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THE CHINA BUSINESS REVIEW

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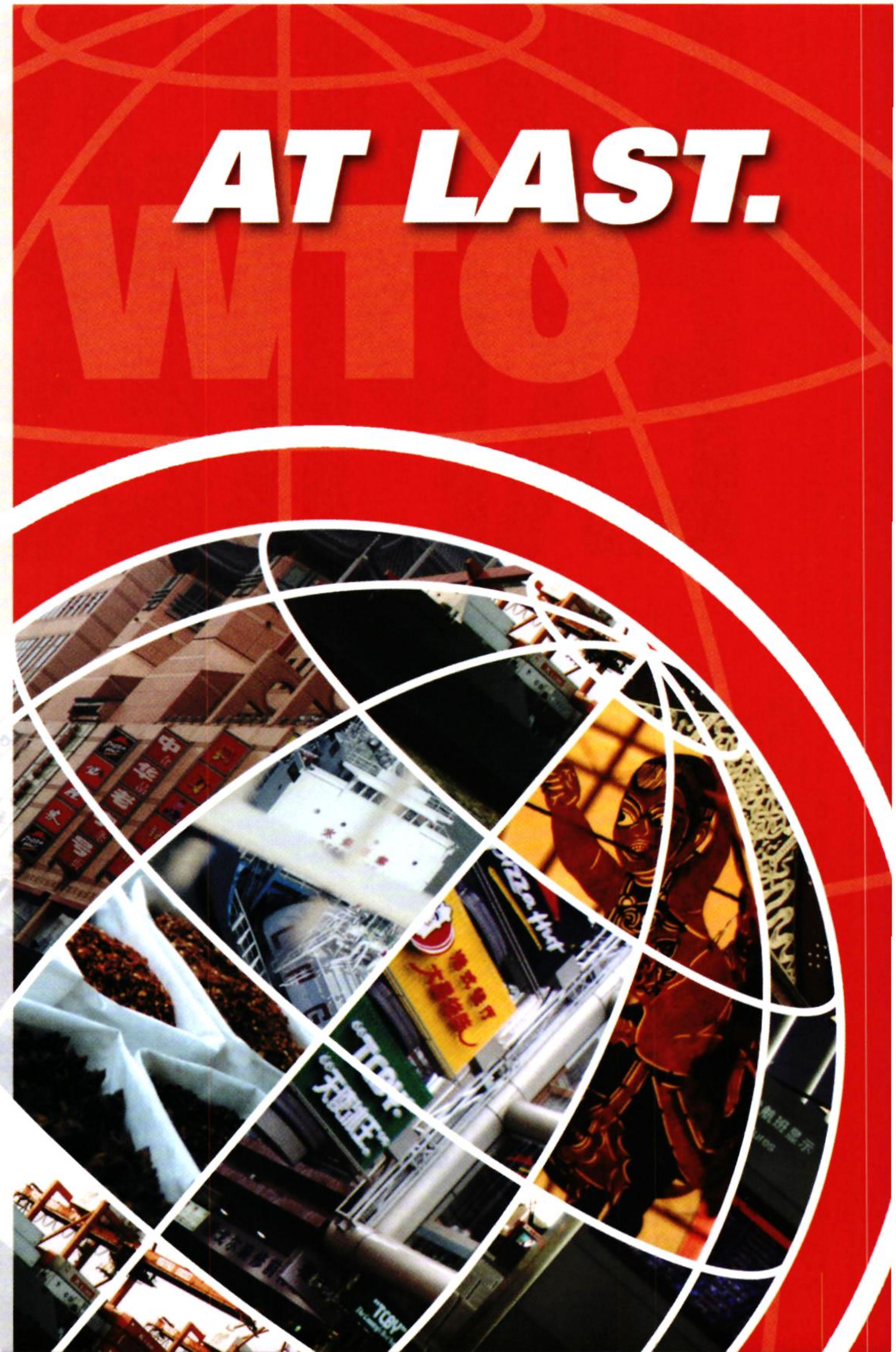
China's New Trading Rights Regime

