regulations to ensure their consistency with WTO rules. The WTO review of China's trade policies has acknowledged China's progress in this area, though it also notes that enforcement of laws and regulations has been uneven.

Complaints about China's policies are concentrated in several areas. First, many observers criticize the widespread violations of IPR and the weak enforcement of China's IPR laws and regulations, particularly with respect to movies and software. For example, the Motion Picture Association estimates that 93 percent of films sold in China in 2005 were pirated. Recognizing these problems, the PRC government has made great efforts to crack down on IPR violations. For instance, though starting from a low base, the annual number of infringement cases investigated by the PRC General Administration of Customs has nearly quadrupled between 2001 and 2005. More recently, the PRC government has adopted a more fundamental solution to software piracy, which requires all manufacturers of personal computers in China to pre-install licensed operating system software.

China has made progress in educating the general public about the importance of IPR, but it will take more time to promote adequate understanding across China's huge population. Moreover, as the country undergoes a significant transformation, the government's attention is naturally diverted to other urgent issues such as peasant and worker riots. As a result, most Chinese think foreigners should take a broader view of the IPR issue in China.

The second area of controversy concerns technical barriers to trade. For example, in 2001 China issued rules on biotechnology safety, testing, and labeling that slowed exports of genetically modified crops to China. China has also begun to set standards, some of which differ markedly from those that are widely accepted internationally. For instance, the Ministry of Information Industry in 2003 attempted to establish a new wireless standard—Wireless Local Area Networks Authentication and Privacy Infrastructure (WAPI)—in the name of information security. In early 2004, three cabinet members of the US government signed a letter to PRC leaders on the WAPI issue, urging China not to impose WAPI as a mandatory standard. Subsequently, the United States and China were able to settle these two disputes peacefully. The PRC government issued final safety certificates for several kinds of genetically modified crops and indefinitely suspended the implementation of WAPI as a mandatory standard for wireless encryption.

The third controversial issue concerns China's industrial policies, especially subsidies to domestic enterprises. These include different forms of preferential tariff and value-added tax treatments that help reduce the costs of local products competing against imports. In 2004, foreign companies that export semiconductors to China objected to the preferential value-added tax treatment

From 2001 to 2005, imports from the United States rose more than 21 percent each year on average, while overall imports grew 28.6 percent annually.

August

China lifts price controls on more than 128 categories of goods and services

November

WTO Ministerial Conference approves China's WTO accession documents by consensus

December

China formally joins the WTO

2002

August

MOFTEC allows two types of foreign-invested logistics companies: international and third-party logistics companies

The Trade Debate within China

Official PRC media and leaders tend to focus on the positive impact of China's World Trade Organization (WTO) accession and its efforts to open its economy. But some scholars, journalists, and other critics within China have more negative assessments of China's trade and investment policies, and it may be useful for US politicians and the general public to know about this discourse. Indeed, PRC policymakers take these criticisms seriously, allowing them to color the debate and their own attitudes toward China's participation in the WTO.

Is China too dependent on trade?

China's total trade volume has surged in recent years, and critics now often say that China's economic growth is overly dependent on foreign trade, warning that the ratio of trade to GDP—the foreign trade dependence ratio—is too high. Indeed, China's dependence on trade reached 80 percent in 2005, higher than that of many other countries, including the United States, Japan, and India, according to a study by the Chinese Academy of Social Sciences. China's reliance on exports has, in turn, caused friction with trading partners while potentially harming China's economic security, the critics note. Those on the other side of the domestic debate have questioned the calculation of the ratio: The size of China's GDP has largely been underestimated because it has only recently begun to take into account the service sector. Thus, China's dependence on trade is probably smaller than what critics suggest.

Do FIEs reap more benefits?

The critics also insist that foreign-invested enterprises (FIEs) are the largest drivers, and beneficiaries, of China's booming exports. According to the PRC Ministry of Commerce, FIEs accounted for more than 60 percent of Chinese exports in 2005. Besides causing deficits with major trade partners that create political difficulties, these investments, mainly in assembly and processing trade, may be keeping China at the lower end of the international value chain. Because Chinese firms and labor contribute only 10–15 percent of the added value of these products, the "rise" of the Chinese economy is actually an illusion, these critics claim. Opponents of this argument say that China's export of low-end manufactured goods simply reflects the country's current comparative advantage. Moreover, China benefits from the creation of jobs, the training of its workers, and greater knowledge of international markets. They contend that this stage is necessary to prepare China to move into the higher value-added industries.

Critics also argue that Chinese companies have not reaped the profits or gained the technologies that they had hoped for after WTO accession. China's industrial policies, largely aimed at strengthening domestic firms, are now largely toothless because WTO rules prohibit restrictions on local content and forced technology transfers. Moreover, the critics claim, foreign investors have given up local partners in existing joint ventures

extended to domestic semiconductor firms; the dispute was subsequently resolved through negotiation after the United States took its case to the WTO. This past spring, the United States, European Union, and Canada filed a case concerning tariffs on auto parts with the WTO, accusing China of implementing local content requirements inconsistent with WTO rules. (As the *CBR* went to press, the parties were unable to resolve the dispute through negotiation, but the United States, European Union, and Canada had not yet requested the formation of a WTO dispute settlement panel.)

Though there is still a gap between China's current policies and its WTO commitments, its record of WTO implementation has generally been good, as recognized by the WTO itself and most countries. The attitude of the US business community in China supports this assess-

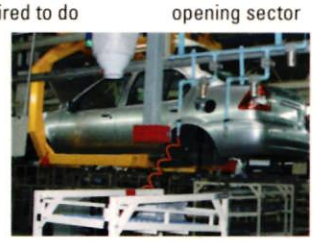
September

PRC Ministry of Justice lifts restrictions on number and location of foreign law firm representative offices, but requires a three-year waiting period between the second and any subsequent office openings

November

China removes 75 percent cap on foreign investment in packaging, storage and warehousing, courier, and road transport JVs

China approves first foreign-majority investment in vehicle manufacturing, though not required to do so under its WTO obligations



December

Mobile voice and data services JVs open to 14 more cities; foreign investment cap rises to 35 percent

China Securities Regulatory Commission (CSRC) approves first securities JV since joining WTO, opening sector

2003

January

China reduces import tariffs on more than 4,800 tariff classifications to an average final duty bound rate of 8.8 percent

Licensing and quotas for wristwatches and cameras lifted

China removes 75 percent cap on foreign investment in freight forwarding services JVs

(JVs) in favor of wholly foreign-owned enterprises. Critics worry that multinational corporations are thus tightening control over their technologies to the detriment of Chinese domestic enterprises.

Critics often cite the auto industry as an example of Chinese companies not benefiting from partnering with foreign investors. In the run-up to WTO accession, many state-owned automakers believed that "the wolf was coming." In their hurry to form JVs with top international automakers, many Chinese firms signed deals that gave control to foreign investors, who now make decisions that range from the types of vehicles the JVs produce to the sourcing of parts and components. Even more strikingly, leaders of these state-owned enterprises, who focused only on short-term profits, were willing to abandon decades of research and development (R&D) efforts. For instance, soon after partnering with Nissan Motor Co., Ltd., Dongfeng Motor Corp. increasingly neglected independent R&D as it received product models from foreign partners. This eventually led to the departure of many engineers from Dongfeng.

Some observers argue that Chinese companies can grow by working with foreign investors, especially by learning how to develop a global sales network. Others endorse the notion that state-owned auto companies should cultivate leading Chinese brands, but they also believe that this does not necessarily preclude cooperation with international investors from whom Chinese companies can nevertheless learn.

Is China subsidizing foreigners?

Critics also insist that some of Beijing's policies make China—a developing country—subsidize developed countries and their companies. These policies, often used at the local level to attract foreign investment, include preferential treatment on taxes and land-use fees. Critics claim that such measures distort prices and that China's massive foreign exchange reserves are also part of this distortion. They argue that China's purchase of US Treasury bills directly subsidizes the US economy.

Is China treated fairly?

Finally, many journalists, scholars, and officials do not believe that western countries treat Chinese exporters fairly and cite research to support the view that China deserves to have market economy status. For instance, a study by Li Xiaoxi of Beijing Normal University shows that the Chinese economy's marketization was as high as 73.8 percent in 2003. The critics thus argue that it is unfair for the United States, Japan, and European Union to withhold market economy status from China. Ironically, the United States and European Union granted Russia such status in 2002, even though Russia and China received comparable scores in the 2006 Index of Economic Freedom compiled by the Heritage Foundation and the *Wall Street Journal*.

—*Wang Yong*

ment. Forty-nine percent of US companies surveyed this year by the US-China Business Council (publisher of the *CBR*) gave China a grade of "excellent" (*you* 优) or "good" (*liang* 良) in the implementation of WTO obligations, while another 38 percent said it has done a "fair" (*yi ban* 一般) job. More important, 54 percent said their profits from China increased in 2005, and nearly two-fifths said their China operations earned profits higher than their global average (see p.66). At the same time, according to a survey by the American Chamber of Commerce in China, most US companies are satisfied with market access in China. In 1999, only 24 percent of respondents said they had successfully entered the PRC market, but in 2005, 72 percent said they had increased the number of their products and services available in China.

March

MOFTEC and SETC merge to form the Ministry of Commerce (MOFCOM)

MOFCOM allows JVs with minority foreign equity participation to obtain full trading rights

May

MOFCOM and the General Administration of Press and Publication (GAPP) allow wholly foreign-owned enterprises (WFOEs) in retail book, magazine, and newspaper distribution (seven months early)

PRC Ministry of Construction (MOC) and MOFCOM allow urban planning WFOEs

June

China grants full trading rights to all enterprises, including FIEs, in Shenzhen, Tianjin, and the Shanghai Waigaoqiao and Xiamen Xiangyu free-trade zones

China National Tourism Administration and MOFCOM allow wholly foreign-owned travel agencies (two years early)

New development strategies

WTO accession has accelerated China's economic opening and reform. The great potential once stifled by tight government planning and protectionism has been unleashed, and the country is turning into a firm supporter of economic liberalization and globalization. To ensure that the country can adapt to future challenges, China's 11th Five-Year Plan (2006–10) offers a new development strategy focused on technological innovation and growth driven by domestic demand.

To boost consumption, the plan sets out key policies such as improving rural infrastructure and strengthening the economy of the interior. PRC leaders believe that accelerating industrialization and urbanization in the interior will create more domestic demand and thus reduce China's dependence on exports. Highlights of the technological innovation strategy include strengthening local research and development (R&D) capabilities and creating more competitive and value-added Chinese companies and brands. To help domestic firms achieve these goals, the government plans to increase financial and other support for R&D.

Although the world is warily eyeing these developments, which could result in policies heavily skewed in favor of Chinese firms, there are several reasons to be cautiously optimistic about the future of China's business environment. First, PRC policymakers are sensitive to international pressure and insist that all new policies be consistent with WTO rules and withstand the scrutiny of China's major trading partners. Second, Chinese consumers and businesses have more confidence in the quality of international brands and technologies, which will help international exporters and investors maintain their edge over domestic firms for at least the near future. Third, IPR protection will improve, as the government and the public both recognize that achieving China's goal of promoting technological innovation requires better IPR enforcement. Fourth, to maintain social and political stability, the country will have to keep attracting foreign capital. Indeed, labor is still in oversupply, and job creation remains a top priority for PRC leaders.

Last but not least, China's decentralized political system may once again derail national leaders' ambitious industrial policies. Competition among local governments for investment has characterized China's dynamic growth and has intensified since China entered the WTO, especially as the central government has transferred more power to local levels to approve foreign investment in their jurisdictions. This local-level competition—and protectionism—can disrupt the plans of China's leaders, as it did the 1994 auto industrial policy, which failed to consolidate dozens of automakers into six national firms largely because local governments protected local auto companies. Recent attempts at consolidating the cement and steel industries have also met resistance at the local level. Thus, the central government may once again be disappointed as it attempts to implement national industrial policies during China's post-WTO transition period.

Uncertain future

China and the international community have changed significantly as a result of China's WTO entry. The business environment, in particular, has greatly improved, and trade and investment have grown. Now that most of China's commitments have phased in, the post-transition period looms. What this period will bring is uncertain. Foreign businesses are pressing for changes beyond those contained in China's WTO commitments, but voices within China are cautioning against further market openings. At the same time, the PRC government has laid out a new economic strategy focused on boosting domestic consumption and indigenous technological development.

Nevertheless, optimism may be warranted. Indeed, China and its trade partners have learned to resolve disagreements through negotiation and the WTO dispute-resolution mechanism. Moreover, the changes that China's WTO entry has ushered in, along with a host of other considerations, will likely sustain the progress made to date. 完

2004

October

China Banking Regulatory Commission (CBRC) allows nonbank companies with ¥500 million in registered capital to establish auto financing companies

December

CBRC permits foreign banks to conduct RMB operations for business in Chongqing; Chengdu, Sichuan; Fuzhou, Fujian; and Ji'nan, Shandong

PRC State Administration of Radio, Film, and Television permits foreign investment in film-production and film-technology companies

January

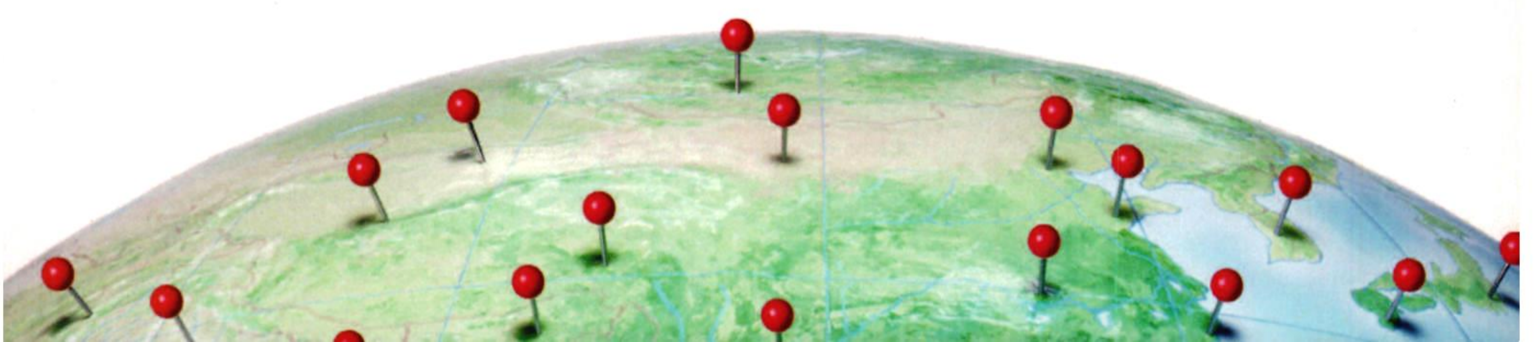
Except for certain import licensing and quota restrictions on agricultural products, all goods in China reach their final bound duty rate

China approves Warner Brothers International Theaters, Inc. to take a 51 percent controlling stake in a JV with the Shanghai Cinema Group, effectively allowing entertainment FIEs in China

March

State Administration of Industry and Commerce and MOFCOM allow WFOEs in advertising services

Continued on page 54



A CELEBRATED MOMENT, A HISTORIC OPPORTUNITY

The McGraw-Hill Companies looks to the future in China.

On the 5th anniversary of China's accession to the World Trade Organization (WTO), Harold "Terry" McGraw III, Chairman, President and CEO of The McGraw-Hill Companies and Chairman of Business Roundtable, offers his insights into the increasingly important economic relationship between the United States and China, including the many opportunities and challenges faced by The McGraw-Hill Companies and other foreign entities seeking to expand their presence in the rapidly growing Chinese economy.

HAROLD MCGRAW III
Chairman, President and CEO
The McGraw-Hill Companies

MCGRAW ON CHINA AND THE WTO

I remember when President Nixon first visited China in 1972. Television audiences in the U.S. were spellbound as China opened its doors to the West for the first time in a generation. It was history in the making – the beginning of a new relationship.

President Nixon would not recognize China today. Since its transition to a market-based economy, which began in earnest in 1978, the transformation of China has been nothing short of breathtaking. China's economic growth hit high gear in the 1990s, and with its accession to the World Trade Organization in 2001, the world's largest country began a new chapter.

> "While entering the WTO has paid off handsomely for China, the benefits have also accrued to China's trading partners."

China is now the world's fastest growing major economy and an integral player on the global economic stage. Deftly leveraging its WTO membership, China has focused on expanding its foreign trade to further accelerate its phenomenal economic growth. Not surprisingly, those sectors that have been opened to global commerce are the most developed and advanced, while those sectors that remain closed are the least developed.

The amazing transformation of China could not have happened without foreign investment. China will continue to need foreign investment to support its economic growth and develop its service and financial sectors, both of which are crucial to the next stage of development.

While entering the WTO has paid off handsomely for China, the benefits have also accrued to China's trading partners. Since 2001, for instance, U.S. exports to China have grown five times faster than U.S. exports to the rest of the world, and China is now poised to become America's third-largest export market. Consumers around the world have also benefited from the wide availability of low cost goods from China.

CHINA'S CONTINUING SUCCESS STORY

I have had the pleasure of visiting China many times. With each visit, I become more captivated by China's growth. The energy of great cities such as Beijing and Shanghai is evident in the massive development projects that are shaping China's urban landscape. In just two short years, this "new" China will be a showcase for the entire world as the host of the 2008 Olympic Games. Even for a nation with a remarkable history spanning thousands of years, this is a notable time indeed.

Despite China's new openness and the great strides it has taken forward, transforming an economy of 1.3 billion people from agrarian, to industrial, to knowledge-based is an arduous, ongoing process. Yes, China's future is very promising, but continuing the current rate of economic growth will require further economic reform.

HELP US HELP CHINA

The U.S. business community has been a vocal advocate of increased economic ties between our two nations for many years. We actively supported both "Permanent Normal Trade Relations" as well as China's accession to the WTO. I have personally been involved in these efforts as a member of the Business Roundtable as well as Chairman of the Emergency Committee for American Trade. Our success in helping to forge a beneficial bilateral relationship between the United States and China has been gratifying, but there is much yet to do.

Terry McGraw and Bo Xilai, China's Minister of Commerce.

Opening The McGraw-Hill Companies' Representative Office in Beijing.

The growing imbalance of U.S.–China bilateral trade has become a serious issue – one that has prompted calls for a legislated response in the U.S. Congress. To preclude onerous legislation and respond to growing protectionist sentiments, we need China to help us diffuse a potentially damaging situation by making reforms in three areas where immediate progress is necessary.

First, China must step up enforcement of intellectual property rights (IPR). Respect for intellectual property is critical to the healthy operation of information markets, both in China and worldwide. Failure to strengthen the enforcement of IPR – for both print and digital content – not only deters international businesses from operating in China, but also hinders the growth of a more knowledge-oriented economy within China, by removing incentives that reward innovation.

> "Even for a nation with a remarkable history spanning thousands of years, this is a notable time indeed."

Second, China would benefit from implementing reforms to allow greater market access. Regulatory barriers continue to stifle access by foreign businesses in too many sectors of the Chinese economy, including financial services, publishing and media. While market access has been growing, significant restrictions remain, impeding the flow of foreign investment and know-how to China.

Finally, while much progress has been made in China's banking sector in the last few years, chiefly as a result of government-led bailouts, China's capital markets lag behind the rest of the economy in modernizing and becoming competitive on a global basis. With China's rapid integration into the global financial markets, its capital markets and investment products must meet global standards.

It is important for China to demonstrate its willingness to take the necessary steps to enforce intellectual property rights, open its markets and continue economic reform, with no backpedaling. This cooperative stance is the best response to help the U.S. business community counter attempts by some in the United States to raise protectionist barriers or enact other retaliatory trade measures. Truly, it is a course of action in the best interests of both countries.

THE MCGRAW-HILL COMPANIES IN CHINA TODAY

The McGraw-Hill Companies is a leading global information services provider with more than 290 offices in 38 countries, and its portfolio of businesses is helping meet the needs of China's rapidly growing economy.

The Corporation has had a presence in China for 20 years – with 2006 marking the 20th anniversary of *BusinessWeek China*.

In Financial Services, Standard & Poor's ratings, market indices and financial information are helping foster transparency and the confidence of international investors.

In Education, its higher education and English language offerings are strengthening the capabilities of Chinese students, workers and professionals, giving them the skills needed to succeed in the global economy. The Education division is also helping introduce Chinese language and cultural content to the rest of the world.

In key industries such as Energy, Construction, Aviation and Automotive, its businesses are supplying insight, analysis and real time information to help vital sectors of the Chinese economy.

The McGraw-Hill Companies looks forward to continuing – and growing – this productive partnership.

MOVING FORWARD

There can be no doubt that joining the WTO five years ago has contributed to the economic boom in China. With such great success, however, comes even greater responsibility – as well as intensified international scrutiny. I believe the future is bright for the U.S.–China economic relationship to continue to grow – but only if IPR enforcement, market reform and transparency in China continue to increase as well. China itself holds the key: its greatest strides forward will come as it fulfills its duties as a global economic leader.

Speaking with students in Shanghai.

