



China's WTO Scorecard: Selected Year-Three Service Commitments

Service sector openings were an important part of China's World Trade Organization (WTO) entry agreement. China has issued regulations that fulfill many of the market openings it promised for December 11, 2004 when it entered the WTO three years ago. Some of those year-three commitments remain unfulfilled, however, and the implementation of others remains unclear, leaving many foreign companies unable to take advantage of key changes. In still other cases, China has met its commitments, but with restrictions that prevent foreign companies from realizing the intended sector opening.

The chart below reflects USCBC's best efforts to track the status of China's year-three service sector commitments, as of the end of August 2005.

China's WTO Commitments Due on December 11, 2004	Status and Relevant Laws
Trading Rights	
Allow foreign-invested and domestic companies to import and export goods	Done. Companies only need to register for trading rights. (Foreign Trade Law and the Rules on Registration for Trading Rights)
Distribution	
1. Allow wholly foreign-owned enterprises (WFOEs) in wholesale, retail, and commission agents' service	1. Mixed. In April and again in July 2005, the Ministry of Commerce (MOFCOM) issued clarification on combining distribution and manufacturing activity. Manufacturing companies in China are eligible for distribution rights, but are expected to keep revenue from distribution under 30 percent of total revenue to continue to enjoy current preferential tax policies for the manufacturing enterprises, although it is unclear how authorities will enforce this requirement. In July, MOFCOM issued a notice allowing foreign-invested enterprises (FIEs) in free-trade zones to apply for distribution rights. In August, MOFCOM clarified the application procedures for distribution rights.
2. Allow franchising	2. Done. FIEs can apply to franchise in China, although high capitalization and local presence requirements curtail new entrants. (Administrative Rules on Commercial Franchising, December 30, 2004)
3. Allow direct sales	3. Late. Authorities indicate that regulations may be issued in September 2005, nearly a year after the commitment due date.
4. Allow retailing and wholesaling of pharmaceuticals	4. Done, late. After initially saying that it would draft separate rules for foreign participation, MOFCOM now approves foreign pharmaceutical retail and wholesale WFOEs using the Management Rules on Foreign Investment in the Commercial Sector and the State Food and Drug Administration's Rules on the Management of Drug Business Licenses.
5. Allow retailing of refined fuel	5. Regulations issued allow WFOEs (Interim Measures on the Administration of the Oil Products Market), but as currently interpreted, the cap of 30 outlets permitted nationwide limits the value of this commitment.
6. Allow wholesaling of printed matter	6. Unclear. 2003 Rule on Management of Foreign-Invested Book, Magazine, and Newspaper Distribution Enterprises opened up the sector early but the 2005 Opinions on Attracting Foreign Investment in the Media Sector appear to roll back this commitment.

Telecom	
1. Allow up to 25% foreign investment in basic services (such as voice and fax) joint ventures (JVs) in Beijing, Guangzhou, and Shanghai	1. Regulations issued, but full implementation problematic because of large capital requirements and reclassification of basic services. Few foreign telecom companies have successfully established operations.
2. Allow up to 49% foreign investment in wireless JVs in most major cities	2. Done. One 49% foreign wireless JV is under review for approval. (Administrative Regulation on Foreign-Invested Telecom Enterprises)
Construction	
Allow WFOEs	Regulations issued, but strict conditions for eligibility pose a serious trade barrier to foreign engineering, procurement, and construction firms and consultancies. (Provisional Rules on Administration of Construction and Engineering Design Activities by Foreign Enterprises in China, the Measures on Accreditation of Construction and Engineering Consultancies)
Banking	
Open local currency business to foreign participation in Beijing; Kunming, Yunnan; and Xiamen, Fujian	Done, with Shenyang in Liaoning and Xi'an in Shaanxi added ahead of schedule.
Insurance	
1. Allow FIEs to provide health, group, and pension/annuities insurance to both foreign and Chinese clients	1. Done. Aviva plc is approved to offer health insurance. Prudential plc is approved to offer group insurance. (Circular on Fulfilling WTO Commitments issued by the China Insurance Regulatory Commission)
2. Permit up to 51% foreign investment in insurance brokerage JVs	2. Done.
3. Lift all geographic restrictions	3. Done.
4. Lower to 5% of primary risk the amount foreign reinsurance companies are required to reinsure with China Reinsurance Co.	4. Done.
Securities	
1. Allow securities JVs, with up to 33.3% foreign investment, to underwrite A shares and to underwrite and trade bonds and B and H shares	1. Done. Two securities JVs were approved in 2003 and two in 2004.
2. Allow up to 49% foreign investment in fund management JVs	2. Done. UBS received approval for a 49% stake in a Chinese fund management joint venture.
Freight Transport Services	
1. Allow foreign majority rail JVs	1. Done. (Revised Catalogue Guiding Foreign Investment in Industry)
2. Allow wholly foreign-owned road enterprises	2. Done. (Second Revision to Administrative Regulations on Foreign Investment in Road Transportation Industry)
3. Allow wholly foreign-owned storage and warehousing enterprises	3. Done. (Second Revision to Administrative Regulations on Foreign Investment in Road Transportation Industry; Administrative Regulations on Foreign Investment in International Maritime Transportation)
Repair, Maintenance, and Leasing	
Allow WFOEs	Done. (Leasing—Administrative Rules on Foreign Investment in the Leasing Sector; Vehicle Repair & Maintenance—Second Revision to Administrative Regulations on Foreign Investment in Road Transportation Industry).
Packaging	
Allow WFOEs	Done.
Tourism	
Lower capital requirement for JV travel agencies and tour operators to RMB 2.5 million.	Done. In addition, China removed geographic restrictions three years early. (Amended Provisional Regulation on the Establishment of Foreign Majority Joint Venture and Wholly Foreign-Owned Travel Agencies)