Asia After China's WTO Entry

Post-WTO Taiwan

Civil Society and Corporate Responsibility

Foreign Firms' Health and Safety Systems in China



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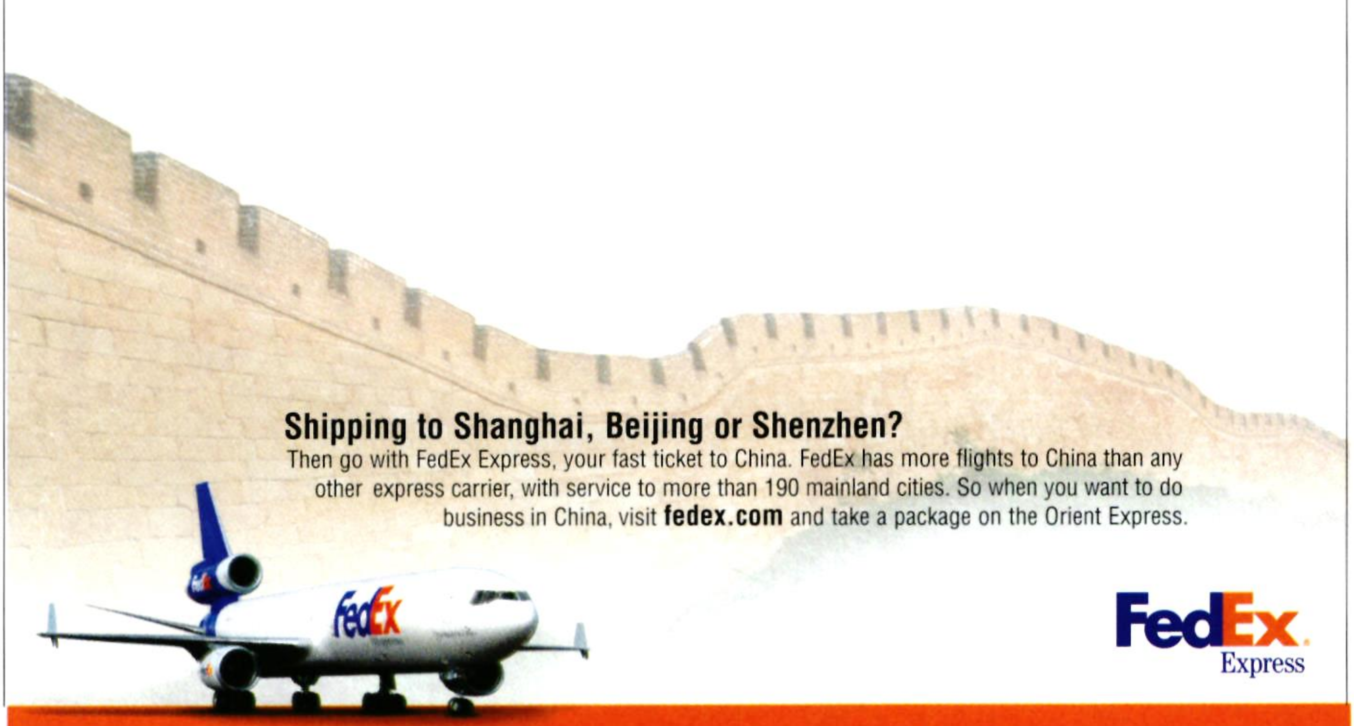

THE CHINA BUSINESS REVIEW

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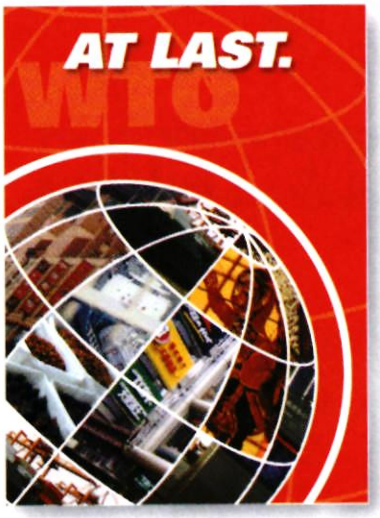

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Cover by Greg Berger Design, Inc.

FOCUS: WTO AT LAST.

SPECIAL REPORT: CORPORATE CITIZENSHIP

DEPARTMENTS

"Are You Ready for the WTO?" asks this billboard in Lanzhou, Gansu—WTO awareness has reached even this remote provincial capital in China's interior.

Letter from the editor

Are You Ready?

The photograph above, taken by US-China Business Council China Operations head Patrick Powers, is of a billboard that asks, "Are you ready for the WTO?" The billboard sits high on a building in Lanzhou, Gansu, deep in China's interior. It's a question not just for the Chinese passerby but for the rest of us as well.

Leaving aside for the moment the political implications of this symbolic step toward globalization, any consumer or producer in the global economy can expect to feel the effects of China's opening markets in the years ahead. Foreign investors in China will of course be on the front lines of the country's implementation of its World Trade Organization (WTO) obligations. One WTO expert recently called foreign companies "the tripwires" because they will be the first to know whether Chinese markets are opening smoothly—or not. For this reason, this first post-WTO issue of *The China Business Review* kicks off with a look at the impressive efforts foreign organizations have already undertaken to help prepare Chinese officials and businesses for membership.

A new era in Sino-foreign commercial relations began on December 11, 2001. *The CBR* also begins a new era of coverage of the intricacies of the final terms of China's WTO membership. (Regular readers may notice some changes to our layout and styles to accompany this new focus.) A prime example of this new coverage is Xianwu Zeng's article on trading rights—one of the most important changes to the Chinese market that WTO entry will entail. Upcoming issues will cover WTO effects on intellectual property rights, service sectors from finance to retail, and heavy industry. For the foreseeable future, *The CBR* will carry articles on China's evolving legal framework and, more important, improvements in the country's weak enforcement mechanisms.

This issue also marks the introduction of a topic long overlooked in the pages of *The CBR*: the variety of non-commercial roles foreign companies play in Chinese society. Nick Young, editor of *China Development Brief*, surveys some of positive changes Chinese society has experienced in recent years and what some foreign firms are doing to support these changes. We also feature case studies on environmental and occupational safety and health systems—corporate "environmental responsibility" is well established in China and grassroots green movements are the vanguard of the emerging nongovernmental sector. Future issues will cover some of the more sensitive topics in the broad field of corporate social responsibility, such as how foreign firms work to ensure the protection of the rights of their workers in China. And we introduce a new department in this issue, *Opportunities*, which lists basic contact information for educational, cultural, and charitable projects seeking corporate support.

Returning to the political: Before September 11, 2001, the loose coalition of groups known as the "antiglobalization" movement was the most clearly ascendant (if not the most cohesive) political movement in the post-Cold-War world. Though somewhat eclipsed, at least here in the United States, by the "war on terrorism," this movement has not disappeared. And multinational corporations, as Nick Young points out, are central to the debate about the value of globalization. China's integration into the global economy puts its commercial activities at the forefront of this debate. *The CBR* will be there as well.