For more information, please contact Shasha Chang, Vice President and General Manager, China Representative Office at (8610) 6535 2902.

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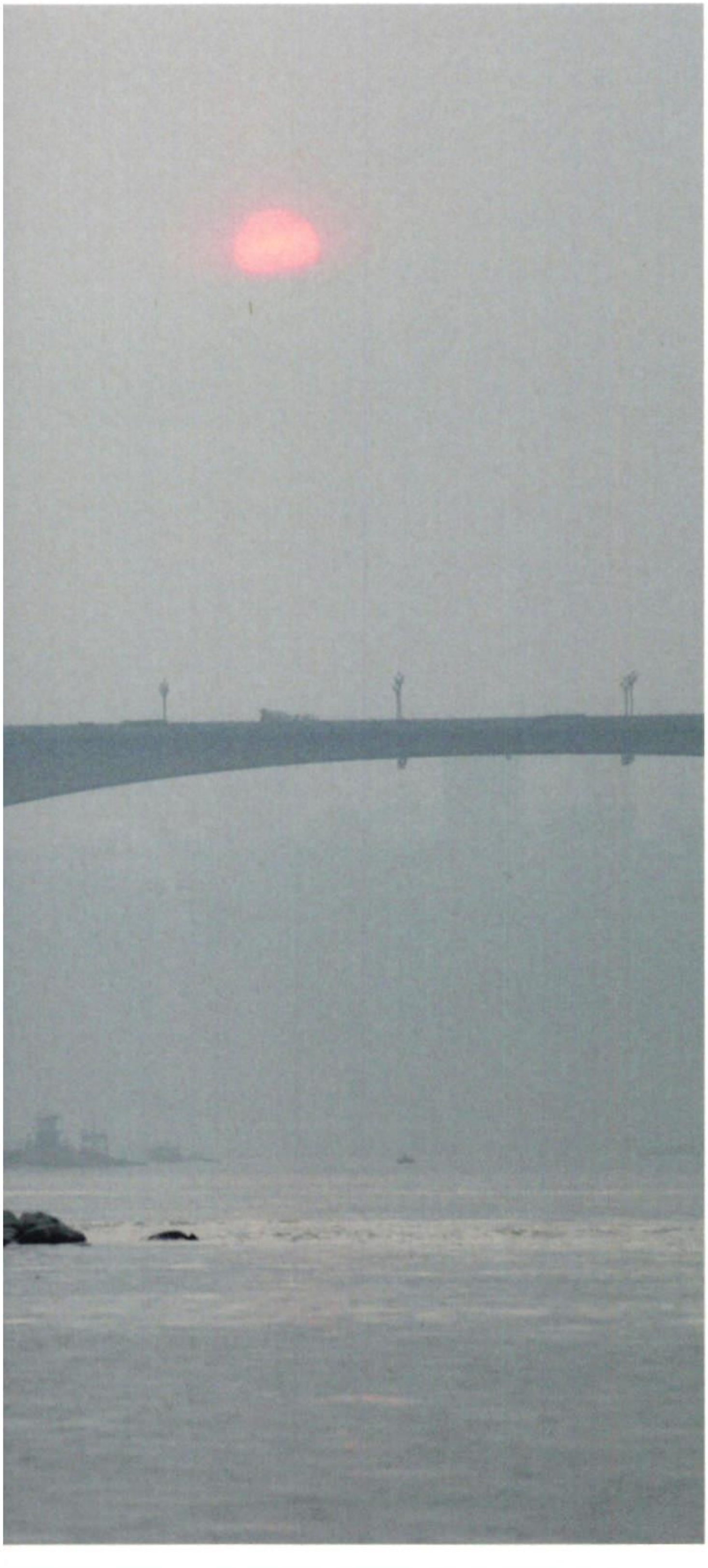
Completing WTO

Dennis Chen

Reforms



The United States and China have enjoyed the fruits of Beijing's WTO entry, but insufficient change in China's political economy may spell trouble for the future

Kenneth Lieberthal

The United States had great expectations concerning China's entry into the World Trade Organization (WTO) in December 2001. Washington looked forward to the opening of China's economy as dictated by China's accession agreement. It hoped to see a reduction in bilateral trade frictions through China's implementation of its WTO commitments and through the opportunity to use the multilateral WTO dispute settlement mechanism to address serious trade issues. And it anticipated important liberalizations not only in China's economy itself, but also in the way the Chinese state interacts with the economy—that is, in China's political economy.

Much of this ambitious agenda has come to pass, and China has on the whole met the letter, if not the full spirit, of its WTO agreement obligations. In particular, commitments that were easy to implement—such as tariff reductions—were largely met in full and on time. China's attempts to implement more difficult commitments have yielded mixed results, however. For example, in the area of intellectual property (IP) rights, the PRC government has adopted appropriate laws and regulations, but it has fallen far short of its commitment under the WTO Agreement on Trade-Related Aspects of IP Rights to create an adequate deterrent against piracy. Overall, the Chinese economy has become significantly more open to foreign participation, and its regulatory environment has become far more transparent, though foreign businesses see room for further improvements. In this broadly positive context, American exports to China shot up by 118 percent from 2001 to 2005, growing far more rapidly than US exports to other top export markets.

US-China economic relations have also been relatively calm since China's WTO entry, though recent controversies

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surrounding Chinese investment in the United States and other subjects have produced growing tensions. Beijing's cooperation in the global war on terror after September 11, 2001 contributed to the calm, as did the decision by many in the US government and business communities during the first few years after accession to take a "wait-and-see" attitude on China's fidelity in implementing the letter and spirit of its WTO commitments. The opening of China's financial services sector in December 2006, in accordance with Beijing's WTO commitments, should be a major step forward, with many US firms planning to take full advantage of the new opportunities this much-anticipated change will offer.

Not everything, of course, has gone as expected. The Asian dragons—Japan, South Korea, Taiwan, Hong Kong, and Singapore—have taken advantage of China's WTO implementation to integrate their own manufacturing systems into that of China, by exporting high value-added parts and components to China for final assembly. The finished products are then sent to North American and EU markets. As a result, the US trade deficit with China has soared to unprecedented levels, reflecting the reality that China has largely become the funnel through which manufactured items from all over Asia are being exported into the US market. While Asia's share of the global US trade deficit has shrunk over the past two decades, China's share of Asia's portion has grown dramatically (see the *CBR* July–August 2004, p.40). The emergence of this East Asian regionally integrated manufacturing system—and the consequently ballooning US trade deficit with China—has caused increasing political frictions. But this deficit does not represent a failure by the United States to achieve WTO aspirations vis-à-vis China. Rather, it reflects the creativity and skill with which the Asian dragons have taken advantage of China's WTO-mandated reforms.

On the whole, China's record has largely borne out the hopes of those who supported its WTO accession, despite shortfalls and frictions in some areas. US exports to China have soared, and China's economy is far more open and considerably more transparent than in 2001. Perhaps even more important, China has also become an integral part of the global trade regime and its rules-setting system.

The results have included not only the Chinese economic miracle that has unfolded over nearly 30 years, but also the conversion, in reality if not in name, of the Chinese Communist Party into a Chinese bureaucratic capitalist party.

The static political economy

There is, however, one expectation that has not been met, and this failure has produced significant consequences for US and other businesses. Specifically, the hoped-for significant liberalization in China's political economy, especially at local levels, has not materialized. The local political-economic nexus has evolved, but at a disappointingly slow pace that is insufficient to address the country's most pressing problems.

The nature of China's political economy at the local levels is a product of the core reform strategy that Deng Xiaoping and his supporters adopted in the late 1970s. That strategy essentially dictates that the leadership at each level of China's multi-tiered political system (national, provincial, municipal, county, and township) grants the leadership below enough flexibility to adopt the measures

Timeline: China and the WTO (continued)

April

MOFCOM allows foreign-invested wholesale, retail, and franchise companies, as well as commercial-based agencies

May

Ministry of Construction allows foreign participation in construction, but stringent requirements pose a serious barrier to foreign engineering, procurement, and construction firms and consultancies

PRC National Development and Reform Commission (NDRC) releases the revised Industrial Policy on Automobiles, which allows foreign investors to hold majority ownership in export-oriented JVs and to open more than two JV plants each

July

China Insurance Regulatory Commission (CIRC) lowers minimum registered capital for foreign-invested insurance companies and eases restrictions on number of offices opened yearly necessary to make the GDP in its jurisdiction grow. In return, the local leadership benefits from that growth in two ways: explicitly through annual performance evaluations that largely reflect accomplishments in promoting GDP growth; and implicitly through informal means that allow officials to capture some of the resulting wealth for their personal benefit. This includes myriad opportunities, from serving on enterprise boards and having family members hold management positions to acquiring ownership stakes and outright corruption.

This strategy has succeeded in transforming the Chinese Communist Party (CCP) into an engine of entrepreneurship and growth without instigating a fundamental political collapse. The results have included not only the Chinese economic miracle that has unfolded over nearly 30 years, but also the conversion, in reality but not in name, of the CCP into a Chinese bureaucratic capitalist party. The state has become a flexible, dynamic, and growth-oriented political machine whose core incentives for officials at all levels are such that the national leadership now tries every year, with only limited success, to slow GDP growth. Many localities routinely circumvent national-level orders, such as those that seek to restrain the expansion of steel production and sharply curtail government acquisition of arable land for nonagricultural use.

The resulting current political economy has as a core characteristic pervasive state interference in individual enterprises throughout China. This relatively systematic use of political power by local officials to affect outcomes at the micro level helps the fortunes of officials who intervene on behalf of the state. These same local leaders can generally protect their activities in part because they also control the court systems in their jurisdictions.

Although all major economies have certain enterprises that receive political favors from officials, this has become a fundamental characteristic of China's entire political economy. Local officials often allocate credit on a noncommercial basis, strongly influence appointments of managerial personnel, grant business licenses and other approvals that do not conform to rules and regulations, waive or ignore environmental requirements, and promote in other ways the growth of firms in their jurisdictions.

The underlying problem is that local officials have strong incentives to boost local GDP growth, possess little incentive to enforce environmental protection rules, and can interfere with local firms and courts.

China's WTO accession agreement contains numerous provisions that effectively target this system. Full implementation of WTO commitments requires uniform and impartial enforcement of laws and regulations, overall transparency, independent and impartial judicial review, fairness in loans and other inputs, and, more generally, a level playing field for Chinese and foreign enterprises. These are incompatible with the pervasive micro-level state interference that China's reform strategy has produced.

Though the central government is taking various steps to limit its own economic role to the implementation of macroeconomic measures—such as monetary and fiscal policy, laws and regulations, and even sectoral policies—there are few signs that the national leadership is willing to expend the enormous political capital required to fundamentally change the existing political economy at the local levels. Such changes would require national leaders to break precedent by telling officials at all levels that the

2005

December

CBRC allows foreign banks to offer RMB services to businesses in Beijing; Kunming, Yunnan; Shenyang, Liaoning; Xiamen, Fujian; and Xi'an, Shaanxi. Xi'an and Shenyang were opened a year ahead of schedule

Wholesale operations in book, magazine, and newspaper distribution permitted

CIRC lifts geographical restrictions on foreign insurance firms and permits them to offer health insurance, group insurance, and pension fund management. Foreign insurers may own up to 51 percent of China ventures, up from 50 percent

MOFCOM lifts all equity, geographic, and quantity restrictions on franchising operations

February

MOFCOM allows WFOEs in the leasing sector next major step in reform will effectively take money *out* of their pockets.

The present system has served China well overall, but it has produced negative consequences that, already evident in 2001, have significantly worsened. Local leaders, for example, are happy to allow goods from elsewhere into their jurisdiction, but only as long as no local firm they support produces a competing item. As a result, relatively few manufacturing operations for the domestic market enjoy full economies of scale—local protectionism requires firms to establish production facilities in each region in which they want to sell in volume. It is also, of course, extremely difficult to root out pervasive official corruption when deep ties link officials to many individual enterprises and their fates.

Full implementation of WTO commitments requires uniform and impartial enforcement of laws and regulations, overall transparency, independent and impartial judicial review, fairness in loans and other inputs, and, more generally, a level playing field for Chinese and foreign enterprises.

Effects on business

For US firms, the most important consequences of the lack of progress in reforming the political economy lie in three areas: violation of IP rights, environmental degradation, and a dearth of Chinese enterprises that can be potentially sound investment targets.

Intellectual property infringement

IP theft in China is widespread and costly to IP rights holders, despite the fact that Beijing has created a notionally strong IP protection regime and desires to change China into an "innovation society." All advanced economies have gone through a stage where their firms relied on appropriating others' IP. In the normal course of events, however, local firms then increasingly develop their own IP and, as their influence grows, shift the state's priorities toward greater IP protection. Though the end result is never perfect, it nevertheless marks a significant improvement from the period of rampant piracy.

In China, the combination of the country's continental scale, local officials' focus on GDP growth in their own jurisdictions, and the same officials' control of local courts means that while certain localities, such as Shanghai, are moving smartly along the development curve seen in other countries, other localities are developing a deeply rooted core competency in piracy. After all, from a local government's point of view, a pirate firm can provide all the benefits—GDP growth, tax revenues, and new jobs—that a nonpirate firm can confer. As a consequence, the threat of locally protected Chinese piracy to US firms, and indeed to IP protection worldwide, may continue to grow rapidly in coming years, especially as many Chinese pirates have world-class skills and global ambitions. Only the creation of incentives for local officials to rigorously enforce national laws and regulations will enable China to deal with this problem effectively. This, however, would require a funda-

April

CSRC approves a foreign-invested securities fund management JV with a foreign stake of 49 percent, raising the cap on foreign investment from 33 percent

July

China unpegs the RMB from the US dollar, allows it to appreciate 2.1 percent, and begins valuing it against a trade-weighted basket of currencies

September

State Council allows direct selling in the country for the first time since 1998 (nine months late)

December

CBRC allows foreign banks to offer RMB services to businesses in Ningbo, Zhejiang; Shantou, Guangdong; Changchun, Jilin; Harbin, Heilongjiang; Lanzhou, Gansu; Nanning, Guangxi; and Yinchuan, Ningxia. (Five of these cities opened early.)

mental change in the local political economy that China's WTO implementation has thus far failed to yield.

Environmental degradation

The environmental consequences of this political failure are also extremely serious. Indeed, China's economic trajectory is more likely to be disrupted by environmental degradation than by any other source of trouble. Yet the political economy that WTO implementation should have changed is making it nearly impossible to address those environmental problems adequately. The PRC State Environmental Protection Administration (SEPA) announced in late May that it knows of 70,000 violations of China's environmental laws and regulations since 2003, but only 500 violators have been punished. SEPA blames this abysmal record on the fact that local officials often encourage local firms to flout environmental laws that could interfere with their prosperity.

China's existing political economy excels at building projects, such as water treatment plants, to address environmental and other issues. Construction brings money from higher levels and creates local jobs, new infrastructure, and related opportunities for personal enrichment. This same political economy, however, creates huge obstacles to rigorous enforcement of laws and regulations and to the adequate maintenance and operation of such facilities once they are built. The underlying problem is that local officials have strong incentives to boost local GDP growth, possess little incentive to enforce environmental protection rules, and can interfere with local firms and courts.

Environmental degradation is reaching proportions that should command the attention of all firms in China. The most pressing environmental problems concern water, which is both in catastrophically short supply throughout most of North China and highly polluted virtually everywhere in the country. The lack of such a basic resource as usable water has become the source of roughly 10 percent of public demonstrations and disturbances around the country, which officially numbered 87,000 in 2005. In addition, air pollution, acid rain, and desertification, among other factors, are also threatening the sustainability of China's economic growth. For example, China estimates that more than 400,000 people die prematurely each year because of air pollution.

The current political economy has as a core characteristic pervasive state interference in individual enterprises throughout China.

Weak Chinese firms

Finally, failure to change China's underlying political economy through WTO implementation makes Chinese firms less attractive as investment opportunities for US firms. Many Chinese entrepreneurs have become adept at leveraging the political system as a virtually unstoppable engine of growth for considerable profits and business expansion. The ubiquitous state interference at the micro level rewards in particular firms that can "work" their relationship with the state for comparative advantage. This political economy thus discourages these companies from becoming high-quality firms. The business models of many successful Chinese firms virtually exclude the cost of capital, appoint managers because of their personal connections, circumvent worker safety and environmental protection rules, and adapt in other ways to succeed in China. At

CIRC lowers the minimum total asset level required for an insurance brokerage license from $300 million to $200 million; foreign-invested insurers no longer need to cede a portion of the lines of the primary risk for non-life, personal accident, and health insurance to China Reinsurance Corp.

MOFCOM allows WFOEs in freight forwarding agency services and applies national treatment to capitalization requirements the same time, firms that have good fundamentals rarely succeed without political connections.

China has a great deal of entrepreneurial talent, and many companies are developing extremely clever ways to address market niches in the country. But the political system's ways of dealing with enterprises mean that China's manufacturing sector is burdened with massive overcapacity, many firms stay in business only because of hidden subsidies in the form of bad loans and other measures, and few companies have developed the levels of expertise and quality across the firm that are necessary to compete successfully abroad. Put differently, the competitive edge of most Chinese manufacturing firms comes in large part from their superior ability to understand and "work" the political dimensions of their own economy. This edge, however, has come at a substantial cost to the quality of these enterprises.

One of the major new phenomena in China is the surge of US-based private equity funds pouring into the country looking for good investment opportunities. Some investors will find such opportunities in backing local firms that have good growth trajectories. Many others will seek to make transformational investments that try to fundamentally improve the quality of a Chinese firm's management and operations. Given the demands of China's political economy, however, successful transformational investments within China will prove far more difficult than most foreign firms currently anticipate. Such investors will more likely succeed if they take Chinese firms abroad where they can operate in a different environment and, under the strong guidance of private equity managers, learn good business techniques and establish institutionalized processes to obtain capital, evaluate prospects, manage risk, grow, innovate, and prosper.

Whereas US firms have a lot to learn in China about innovating to achieve dramatically lower price points for products, Chinese firms have even more to learn from going abroad—if they do so under the right circumstances. Bringing that knowledge back to China, along with the prestige of having succeeded in modern markets abroad, could sow the seeds of real change in China's political economy. But all of this will take time, and success is far from assured. The future quality of China's business environment and of Chinese firms may well hinge on the scope and success of this process.

A looming shadow?

China has used its WTO accession to take major steps forward in its trade and investment regimes. Many Asian and US firms have benefited greatly from these developments, as has the Chinese economy itself. But Beijing's overall failure to use its WTO obligations to reform its core political economy is not only posing important problems now, but also creating serious challenges for the country's economic prospects.

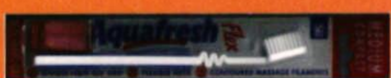
Senior PRC leaders have recently begun to embrace the concepts of sustainable development in their rhetoric, and several provinces are taking potentially positive steps, for example, by incorporating measurements of energy conservation into officials' performance evaluation. The success of these and other efforts will depend greatly on whether the top leadership is willing to expend the enormous political capital required to fundamentally change China's political economy. 完

Case Study: GSK v. Ming Xing Toothbrush Company

An example of how the Courts in China now focus on substantive, rather than procedural, issues in infringement cases can be seen in this action brought by multinational pharmaceutical company, GlaxoSmithKline (GSK), in relation to its 'S-bend' toothbrush design.

Background

MING XING Toothbrush Company, a Chinese manufacturer based in Yangzhou, a city in Jiangsu Province and a centre of toothbrush manufacture in China, was a repeat infringer of GSK trademarks. Despite the fact that officials of the local Administration for Industry and Commerce officials had diligently raided it four times, Ming Xing continued to use GSK's 'SB' trademark and its unique 'S-bend' three-dimensional design on its toothbrushes.



Plaintiff's toothbrush with its distinctive 'S-bend' design

GSK commenced proceedings in the Beijing No. One Intermediate Court in March 2002, after successful purchases of the infringing toothbrushes in Beijing established jurisdiction there. GSK filed two separate claims simultaneously: one for trademark infringement of the 'SB' mark, and one for copyright infringement of 3-D design for the 'S-bend' toothbrush. GSK had also applied to register the 'S-bend' toothbrush design as a trademark, but the application was still pending.

Defendant's products had a similar shape

GSK sought compensation of RMB 500,000 for each claim (a total RMB one million, or approx. US$124,000, for the two claims), based on the right to claim statutory damages introduced by the new Trademark Law and Copyright Law. Specific damages could have been claimed, but, as in most IP cases, it would have been difficult to gather acceptable evidence of the Defendant's illegal profits.

First Instance Judgment

The Beijing No. One Intermediate Court issued a first instance judgment, upholding all GSKs claims and ordering Ming Xing to pay damages of RMB one million.

Appeal

MING XING appealed to the Beijing High Court which, with GSKs agreement and support, encouraged the parties to reach a settlement. As a result, the parties signed a settlement agreement pursuant to which the Defendant agreed:

- to acknowledge and respect GSKs trademark and its copyright in the 'S-bend' design;
- that its products infringed GSK's trademark rights as well as its copyright;
- not to infringe in the future;
- to pay compensation of RMB 600,000 (approx. US$72,300); and
- to publish a public apology in the national newspaper People's Daily, as well as the local newspaper Jiangsu Business News.

The terms of settlement agreement were incorporated into a 'mediation statement' made by the Court, which enjoys the same legal status as a Court judgment.

Comments

This is one of the rare cases in which a three-dimensional design (such as the 'S-bend' toothbrush) has been recognized and protected as a form of copyright. Because the copyright law does not specifically provide protection for works of 'applied art', i.e. industrial products, in order to secure protection, IP owners often register their artwork as a design patent. While in theory the subject matter of a design patent can also be protected under copyright law, it is often difficult to enforce a copyright claim as the Courts will require a high level of artistic input.

Litigation can be used to increase pressure on Defendants in situations such as this, where administrative enforcement raids have adequately documented multiple accounts of infringement, but failed to sufficiently penalize infringers.

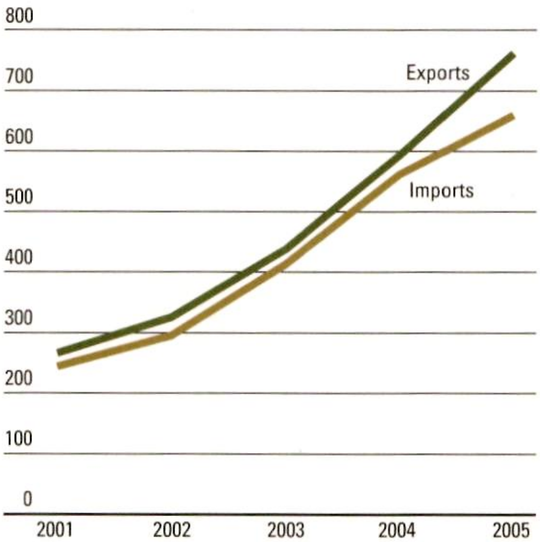
In this case, the amount of compensation was beyond many people's expectations, given that Plaintiff had no official figures in relation to the sale or production of the toothbrush products in China and that economic loss was difficult to prove. The case demonstrates how useful the statutory damage provisions under Chinese law can be in situations where the Plaintiff lacks sufficient evidence to quantify the damage caused by the infringement.

rouse & co. international

Trade and investment have soared since

China's trade in goods has rapidly expanded.

China's Trade with the World, 2001–05 ($ billion)



The United States is China's largest trade partner.

China's Top 10 Trade Partners, 2005

Rank	Overall	Imports	Exports
1	United States	Japan	United States
2	Japan	South Korea	Hong Kong
3	Hong Kong	Taiwan	Japan
4	South Korea	United States	South Korea
5	Taiwan	Germany	Germany
6	Germany	Malaysia	The Netherlands
7	Singapore	Singapore	United Kingdom
8	Malaysia	Australia	Singapore
9	Russia	Russia	Taiwan
10	The Netherlands	Thailand	Russia

Nearly all of China's top exports have at least doubled...

China's Top Goods Exports, 2001–05 ($ billion)

HS #	Commodity	2001	2005	% change
85	Electrical machinery and equipment	51.3	172.3	235.9
84	Power generation equipment	33.6	149.7	345.5
61, 62	Apparel and clothing accessories	32.4	65.9	103.4
72, 73	Iron and steel	8.2	34.1	315.9
90	Optics and medical equipment	6.4	25.5	298.4
94	Furniture and bedding	7.6	22.4	194.7
95	Toys and games	9.1	19.1	109.9
28, 29	Inorganic and organic chemicals	7.5	19.1	154.7
64	Footwear and parts thereof	10.1	19.1	89.1
39	Plastics and articles thereof	6.7	17.8	165.7

Note: Ranked by top 10 exports in 2005

...as have China's top imports.

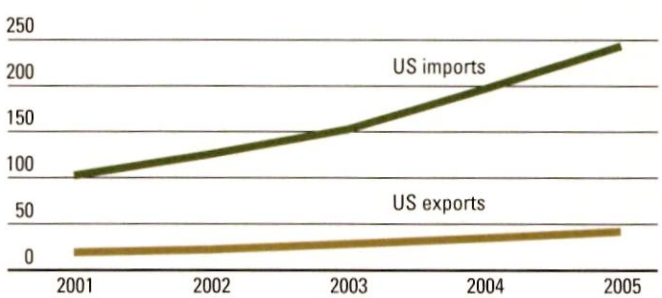
China's Top Goods Imports, 2001–05 ($ billion)

HS #	Commodity	2001	2005	% change
85	Electrical machinery and equipment	55.9	174.8	212.7
84	Power generation equipment	40.6	96.4	137.4
27	Mineral fuel and oil	17.5	64.1	266.3
90	Optical and medical equipment	9.8	50.0	410.2
39	Plastics and articles thereof	15.3	33.3	117.6
28, 29	Inorganic and organic chemicals	10.6	32.8	209.4
72, 73	Iron and steel	13.0	31.9	145.4
26	Ore, slag, and ash	4.2	26.0	519.0
74	Copper and articles thereof	4.9	12.9	163.3
87	Vehicles and parts other than rail	4.5	12.3	173.3

Note: Ranked by top 10 imports in 2005

US exports and imports have both more than doubled since 2001.

US Trade in Goods with China, 2001–05 ($ billion)



China joined the WTO in 2001

Most top US exports to China have at least doubled...

US Top Goods Exports to China, 2001–05 ($ billion)

HS #	Commodity	2001	2005	% change
85	Electrical machinery and equipment	3.4	6.9	102.9
84	Power generation equipment	4.1	6.4	56.1
88	Aircraft, spacecraft, and parts	2.4	4.4	83.3
90	Optical and medical equipment	1.2	2.4	100.0
12	Oil seeds and oleaginous fruits	1.0	2.3	130.0
39	Plastics and articles thereof	0.8	2.3	187.5
28, 29	Inorganic and organic chemicals	0.5	2.0	300.0
72, 73	Iron and steel	0.5	1.9	280.0
52	Cotton	0.1	1.4	1,300.0
47	Pulp and paperboard	0.3	1.0	233.3

Note: Ranked by top 10 exports in 2005

...and China has become a top supplier of consumer goods.

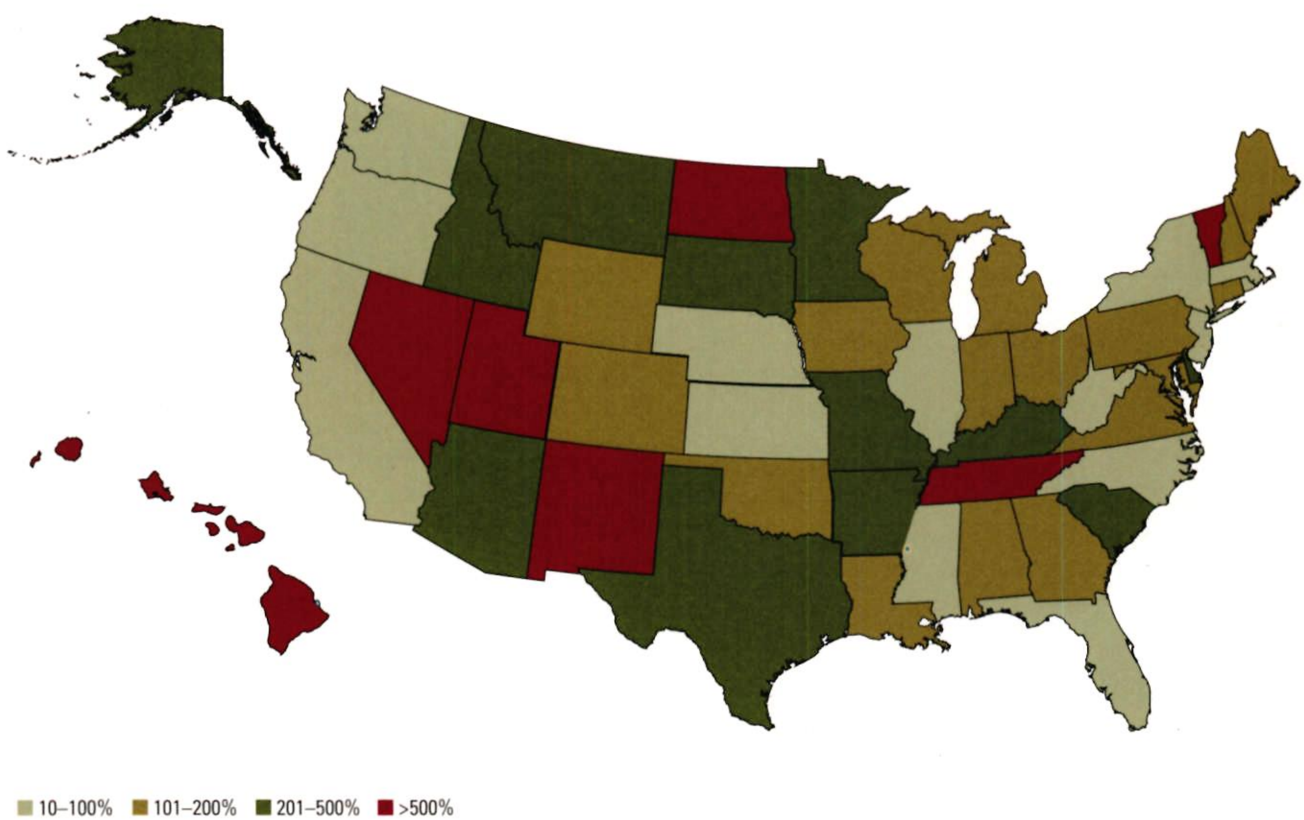
US Top Goods Imports from China, 2001–05 ($ billion)

HS #	Commodity	2001	2005	% change
85	Electrical machinery and equipment	19.7	53.1	169.5
84	Power generation equipment	13.7	52.7	284.7
95	Toys and games	12.2	19.1	56.6
94	Furniture and bedding	7.5	17.1	128.0
61, 62	Apparel and clothing accessories	6.4	16.8	162.5
64	Footwear and parts thereof	9.8	12.7	29.6
72, 73	Iron and steel	2.3	7.4	221.7
39	Plastics and articles thereof	3.2	6.6	106.3
42	Leather and travel goods	3.9	6.3	61.5
87	Vehicles and parts other than rail	1.5	4.2	180.0

Note: Ranked by top 10 imports in 2005

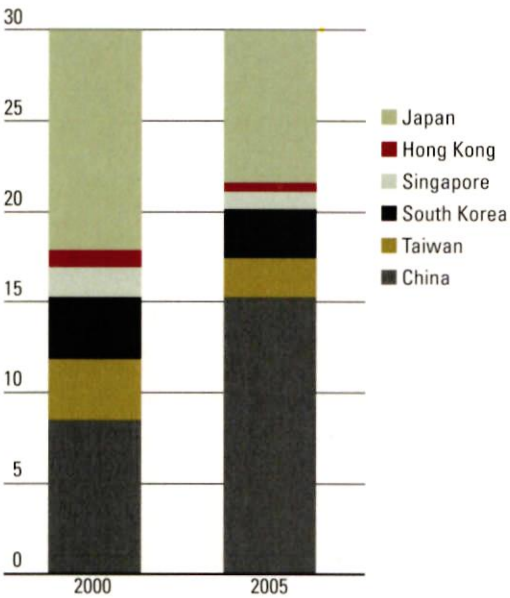
Impressively, exports from every US state have risen since 2001, some by as much as 1,000 percent.

State-by-State Growth in Goods Exports to China, 2001–05



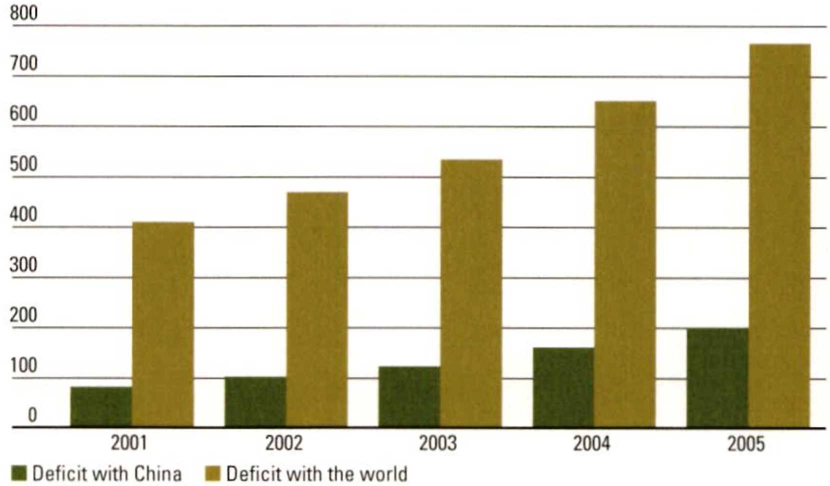
The US deficit with China has expanded quickly, largely reflecting the shift of manufacturing from the rest of Asia to China.

US Goods Imports from Selected Economies (% of total US imports)



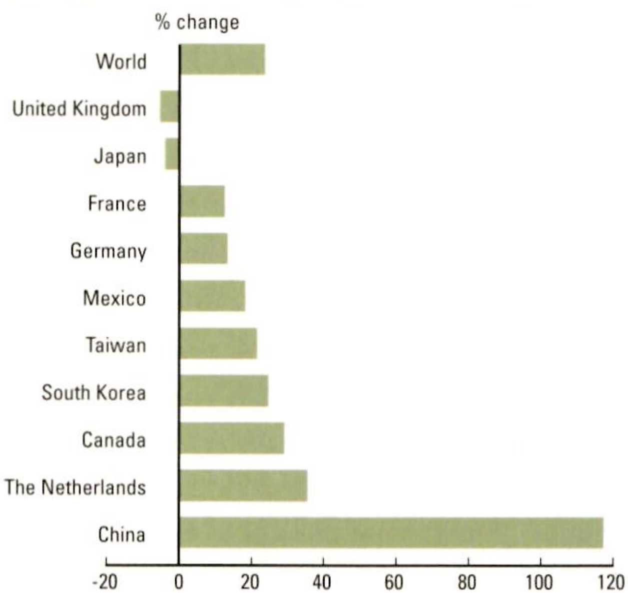
Even so, China's share of the global US deficit has remained roughly the same.

China and the US Trade Deficit in Goods, 2001–05 ($ billion)



Meanwhile, China has been the fastest growing major export market for the United States.

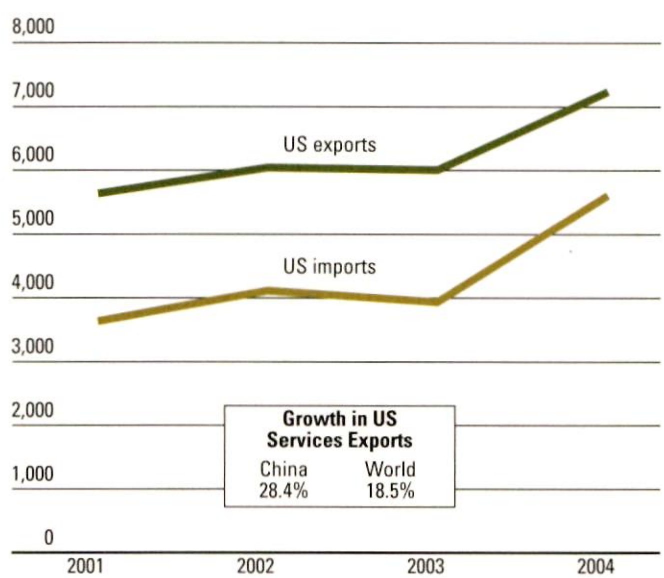
US Export Growth to Top Export Markets, 2001–05



Note: These were the top 10 export markets in 2005.

Often overlooked, US services exports to China have outpaced growth in overall US services exports...

US Services Trade with China, 2001–04 ($ million)



Sources: PRC General Administration of Customs, *China's Customs Statistics*; US International Trade Administration; Erik Britton and Christopher T. Mark, Sr., *The China Effect: Assessing the Impact on the US Economy of Trade and Investment with China* (Washington, DC: The China Business Forum, 2006); US Bureau of Economic Analysis, Department of Commerce; PRC Ministry of Commerce

Exports of professional services to China have jumped significantly...

US Cross-Border Services Exports to China, 2001–04 ($ million)

Service	2001	2004*	% change
Port Services	919	1,332	44.9
Education	1,066	1,260	18.2
Royalties and license fees	581	928	59.7
Tourism	1,012	894	-11.7
Freight transport	343	472	37.6
Passenger fares	314	221	-29.6
Financial services	107	165	54.2
Telecommunications	102	90	-11.8
Insurance	14	23	64.3
Professional services			
Construction-related services	158	328	107.6
Equipment-related services	167	199	19.2
Legal services	38	60	57.9
Management/consulting/ public relations	13	53	307.7
Other professional services**	47	68	44.7
Other	†	637	29.2
Total**	**5,636**	**7,329**	**30.0**

...and freight transport remains the principal Chinese service export to the United States.

US Cross-Border Services Imports from China, 2001–04 ($ million)

Service	2001	2004*	% change
Freight transport	1,512	2,508	65.9
Tourism	1,226	1,637	33.5
Port services	376	522	38.8
Passenger fares	181	353	95.0
Telecommunications	62	54	-12.9
Financial services	5	20	300.0
Education	11	18	63.6
Royalties and license fees	11	15	36.4
Insurance	1	0	-100.0
Professional services			
Equipment-related services	7	19	171.4
Advertising	4	18	350.0
Research and development	9	17	88.9
Legal services	11	16	45.5
Other professional services	12**	84	NA
Other	177	334	88.7
Total**	**3,643**	**5,615**	**54.1**

* Most recent data available
** Due to rounding and data suppression, figures may not add to totals shown
† Data suppressed to avoid disclosure of individual company operations.
NA = not applicable.

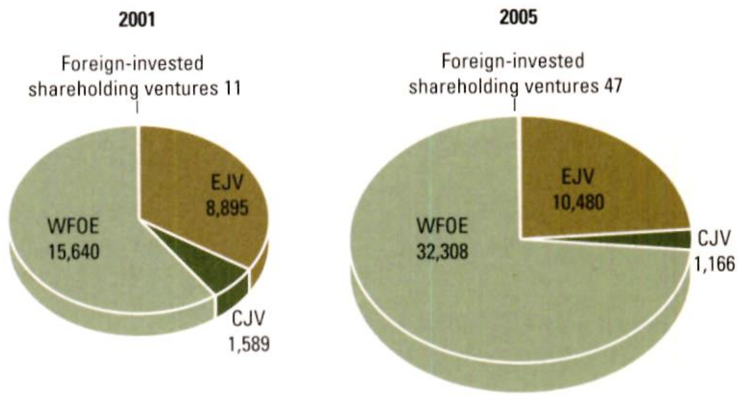
Apart from growth in trade, China's WTO entry has sparked a boom in foreign direct investment.

New Foreign Direct Investment (FDI) in China, 2001–05

	2001	2002	2003	2004	2005	% change
Total FDI						
No. of contracts	26,139	34,171	41,081	43,664	44,001	68.3
Amount utilized ($ billion)	46.9	52.7	53.5	60.6	60.3	28.6
US FDI						
No. of contracts	2,594	3,363	4,060	3,925	3,741	44.2
Amount utilized ($ billion)	4.9	5.4	4.2	3.9	3.1	-36.7

As the investment environment liberalizes, more foreign investors have set up wholly owned subsidiaries in China.

New FDI by Vehicle Type, 2001 and 2005



Note: EJV = equity joint venture; CJV = cooperative joint venture; WFOE = wholly foreign-owned enterprise

Last but not least, trade and investment with China is boosting the US economy and lowering prices.

Impact of Trade and Investment with China on the US Economy, 2001–10

Year	GDP (%)	Net jobs (persons)	Consumer price level (%)
2001	-0.20	-66,000	0.0
2002	-0.15	-64,000	-0.1
2003	+0.05	+30,000	-0.2
2004	+0.30	+35,000	-0.4
2005	+0.40	+15,000	-0.5
2006	+0.50	+25,000	-0.6
2007	+0.60	+10,000	-0.7
2008	+0.60	+5,000	-0.7
2009	+0.60	+5,000	-0.8
2010	+0.70	+5,000	-0.8

Note: Figures for 2006–10 are projections.

Companies Speak: The State of US Business in China

The US-China Business Council's annual membership survey shows US companies gain in China, but still face hurdles

US-China Business Council staff

Each year the US-China Business Council (USCBC), publisher of the *CBR*, surveys its members to better understand their perspectives on the operating and investment climate in China, as well as China's progress in implementing its World Trade Organization (WTO) commitments.

This year's USCBC Member Priorities Survey results counter several common misperceptions about US companies operating in China:

- Eighty-one percent of companies said that their China operations are profitable. In addition, more than half said that profitability rates for their China operations meet or exceed their company's global profit margins.
- Most US investment in China is in wholly foreign-owned enterprises, not joint ventures with Chinese partners.
- USCBC member companies invest in China primarily to serve the Chinese domestic market, not export back to the United States. Fifty-seven percent of the respondents said that their main investment objective was to access the China market. Only 18 percent invest in China as an export platform to the US market. The remainder export to other countries.