Catherine Gelb
Editor

THE CHINA BUSINESS REVIEW

EDITOR Catherine Gelb

ASSOCIATE EDITOR Virginia A. Hulme

ASSISTANT EDITOR Drake Weisert

BUSINESS AND MARKETING MANAGER Kattie Lee

ART DIRECTION & PRODUCTION Jon Howard/JHDesign

PUBLICATIONS ASSISTANT Naziha Hassan

RESEARCH ASSISTANTS Richard Burns, Dong Ke

The magazine of The US-China Business Council

1818 N St., NW Suite 200
Washington, DC 20036-2470
Tel: 202-429-0340 Fax: 202-833-9027, 202-775-2476
www.chinabusinessreview.com

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ADVERTISING
NORTH AMERICA
UHRY & ASSOCIATES
1117 Putnam Avenue, PMB 306, Riverside, CT 06878

Peter Uhry
Tel: 203-637-5478 Fax: 203-698-1725 E-mail: puhry@aol.com

Ed Winslow
Tel: 203-838-7985 Fax: 203-838-9660 E-mail: ewinpub@aol.com

ASIA Godfrey Wu
1305, 13 Fl, CC Wu Building, 302-308 Hennessy Rd., Wanchai, Hong Kong
Tel: 852-2591-1077 Fax: 852-2572-5158 E-mail: mhi@hk.gin.net

short takes

China's AIDS Problem

The Chinese government and media last summer admitted that China faces a serious AIDS problem. In August, the State Council released its five-year HIV/AIDS prevention plan, which allocates $120 million to a general prevention fund and another $114 million for improvements in 250 of the nation's blood-collection facilities. Infected blood transfusions are largely responsible for the spread of the virus in China. Though the government finally adjusted its official count of HIV-infected citizens from 22,517 to around 600,000, some health experts believe the real figure could be more than one million. China held its first conference on HIV/AIDS in November.

The Myth of the Unprofitable China Market

According to research by Morgan Stanley Dean Witter & Co., greater China, which the company defines as the PRC and Hong Kong, is a major source of US foreign affiliate earnings. The earnings from greater China grew six-fold over the last 10 years, from $1.2 billion in 1990 to nearly $7.1 billion in 2000. This sum represents 40 percent of US foreign affiliate earnings from non-Japan Asia, according to Morgan Stanley.

Shanghai Customs Supervision Center

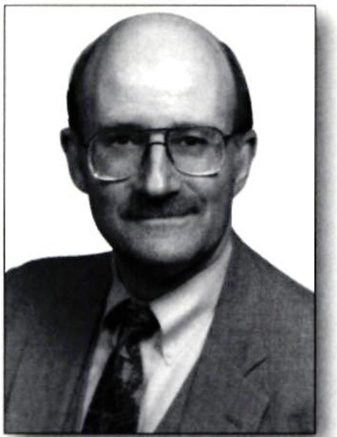
Shanghai's express delivery business is growing 30 percent annually—10 percent faster than the international growth rate. In 2000 Shanghai received 7.7 million express consignments, 3 million of which were non-document shipments mostly containing information technology products. In response to this huge demand, the Shanghai government initiated the Shanghai Customs Supervision Center project in September 2000. The center, which officially started operation on August 9, 2001, includes offices for major shipping companies such as United Parcel Service, FedEx Corp., DHL International Ltd., and TNT Holdings BV and processes customs paperwork via the Internet.

The Lighter Side of Legal Reform

Xinhua News Agency reported in December 2001 that China's State Economic and Trade Commission, as part of the central government's mission to review laws that do not comply with World Trade Organization rules, announced that it was abolishing 13 regulations.

Among the 13 regulations eliminated were the Provisional Method for Monitoring and Penalties Regarding the Quality of Cotton; the Regulations on Strengthening Controls over the Market for Video Recorders; the Provisional Method for Inspecting the Quality of Separate Piles of Coal Being Transhipped Through the Port of Qinhuangdao; and Opinions Regarding Truly Strengthening and Improving Enterprise Management by Revolving Around the Two Major Objectives for Three Years. Many of these laws were relics of an earlier time and illustrate the scale of the task facing PRC lawmakers. They also illustrate the extent to which invasive government management of the economy is fading.

LETTER from the President of the US-China Business Council



Robert A. Kapp

Tasks for 2002

With the US and China pondering how to move forward in positive directions, American businesses might well ask themselves how to focus their efforts in 2002.

As the new year dawns, China is in the World Trade Organization (WTO) and frictions between the United States and China are in remission. There is, apparently, a modicum of US-China cooperation in the epochal conflict with terrorism. US Navy port calls in Hong Kong are back on track. It appears that the FBI will finally have its office in Beijing. US military jets reportedly escorted President George W. Bush's aircraft into Chinese airspace as the president approached Shanghai for the Asia-Pacific Economic Cooperation meetings. Lessons appear to have been drawn from the handling of the EP-3 crisis that convulsed US-China relations only months ago.

What is lacking, as yet, is a clear sense of where the two countries can and should go from here. Both sides appear to want progress: the question is, how, and on what?

Each side knows that the darker currents of suspicion, resentment, and fear that broke to the surface in the spring and summer of 2001 have been pushed back but not eliminated. In the United States, for example, the farther China moves in the direction of economic success in modern, market-oriented, global terms, the more one hears expressions of concern that China's rising economic prowess will threaten American jobs and livelihoods or provide the economic wherewithal needed to threaten the United States militarily. Furthermore, we will soon again face the springtime of high-profile reports to Congress on China as mandated in so many American laws.