The survey reveals several important improvements in the operating environment:

- US companies are building their sales presence in China by implementing newly granted distribution rights—a key market-opening measure.
- China's WTO entry and mandated market openings have clearly benefited US companies (see below).
- Ninety-seven percent of respondents are optimistic or somewhat optimistic about the prospects of their China business over the next five years.

The survey also shows, however, that significant operating barriers remain, and China has not implemented all of its WTO obligations.

Top operating issues in China

Since China's 2001 WTO entry, USCBC has regularly asked its members to identify their top operating issues in China. As China's market openings have proceeded, the ranking of concerns has shifted frequently, showing that some issues have been resolved and new problems have emerged. In 2006, companies listed the following as their top 10 issues, ranked in order of importance (see Figure).

1. Human resources

USCBC members, for the first time, ranked a nonregulatory matter as their top operating issue in China: recruiting and retaining qualified workers. In China's rapidly growing economy, demand for talented workers is outstripping supply, resulting in significant challenges for companies (see the *CBR* March–April 2006, p.19). More than half of the respondents indicated that recruiting and retaining employees had become more difficult over the past year or that they had seen new problems arise. In particular, companies have difficulty filling mid-level management positions. In 2005, human resources ranked as the fourth-most important concern.

2. Administrative licensing and business approvals

Although in previous surveys respondents had not listed securing administrative licenses and business approvals among their top 10 issues, the challenges in navigating China's licensing and regulatory procedures are widespread and have existed for years. Concerns in this area cover almost all sectors and include the approval of various types of licenses, certifications, and registrations. Unclear procedures for foreign-invested enterprise (FIE) liaison offices have also created confusion. More than two-thirds of the respondents indicated their problems in this area were unchanged or had even deteriorated in the previous year, though 26 percent noted some progress.

3. Intellectual property rights enforcement

Intellectual property rights (IPR) enforcement has appeared in USCBC members' top 10 issues consistently for the past four years. IPR protection's dip in this year's rankings may reflect the greater immediate concerns on the human resources and licensing fronts. It may also reflect the business community's view that the PRC central government now acknowledges the importance of IPR enforcement and is taking steps to address it, although implementation problems remain at local levels. For the second straight year, most respondents (57 percent) reported that China's IPR enforcement had remained unchanged, though 33 percent reported some progress. The final 10 percent of respondents said enforcement had deteriorated. These results are slightly more positive than in 2005, when 59 percent of respondents reported no change in China's IPR enforcement, 26 percent noted some improvement, and 11 percent indicated deterioration.

The survey also asked respondents their views of the April 2006 rules on the transfer of IPR cases for criminal prosecution. Thirty-five percent indicated that these rules, plus the Supreme People's Court 2004 judicial interpretation on IPR, had not improved the prospects for criminal prosecution of IPR violations. Thirteen percent of companies noted that it was easier to obtain criminal prosecutions.

The IPR legal framework—as distinct from the enforcement of those laws—ranked among the top 10 concerns in 2003, 2004, and 2005, but fell to eleventh place in the 2006 survey, reflecting continuing movement to create and strengthen IPR laws and regulations.

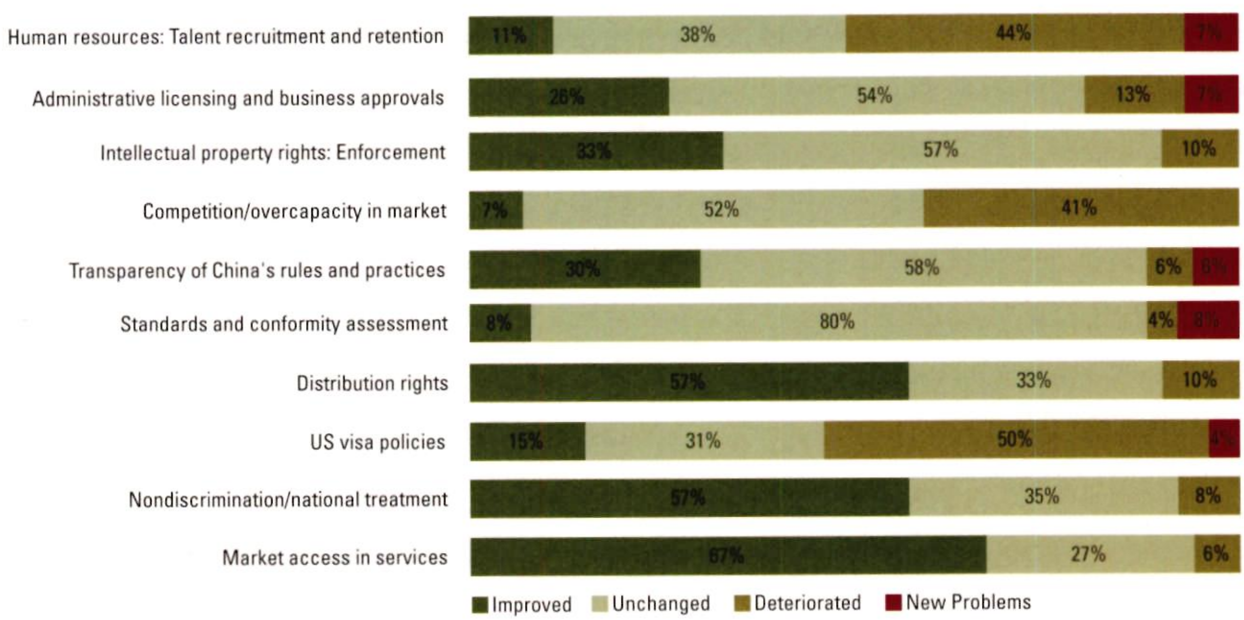
4. Competition and overcapacity

Competition and overcapacity in the market, another nonregulatory issue, is a new top issue. Fifty-two percent of respondents assessed the situation as unchanged since 2005, but just over 40 percent said the situation had worsened in the past year. Overcapacity plagues a variety of sectors, ranging from construction and autos to steel and cement, fueled to a great extent by China's government policies and partially reformed financial sector.

5. Transparency

Transparency generally refers to the availability of necessary information to evaluate the costs and opportunities of doing business in a market. In practice, that means an open

Figure: Degree of Progress on Top 10 Issues



and accessible government decisionmaking and rulemaking process. In such a system, regulations are published for comment before implementation, and suggested modifications are factored into rules before they are finalized.

Transparency, which has made the list of top 10 issues every year that USCBC has surveyed its members, remains a top problem for company operations in China. Almost 60 percent of those surveyed in 2006 said no progress had been made in improving transparency over the past year. Another 12 percent noted deterioration or new difficulties, including persistent problems with inadequate public comment periods on proposed rules and regulations that have been implemented but never published.

6. Standards setting

The ability to get information on the setting of China's product and technology standards, and to participate in and influence standards setting, is a central part of navigating any market. In China, that ability is frequently impeded because of an opaque standards-setting process and the use of unique domestic standards that put foreign companies at a disadvantage. Only 8 percent of respondents noted improvements in these areas, while 12 percent identified deterioration or new problems since last year. The great majority of respondents reported no changes.

The survey asked respondents about their ability to participate in China's standards-setting process. Only 8 percent of respondents described their ability to participate in standards setting as "good" (*liang* 良). Thirty-eight percent evaluated their participation as "fair" (*yi ban* 一般) indicating that they have some difficulty in getting information on the processes and that they are only occasionally included in standards setting. Nearly a quarter view the standards-setting process as "poor" (*cha* 差), noting that they are excluded entirely from the process.

7. Distribution rights

In a positive development for US businesses in China, distribution rights—arguably the most important of China's WTO entry obligations—dropped from first and second place in 2004 and 2005, respectively, to seventh place in 2006. "Distribution rights" refers to a foreign company's right to sell in China products it imports or sources from third parties; previously, foreign companies were required to use domestic import-export agents and distributors for their imported products. Fifty-seven percent of respondents said the implementation of distribution rights had improved in the past year, reflecting the resolution of licensing issues. Another 33 percent felt the situation was unchanged from 2005, and only 10 percent identified new problems.

8. US visas

One US domestic policy issue ranked among the respondents' top concerns: difficulties in securing US visas for PRC-national employees, partners, and customers. Half of this year's respondents reported deterioration in their ability to obtain visas, and another 4 percent noted new problems. About one-third viewed the visa approval process as unchanged, and only 15 percent said there had been improvements in the past year.

9. National treatment

Nondiscrimination and national treatment ranked among the top 10 issues for the first time since 2003, when it also ranked ninth. Respondents said China has failed to meet the basic WTO requirement of treating foreign companies equally with domestic ones. As with transparency and standards, the lack of national treatment for foreign companies operating in China prevents them from competing on a level playing field. Thirty-five percent said the situation had deteriorated in the past year, while 8 percent

Respondent Demographics

Most of the 112 US-China Business Council (USCBC) members who responded to the 2006 survey were based in China (62 percent). Another 34 percent were based in the United States, and the remaining respondents were based in Hong Kong, Japan, or Singapore. Reflecting the general diversity of USCBC's membership, respondents hailed from a variety of sectors and were evenly split between manufacturing and services, with the balance consisting of energy, agriculture, and high-tech companies. The vast majority (81 percent) of respondents have more than 10 years of operating experience in China.

USCBC companies continue to expand their China-based workforces as their businesses there develop. Eight percent of respondents employ more than 10,000 workers in China, up from 5 percent in 2005. Twenty-eight percent have between 1,000 and 10,000 employees, up from 23 percent last year. Nearly two-thirds of respondents employ fewer than 1,000 workers in China. Though this figure is down from 70 percent in 2005, it nonetheless reflects that many companies are still in the early stages of building their businesses in the country.

US companies are taking advantage of the increasing variety of options for structuring their operations in China as the country further opens its economy to foreign participation. To gauge this development, the survey asked respondents about the types of legal entities their companies have in China. The top legal vehicles were consistent with the 2005 results: wholly foreign-owned enterprises (23 percent), representative offices (18 percent), and joint ventures (17 percent). An additional option in this year's survey, regional or branch offices, ranked fourth (14 percent). Other investment vehicles, such as holding companies, regional headquarters, and research and development centers, were less common.

—US-China Business Council staff

noted new problems, ranging from ambiguous administrative requirements on foreign firms and differential tax treatment to local protectionism.

10. Market access in services

Rounding out the top 10 issues is market access in services, dropping to tenth from fifth in 2005. The successful implementation of distribution rights and progress on other service sector openings likely caused this drop. Nonetheless, 67 percent of companies reported no progress on the issue since 2005, with almost a third reporting deterioration, reflecting the fact that barriers still exist. These include restrictions on foreign law firms operating in China and on Chinese lawyers practicing with foreign law firms, limited access for foreign films, restrictions in the telecom sector, ownership caps that require partnerships with Chinese companies, and limits on foreign investment in certain sectors.

WTO impact and implementation

As did previous surveys, the 2006 survey polled companies about the impact of China's WTO entry on their China operations and their assessment of China's progress in fulfilling its WTO commitments.

Table 1: Most Significant WTO Commitment Implemented (%)

Trading/distribution rights	25
Market access	21
Tariff/duty reductions	16
Foreign ownership/investment	10
Financial services market openings	9
Direct sales	3
Express delivery services	3
Government procurement	3
Other	10

Table 2: Most Significant WTO Commitment Failed to Implement (%)

Intellectual property rights	31
Financial services	14
Transparency	12
Local content requirements	5
National treatment	5
Tariff/duty reductions	5
Trading/distribution rights	5
Construction and engineering	3
Direct selling	3
Government procurement	3
Other	14

General views of WTO entry

As China completes its fifth year in the WTO, it has already implemented many of the mandated market opening commitments. Respondents were asked whether China's WTO accession had been relevant to their companies. Eighty-two percent affirmed the importance of WTO market openings, up from 75 percent in 2005. The remaining 18 percent were equally divided among respondents who said WTO was irrelevant and those whose primary business objectives are outside the scope of China's WTO accession agreement.

Respondents were also asked to evaluate China's record in implementing its WTO commitments. As in 2005, the majority of respondents said China had done a "fair" (*yi ban* 一般) (45 percent) or "good" (*liang* 良) (38 percent) job at implementing its WTO commitments. In last year's survey, 55 percent of respondents gave China a "fair" grade, and 38 percent rated it as "good." Four percent of respondents gave China an "excellent" (*you* 优) grade for implementing its commitments, up from zero in 2005, and a final 5 percent rated China's efforts as "poor" (*cha* 差), the same as in 2005.

Most important WTO commitments

As in 2005, respondents were asked to identify the most important WTO commitment China has implemented (see Table 1). Reflecting progress made since the last survey was conducted, trading and distribution rights were rated number one. Second in importance was market access, followed by tariff reductions and the lifting of foreign ownership and investment restrictions. In 2005, the top-ranked commitments were tariff reductions, financial services, trading and distribution rights, IPR enforcement, and foreign ownership and investment.

Most significant WTO implementation shortfall

The survey asked respondents to identify the issues that China had not implemented in accordance with its WTO accession agreement (see Table 2). Companies cited inadequate IPR protection as their top concern, followed by financial services market openings, where foreign banks, insurance companies, and securities firms still face restrictions. Rounding out the top five concerns were transparency, local content requirements, and national treatment. In 2005, the top-ranked concerns were trading and distribution rights, IPR enforcement, local content requirements, market access, and WTO commitments whose deadlines for implementation had not yet arrived.

For the full USCBC report, visit www.uschina.org. 完

China's "Win-Win" Trade Policy

To contain growing commercial frictions and keep international markets open to its products, China is emphasizing mutual benefit in its foreign policy and dealings with trade partners.

Karen M. Sutter

A rise in complaints from major trade partners—from developed markets like the United States and the European Union to developing economies in Asia, Latin America, and Africa—has accompanied China's rise into the ranks of the world's major trading nations. To influence the debate on China's growing trade imbalance with the United States and deflect US pressure for improved market access in China, PRC Premier Wen Jiabao outlined five principles for fair trade and for a bilateral economic partnership at an American Bankers Association luncheon in New York City in December 2003. These principles provide a foundation for a trade policy that appears to be guiding China's approach to a wide range of commercial disputes. As a result, they offer a useful framework for understanding how China assesses its own trade prospects and how it may respond to future trade challenges.

PRC leaders have traditionally used principles to guide policy—for example, the five principles of peaceful coexistence have served as an important foundation in China's foreign policy since the 1950s. Although China has shown that it can approach issues pragmatically on a case-by-case basis and emphasize selective aspects of principles for its own benefit during negotiations, the principles nonetheless provide an important window into Beijing's current thinking and policy direction. Indeed, Wen's trade principles are an integral component of a broader effort to refashion China's foreign policy in an era of economic globalization, when its trade relationships are increasingly complex and difficult to balance. Such an approach not only shows that senior PRC leaders recognize the potential magnitude of trade problems and the need to address the grievances of major trade partners, but also reveals the considerable challenges and constraints they face in managing these issues.

ther, China is working to ensure that it will get something in return for market access, even for commitments it has already agreed to implement. For instance, in response to challenges to its poor record of intellectual property (IP) rights enforcement, China is using the "win-win" principle to argue that it should not be burdened with heavy royalties and licensing fees as it tries to catch up in its own technological development. China also argues that countries

"Thinking broadly, one should take account of the other's interests while pursuing one's own."

should promote technology transfers and share the benefits of IP development more equitably so that developing countries can benefit from new technologies.

Finally, to protect itself from potential backlash and protectionism abroad, China has been seeking to foster growing economic interdependence to align itself with foreign companies and industries that have benefited from trade with China. Although the United States has become familiar with this strategy over the years, it is new in other parts of the world, such as Australia, Brazil, and South Africa, where economic relations with China have recently deepened. In these countries, diverging commercial interests have split the business communities vis-à-vis China, and potential fault lines on policy toward China are emerging.

Principle one: Mutual benefit

The most frequently cited of the five principles, the "win-win" concept represents the two basic tenets of China's current economic diplomacy: to assuage concerns about China's rise and to secure important new markets abroad for Chinese companies. This concept alludes to the fourth principle of China's principles of peaceful coexistence—equality and mutual benefit—through which the country has sought to augment its position in global affairs.

The approach is designed to soften concerns about China's economic rise by offering concrete opportunities for trade partners to share in China's growth. For instance, by allowing a targeted set of agricultural products phased-in, tariff-free access under an "early harvest" scheme, China helped calm the fears of Association of Southeast Asian Nations (ASEAN) members, many of which view China as a competitor, and precipitated an ASEAN-China Free-Trade Area (ACFTA) goods agreement. China is also promising investment and trade deals in infrastructure, agriculture, raw materials, energy, and tourism to win over newer trade partners such as Argentina, Australia, Brazil, Nigeria, and South Africa—and to divert attention away from swelling Chinese manufactured exports to those countries. Tourism, often overlooked in international trade, is a top source of foreign exchange for many developing countries, including China. Over the past two years, the China National Tourism Administration has signed approved-destination status agreements with more than 80 countries, which should significantly boost tourism revenue for those countries.

China does not appear to be consistently negotiating in true "win-win" terms, however, and this principle at times seems to provide mere window dressing for Beijing's preferred quid pro quo approach to negotiation, especially regarding market access issues. Faced with pressure from major trade partners to implement World Trade Organization (WTO) commitments and open markets fur-

Principle two: Development first

With the guiding mantra of "development first," China seeks to grow its way out of its trade surplus with the United States and other trade partners through increased imports and buying missions—particularly during times of political and commercial tensions. For instance, China timed the announcement of a $16 billion purchase of US goods for the lead-up to PRC President Hu Jintao's visit to Washington, DC, in April 2006 in an attempt to boost imports from the United States and defuse tensions over the trade imbalance. In another move to increase imports, China last year announced plans to encourage domestic consumption as part of its 11th Five-Year Plan (2006–10). Such a policy, however, requires time-consuming structural adjustments, and, in the meantime, exports will likely remain an important engine of China's economic growth.

Though recent textile agreements with the United States, the European Union, Brazil, and South Africa—under which China agreed to moderate exports in response

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to the threat of safeguards—highlight China's reluctance to voluntarily curb exports, the country has been seeking to reduce export incentives for processing trade and to move up the value chain, emphasizing the quality rather than the quantity of foreign investment. Employment considerations and lobbying by economic zones, however, will likely minimize the impact of these policy changes on China's export volume. China is also attempting to organize certain industries to collectively manage exports, as seen in the textile industry after the Multifiber Arrangement expired at the end of 2004, and negotiate prices, as seen in Beijing's recent efforts to designate Baosteel Group Corp., Ltd. to negotiate global iron ore prices on behalf of China's domestic industry. Calls for early warning export systems, however, appear to be in their infancy, and Chinese companies affected by antidumping actions have tended to undercut each other as much as, or more than, they have cooperated.

Finally, through tax policies and tariffs, China has been boosting domestic production and encouraging localization in manufacturing sectors such as autos and semiconductor equipment at the expense of imports. It has also implemented an antidumping regime that promotes localization in targeted sectors including chemicals, optical fiber, paper, and steel.

Principle three: Consultative mechanisms

The PRC government is investing heavily in senior-level government-to-government dialogues in an effort to talk its way out of current trade problems and avoid future disputes. PRC officials and scholars in 2004 touted the benefits of raising the status of participation to the vice premier level in the Joint Commission on Commerce and Trade talks to improve relations with the United States. Last year, the PRC Ministry of Commerce appointed the capable and seasoned trade negotiator Gao Hucheng to handle high-profile trade disputes.

China has also established new bilateral and regional cooperation mechanisms with a host of foreign governments, including Argentina, Brazil, the European Union, India, and South Korea, to resolve commercial disputes promptly. A recent agreement to establish a China-ASEAN regional dispute resolution body could help China contain commercial disputes within the region. Following allegations last year—from domestic media and Japan, South Korea, Taiwan, and Hong Kong—that Chinese beer and seafood contained unsafe additives, and after parasites were discovered in Chinese kimchi on the eve of the Asia-Pacific Economic Cooperation summit in November 2005, Beijing also negotiated a new bilateral forum on food standards with South Korea.

These dialogues also allow China time to defuse tensions and, in some instances, delay the implementation of certain measures. In the case of textiles, drawing out talks allowed a higher export baseline—on which quotas are negotiated—to develop; in manufacturing, lengthy negotiations allow enough time for a domestic industry, such as auto manufacturing or steel, to gain strength before going head to head with global competitors; and in services, such as insurance and telecom, they allow China to delay licensing firms and hold off on removing burdensome investment requirements. The consolidation of trade issues into periodic dialogues allows China to persuade its trade partners to prioritize problems and deal with them in more systematic and manageable ways. This tactic may also help combat the perception that thousands of market access issues remain unresolved.

> "Disputes should be addressed in a timely manner through communication and consultation to avoid possible escalation."

Principle four: Equal consultation

Equal consultation, which stresses finding consensus on major issues, echoes an approach outlined by China's late Premier Zhou Enlai that served China well in resolving contentious diplomatic issues. Under this principle, China attempts to focus its trade partners on the benefits of the overall relationship to discourage the use of formal trade remedies, such as sanctions, and defuse trade tensions. In its dealings with the United States, for instance, China has highlighted its ability to help on North Korea and the "war on terror" to demonstrate the importance of the broader bilateral relationship over contentious issues such as the trade imbalance. Under this approach, China has been much more willing since 2003 to acknowledge US concerns about the trade deficit and renminbi revaluation as shared concerns, despite the fact that it has been slow to address them.

Principle five: No politicization of trade issues

To keep commercial disputes from spilling over into the political arena and deflate the demands of its trade partners, China often appeals to its trade partners to refrain from politicizing trade disputes. China tends to charge countries with politicization if they push hard on trade disputes in a high-profile manner, indicating that this defensive tactic is an attempt to lower the profile of commercial tensions and prevent them from spoiling the broader political relationship.

PRC leaders have portrayed trade conflicts as "normal" to maintain harmony in the overall relationship with trade partners, as well as to prepare their own citizens for a potential jump in disputes. The strategy's emphasis on downplaying disputes appears to set a new guideline for PRC trade officials to moderate their responses to the United States on market access issues. This implies that China may be less inclined to retaliate directly in response to the threat of trade actions and may acquiesce to priority trade demands under intense pressure to avoid the spillover of trade disputes into other areas of the relationship. For instance, despite its hardline tactics and strong rhetoric on textile trade, China has negotiated textile restraint agreements with major trade partners. Similarly, faced with the threat of WTO action, China has backed down from using tax rebate and tariff policies to boost localization of its semiconductor and auto sectors, respectively. Nevertheless, PRC negotiators often employ brinksmanship tactics to give away as little as possible and to mask China's readiness to accede to its partners' demands.

Since joining the WTO, China has taken care to impose WTO-compatible measures in trade disputes rather than to retaliate in kind as it did against South Korean and Japanese safeguard actions in the late 1990s. For example, instead of a tit-for-tat response to the failure of China National Offshore Oil Corp.'s bid for Unocal Corp., China began discussing the creation of a domestic review committee for outbound investment. China has also worked with Hong Kong, Taiwan, Japan, and South Korea to assuage concerns about food safety in response to recent scares and is working to ensure that Chinese products meet new EU environmental requirements for electronics and chemicals.

Prospects

The successful implementation of Wen's five principles ultimately depends on China's continued economic growth and demand for foreign goods and services. The specific commercial benefits China brings to the table, such as new trade and investment opportunities for southern Europe and Latin America and strong demand from China's raw materials and commodities sectors, have given Wen's trade approach more credence among China's trade partners. Recent attention to China's economic push abroad, however, has overlooked Beijing's Achilles' heel: Rising trade barriers and disputes could block China's economic expansion as it moves up the product value chain and challenges industries in developed and developing countries.

Beijing's failure to follow through on existing commercial promises, and its inability to meet rising expectations for economic opportunity and to balance its own industries' needs against those of its trade partners, could cool the support of business constituencies that are currently advocating for improved relations with China and keeping trade tensions in check.

Beijing has had to deal with an image problem in the developing world as it grabs market share from countries with which it simultaneously seeks to build good relations, especially in Latin America and Africa. China's delicate position vis-à-vis the developing world is one of several factors that has made it difficult for China to push for developing countries to lower their trade barriers during the Doha round of trade negotiations, though this is an area in which China's greatest export opportunities lie. In particular, China is likely concerned that forceful advocacy for developing countries to reduce barriers could unleash pent up concerns about how China's export competitiveness is challenging developing countries at home and in third markets.

Even in countries that have benefited from their economic relationship with China, many people believe that China benefits more, while those that have not benefited feel threatened by growing Chinese exports of manufactured goods. For example, although Thailand's agricultural exports to China are growing, Chinese exports to Thailand are growing just as fast. Thai press reports indicate that farmers in northern Thailand believe China benefits more from ACFTA's early harvest program than Thailand. In countries publicly debating whether to establish FTAs with China, such as South Africa and Australia, their respective textile and auto sectors are expressing concerns about how to best structure a beneficial trade relationship with China.

Whether China will succeed in mitigating trade conflicts remains to be seen. Like other countries, China has a small trade negotiation team that is increasingly stretched across a wide range of issue areas, and as the number and scope of China's trade negotiations increase, it will be more difficult

> "The two sides should seek consensus on major issues while reserving differences on minor issues, instead of imposing restrictions or sanctions at every turn."

to keep up with the demands of these relationships. China's preference for conceding as little as possible in negotiations may also hinder its ability to contain disputes, especially if it miscalculates the political pressures involved. China also has pockets of domestic resistance to a trade approach that not only seeks to accommodate the interests of its trade partners, but also threatens industrial policies and export platforms that benefit constituents at home (see p.42). PRC Minister of Commerce Bo Xilai has shown a willingness to play to domestic constituencies such as the textile industry, and the PRC National Development and Reform Commission has recently responded to industry concerns about growing foreign strength in manufacturing sectors such as auto and construction equipment.

Despite the potential limits of the "win-win" approach, China will likely keep using these five trade principles to soften opposition to China's economic rise and prevent commercial disputes from spilling over into the political arena. China's growth depends heavily on its exports and requires strong political relationships with major developed and developing countries. Recognizing the limits of its ability to ward off future safeguard and antidumping actions, China will likely try to avoid a broad-based global attack on its trade practices. For China, the road ahead could be rocky, however, and the pressures on managing its economic relations will be intense given the extent of its commercial exposure and the steady demands on Beijing to translate promises into reality. 完

Deloitte.

Cross-Border Mergers & Acquisitions in Post-WTO China

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Q: In the last few years, mergers and acquisitions have really taken off in China. What's the relationship between China's WTO entry and this surge?

A: The number of announced cross-border M&A deals into China over the past ten years shows an obvious up-tick starting in 2002 - the first full year after WTO entry. In fact, about two thirds of the announced cross-border deals and disclosed transaction value since 1995 have come in the last four years.

I think there are several related reasons for this. First, WTO entry dramatically reduced foreign ownership restrictions across many sectors in China. The liberalization schedule created a fairly predictable timetable for M&A teams to work around. These phased openings have been accompanied by parallel rises in M&A activity. A good example of this is the logistics and transportation sector.

The impact of liberalization is also clear if we look at deals between existing partners. Since WTO accession, about a third of cross-border M&A deals have been foreign investors purchasing shares from a Chinese partner. Much of this was likely carried out to gain greater management control or full ownership because the foreign investor was finally allowed to do so.

Similarly, M&A serves as a great short-cut for new entrants in recently opened markets. Consider a recent case in consumer electronics retail, where a well-known US company acquired the fourth largest player in a highly competitive market dominated by strong domestic players.

The second reason WTO entry has been so important is its impact on foreign investor confidence. By joining the WTO and meeting its commitments largely on time, China has demonstrated its intention to govern its economy according to international norms. In the area of cross-border M&A, for example, rules introduced in 2003 have made the regulatory environment considerably more transparent. These rules are still evolving, but I think few would deny that the overall situation is much improved over five years ago.

Finally, greater exposure to global competition has placed considerable pressure on China's fragmented industries. In sector after sector, small operators with little capital, technology or market reach crowd the landscape. For example, there are 6,000 companies producing pharmaceuticals in China today and the top 10 control just 15% of the market. Another 4,000 companies make auto parts, almost 3,000 produce medical equipment, and so on. These sectors are ripe for consolidation, which is something that the Chinese government has been actively encouraging. So we are seeing stronger players, foreign and domestic alike, using M&A to create economies of scale.

It also helps that some Chinese companies are seeking to be acquired, or at least foreign investors, in order to gain the resources and expertise needed to survive in the country's hyper-competitive environment. Managers at state-owned enterprises often also appreciate the presence of foreign investors for the additional layer of insulation they provide from government interference.

Q: Many companies are concerned that China's new Anti-Monopoly Law, currently in draft stage, could dampen the M&A market. How do you think the new law will affect these types of deals?

A: It is hard to say precisely how the Anti-Monopoly Law will affect cross-border M&A at this stage because some details are still not finalized and no one knows for sure how it will be implemented. But I can think of at least four things that international investors should keep their eye on:

First is how the notion of "market dominance" will be interpreted and applied, and how it will affect M&A activity and the pace of market consolidation.

Second are references to preventing the "abuse" of intellectual property, although it is not clear how the abuse of intellectual property will be defined. The risk, of course, is that companies which have won significant market share in China by virtue of their proprietary IP will become victims of their own success.

Third, although the law is intended to prevent monopolies by foreign and domestic firms alike, it may be selectively applied to sectors where foreign investors are gaining the upper hand. There are growing forces within China that believe the acquisition of key economic assets by foreign investors could have a negative impact on industrial development, and they may try to use the Anti-Monopoly Law to check that.

Finally, the law will require that anti-monopoly authorities be notified if a merger or acquisition involves large players or if the value of the deal exceeds certain limits - adding another level of bureaucracy. This also raises the same question of information confidentiality now being debated in Washington in connection with reforming the Committee on Foreign Investment in the US (CFIUS).

But right now, the biggest chilling effect the Anti-Monopoly Law is having on investment is simply the uncertainty. Until foreign companies know more, they may hesitate when it comes to M&A. So rather than suppressing deals, the promulgation of the law after 10 years of drafting could provide the clarity needed to set off a new round of deal-making.

Q: What should a foreign company contemplating a merger or acquisition of a Chinese company consider?

A: First of all, when acquiring a Chinese company, it's important to remember not to set aside everything you already know. Doing a deal in China is really no different than doing one elsewhere - it is just a question of degree.

For example, due diligence is an important part of any M&A process, but in China you really need to spend the time to learn exactly who you are dealing with. You need to understand who actually exercises ownership and who is managing day-to-day operations and the nature of the relationship between the two. In state-owned enterprises, it makes sense to pay attention to the sponsors of management as well. This type of information can be invaluable as you evaluate and negotiate the deal. A great deal of time can be wasted negotiating with individuals who in the end, have little actual decision-making authority.

Foreign investors also need to understand the gap between how a Chinese target company operates and the expectations and obligations assumed by their existing subsidiaries. Many US investors, for example, are looking at deals from the perspective of complying with the Foreign Corrupt Practices Act and Sarbanes-Oxley. This requires an entirely different magnitude of investigation than the standard financial and business due diligence

Q: Conversely, what should a Chinese company contemplating a merger with or acquisition of a foreign company consider?

A: Like any overseas investor, Chinese companies need to be sensitive to local practices and sensibilities - just like foreign investors looking to do deals in China. And in light of recent events, I think Chinese executives are much more aware of this today.

For Chinese companies to achieve lasting success in the international arena, they will also need to continue to build the capacity to do cross-border deals. This includes the mechanics of deal-making itself but most especially, developing the capacity to manage and integrate assets once they are acquired. So I think we are going to see growing sophistication on the part of Chinese investors in the years ahead, covering everything from the financing of deals to how sensitive human retention issues are handled in their aftermath. To get there, Chinese companies will need to better leverage the available talent pool, both domestically as well as internationally

Q: Now that China's WTO commitments are nearly all phased in, will these types of M&A deals taper off? Why or why not?

A: The short answer is no. But there is a bit of nuance here. While the number of announced cross-border M&A deals into China continues to grow each year, the rate of that growth fell in 2005. Announced deals increased by only 7% over 2004, whereas 2004 saw a 34% increase over 2003, and 2003 was up 26% over 2002.

It's too early to know whether this is a temporary slowdown or whether growth in the number of deals will moderate over the next few years. If it proves to be the latter, we may have just witnessed something along the lines of a "WTO bounce" which is now tapering off for the reasons your question suggests.

But WTO liberalization is not the only cause of M&A growth. In fact, liberalization would not have resulted in increased M&A activity if there were no underlying drivers favoring it. The fragmentation of many industries, combined with the government's interest in consolidation and improved efficiency, are key drivers here. These won't go away any time soon, so while the WTO bounce may eventually run its course, I see M&A activity continuing to grow.

The one issue that I think has the most likely potential to disrupt the current picture is rising protectionist sentiment around the globe. Many nations, including China, are revisiting their rules on cross-border M&A.

There are those in China who believe that too much control of certain industries has been ceded to foreign investors already. Last year, for example, we heard voices branding cross-border M&A in the banking sector a "fire sale." Now complications have arisen around a number of high-profile deals and just recently there have been calls for the creation of a CFIUS-like body to examine and vet foreign takeovers of state-owned enterprises. That this sort of debate is going on is very understandable if you consider the scale and speed of China's liberalization over the past five years. And it is still worth recalling that China is still vastly more open to foreign investment than Japan and the Asian Tigers were at a similar stage of development.

So clearly the M&A environment is going to continue to evolve in China and foreign investors will need to keep pace. Change is constant in China but this does not mean it can't be planned for. The key to making the most of any eventuality is to strengthen your capacity to do deals in China vis-à-vis your competitors and make the most of the synergies that result. This requires flexible legal and management structures to accommodate any new directions your acquisitions may take you. It means putting efficient, scalable processes in place. And it means adopting best practices for managing and retaining human talent in a growing organization. ■

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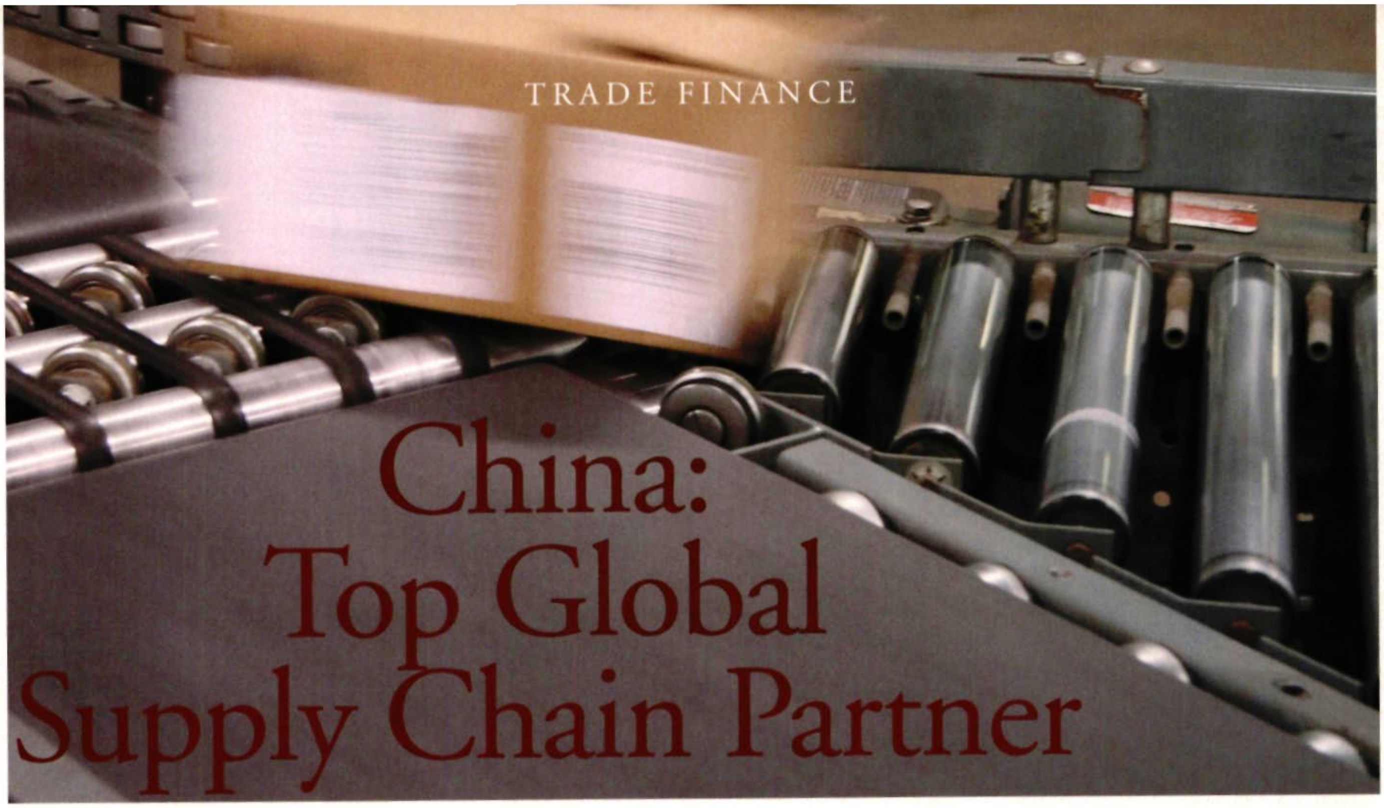

China: Top Global Supply Chain Partner

As it expands its presence and influence around the world, China is becoming a major participant in international commerce and a preeminent partner in the global supply chain.

Amita Jhangiani and Carl Stocking

Go to any conference or meeting among companies anywhere in the world and a question will soon arise: "What's your China strategy?" Another prominent phrase heard along corporate corridors these days is "supply chain management." Here, again, China is playing a prominent role, both as a supplier and, increasingly, as an end user. As it expands its presence and influence around the world, China is becoming a major participant in international commerce and a preeminent partner in the global supply chain. It is also establishing itself as a prototype for emerging markets worldwide, which, following China's leadership, seek the economic benefits of active participation in the global marketplace.

Trading giant

China has already achieved great economic success in a short time. Especially over the past decade, the country has grown explosively primarily because of the rapid expansion of international trade and the migration of manufacturing (mainly, but not only, from the rest of Asia) to China. As a result, China's importance in the global supply chain has grown tremendously.

According to the US Department of Commerce and the International Trade Commission, US-China trade increased nearly fivefold from 1995 to 2005, rising from $57.5 billion to $285.3 billion, as did China's global trade, which jumped from $280.9 billion to $1.4 trillion during the same period. According to the Yale Center for the Study of Globalization, China is currently the world's third-largest trading nation and the fourth-largest export market for US goods; its ratio of imports to GDP was 30 percent in 2005, twice that of the United States and three times that of Japan.

Its overall economic prospects are just as remarkable. Citigroup expects the world's largest emerging market economy to post GDP growth of 7.5 percent per year over the medium term. In the next 20 years, the Cato Institute forecasts that China could surpass Japan as the world's second-largest trading nation and could emerge as the world's biggest economy between 2020 and 2030.

The global supply chain

To succeed in the global marketplace, China—and all economies around the world—must engage in cross-border collaboration on an unparalleled scale. The primary instrument for this cooperation is the global supply chain. Technology has equalized the world of commerce to such an extent that the smallest sub-assembler in an emerging market economy has the same speed-of-light access to financial and market data and identical entrée to cost-effective sources of liquidity as the world's largest companies. The resultant transparency benefits participants across the global supply chain by mitigating risk, improving efficiency, and generally facilitating the cross-border flow of goods and services.

In recent years, most companies have seen the emergence of two supply chains in their organizations: the physical chain, which encompasses the entire procurement process (i.e., ordering, manufacturing, shipping, logistics, and distribution), and the financial chain, which includes purchase order finance, pre- and post-shipment finance, supplier finance, forfeiting, receivables purchasing, channel finance, and distribution finance. The two chains have developed at separate rates. Sophisticated technology drives the physical supply chain at every step, whereas the financial supply chain remains largely tradition-bound, relying, for example, on historically popular labor-intensive payment methods like letters of credit. But as these intra-company supply chain organizations develop on their separate paths, companies are realizing that these internal "silos" are causing issues: trade partners are caught in the middle, and bottlenecks in internal protocols have a negative impact on external processes, to name just two examples.

Fortunately, global market forces are diminishing the physical/financial supply chain dichotomy within companies. Because the extremely competitive marketplace places a high premium on operating efficiencies, leading to a more streamlined management of the financial supply chain, the physical and financial supply chains are increasingly being pressured to perform in sync.

Renminbi Draft Discounting Programs

A major challenge for foreign trading companies in China is obtaining tightly controlled and expensive renminbi (RMB) financing. RMB draft discounting programs provide cheaper, faster, and more efficient financing than RMB loans. Under these programs, buyers pay sellers with endorsable drafts that are presented to banks for immediate, discounted payment. Funds can be obtained in as little as one day thanks to clear laws, minimal documentary requirements, and simple processes.

China's RMB draft discounting market is huge; Shanghai alone accounted for $21 billion in outstanding funds as of June 2006. For foreign companies seeking trade finance in the China market, RMB draft discounting programs offer an obvious, solid solution.

—Amita Jhangiani and Carl Stocking

As China's prominent role in the global marketplace continues to grow—and with it the responsibilities of World Trade Organization membership—the thousands of exporters and importers operating there will benefit from the dynamic transformation of the global supply chain. Chinese importers, like their counterparts around the world, will view their supply chains as premier corporate assets. By being "vertically aware" of their supply chain partners—conscious of and alert to their suppliers' financial conditions, for example—Chinese importers will improve visibility throughout the purchasing cycle and reduce risk.

Chinese suppliers and vendors will also benefit from the growing importance of the global supply chain. Because of technological advances on a global scale, they will have financial information about importers, pre- and post-shipment funding sources, and competitive intelligence to a degree previously unavailable to them. This improved end-to-end transparency likewise leads to more efficient risk management.

Getting started

Companies considering importing and exporting to and from China should keep a number of points in mind.