In China, the decision to "go global" by entering the WTO on the world's terms provokes anguish and anxiety over the prospect of greater vulnerability to global forces, including American economic power. Many Chinese feel that the country has bitten off more than it can chew. Internationally, the new US military presence in Central Asia—to which China has made no visible objection—and the complexities of South Asian geopolitics since September 11 have created a new reality, which Beijing has not yet publicly tried to define.

As 2002 begins, China is settling into a new identity, domestically and internationally. With the two countries pondering how to move forward in positive directions, American businesses might well ask themselves how to focus their efforts in 2002. A few suggestions follow.

1 Help make WTO work—for us and for China

This is Task One. China's fulfillment of its immense range of WTO obligations is primarily its own responsibility, but US business can and must help.

First, American firms must know the WTO catechism themselves: we need to be clear as to what WTO requires of China and what it does not, in part so that we understand which business issues are *not* covered by WTO provisions. We also need to know how to make full use of China's WTO commitments to defend and advance our business interests in and with China.

Business must also provide the bulk of the hard data on which the US government will base its assessments of China's progress in implementing its WTO commitments. The US-China Business Council, which has long served as a reliable channel for two-way communication between our member companies and our public servants, will continue to provide experience-based and nuanced understanding of commercial realities—positive and negative—to responsible evaluators of China's WTO progress.

Business must, however, also make its own strenuous efforts to assist China in effecting WTO-mandated changes of behavior and understanding. Indeed, I sense in China now an uneasy recognition that the gap between "book knowledge" and experiential knowledge is likely to be huge. A gigantic educational task awaits them—and us (*see* p.8).

One hears from time to time the view that Americans should not be throwing resources into WTO training for China, lest they equip

China with the competence to outmaneuver us in the global trading system. Such a view is short sighted. Leaving aside the fact that the United States trails far behind the Europeans and others in its overall WTO capacity-building effort, it is deeply in the interests of American business and the US economy that China fulfill its WTO obligations, on time and in full. Moreover, disappointed expectations loom as a flashpoint in Washington if the perception of steady Chinese advance toward WTO compliance falters.

The paradox at the heart of China's WTO implementation is that it requires the far-reaching exercise of behavior-changing power by China's central government to create a WTO-compatible socioeconomic order in China in which the role of central power is itself sharply curtailed. Huge issues of ideology and policy await resolution in this country with 60 million Communist Party members and more than a million towns and villages. China needs to create two not entirely compatible realities under WTO: an effective nationwide harmonization of economic behavior built on WTO-compatible law, and the empowerment of hundreds of millions of people whose futures depend on their ability to secure their livelihoods free from the overly intrusive controls of public authority.

2 Supplement official cooperation in the "soft" policy fields with enhanced corporate responsibility commitments in China

For the moment, we are not in crisis with China. This is the time to deepen US-China cooperation in the "softer" fields that embody the common interests of our two huge nations. The US State Department has an office of Global Affairs that encompasses many of these areas of concern: infectious disease, environmental issues, trafficking in human beings, human rights, rule of law, money laundering, global narcotrafficking. It is a long list, even without the enormous matter of counter-terrorism.

When US-China relations are shaken by crisis, however transitory, such cooperative forms of engagement tremble as well. On the other hand, the broader these bilateral engagements grow, the greater their ability to modulate the shocks that periodically afflict US-China relations.

Much of that broadening is the job of governments. For American companies engaged with China, particularly as they become more and more a part of the fabric of Chinese society under WTO, opportunities to contribute lie in the realm of socially constructive commitments—"corporate citizenship" or "corporate responsibility." US companies traditionally bring to the countries and communities in which they operate a sense of social responsibility that rightly redounds to their credit. Many American companies have already devoted significant resources to positive efforts in China. The time for further growth of these efforts is ripe (*see* p.34).

3 Communicate effectively

Between crises, China has a way of dropping out of sight in US political and public dialogue. American companies need to communicate continually with American media and opinion leaders about their experiences in China and about the changing China in which they operate. The US-China Business Council works at this task and will continue to do so, in cooperation with member companies. Continuity is important; if we wait until the pot is again boiling over, we will have lost an important opportunity to strengthen and stabilize US-China relations.

Across the Pacific, meanwhile, US-China Business Council representatives in China have been interacting effectively with Chinese official counterparts, wide-ranging Chinese audiences, and the Chinese media, particularly as WTO membership has come into view. That augurs well for business's growing ability to touch the perceptions of those beyond business on whom the stability of US-China relations depends in significant measure.

The US-China Business Council will continue to provide experience-based and nuanced understanding of commercial realities—positive and negative—to responsible evaluators of China's WTO progress.

4 Achieve basic literacy on national security issues

The most troubling concerns looming between the United States and China now lie in the national security realm. Notwithstanding the careful deepening of US-China cooperation now apparently under way in some areas of security work, there exists in each country a body of politically potent opinion that considers the other country a growing danger to national security. As China's economy grows, its global economic vigor increases, and its trade and investment relations with the United States continue to expand. The confluence of the economic and commercial discourse with the national security discourse is already a fact of life.

American companies cannot pretend to higher knowledge in the national security field than impartial professionals who spend all their time in that field. But it behooves American companies to learn the central issues. No one is talking about American business serving the interests of a foreign power here—quite the contrary, in fact. But the world is changing, and we would be naïve to assume that commercial advocacy can succeed if we ignore the more threatening interpretations of American commercial engagement with China that increasingly find their way into the public policy discourse.

These are some of the tasks we, as companies engaged with China and as the premier organization of those companies, face as we move beyond a tumultuous 2001 and into a guardedly hopeful 2002. 完

WTO AT LAST.