China regulates its foreign exchange flows tightly via the State Administration of Foreign Exchange (SAFE). Foreign exchange flows related to import and export trade, as well as any form of trade-based import or export financing and repayments, are required to follow specific SAFE regulations. These regulations require the submission of various documents, and foreign companies work closely with their banks in China to comply and submit the appropriate documentation for trade-related payments into and out of the country.

Foreign companies operating in China, or trading with entities in China, also need quick and easy access to low-cost financing. Financing can be in US dollars and in China's currency, the renminbi (RMB). For example, a US subsidiary or joint venture in China will want access to low-cost financing for its operations in China. It will also want to make sure that its manufacturers and vendors have access to financing to ensure viability of the supply chain. To resolve this need, companies can obtain loans or, more commonly, use RMB draft discounting programs, which are offered by many banks in China (see Box).

One challenge that companies need to be aware of is that PRC regulations stipulate that local currency letters of credit may be valid for a maximum of 180 days. Alternatively, companies can obtain US dollar-denominated import letters of credit.

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As regulations and documentary requirements are subject to change and can be open to interpretation, it is important for companies to work with a bank that has a strong local presence and has gained experience serving a sizeable trade customer base. The bank should also have a RMB currency license, allowing it to provide local currency cash management and trade services in major cities across China. Most foreign banks have gained RMB currency licenses only after years of operating in China.

A smoother future

As China's economy and its global trade continue to expand, the country's importance in the global supply chain will also grow. Technological advances should help companies make their supply chains more efficient and reduce risk. Though the dual financial and physical supply chains are beginning to merge within many companies, the services of international banks located in China can make the financial supply chain operate more smoothly for companies new to the China trade. 完

Remarkable Progress

China's remarkable economic growth in recent years has been fueled by a number of factors, from its large labor pool to reforms undertaken by the government in sectors ranging from infrastructure to finance.

Large labor pool

Though China has a shortage of managerial and skilled talent, including in the logistics sector, the country has an almost inexhaustible labor supply. Rising wages, particularly on China's east coast, have boosted costs in recent years, but they are still just a fraction of those in developed countries. In addition, Chinese workers tend to have a higher level of education than those in less-developed countries where wages are even lower. Over the next 15 years, PRC government sources project that China's population above the age of 16 will expand by about 5.5 million people annually. By 2020, the total working age population will reach 940 million.

Improving infrastructure

China's road, rail, river, and airport links are far from ideal, but the country has made many improvements since it launched the Great Western Development Strategy in 2000 and its 10th Five-Year Plan (2001–05), which focused on infrastructure improvements. The PRC Ministry of Finance estimates that in 2010, total annual investment in infrastructure in real terms will reach ¥2.3 trillion ($287.6 billion), more than double the ¥1.1 trillion ($137.6 billion) invested in 1999, with aggregate infrastructure spending over the 10-year period totaling ¥17.1 trillion ($2.1 trillion) (see the July–August 2006 *CBR*, p.21).

Welcoming environment for foreign direct investment (FDI)

According to the United Nations Conference on Trade and Development, China received $60.3 billion in FDI in 2005. It is now the third-largest recipient of FDI—after the United States and the United Kingdom—with a total accumulation of more than $600 billion. At nearly 33 percent, China's ratio of FDI to GDP is three times higher than the US ratio.

Financial services infrastructure

Building a modern banking system has been one of China's key policy objectives since its economic reforms began in 1978. Within a relatively short time, it has built a banking system that includes four state-owned commercial banks, three policy banks, a dozen joint-stock banks, numerous city and rural commercial banks, urban and rural credit cooperatives, and foreign banks. Also, the country has established domestic stock markets and opened them to listings by foreign-invested firms. Through the qualified foreign institutional investor (QFII) program, foreign securities firms can gain limited access to the renminbi-denominated A-share market by applying for QFII status with the PRC government. As of December 2005, 32 foreign firms had been granted QFII status, and 31 of them had been issued QFII investment quotas totaling more than $5.6 billion.

WTO-related improvements

Since its 2001 World Trade Organization (WTO) entry, China has taken significant steps to implement its WTO commitments. Beginning in 2002, it reduced tariff rates on many products and the number of goods subject to import quotas, expanded trading rights for Chinese enterprises, and increased the transparency of its licensing procedures. To implement the WTO-required liberalization of trading rights, China has also established a registration system that allows firms to register, instead of having to seek approval, for trading rights.

Benefits at home and abroad

Multinational corporations are expanding their Chinese subsidiaries, boosting employment in China's export sector. China's demand for imported goods is also supporting employment elsewhere in the world. For instance, the country has become an important source of growth for its neighbors in Asia and elsewhere, as China buys capital equipment and technologies from places such as Japan, South Korea, Taiwan, and Germany to build a modern economy.

Future outlook

Citigroup expects China's growth to continue at a pace above the world average—at about 7.5 percent per year over the medium term. China's growth trajectory can be expected to continue as long as it maintains the competitiveness of its manufacturing sector, improves its manufacturing efficiency, and—because goods are currently produced at relatively low cost, in part because of an abundant supply of labor—retains the competitiveness of its labor force.

—Amita Jhangiani and Carl Stocking

The Risks of Doing Business in China after WTO

WTO & CHINA–Five Years into a Great Transformation
A Hill & Associates White Paper–July 21, 2006

The Macro Economic Context

China has grown phenomenally in recent years, and the central government has had to take drastic steps to slow down the pace of economic growth. Despite these measures, in the second quarter of 2006, the economy grew at 11.3% y/y—the fastest since 1995—and was still expected to grow 10.5% in 2006 and 9.5% in 2007. Massive inflow of FDI is expected to continue, adding to the trade deficit and ballooning foreign reserves. Exports now account for 34% of GDP. Inflation is in check, but significant over-investment in the state sector has taken place with little or no financial due diligence.

Since its accession to the WTO in late 2001, China has implemented a significant number of new policies aimed at opening up the economy to outside investors seeking access to what is perceived to be the biggest market in the world. These have already begun to transform the nation's economy and marketing landscape. However, the complexities and risks of doing business in China are still a fact of life. While some areas of risk have been reduced, many remain, and some have even worsened since 2001.

The Risks of Doing Business in China

Whether pushed by boards, executive management or competitors, or pulled by longstanding customers, many companies feel they "must" expand into China. Some are blinded by the numbers, but only a relatively small percentage of China's huge population will constitute a market for their products and services. However, with a burgeoning new middle class emerging in China, the target group is constantly expanding. The available Chinese market for finance and insurance companies for example—set to further open up on 11 December 2006, according to China's WTO commitments—is estimated to be as big as the entire population of the United States, so there is ample room for profits to be made.

The key to operating successfully in China is to understand and prepare for the types of risk a company will face. It is not a hostile place to do business, but those who do not do their homework run the risk of getting burnt. As one AmCham Chairman once said, "It appears many companies do more due diligence moving from Toledo to Birmingham than from Toledo to Shanghai."

The risks of doing business in China are not materially different from the risks of doing business elsewhere in Asia or the rest of the world. The difference lies in the lack of transparency, cultural differences, and business norms.

There is an inherent resistance in China to the concept of transparency. But transparency is a necessary condition for a stable business environment. In a truly transparent environment, all draft rules and regulations are published for comment before they are finalized. However, this is not always the case in China, as companies are sometimes simply notified of a change without being given the chance to comment. This lack of transparency creates an uncertainty that hinders business.

"A fish that swims in water that is too clear doesn't survive."

—Chinese saying

While fraud occurs worldwide, the sheer volume of fraud detected in China appears to be overwhelming. The Chinese central government has made strides towards clamping down on fraud and corruption, and on the surface, all the required regulations are in place. However, the country is vast, and many regulations passed in Beijing are ignored or overlooked in the provinces. As foreign-invested enterprises import their business cultures into China, along with the need to abide by rules such as the FCPA, corruption could start to wane.

China is an agglomeration of highly disparate markets in varying stages of economic development—ranging from efficient modern city-states such as Shanghai and Guangzhou to Wild West conditions out in the provinces, complete with turf wars. Regulations and taxes vary from locality to locality. In many cases, the old saying "the mountains are high and the emperor is far away" still holds true—local officials don't necessarily follow Beijing's rules.

Despite the many pitfalls, foreign investors are falling over themselves to gain access to China's market. Because of the country's rapid economic growth and resulting cutthroat competition in many sectors, the issue of fraud and corruption often plays second fiddle to profit margins. The risks can be seen as sharp rocks at the bottom of the ocean—with the country currently surfing the high tide of economic boom times, the sharp rocks don't often break the surface. But that doesn't mean that they are not there. The failed joint ventures of the mid-1990s Gold Rush years are a testament to the risk of doing business in China without conducting proper due diligence.

Foreign competition, in conjunction with the lack of current technology and management expertise, has in places led to restructuring and layoffs by SOEs, triggering some unrest in the provinces. Price wars have also broken out in the sectors that have been opened up to more imports and foreign competition.

While some provinces and the major cities are used to dealing with foreign investors, conditions can be different in more remote parts of the country. Protectionism still occurs, and local officials often have different agendas than their counterparts in Beijing and Shanghai. Foreign companies will encounter this more often as a combination of improved infrastructure, financial incentives and rising costs on the coast brings foreign companies to China's interior.

Fraud and Corruption

Many prospective business partners in China will freely admit to wanting the foreign partner to supply capital and/or technology. These partnerships can quickly sour if the information flow is not handled securely. In many cases, joint ventures have faced severe competition from a factory suspiciously similar to their own—set up by a relative of the general manager.

Dissolving non-performing joint ventures is a complex and bureaucratic nightmare, but even so many Western companies are unwilling to get rid of bad partners. Matters such as theft of funds or technology are too often forgiven, in the interest of saving the partner's "face."

"Many companies are buying into the Chinese tradition of 'face' and don't want their partners—who stole from them—to lose face by being sacked from a contract. There are plenty of good businessmen in China—there is no need to hang on to a bad one!"

—David Fernyhough, Executive Vice President, Hill & Associates, Hong Kong

Embezzlement, kickbacks and other forms of employee fraud are pervasive among Chinese and foreign-invested companies. For example, embezzlement cases involving up to US$3m-4m are so common in China that they no longer merit investigative action in the larger cities because authorities are too busy pursuing even larger cases. Much of the fraud appears to be committed by people who have been employed for many years and built up trust. Their motivation may lie in a sudden need for personal gain or because they've seen colleagues or peers get away with it over the years.

IP Theft and Copyright Infringement

The largest risk of doing business in China—IPR theft and infringement—has been the centre of attention of the Chinese government and foreign companies for several years but is still a major issue, especially in the provinces. In a recent AmCham Shanghai survey, 75% of the respondents stated that IPR infringement materially damages both their foreign and domestic markets. Despite the vocal support of the central authorities in Beijing for better IPR protection, this is not likely to change quickly with the implementation of WTO and the TRIPs.

"As you look at the development of creative industries in China, they also have an interest in trying to protect intellectual property. You've got some pretty good laws in the books, they are adding criminal penalties, and it's a question of enforcement." —Ambassador Robert Zoellick, US Trade Representative.[1]

Business Ethics and Social Accountability

The concepts of corporate governance, ethics and social accountability are not widely understood or accepted in China. They are predominantly Western imports that have yet to take root in the country's relatively new socialist market economy.

Since the US passed the Sarbanes-Oxley Act on corporate governance in 2002, things have slowly begun to change. The legislation extends to overseas subsidiaries of US companies, partners and local vendors. Not surprisingly, the financial sector leads the charge, with others trailing.

An increase in transparency should reduce the number of bribes and kickbacks, both common methods of winning favours in China, and already major issues for US companies under the FCPA. Any company found to be in breach of the FCPA is likely to suffer a public relations disaster over and above the legal ramifications.

Legal Situation

The legal system in China is changing for the better, but not as fast as businesses want. On the upside, MNCs are becoming more comfortable bringing lawsuits and arbitration in China, and Chinese companies who have been damaged by IPR infringements are also taking action. According to an AmCham survey, 16% of US companies have taken legal action, and 39% have taken administrative action. In the major cities, dispute resolution processes work fairly well, but in the provinces appointed judges with little formal education implement laws as they see fit.

1 Hong Kong, February 19, 2003

Chinese authorities have drafted some positive new regulations in recent years, but implementation is spotty. As a younger generation, often educated abroad, takes over leading positions within the Chinese government, implementing international legal standards and regulations will become easier. The key to instituting change will lie with the judiciary.

"It will get easier to do business in mainland China, but it's not like Hong Kong or Singapore. There is a major bureaucracy to deal with—business moves fast, but the government moves slowly."

—Jay J. Hoenig, President, Hill & Associates, China

Looking Ahead

Among the last of China's WTO commitments, the financial services and investments sector opening this December will be a litmus test for major change. With China nearing the end of the WTO implementation process, foreign investors and government officials of some of China's main trade partners have begun to call for market openings not required by China's WTO entry agreement, such as lifting caps on foreign investment in, or acquisition of, Chinese banks. Similarly, telecom providers are also seeking market access beyond the limited scope required by China's WTO accession protocol. To date, PRC officials have been reluctant to discuss such market openings. Though Chinese officials will likely abide by the letter of their WTO agreement, recent announcements indicate that they may try to boost domestic companies at the expense of foreign firms, possibly undercutting the spirit of their WTO commitments.

In the next 5 years, change is expected to be limited to large cities, such as Beijing, Shanghai and Guangzhou. Because China is such a large country, improvement will come in "different places at different paces." China has opened up to the world, but it is not a market driven economy yet!

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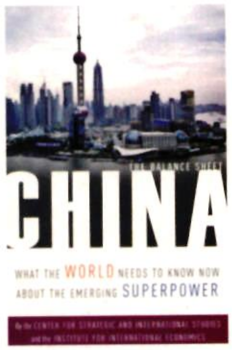
Hill & Associates

China: The Balance Sheet:

What the World Needs to Know Now about the Emerging Superpower

By C. Fred Bergsten, Bates Gill, Nicholas R. Lardy, and Derek Mitchell. New York: PublicAffairs, 2006. 224 pp. $25.00 hardcover.



It is time to worry about the current and future state of US-China relations. Until recently, US-China ties were just one of numerous key bilateral links in the international system. With the Soviet Union's collapse and China's rising status, however, US-China ties have become the single most important bilateral relationship in the world. How they develop over the next several decades will determine much of the world's future.

This is the wise premise that lies at the foundation of *China: The Balance Sheet*, a useful book written by analysts at the Institute for International Economics and Center for Strategic and International Studies. C. Fred Bergsten, Nicholas Lardy, Bates Gill, and Derek Mitchell argue that much of the world's future depends on whether the United States can "get China right." Misperceptions and unrealistic expectations could lead to US disappointment in China, and mutual hostility could destabilize global politics, undermine the world's economic growth, and complicate the search for effective solutions to numerous international problems. "Put simply, the US-China relationship is too big to disregard and too critical to misread," they write. To help inform the China debate, the authors have carefully crafted a highly readable book that is suitable for undergraduate students, businesspeople, politicians, and anyone else who seeks sensible answers to many of the pressing questions related to China's rise.

The book presents, with great balance, the problems and prospects of four aspects of China: its economy, its society and politics, its role in the international economy, and its security and foreign policies. The book coherently and concisely addresses sub-themes related to these topics, such as the revaluation of the renminbi and the possibility of military conflict across the Taiwan Strait, and emphasizes how these developments affect the United States.

China's leaders will remain consumed with managing a host of domestic economic and social problems, the authors write. Only one-seventh of the Chinese population has health insurance, and only 16 percent of the working population has pensions. Income inequality, which is more serious in China than in Bangladesh, India, and Indonesia, will likely grow for another decade.

While some observers anticipate China's collapse, the authors argue that the country is likely to weather these storms. Robust economic growth will raise incomes so that "it is unlikely that rising relative income inequality alone will become a major source of social unrest or a key impediment to sustaining rapid economic growth." In addition, the authors argue that the Chinese Communist Party (CCP) has consistently undertaken, and is introducing, the reforms needed to meet various economic and social challenges. The authors will likely be proven correct in making this argument. After all, those who speak of the CCP's demise often forget that, between 1995 and 2000, China laid off more than 30 million workers without facing widespread social unrest.

The book offers a terrific discussion of the complexities of China's international economic relations, laying to rest many of the arguments that Chinese firms are a threat to US economic growth.

The authors assert that China must liberalize its political system to help ensure domestic stability. At the same time, however, they also note that Americans must "be informed by realistic expectations" and be prepared to deal with a CCP-led China for at least the medium term. In this regard, the United States would do well to expand government-to-government and citizen-to-citizen exchanges, the authors write.

The book offers a terrific discussion of the complexities of China's international economic relations, laying to rest many of the arguments that Chinese firms are a threat to US economic growth and convincingly demonstrating that China's growth is good for the United States. For example, the book notes that from 2000 to 2005, US exports to China grew almost 160 percent, while US exports to the

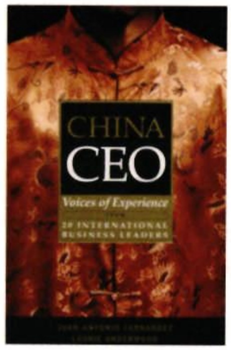
Continued on page 87

David Zweig *is chair professor in the Division of Social Science and director of the Center on China's Transnational Relations at the Hong Kong University of Science and Technology. His most recent book is* Internationalizing China: Domestic Interests and Global Linkages.

China CEO:

Voices of Experience from 20 International Business Leaders

By Juan Antonio Fernandez and Laurie Underwood. Singapore: John Wiley & Sons (Asia) Pte Ltd., 2006. 324 pp. $19.95 paperback.



Like many books on doing business in China, *China CEO* analyzes the key operational challenges that foreign companies face in the Middle Kingdom. The authors, Juan Antonio Fernandez, an associate professor of management at the China Europe International Business School, and Laurie Underwood, the director of Communications and Publications at the American Chamber of Commerce-Shanghai, also offer suggestions on how to tackle those problems. For example, in the chapter on human resources, they observe that because Chinese employees expect rapid career advancement, companies unable to meet their employees' high expectations risk losing talented workers. To mitigate this problem, Fernandez and Underwood note, companies should not be afraid of promoting workers to positions for which they are not ready. Chinese employees' ambitions can actually motivate them to overcome the steep learning curves, benefiting both themselves and the firm. The authors also emphasize flexibility and creativity in developing job titles. For example, managers could give employees a "mini-promotion" by upgrading their Chinese, but not English, title.

As suggested by the book's subtitle, what distinguishes *China CEO* from many other books on the market is the impressively deep pool of knowledge that the authors draw upon. *China CEO* weaves together insights that the authors gathered from interviews of nearly 30 seasoned China hands, including the China operations managers of leading US, European, and Japanese companies and several China-based consultants. The firms, which have been in China for more than 26 years on average, include Microsoft Corp., General Electric Co. (GE), Carrefour SA, and Royal Philips Electronics NV, and the managers interviewed collectively have more than 100 years of experience in China.

The authors appear to have put their own backgrounds as a teacher and a business editor, respectively, to good use, making *China CEO* a highly readable and digestible book. The format of *China CEO* is friendly to the busy businessperson who may not have time to read the book in a single sitting. Each chapter is broken into short sections complemented by diagrams and charts. In addition, vignette-like sidebars provide interesting background information, as do case studies that illustrate the experiences of specific companies. Finally, the concluding section of each chapter succinctly synthesizes the chapter's main ideas, and the final chapter of the book, essentially an executive summary of *China CEO*, provides a helpful review of all of the book's suggestions.

The bulk of the analysis in *China CEO* will benefit managers who are new to China and unfamiliar with the country, its business culture, and the common obstacles facing foreign companies. Indeed, the authors often appear to assume that readers have little or no prior experience in or knowledge of China. Certain segments of the book, for example, go to great lengths to explain the meaning of *guanxi* and the significance of "face" in managing relationships with Chinese partners. The book also includes a chapter on adapting to life in China, which is obviously geared toward expatriates new to China.

The bulk of the analysis in *China CEO* will benefit managers who are new to China and unfamiliar with the country, its business culture, and the common obstacles facing foreign companies.

China CEO may nevertheless provide a good sounding board for experienced China operations managers, who can use the insights contained in the book to examine their own approaches to various aspects of doing business in China. For example, useful lessons may be drawn from the book's discussion of the decisions of Microsoft and GE to locate critical research and development operations in China, even though consultants generally warn of the risks of doing so in light of China's poor record in protecting intellectual property rights.

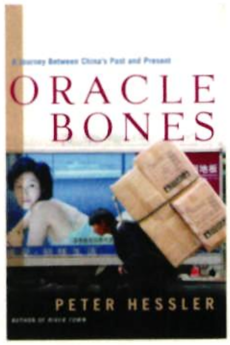
Navigating a market as large, complex, and rapidly changing as that of China can be daunting. *China CEO*, a book that successfully distills key lessons learned from a wealth of experience, is well worth a read.

Victorien Wu *is assistant editor of the* CBR.

Oracle Bones:

A Journey Between China's Past and Present

By Peter Hessler. New York: HarperCollins Publishers, Inc., 2006. 514 pp. $26.95 hardcover.



Imagine yourself standing in the nooks and crannies of Beijing's ancient *hutong*s, or alleyways, with your moleskin pad, chronicling daily life as it unfolded before you for five years. Undoubtedly, you would meet unusual characters that provide lively anecdotes about scenes of Chinese life. Peter Hessler, the Beijing correspondent for the *New Yorker*, has managed to do just that in gathering a compendium of compelling human-interest stories from China into his book *Oracle Bones.*

Partly mystical, partly political, and always for divination, oracle bones are turtle shells that are emblematic of ancient China and that were used during rituals to predict the future. The use of these bones in China ceased more than two millennia ago, but the title of the book suggests that *Oracle Bones* may well be Hessler's vision of China's present and future: a society transitioning to modernity at breakneck speed and infused with uncertainty.

Oracle Bones may well be Hessler's vision of China's present and future: a society transitioning to modernity at breakneck speed and infused with uncertainty.

Hessler has a knack for uncovering unique stories that rarely make their way to the front page of major US newspapers. For example, the lead story in *Oracle Bones* is a tale of an ethnic Uighur operating on the fringes of Beijing's expatriate community as a money changer-cum-middleman. Polat, Hessler's pseudonym for his real-life Uighur friend, is a study of the fissures in Chinese society between the haves and have-nots and the ethnic tensions that percolate beneath the surface.

Hessler's stories are sprinkled with seemingly innocuous trivia, but, in fact, these data have larger social implications. For instance, in the chapter "Starch," Hessler brings to life his encounter with Mr. Guo, the vice chief engineer of the Jilin Petrochemical Design and Research Institute. The reader learns that "In China, 40 percent of the cornstarch production was used to make MSG, whereas in the United States, 60 percent of the cornstarch was used to make artificial sweeteners." By providing these statistics, Hessler cleverly highlights some of the differences between the two societies in health and food habits.

In "Wonton Western," by far the most interesting chapter in the book, Hessler takes the reader onto the set of *Warriors of Heaven and Earth*, the much-acclaimed film about two Tang Dynasty warriors who work together to protect fragmentary remains of Buddha's bones, which are imbued with unworldly powers. On location in western Xinjiang, Hessler interviewed Jiang Wen, the famous Chinese actor who plays the main protagonist. Together, the interview and the other materials that Hessler weaves together in the chapter make clear that producing movies in China is not only an affair of the heart, but also an affair of the state. Filmmakers must be conscientious about censorship—as Jiang learned when he directed his own movie, *Devils on the Doorstep*, which earned the Grand Prix at Cannes but was banned in China.

Readers of Hessler's pieces in the *New Yorker* know that his strength is in pithy reportage of unusual Chinese events, often with a twist of humor and irony. Thus, it may not be surprising that *Oracle Bones* never really finds its cadence and is, instead, often stuck in a literary staccato, as abrupt endings and beginnings punctuate the narratives. Overall, though, the parts are greater than the sum, with certain entertaining chapters carrying the weight of the book. Readers interested in a travelogue of China over the past half decade will certainly find something to enjoy in *Oracle Bones*.

Mark T. Fung *travels regularly to Beijing, representing US firms and advising on financial and environmental projects. He recently completed his PhD at the Paul H. Nitze School of Advanced International Studies at the Johns Hopkins University.*

China: The Balance Sheet:

What the World Needs to Know Now about the Emerging Superpower

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rest of the world rose by only 16 percent. During that period, China accounted for roughly 25 percent of total US export growth. Thus, the authors argue, it is hard to contend that China is closed to US products. Moreover, though Chinese wages are about one-thirtieth of US wages, Chinese labor productivity is also one-thirtieth of US productivity. Americans should not panic about China's economic rise. In capital-intensive sectors, the United States will maintain its comparative advantage for the foreseeable future, the authors say.

Also, contrary to some assertions, China is not becoming a technological threat. Ninety-one percent of advanced technology products that the United States imports from China are in the information and communication realm, of which the vast majority are notebook computers, display screens, DVD players, and mobile phones. Hardly advanced technology, these consumer electronic products are often assembled in China from parts imported from the rest of East Asia, giving China the benefit of increased employment but not the advantage of massive technology transfers.

Finally, the authors argue that concerns with domestic problems will afford China little time for military expansion, other than developing the military capability to challenge US intervention in a Taiwan conflict. The authors nevertheless recognize that China could engage in a broader, global military agenda. So, Washington must deflect Chinese strategic behavior that could threaten US national interests. Meanwhile, as China still does not present any global military challenge, the United States must convince Beijing that it seeks to neither divide China nor turn it into a mirror image of the West.

In the authors' eyes, the world's future deeply depends on good US-China relations. Fortunately, mutual hostility is not carved into stone, and sustained efforts on both sides can prevent a future confrontation. By drawing China further into international regimes, the United States can influence whether China evolves into a serious threat or becomes a key partner in managing the world.

A Message from the US Secretary of Commerce

Continued from page 26

economic policies. Thus, we must not succumb to protectionist pressures. We must continue to affirm our commitment to free and fair trade. China, for its part, must embrace its new role as a leading international trade partner by practicing trade and economic policies that promote the core principles of free and fair trade. Although serious obstacles remain, I am optimistic that we will continue to build upon past progress. I look for further advancement on issues through the Joint Commission on Commerce and Trade (JCCT). The JCCT provides a constructive bilateral forum for building strong trade ties, benefiting both the American and Chinese people. Indeed, the global economy is being driven by dynamic growth in the United States and China.

Developing sound and strong trade relationships between countries requires much more than government-to-government dialogue. The role of the USCBC in organizing, informing, advising, and serving the US business community engaged in trade and commerce with China is invaluable to this relationship. I cannot think of a greater compliment than to say that if the USCBC did not exist, we would have to create it.

I thank the USCBC for its contribution to furthering US-China commercial relations. I look forward to reading this special issue of the *China Business Review.*

Retrospect and Prospect: US-China Business Relations on China's Fifth WTO Anniversary

Continued from page 39

tions, USCBC and the China Council for the Promotion of International Trade (CCPIT) have together witnessed China's journey of opening and reform and economic development and China's voyage into the WTO.

Over the five years since China joined the WTO, USCBC and CCPIT have joined forces to develop a number of creative programs to help the Chinese business community understand, learn, and use WTO rules and to promote the two nations to resolve differences and cooperate for mutual benefit under the WTO framework. We will ceaselessly devote more efforts to continue to build healthy and stable economic and trade relations between China and the United States.

Sales and Investment

May 16–July 15, 2006

The following listings contain information from recent press reports of business contracts and negotiations exclusive of those listed in previous issues. For the most part, the accuracy of these reports is not independently confirmed by the *CBR*. Firms whose sales and other business arrangements with China do not normally appear in press reports may have them published in the *CBR* by sending the information to the attention of the editor.

Compiled by Andrew Bagnell

Advertising, Marketing & Public Relations

INVESTMENTS IN CHINA

GroupM, a wholly owned subsidiary of WPP Group plc (UK)
Purchased a 49% stake in Hua Yang Lian Zhong Advertising Co. (Beijing). 05/06.

Agriculture

CHINA'S EXPORTS

China Agritech Inc. (Beijing)
Will provide 300 tons of Tailong liquid fertilizer to Russia and Kyrgyzstan. $3.75 million. 07/06.

Automotive

CHINA'S INVESTMENTS ABROAD

Lutsk Motor Plant (Ukraine)/Dongfeng Motor Corp. (Hubei)
Will jointly build a plant in Ukraine to manufacture trucks. 07/06.

Nanjing Automobile (Group) Corp. (Jiangsu)
Will establish a factory in Oklahoma to manufacture the MG Rover automobile. 07/06.

INVESTMENTS IN CHINA

Dongfeng Peugeot Citroen Automobile Co., Ltd., a joint venture between PSA Peugeot Citroen (France) and Dongfeng Motor Corp. (Hubei)
Will build a new plant in Hubei to produce 150,000 sedans annually by 2009. 07/06.

China Motor Corp. (Taiwan), DaimlerChrysler AG (Germany)
Will form joint venture, tentatively named China Chrysler Automobile Sales Co., to sell Dodge sedans in China. 06/06.

Tonda Electric Ltd. (Hong Kong)/China Automotive Systems, Inc. (Hubei)
Will form joint venture, Wuhan Jielong Electric Power Steering Co., Ltd., to manufacture electric power steering systems and components in Hubei. (Hong Kong:15%-China:85%). 06/06.

IkarusBus International, a unit of Ikarus Holding Co., Ltd. (Hungary)/Datong Hongye Investment Holding (Shanxi)
Will form joint venture in Shandong to manufacture Ikarus buses. $30 million. (Hungary:49%-China:51%). 05/06.

OTHER

Shanghai General Motors Co., Ltd.
Signed an agreement with Saab Automobile AB, a subsidiary of General Motors Corp., for the rights to import and sell Saab 95 automobiles. 07/06.

Aviation/Aerospace

CHINA'S IMPORTS

Airbus SAS (France)
Will provide 50 A320 aircraft to China Southern Airlines Co., Ltd. $3.3 billion. 07/06.

Airbus SAS (France)
Will provide 30 A320 aircraft to China Eastern Airlines Corp., Ltd. $1.7 billion. 07/06.

Plastic Fabricating Co., Inc. (US)
Won contract from Shenyang Aircraft Corp. to provide composite and metal panels for the Boeing 787 Dreamliner's vertical fin. $20.5 million. 05/06.

CHINA'S INVESTMENTS ABROAD

Air China Ltd. (Beijing)
Will purchase the remaining 31.6% stake in China National Aviation Co., Ltd. $414.5 million. 06/06.

INVESTMENTS IN CHINA

The Boeing Co. (US)/Shanghai Airlines Co., Ltd., Shanghai Airport Authority
Established aircraft maintenance joint venture, Boeing Shanghai Aviation Services Co. (US:60%-China:40%). 06/06.

OTHER

Airbus SAS (France)
Received approval from the PRC government to build an aircraft assembly plant in Tianjin. 06/06.

Dahlia Investment, a unit of Temasek Holdings Pte Ltd. (Singapore), Singapore Airlines Cargo Pte Ltd./China Great Wall Industry Corp. (Beijing)
Started operations for their air cargo joint venture, Great Wall Airlines. 06/06.

Thai Airways International Public Co., Ltd. (Thailand)
Signed MOU with Shanghai Airlines Co., Ltd. for commercial cooperation and code-sharing. 06/06.

Banking & Finance

INVESTMENTS IN CHINA

Australia and New Zealand Banking Group Ltd. (Australia)
Acquired 20% stake in Tianjin City Commercial Bank. $113 million. 07/06.

Ace Honest Group Ltd., Pearl Bright Holdings Ltd. (UK)/SASAC Qinghai branch
Began operations at their joint venture, Qinghai Investment (Group) Co., Ltd. (UK:60%-China:40%). 06/06.

International Finance Corp., the private sector arm of the World Bank Group, Rabobank Group (the Netherlands)
Will jointly purchase 10% and 4.9% stakes, respectively, in the United Rural Cooperative Bank of Hangzhou. $12.5 million. 06/06.

ABN AMRO Holdings NV (the Netherlands)/China Galaxy Securities Co., Ltd. (Beijing)
Will form first futures joint venture in China. $6.2 million. (the Netherlands:40%-China:60%). 05/06.

Bank of Tokyo-Mitsubishi UFJ (Japan)
Will acquire a 0.2% stake in BOC. $180 million. 05/06.

OTHER

China UnionPay Co., Ltd. (Shanghai)
Entered partnership with PaySquare BV, which will become the exclusive provider of China UnionPay credit cards in the Netherlands. 07/06.

ABN AMRO Holdings NV (the Netherlands)/Haitong Securities Co., Ltd. (Shanghai)
Signed MOU to jointly develop securitization, corporate financial advisory, and cross-border capital raising businesses. 06/06.

Banca Lombarda e Piemontese SpA (Italy)/Guodu Securities Co., Ltd. (Guangdong), Pingdingshan Mining (Group) Co., Ltd. (Henan)
Received approval from CSRC to form joint venture, Sino-Euro

Fund Management Co., Ltd. $15 million. (Italy:49%-China:51%). 06/06.

The Export-Import Bank of China (Beijing)
Will provide Uzbekistan with $397 million in preferential export credit. 06/06.

Chemicals, Petrochemicals & Related Equipment

CHINA'S IMPORTS

Pressindustria SpA (Italy)
Will provide the rights to use and transfer PI butyl rubber technology to Sinopec. 06/06.

Shaw Stone & Webster, a unit of the Shaw Group, Inc. (US)
Won two contracts to provide technology for Dushanzi Petrochemical Co.'s, a subsidiary of PetroChina, styrene and polystyrene plants. $50 million. 05/06.

INVESTMENTS IN CHINA

Atanor SA (Argentina)/Anhui Huaxing Chemical Industry Co., Ltd.
Will establish joint venture, Anhui Huaxin Atanor Chemical Co., Ltd. (Argentina:50%-China:50%). 07/06.

BASF Aktiengesellschaft (Germany)
Will increase investment in the Yangzi-BASF petrochemical project, a joint venture with Sinopec. $500 million. 07/06.

Hanbang Petrochemical Co., Ltd. (Hong Kong)/Jiangyin Chengxing Industrial Group Co. (Jiangsu)
Will form joint venture to produce purified terephthalic acid in Jiangsu. (Hong Kong:15%-China:85%). 07/06.

Air Products and Chemicals, Inc. (US)
Will build an air separation plant in Hebei to supply Tangshan Guo Feng Steel Co., Ltd. and Tangshan Fu Feng Steel Co., Ltd. with gaseous oxygen, nitrogen, and argon. 06/06.

Degussa (China) Co., Ltd., a subsidiary of Degussa AG (Germany)/Lynchem Co., Ltd. (Liaoning)
Established joint venture, Degussa Lynchem Co., Ltd., to produce custom-manufactured fine chemicals. (Germany:51%-China:49%). 06/06.

The Dow Chemical Co. (US)
Will expand its petrochemical production facility in Jiangsu. $200 million. 06/06.

The Valspar Corp. (US)
Purchased an 80% stake in Guangdong-based Huarun Paints Holdings Co., Ltd. $290 million. 06/06.

OTHER

Ciba Specialty Chemicals Holding AG (Switzerland)
Reached agreement with Jiangsu Feiya Chemical Co., Ltd. under which Feiya will construct a facility outside of Shanghai to manufacture alkylated diphenyl amines and Ciba will exclusively market all products manufactured. 06/06.

Nano Chemical Systems Holdings Inc. (US)/Benchmark China Ltd.
Signed contract under which Benchmark will open an office in Guangzhou to test Nano Chemical Systems proprietary industrial products. 06/06.

Distribution, Logistics & Related Services

CHINA'S IMPORTS

Danzas ZF Freight Agency Co. Ltd., a subsidiary of DHL Global Forwarding (US)
Will provide transportation services for the China Nuclear Power Engineering Co.'s Ling Ao nuclear power station project. $600 million. 06/06.

INVESTMENTS IN CHINA

ProLogis (US)
Will construct four distribution facilities totaling 97,547 m^2 in the Beijing Airport Logistics Park. $37.3 million. 05/06.

OTHER

YCH Group Pte Ltd. (Singapore)
Signed MOU with Shanghai Lingang International Logistics Development Co., Ltd. to develop the YCH DistriPark and build a dangerous-goods storage facility in the Yangshan Free-Trade Port Area. 07/06.

BioMachines, Inc. (US)
Signed exclusive distribution agreement with Beijing-based CapitalBio Corp. 06/06.

Electronics, Hardware & Software

CHINA'S IMPORTS

China Expert Technology, Inc. (Hong Kong)
Will construct the second phase of an e-government system for Nanan City, Fujian. $19 million. 07/06.

SumTotal Systems Inc., HP Education Services (US)
Provided licenses to Liaoning Mobile Communication Co., Ltd., a subsidiary of China Mobile, for software that teach employees job skills and about compliance issues. 06/06.

Tektronix, Inc. (US)
Will supply K1297-G20 protocol tester and K15 protocol analyzer to the China Academy of Telecommunication Research, a division of MII, for 3G network environment testing. 06/06.

CHINA'S INVESTMENTS ABROAD

SVA (Group) Co., Ltd. (Shanghai)
Opened television manufacturing plant in Bulgaria. $1.17 million. 06/06.

INVESTMENTS IN CHINA

B&B Group Holdings, Ltd. (Hong Kong)/Guangzhou Latech Computer Technology Co., Ltd. (Guangdong)
Will form joint venture to develop, manufacture, and sell computer software, integrate computer software and hardware systems, and provide computer-related technical service for the sports

Abbreviations used throughout text: ABC: Agricultural Bank of China; ADB: Asian Development Bank; ASEAN: Association of Southeast Asian Nations; ATM: automated teller machine; AVIC I and II: China Aviation Industry Corp. I and II; BOC: Bank of China; CAAC: General Administration of Civil Aviation of China; CATV: cable television; CBRC: China Banking Regulatory Commision; CCB: China Construction Bank; CCTV: China Central Television; CDB: China Development Bank; CDMA: code division multiple access; CEIEC: China National Electronics Import and Export Corp.; China Mobile: China Mobile Communications Corp.; China Netcom: China Netcom Corp. Ltd.; China Railcom: China Railway Communications Co., Ltd.; China Telecom: China Telecommunications Group Corp.; China Unicom: China United Telecommunications Corp.; CIRC: China Insurance Regulatory Commission; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CNOOC: China National Offshore Oil Corp.; CNPC: China National Petroleum & Gas Corp.; COFCO: China National Cereals, Oils, and Foodstuffs Import and Export Corp.; COSCO: China Ocean Shipping Co.; CSRC: China Securities Regulatory Commission; DSL: digital subscriber line; ETDZ: economic and technological development zone; GSM: global system for mobile communication; GPS: global positioning system: ICBC: Industrial and Commercial Bank of China; IT: information technology; LNG: liquified natural gas; MII: Ministry of Information Industry; MOFCOM: Ministry of Commerce; MOU: memorandum of understanding; NA: not available; NDRC: National Development and Reform Commission; NORINCO: China North Industries Corp.; PAS: personal access system; PBOC: People's Bank of China; PetroChina: PetroChina Co., Ltd.; RMB: renminbi; R&D: research and development; SARFT: State Administration of Radio, Film, and Television; SASAC: State-owned Assets Supervision and Administration Commission; SEZ: special economic zone; SINOPEC: China National Petrochemical Corp.; SINOTRANS: China National Foreign Trade Transportation Corp.; UNDP: United Nations Development Program; SME: small and medium-sized enterprise; WFOE: wholly foreign-owned enterprise lottery industry. (Hong Kong:51%-China:49%). 06/06.

Intel Capital, a subsidiary of Intel Corp. (US)
Made investments in Shanghai-based Montage Technology Co., Ltd. and Winking Entertainment Ltd., and Beijing-based Star Softcomm Pte Ltd. 06/06.

LG.Philips LCD Co., Ltd. (South Korea)
Will build LCD module plant in Guangzhou. 06/06.

SAP AG (Germany)
Will purchase a 3% stake in Neusoft Group Co., Ltd. $12.8 million. 05/06.

Energy & Electric Power

CHINA'S EXPORTS

Xinjiang Tebian Electric Apparatus Stock Co., Ltd.
Signed contracts with Barki Tojik State Holding Co. to build two overhead transmission power lines in Tajikistan. $339 million. 06/06.

CHINA'S IMPORTS

ABB Ltd. (Switzerland)
Will supply power equipment to Tianjin Power Co. $33 million. 06/06.

CHINA'S INVESTMENTS ABROAD

SinoHydro Corp. (Beijing)
Signed an agreement with the Electricity Generating Authority of Thailand to build a hydropower station on the Salween River in Myanmar. $1 billion. 06/06.

INVESTMENTS IN CHINA

Gamesa Eólica SA, a unit of Gamesa Corporación Tecnológica SA (Spain)
Will supply and operate 58 wind turbines for Datang Jilin Resourceful New Energy Power Co., Ltd. $32.7 million. 06/06.

Environmental Equipment & Technology

INVESTMENTS IN CHINA

PACT Asia Pacific Ltd., a subsidiary of Euro Tech Holdings Co., Ltd. (Hong Kong), PACT Engineering FZC (United Arab Emirates)/Wuxi TONTAN Environmental Engineering Co., Ltd. (Jiangsu)
Will form joint venture in Jiangsu to manufacture water and wastewater treatment equipment. (Hong Kong:51%-UAE:19%-China:30%). 07/06.

The Dow Chemical Co. (US)
Will acquire the water treatment company, Zhejiang-based Omex Environmental Engineering Co., Ltd. 06/06.

Food & Food Processing

CHINA'S IMPORTS

Waters Corp. (US)
Will provide the China Municipal Center for Disease Prevention and Control, the Beijing Municipal Center for Disease Prevention and Control, and the Chinese Academy of Sciences with environmental compliance equipment and training for food safety and analysis. 06/06.

INVESTMENTS IN CHINA

JHS Holding Pte Ltd., a unit of Super Coffeemix Manufacturing Ltd. (Singapore)
Will establish joint venture to produce vinegar, sauces, and other condiments. $25 million. (Singapore:49%-China:51%). 07/06.