Foreign Contributions to China's WTO Capacity Building

Brian L. Goldstein and Stephen J. Anderson

China's capacity to comply with World Trade Organization (WTO) principles and to adhere to scheduled commitments will be critical for the future of global trade. Now that China has formally entered the global trade body, the future of the WTO itself depends upon the success of China's entry.

Chinese officials and the populace at large agree that China's WTO entry is another milestone in the country's integration into the community of nations. This popular support for WTO entry, however, has not until recently translated into widespread discussion of the intricacies of WTO requirements and principles. China's task is to popularize the patchwork of transparency, national treatment, antisubsidy

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

Stephen J. Anderson
is a commercial officer with the
US & Foreign Commercial Service in
the US Embassy in Beijing.

Foreign governments, nongovernmental organizations, and the business community have launched a range of educational programs to help China implement its World Trade Organization obligations

measures, ending of quotas, and terms of many agreements in such areas as intellectual property rights (IPR) and information technology that make up its WTO commitments.

To be sure, Chinese central-government trade officials and academics are already expert in WTO jargon, and China's top leadership has backed WTO entry as a potential salve for the staggering array of challenges facing the country's economic development. Yet the US-China bilateral agreement on China's WTO accession, concluded in November 1999 and made public in English, was never made public in Chinese. Nor were any of the official summaries of the commitments. The typical functional or local official who now sits on the front line of implementation is well aware that WTO accession will lead to significant changes in regulatory processes, but the majority are only just now gaining access to the specific terms of the agreement. Implementation success will depend on the effectiveness of crucial education and training of these Chinese officials at the local level.

Foreign-funded efforts have attempted to address this lack of knowledge by both explaining the broader issues of WTO fundamentals and giving specific advice on how China can make particular regulatory processes WTO compliant. US and other governments, nongovernmental organizations such as the US-China Business Council, and multilateral institutions have in fact been funding and operating such programs for several years; these efforts continue and are expanding.

Of course, many of the overseas-funded efforts supplement rather than substitute for domestic, internally supported PRC government and think-tank efforts (*see* Table). PRC officials realize that they must now be articulate in the language of the WTO and understand the new body of commercial rules that China has agreed to follow. Hungry for foreign investment and technology, many Chinese officials are eager to learn of the new opportunities WTO entry presents for the next stage of China's opening and reforms. Such enthusiasm mirrors past reform efforts, as Chinese officials continue to seek international assistance and expertise to help emulate WTO norms and tackle issues about which they lack professional experience.

Toward this end, many central, provincial, and municipal government personnel have attended courses lasting a week or more on the WTO, sponsored by the PRC government or foreign organizations. Senior-level officials have attended month-long courses that cover WTO-related issues and areas, including general background on the WTO, information on WTO agreements, and the impact of China's WTO entry on key industries. Courses for the most senior-level officials have covered the actual terms contained in China's bilateral market-access agreements and in its Protocol of Accession.

WTO training efforts to date

Programs focusing on basic WTO principles, such as national treatment, subsidies, and dispute resolution mechanisms, began in earnest in 2000. These programs were supported by overseas agencies either independently or in cooperation with functional or local PRC offices. The most common events have been seminars featuring volunteers—WTO experts from government, business leaders, private consultants, and trade lawyers—speaking to large groups of Chinese officials, businesspeople, and academics throughout China. High-level officials from both government and state-owned enterprises often attend such seminars. Local media have covered these events heavily, providing another outlet for speakers to spread the word about WTO.

Chinese business leaders are also targets of educational efforts and have attended many of the seminars along with government officials. In fact, business leaders have been ravenous for information as they seek to adjust to reduced subsidies and the stiffer competition that will result from market openings. Hundreds of such middle- and senior-level managers attended recent US and Foreign Commercial Service (FCS) and US-China Business Council events in Tianjin; Shenyang, Liaoning; and Lanzhou, Gansu. The US-China Business Council has

Selected Foreign-Supported WTO Training Events for China*

US GOVERNMENT PROGRAMS		
Department of Commerce/US & Foreign Commercial Service		
Beijing	December 2001	Presentation by American Bar Association on telecommunications regulatory issues post-WTO
Lanzhou, Gansu	December 2001	WTO basics and dispute resolution for Gansu government officials and business leaders
Shijiazhuang, Hebei	November 2001	WTO basics for Hebei provincial officials and enterprise representatives
Beijing	November 2001	WTO basics for Beijing Administrative College staff
Chongqing	November 2001	WTO basics for Chongqing city officials and entrepreneurs
Tianjin	October 2001	WTO basics and antidumping for Tianjin officials and local business leaders (joint with USCBC)
Kunming, Yunnan	September 2001	Workshop on quality systems and standards for medical device regulations
Beijing	August 2001	Telecom standardization issues with MII and AQSIQ, featuring FCC and NIST
Hangzhou, Zhejiang Shenyang, Liaoning Xiamen, Fujian	July 2001	Series of IPR events to train PRC officials on TRIPs issues and prosecution of violators
Guiyang, Guizhou Chengdu, Sichuan Beijing Wuhan, Hubei Xi'an, Shaanxi	July 2001 June 2001 May 2001 May 2001 April 2001	Workshops on WTO principles, globalization, investment, and transparency issues with various speakers
Public Affairs Section (US Embassy)		
Beijing	June 2001	IPR enforcement training delegation
Xi'an, Shaanxi	January 2001	Training for judicial officers (joint with Quality Brands Protection Committee)
Agricultural Section (US Embassy)		
USA	May 2001	Training for State Council and agricultural officials
US Consulate in Shanghai		
Shanghai	April 2001	WTO dispute resolution seminar
Shanghai	December 2000	WTO dispute resolution seminar for Hangzhou officials
Shanghai	October 2000	Lecture on legal aspects of WTO entry
Shanghai	March 2000	WTO assessment seminar
US Customs Service (US Embassy)		
	2001	Training for enforcement officials
State of Hawaii		
Hawaii	August 2001	Use of law school resources at University of Hawaii to discuss WTO impact at local and regional levels
NONGOVERNMENTAL INSTITUTIONS		
The US-China Business Council		
Beijing	November 2001	WTO book and translation donation to MOFTEC (joint with US Embassy and Ford Foundation)
Shanghai	2000-02	Digital videoconferences with Shanghai WTO Affairs Consulting Center
The Ford Foundation		
Washington, DC	Fall 2000, 2001	Training of Chinese officials in two-week intensive programs

independently addressed similar groups in Hebei, Jiangsu, Shaanxi, Shandong, and Sichuan provinces, and the cities of Beijing and Shanghai. The US-China Business Council's Beijing office has met with hundreds of municipal and provincial delegations to discuss WTO in a less formal setting.

A range of US government offices have sponsored these programs. Staff from the US Embassy and Consulate commercial sections, economic sections, agricultural sections, and public affairs sections (PAS) have all helped organize these programs. PAS in particular funds dozens of trips to bring WTO-related experts to China. Other activities the US government supports include PAS international visitor programs that send Chinese officials, journalists, and academics to the United States; grants for activities aimed at strengthening the rule of law; and donations of legal texts and translations to Chinese governmental and nongovernmental organizations.

Specific US government programs held in 2001 have included an April e-commerce policy and regulatory educational session for senior-

NONGOVERNMENTAL INSTITUTIONS *(continued)*		
Asian Development Bank		
	Ongoing	Cooperating with MOFTEC under "Technical Assistance to the PRC on WTO Membership and Foreign Trade Law Reform" program
Asia Foundation		
	Ongoing	Assisting legal education through support of PRC National Legal Aid Center
World Bank		
Distance Learning	August 2001	Five weeks of programs in more than 10 cities on international trade and WTO accession
Georgetown University		
Washington, DC	2001	WTO law and policy courses for PRC officials (supported by the Ford Foundation)
Harvard University Kennedy School of Government's China Public Policy Program		
Cambridge, MA	Ongoing	Training and related seminars for PRC officials
OTHER GOVERNMENTS		
European Union		
Beijing	November 2000-November 2003	EU-China Program for China's Accession to WTO (in partnership with MOFTEC), budget of €3 million ($2.67 million)
	1998-2003	EU-China Intellectual Property Rights Cooperation Program, to help align China's IPR regime with international norms
United Kingdom		
Beijing	March 2000-March 2004	British Council leads EU consortium in EU-China Judicial Cooperation Program, budget of €13 million ($11.58 million)
Germany		
Beijing	2000	Worked to establish WTO Inquiry Center under the China (Hainan) Institute of Reform and Development
Beijing	1997-2000	GTZ-led assistance to NPC Finance and Economic Committee
Beijing	1997-2000	Sino-German cooperation in economic law (in partnership with MOFTEC)
Australia/AusAid		
Beijing Australia	1998-2002	Training, research, and capacity building (in cooperation with UIBE)
Japan		
	Ongoing	Research and training projects in industries such as insurance, tax, agriculture, accounting, and logistics

*NOTE: This table of programs is meant to be indicative rather than comprehensive.
SOURCE: Compiled by Brian L. Goldstein and Stephen J. Anderson

Abbreviations used in the table:

AQSIQ:	PRC Administration of Quality Supervision, Inspection, and Quarantine
EU:	European Union
FCC:	US Federal Communications Commission
GTZ:	German Technology Cooperation Co.
IPR:	Intellectual property rights
MII:	PRC Ministry of Information Industry
MOFTEC:	PRC Ministry of Foreign Trade and Economic Cooperation
NIST:	US National Institute of Standards and Technology
NPC:	PRC National People's Congress
SDPC:	PRC State Development Planning Commission
TRIPs:	WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights
UIBE:	University of International Business and Economics (Beijing)
USCBC:	The US-China Business Council
WTO:	World Trade Organization

level Chinese officials from the State Council. Also in April, the Department of Commerce (DOC) participated in US National Institute of Standards and Technology seminars in Beijing and Xi'an, Shaanxi, which provided training on standards and certification. In July, DOC organized and led an IPR Enforcement Training del-

In August, FCS conducted an information technology technical assistance program in Beijing, which covered equipment standards and testing.

egation to Shenyang; Hangzhou, Zhejiang; and Xiamen, Fujian. In August, FCS conducted an information technology technical assistance program in Beijing, which covered equipment standards and testing.

Educational efforts: Sectors, IPR, rule of law

In addition to the US-China Business Council, private and international organizations have also initiated various WTO educational programs. These include the Ford Foundation and the Asia Foundation, as well as a number of university and business groups with specific regional or sectoral interests. US organizations are not alone in their efforts. Groups organizing events and training include the Asian Development Bank, the United Nations Industrial Development Organization, the World Bank, the European Union, and the German, British, Australian, and Japanese governments. Local chambers of commerce, including the American Chambers of Commerce in Beijing and Shanghai, have also lent support and expertise to WTO implementation efforts through policy recommendations and conversations with central government and local officials. The subjects of these seminars illustrate the full range of key WTO issues.

Discussion of the WTO's widespread impact on China, however, has not been limited to WTO-related events. WTO experts and business leaders raised WTO issues at exhibitions such as the annual Xiamen trade event and recent forums on China's western development in Chengdu, Sichuan; and Xi'an.