Kiwa Bio-Tech Products Group Corp. (US)/Tianjin Challenge Feed Co.
Will form joint venture to manufacture and market bio-feed products. (US:80%-China:20%). 07/06.

Danone Asia Pte Ltd., a unit of Group Danone (France)
Received approval from SASAC to purchase an additional 8.46% stake in Shanghai-based Bright Dairy & Food Co., Ltd. (France:20.01%-China:79.99%). 06/06.

Fonterra Cooperative Group Ltd. (New Zealand)/Shijiazhuang San Lu Group Co., Ltd. (Hebei).
Will form joint venture to produce dairy products. (New Zealand:43%-China:57%). 06/06.

Suntory Ltd. (Japan)
Will purchase the Shanghai operation of Foster's Group. 06/06.

Whitbread plc (UK)/Jiangsu Yueda Group Co., Ltd.
Will form joint venture to open 300 Costa cafés in Eastern China. 06/06.

Forestry, Timber & Paper

CHINA'S IMPORTS

Rayonier, Inc. (US)
Signed five-year contract to supply cellulose fibers to Nantong Cellulose Fibers, Co., Ltd., a subsidiary of China National Tobacco Corp. $500 million. 07/06.

INVESTMENTS IN CHINA

CVC Asia Pacific, a joint venture between Citigroup Inc. (US) and CVC Capital Partners Ltd. (UK)
Will purchase a 30% stake in Shandong Chenming Paper Holdings Ltd. $624.8 million. 05/06.

Insurance

INVESTMENTS IN CHINA

Great Eastern Life Assurance Co., Ltd., a wholly owned subsidiary of Great Eastern Holdings Ltd. (Singapore)/ Chongqing Land Properties Group
Formed joint venture, Great Eastern Life Assurance (China) Co., Ltd. (Singapore:50%-China:50%). 06/06.

Jardine Lloyd Thompson Group plc (UK)
Will form insurance and reinsurance brokerage joint venture, JLT Lixin Insurance Brokers Co., Ltd., in Guangzhou. (UK:51%-China:49%). 05/06.

Willis Group Ltd. (UK)
Won construction and marine cargo business at the Fujian Refining and Ethylene Project. 05/06.

OTHER

American International Assurance Co., Ltd., a subsidiary of American International Group, Inc. (US)
Received CIRC approval to sell single group insurance. 05/06.

Motors Insurance Corp., a subsidiary of GMAC Insurance Holdings, Inc. (US)
Received CIRC approval to open a representative office in Shanghai. 05/06.

Light Industry/Manufacturing

INVESTMENTS IN CHINA

Tubular Investment Co., Ltd., a unit of the Murugappa Group (India)
Established its first wholly owned subsidiary in China, Tubular Precision Products Co., Ltd., in Suzhou, Jiangsu. $8.05 million. 07/06.

International Finance Corp., the private sector arm of the World Bank Group, Scion Capital LLC (US)
Purchased a 19.7% stake in Zhejiang Glass Co., Ltd. 06/06.

Lianyungang Zhaoling Abrasives Co., Ltd. (Jiangsu), a joint venture between Showa Denko K.K. and the Mitsubishi Corp. (Japan)
Began production of ceramic abrasives at its Jiangsu plant. 06/06.

Wuxi Seamless Oil Pipe Co., Ltd., a subsidiary of UMW Holdings Bhd. (Malaysia)/Jiangsu Fangli Pipe Co., Ltd.
Will form joint venture to produce and sell seamless steel pipes. $4.5 million. 06/06.

Machinery & Machine Tools

INVESTMENTS IN CHINA

Mitsubishi Heavy Industries, Ltd. (Japan)/Beiren Printing Machinery Holdings Ltd. (Beijing)
Established joint venture, Beijing Mitsubishi Heavy Industries Beiren Printing Machineries Co., Ltd., to manufacture and sell sheet-fed printing machinery. (Japan:51%-China:49%). 06/06.

OTHER

Brazilian Association of Industrial Machinery and Equipment
Will open a trade office in Beijing to help strengthen bilateral trade relations. 06/06.

Media, Publishing & Entertainment

CHINA'S INVESTMENTS ABROAD

China Mobile (Beijing)
Will purchase a 20% stake in Phoenix Satellite Television Holdings Ltd., a unit of News Corp. $185 million. 06/06.

INVESTMENTS IN CHINA

AGA Resources, Inc. (Canada)
Gained a 51% stake in Triumph Research Ltd.'s media and entertainment joint venture with Beijing Tangde International Film and Culture Co., Ltd. (Canada:51%-China:49%). 06/06.

Sequoia Capital (US)/Hunan Greatdreams Cartoon Media Co., Ltd.
Will form joint venture to sell cartoon derivative products. $7.5 million. 05/06.

Medical Equipment & Devices

CHINA'S IMPORTS

BSD Medical Corp. (US)
Will provide six BSD-2000 cancer treatment systems to Dalian Orientech Co., Ltd. 06/06.

CHINA'S INVESTMENTS ABROAD

Analytica, Ltd. (Australia), J&J Stamina Enterprises Co., Ltd. (Taiwan)/Zhejiang Lingyang Medical Apparatus Co., Ltd.
Formed joint venture in Hong Kong to manufacture Analytica's constant flow auto burette and retractable needle and syringe technologies. 05/06.

INVESTMENTS IN CHINA

Bio-Bridge Science, Inc. (US)
Completed construction of research and manufacturing facility in Beijing for vaccine products. 05/06.

Metals, Minerals & Mining

CHINA'S IMPORTS

VoestAlpine Industrieanlagenbau (Austria), a unit of Siemens AG (Germany)
Will provide slab caster to Shangdong-based Ji'nan Iron & Steel Group Corp. $15.2 million. 07/06.

CHINA'S INVESTMENTS ABROAD

China Machine Building International Corp. (Beijing)
Signed MOU with Ele Resources and Wankie Colliery Co., Ltd. of Zimbabwe to mine coal and build two coal-fired electricity stations in Zimbabwe. $1.3 billion. 06/06.

Zijin Mining Group Co., Ltd. (Fujian)
Will acquire the Hong Kong-based China Gold Development Group. $20.1 million. 06/06.

INVESTMENTS IN CHINA

Everbest Century Holdings Ltd. (Hong Kong)
Will buy controlling stakes in three coal mines in Henan. $57 million. 07/06.

ThyssenKrupp AG (Germany)
Will build a new hot-dip galvanizing line with Angang New Steel Co., Ltd. in Liaoning. $150 million. 07/06.

Wire Rope Corp. of America, Inc. (US)/Wuhan Iron and Steel (Group) Corp. (Hubei)
Will form joint venture, WISCO WRCA Co., Ltd., to build a factory in Hubei to produce wire rope. $100 million. 07/06.

Carborundum Universal Ltd. (India)/Jingri Diamond Industrial Co., Ltd., China Exploration and Engineering Bureau (Beijing)
Will form joint venture, Jingri CUMI Super Hard Metal Co., Ltd., in Beijing. 06/06.

OTHER

Shang Luo City Zhongbei Minerals and Metal Development Co., Ltd., a joint venture between South China Resources plc (UK) and Shaanxi Zhongbei Mining Development Co., Ltd.
Received business and new exploration licenses for its Danfeng copper molybdenum project in Shaanxi. 07/06.

Petroleum, Natural Gas & Related Equipment

CHINA'S INVESTMENTS ABROAD

Sinopec (Beijing)
Will purchase TNK-BP, Ltd.'s Udmurtneft unit. $3.5 billion. 06/06.

INVESTMENTS IN CHINA

Royal Dutch Shell plc (the Netherlands), Sasol Ltd. (South Africa)/Shenhua Ningxia Coal Industry Co., a subsidiary of ShenHua Group Co., Ltd. (Beijing)
Will form joint venture to build two coal liquefaction plants in northwest China. $12 billion. 07/06.

Trico Marine Services Inc. (US)/China Oilfield Services Ltd. (Beijing)
Formed joint venture, Eastern Marine Ltd., to provide services for offshore oil and gas exploration, production, and construction-related projects in Southeast Asia. (US:49%-China:51%). 07/06.

Chinese People Gas Holdings Co., Ltd. (Hong Kong)/Xi'an Yanliang District Natural Gas Co. (Shaanxi)
Will form natural gas joint venture. $5.3 million. (Hong Kong:70%-China:30%). 06/06.

Newbridge Capital Group LLC (US)/Xinjiang Guanghui Liquefied Natural Gas Development Co., a subsidiary of Xinjiang Guanghui Industry Co., Ltd.
Formed joint venture to finance projects in Xinjiang. (US:25%-China:75%). $33.8 million. 05/06.

OTHER

BG Group plc (UK)
Signed production sharing contracts with CNOOC for two deepwater blocks in the western South China Sea and an agreement for a geophysical survey of a block in the eastern South China Sea. 06/06.

General Electric Co. (US)
Signed MOU with PetroChina for strategic cooperation in petroleum equipment manufacturing, R&D, and petrochemical and natural gas products and service support. 06/06.

Pharmaceuticals

INVESTMENTS IN CHINA

AMDL, Inc. (US)
Will purchase Jade Pharmaceutical, Inc. and its two wholly owned subsidiaries, Jiangxi Jiezhong Jade Bio-Chemistry Pharmacy Co., Ltd. and Yangbian Yiqiao Bio-Chemistry Pharmacy Ltd. of China. 05/06.

AstraZeneca plc (UK)
Will build research facility in China. $100 million. 05/06.

Ports & Shipping

CHINA'S EXPORTS

Baoshan Iron & Steel Co., Ltd. (Shanghai)
Won contract from Nippon Yusen Kabushiki Kaisha for the transport of iron ore from Australia for 12.5 years. 07/06.

Chengxi Shipyard (Jiangsu)
Will provide an ocean-going self-unloading forebody to Canada-based Algoma Central Corp. for a Panamax tanker. $45 million. 06/06.

Jiangmen Shipyard (Jiangsu)
Will provide two very large crude carriers and two sister ships to Frontline Ltd. $440 million. 06/06.

CHINA'S IMPORTS

China Shipping Development Co., Ltd. (Hong Kong)
Sold three ships to Yangpu Zhong You Hua Yuan Shipping Co., Ltd., one to Nanjing Heng Shun Da Shipping Co., Ltd., and one to Xinhui Gujing Qile Shipbreaking and Steel Co., Ltd. $5.2 million. 07/06.

Orient (Tianjin) Corrosion Engineering Ltd., a joint venture of Orient Resource Holdings Ltd. (Australia)
Will undertake a corrosion protection project at berths 3 and 4 in Tianjin. 06/06.

INVESTMENTS IN CHINA

Nippon Yusen Kabushiki Kaisha (Japan)/Dalian Port (PDA) Co., Ltd. (Liaoning)
Opened dedicated car terminal in Dalian. (Japan:30%-China:70%). 07/06.

Seaspan Corp. (Canada)
Will build four 2,500 TEU vessels at Jiangsu Yangzijiang Shipbuilding Co., Ltd. 07/06.

DP World (United Arab Emirates)/Tianjin Port Co., Ltd.
Will form joint venture to develop a container terminal in Tianjin. 06/06.

Stolt-Nielsen Transportation Group Ltd., a wholly owned subsidiary of Stolt-Nielsen SA (the Netherlands)/Lingang Harbor Affairs
Will establish two joint ventures, Tianjin Stolthaven Jetty Co., Ltd. and Tianjin Stolthaven Terminal Co., Ltd., to develop a chemical and oil products terminal in Tianjin. 06/06.

OTHER

CMA CGM SA (France)
Signed a cooperation agreement with China Shipping Container Lines Co., Ltd. to launch a new service between Asia and Europe. 06/06.

Rail

CHINA'S IMPORTS

ABB Ltd. (Switzerland)
Will provide a power plant and propulsion system for a ferry between Yantai, Shandong, and Dalian, Liaoning. 07/06.

Siemens AG, ThyssenKrupp AG (Germany)
Will transfer technology to China for the construction of the Shanghai-Hangzhou magnetic levitation line. 05/06.

Raw Materials

INVESTMENTS IN CHINA

Asia Cement Corp. (Taiwan)
Will invest in a unit in Jiangsu. $2.95 million. 07/06.

Prosperity Minerals Holdings Ltd. (Hong Kong)
Will purchase a 40% stake in Anhui Chaodong Cement Co., Ltd. from Anhui Chaodong Cement Group Co., Ltd. $23.8 million. 06/06.

Real Estate & Land

CHINA'S IMPORTS

Sunrise Real Estate Group, Inc. (US)
Signed agency sales contracts for property developments in Nanchang, Jiangxi, and Nantong and Suzhou, Jiangsu. 06/06.

INVESTMENTS IN CHINA

DP World (United Arab Emirates)
Finalized an agreement with the Qingdao city government to develop the island of Xiaomai in Shandong. 07/06.

Allgreen Properties Ltd. (Singapore), Kerry Properties Ltd. (Hong Kong)/Shangri-La Asia Ltd. (Hong Kong)
Will form joint venture to develop a project in Tianjin that will include an office building, residential housing, service apartments, a shopping mall, and the Shangri-La Hotel. $563 million. 06/06.

Augustinum Group (Germany)
Will construct a retirement home in Shanghai International Medical Zone with its joint venture partner, Shanghai Longjun Real Estate. 06/06.

CapitaRetail China Investments Pte Ltd., a wholly owned subsidiary of CapitaLand Ltd. (Singapore)
Will purchase Xihuan Plaza retail mall in Beijing from Beijing Huarong Co. $165 million. 05/06.

CapitaLand China Holdings Pte Ltd., a wholly owned subsidiary of CapitaLand Ltd. (Singapore)/Chengdu Zhixin Industrial Co., Ltd. (Sichuan)
Will form joint venture, Zhixin CapitaLand Co., Ltd. to develop 8,000 homes in Beijing; Guangzhou, Guangdong; Hangzhou and Ningbo, Zhejiang; and Shanghai. (Singapore:50%-China:50%). 05/06.

Retail/Wholesale

INVESTMENTS IN CHINA

Luxottica Group SpA (Italy)
Purchased a 100% stake in Modern Sight Optics, a chain of eyewear stores in Shanghai. $17.5 million. 06/06.

Telecommunications

CHINA'S IMPORTS

Compagnie Financière Alcatel (France)
Will expand and upgrade telecom networks for China Netcom in Shandong and Shanxi. 07/06.

Cisco Systems, Inc. (US)
Signed contract to provide China Telecom equipment for its ChinaNet backbone network. 07/06.

FLAG Telecom Holdings, Ltd., a subsidiary of Reliance Communications Ltd. (India)
Will provide 40 gigabytes of international bandwidth to China Netcom. 07/06.

Oy Nokia AB (Finland)
Will supply wireless and core networks of GSM and general packet radio service for Nokia NetAct and Henan Mobile Communication Co., Ltd., a subsidiary of China Mobile. $150 million. 07/06.

Oy Nokia AB (Finland)
Will deploy radio and core networks in four cities in Sichuan for Sichuan Unicom, a subsidiary of China Unicom. 05/06.

Qualcomm Inc. (US)
Will sell mobile phone chips to Guangdong-based ZTE Corp. $300 million. 05/06.

Siemens AG (Germany)
Will provide mobile telecom equipment and services for China Mobile and China Netcom. $180 million. 05/06.

CHINA'S EXPORTS

ZTE Corp. (Guangdong)
Will build a countrywide CDMA2000 network in India for Tata Indicom, a unit of the Tata Group. 06/06.

INVESTMENTS IN CHINA

The Ashmore Group Ltd. (UK), Clearwater Capital Partners LLC, Spinnaker Capital Group (US)
Will acquire Asia Netcom from China Netcom. $402 million. 06/06.

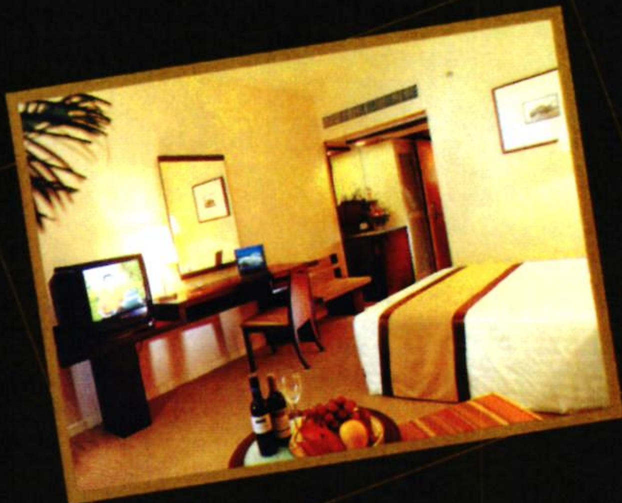
Oy Nokia AB (Finland)/Potevio Co., Ltd. (Beijing)
Will form joint venture to manufacture 3G mobile base station equipment. (Finland:49%-China:51%). 05/06.

Tourism & Hotels

INVESTMENTS IN CHINA

TEDA Travel Group Inc. (Hong Kong)
Will purchase majority shares in Guangdong Tianma International Travel Co., Ltd. (Hong Kong:55%-China:45%). 06/06.

SUPERSAVE PACKAGE



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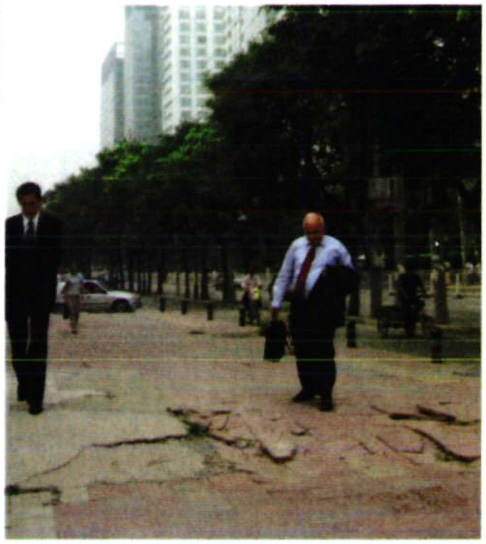
WORLDHOTELS

Parable of the Pavers

John E. Coulter

After participating in several hundred business meetings in China over the last 25 years, I have stumbled across a model that business negotiators can use to better evaluate investment risks and opportunities in China. The model is based on sidewalk paving on China's streets.


John E. Coulter

Laying pavement is not rocket science, and the Chinese civilization was doing it before many other civilizations had even considered the idea. But, in China's current construction boom, accentuated in Beijing, one cannot go far without noticing the wide range of quality and care with which pavements have been laid down—from exquisite design and implementation to what seems like criminal negligence.

Using the laying of pavement as a model for business activity, investors should ask several questions of a potential investment: Will the outcome be a superior pavement that can last for centuries, like some Chinese pavements? Or will it start shifting and shattering within weeks of completion and create an obstacle course in a year? These questions need to be tweaked only slightly for an investor sitting at the negotiating table: The investor should ask how it will get what was promised in a deal. One approach is to write an airtight contract and then closely monitor the partner's progress, applying pressure each time the specifications are not met. The second approach is to try to understand the Chinese partner's situation, experience, and constraints and ride into the venture beside it. In my experience, the second strategy is more likely to succeed.

Every country has its bureaucratic obstacles and weak links between government agencies and other groups. Unfortunately, the PRC government seems especially compartmentalized and insular and offers little reward for government employees who take initiative. A sidewalk project may appear simple, but multiple government agencies must work together to address vehicular and pedestrian traffic and electricity, telephone, gas, and water lines. Officials from various government departments do not always see eye to eye, however. Difficulties in coordinating various government departments, moreover, can pale in comparison to the frustrations of coordinating all the players involved onsite. It can be extremely difficult for one project manager, civil engineer, or foreman to pull the contractors, subcontractors, materials suppliers, and laborers into a unified team.

Of course, there are strong managers who have overcome the difficulties and delivered immaculate paving results. But there are plenty of disasters, some only weeks old, for example, in my neighborhood—a developed suburb of Beijing. Often, poorly compressed sand foundations are quickly destroyed by the weight of a 10 ton truck. In other cases, workers leave spaces in the pavement for trees but then plant trees with vigorous root systems in shallow holes. Soon the pavement turns into a rocky landscape, and rain water eventually sinks or swells the foundations. Finally, pavements are often changed to add new driveways and light poles. Some changes are done with sensitivity while others look like the work of vandals.

Consider, through observation on foot, what can possibly go wrong with a routine pavement project.

I would urge visitors to China to get out of the hotel, the meeting room, the banquet hall, and escorted site visits and consider, through observation on foot, what can possibly go wrong with a routine pavement project. If the possible pitfalls of a relatively simple paving project are so obvious, imagine how tricky a large, complex project could become. It is possible for a lucky investor to meet the right partner, attend meetings, sign up, pay up, and reap a return. But I would advocate paranoid anticipation of difficulties in engineering a smooth project. Working with Chinese partners shoulder-to-shoulder, day-to-day, fathoming the issues they face, and supporting them with an open mind—while retaining the ability to exert pressure for the common cause at higher levels—can be critical to cementing your success. 完

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