Despite years of effort and a raft of new laws, problems in such areas as IPR enforcement remain acute. Specific programs have focused on the training of PRC judicial officers and others in agencies responsible for IPR enforcement. The US-China Legal Cooperation Fund has supported similar goals since 1998 with grants to programs that aid the development of open and accountable legal processes (*see The CBR*, September-October 2001, p.71). The US Congress has mandated rule-of-law programs and funded several events through the US DOC and its Market Access and Compliance offices of the International Trade Administration. The US-China Business Council also helped to fund, along with the Ford Foundation and the US Embassy, a donation of 100 WTO-related books to the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) in November 2001.

The EU-China Intellectual Property Rights Cooperation Program, established in 1998, has worked to aid the alignment of China's IPR regime with international norms. The EU-China Program for China's WTO Accession was launched in November 2000 with a budget of €3 million ($2.67 million) to aid the training of Chinese government officials. The framework calls for four components: institutional strengthening, policy and regulatory advice on WTO issues, awareness raising and training, and documentation and translation work. The European Union also funds the EU-China Intellectual Property Rights Cooperation Program and the EU-China Judicial Cooperation Program.

The German Technology Cooperation Co. (GTZ), under the German government, is conducting training courses and workshops on the

Links to WTO Initiatives

Asia Foundation www.asiafoundation.org/programs/prog-asia-chin.html

The Ford Foundation www.fordfound.org/global/office/index.cfm?=beijing

EU-China Legal and Judicial Cooperation Program www.legaljudicial.org

European Commission Delegation in China www.ecd.org.cn

Georgetown University www.law.georgetown.edu/iiel/events.html

German Technology Cooperation Co. China www.gtz.de/china/english/gtzchina.htm

Harvard Kennedy School of Government's China Public Policy Program www.ksg.harvard.edu/cbg/asia_programs.htm

The US Embassy in Beijing www.usembassy-china.org.cn

The US-China Business Council www.uschina.org

The US-China Legal Cooperation Fund www.uschinalegalcoop.org

United Nations www.unchina.org

World Bank www.worldbank.org.cn/English/IBRD/WBIActivity.shtml

—Brian L. Goldstein

WTO legal framework, providing assistance to the National People's Congress Finance and Economic Committee, and cooperating with MOFTEC in the Sino-German Cooperation in Economic Law program. GTZ also helped establish a WTO Inquiry Center under the China (Hainan) Institute of Reform and Development (CIRD). Australia, through its AusAid program, has been training Chinese officials in international economics, both in Australia and Beijing, since 1997. Japan has also been active on a number of fronts and is gearing up for a more comprehensive program.

The message: Be prepared

The overall message of these efforts has been that officials need to be prepared for WTO-induced changes and must understand the expectations of foreign business. Speakers have stressed the importance of adhering to both day-one commitments (including IPR protection and an end to local-content, technology-transfer, and export requirements) and the opening of services sectors on schedule. Foreign counterparts will likely encourage good-faith implementation efforts and be patient with difficulties—but only initially.

Speakers have encouraged local governments to take the lead in implementing transparency and other WTO commitments to obtain a competitive advantage in attracting foreign investment and technology. Responses to these efforts in the lead up to China's entry have been almost unequivocally favorable and have provided FCS with an opportunity to stage events and offer sponsorship through its Partners for WTO Implementation initiative for American businesses seeking to build relationships with local officials.

Support for Chinese WTO research centers

Cooperation with leading academic institutions in China has also been an important part of WTO education efforts. One of China's leading WTO research centers is the Shanghai WTO Affairs Consulting Center. The US-China Business Council cooperated with this center in 2001 to produce a series of six digital videoconferences with simultaneous translations on WTO-related topics, featuring US experts and a Chinese audience drawn from government, academia, and the media. The two organizations plan 20 more for 2002.

Other WTO research centers include the WTO Inquiry Center under CIRD and Beijing's University of International Business and Economics WTO Research Center, which established a WTO training center primarily focused on training more teachers and professionals to meet the demands of post-WTO China. Still other centers are popping up around the country.

Programs regularized, expanded

Chinese officials are now mobilized to adjust to the regulatory and operational changes brought by the country's WTO entry, while foreign investors eye new opportunities accompany-

Speakers have stressed the importance of adhering to both day-one commitments (including IPR protection and an end to local-content, technology-transfer, and export requirements) and the opening of services sectors on schedule. Foreign counterparts will likely encourage good-faith implementation efforts and be patient with difficulties—but only initially.

ing the next stage of China's market opening. To assist the transition, programs to spread the WTO gospel continue and expand, with ever-more resources and personnel devoted to the task.

The pace of US government-supported efforts will increase in 2002. Upcoming seminars organized by topic and region will draw on a cast of dozens of experts in China who now have off-the-shelf presentations on various aspects of China's WTO entry. FCS plans seminars with MOFTEC, the Ministry of Information Industry, and other PRC agencies and plans to organize events throughout China including Liaoning, Shandong, and Hebei provinces. Each commercial officer will stage at least one event within his or her geographic area.

To assist these and related WTO implementation efforts, the US Embassy will assign five more commercial officers solely to trade facilitation issues beginning in 2002. These officers will supplement the work of the US Department of Agriculture Foreign Agricultural Service officer who has been in Beijing since mid-2001 and the General Electric Co. employee who has, since September 2001, worked in FCS offices managing and advising on the implementation of WTO-related training programs.

The EU-China IPR Cooperation Program has been extended through 2003 with expanded exchanges, programs, and workshops. MOFTEC plans to expand cooperation to the governments of Japan and Canada.

All of these efforts are buoyed by the now widespread discussion of China's WTO commitments. The final WTO accession agreements have been translated and should have been made available in Chinese by the time this article is published. Discussions of specific commitments have started to supplement broad discussions of the WTO in China's mainstream media.

China Central Television (CCTV) has aired programs updating China's implementation progress. These broadcasts have included interviews and analysis on Chinese-language programs and the new "WTO Watch" on CCTV's English-language channel. Even PRC ministries are getting into the act: The website of the State Economic Trade Commission in December posted the following survey question: "China is

Toward WTO: Highlights of PRC Implementation Efforts to Date, September 2001

The US-China Business Council is committed to tracking World Trade Organization (WTO)-related changes in China. This document is not comprehensive, but rather highlights selected PRC efforts known to the Council to bring China's system into WTO compliance. This second update complements material included in the June 2001 update. For a copy of the June paper, see www.uschina.org/prcwtocompliance.pdf. *China has taken positive first steps to implement its commitments, but significant gaps remain.*

Coastal centers lead preparations Preparations remain concentrated on three areas: amending existing and drafting new legislation to comply with WTO rules; restructuring government ministries and agencies to facilitate legislative and administrative changes in line with WTO disciplines; and training and educating on WTO rules and practices. As expected, the coastal areas, and particularly Beijing and Shanghai, are taking the lead in these activities. Though talk on aligning China's legal system with WTO requirements accelerated during the third quarter of 2001, only a handful of new and amended laws were released. According to Council sources and numerous reports, however, Chinese governmental bodies within the State Council, ministries, and bureaus have accelerated their drafting work since then. China's State Council and its ministries are now releasing a flood of amended and new legislation.

Government restructuring to facilitate WTO compliance China is restructuring a number of government ministries and agencies to facilitate legislative and administrative changes in line with WTO disciplines. The Ministry of Foreign Trade and Economic Cooperation (MOFTEC) has established a Department of WTO Affairs. The Beijing Foreign Economic and Trade Commission recently established the Beijing Center for Handling Complaints Lodged by Foreign-Invested Enterprises (FIEs). China's State Administration for Industry and Commerce will establish a new bureau to improve FIE registration services. China also recently announced the creation of two new bodies whose task is to facilitate the unification of China's standards and licensing regimes.

New legislation Drafts of new and amended legislation continue to circulate within the State Council. China is expected to issue almost 20 new and amended laws governing foreign investment in service sectors, including those dealing with foreign participation in foreign exchange banking, railway and road transportation, hospitals, cinemas, construction and engineering design, accounting, telecom, securities, mutual funds, education, and legal services. MOFTEC and the State Development Planning Commission are expected to release shortly a revised Catalogue Guiding Foreign Investment in Industry to reflect China's market-access commitments under WTO. Other laws related to tax, franchising, direct selling, antitrust, safeguards, and antidumping are also under consideration.

Revisions to foreign investment laws On July 22 the State Council released the Decision of the State Council Concerning Amendment of the Implementing Regulations for the Law of the People's Republic of China on Equity Joint Ventures. The amendments correct WTO-inconsistent provisions in existing laws, rules, and regulations and improve the linkages and transparency of the 1987 implementing regulations vis-à-vis current PRC laws, administrative regulations, and State Council rules. Other laws that were issued or modified during the third quarter include those related to foreign investment in holding, leasing, and venture capital companies. China also issued new provisions on the listing of FIEs on its stock markets.

Intellectual property rights China's amended Patent Law and its implementing rules took effect on July 1. The new rules streamline the patent application process and provide patent holders more rights than the previous version of the law. Uneven enforcement of IPR laws remains the central problem in China's IPR regime.

Retail and distribution The State Economic and Trade Commission (SETC) in July 2001 approved the first wholesale enterprise with foreign investment in China. The Shanghai No. 1 Department Store (Group) Co. Ltd. opened a wholesale joint venture with Japan's Marubeni Co. in Shanghai in August. Marubeni possesses 49 percent equity ownership of the new joint venture, Baihong Commercial Trading Co., Ltd., which began operation on September 19 and whose operation includes purchase of daily-use products from domestic companies (including FIEs) and sale of such products to retailers nationwide. The company also has limited import and export rights to sell international products.

Telecommunications China's Ministry of Information Industry on June 11, 2001 issued Order No. 429, which clarifies the Appendix: Classification of Telecommunications Services that was attached to the September 2000 PRC Telecom Regulations. The notice appears to clarify some of the ambiguity surrounding the September 2000 regulation's initial classification of basic and value-added services.

Price controls Controls on prices of more than 128 different categories of goods and services were removed as of August 1. According to Council sources, China has listed in Annex 4 of its WTO Protocol the 13 strategic categories that will remain subject to state pricing oversight. China also confirmed in the Working Party Report on its WTO entry that it would not use price controls to protect domestic industries or service providers or to undermine its WTO market-access commitments in goods and services.

Trading rights MOFTEC took a small step toward liberalizing trading rights for FIEs with the Notice on Relevant Issues of Expanding Import and Export Management Rights of FIEs. The restricted scope of the rules, however, leaves gaps in China's trading rights regime (*see* p.16).

—Jeremie Waterman

Jeremie Waterman is manager, Government Affairs, at the US-China Business Council in Washington, DC.

entering the WTO, is your work unit ready?" Visitors could select one of three options: ready; still preparing; or have not prepared—though the survey results are not publicly available. Hainan's WTO training center operates a website with much Chinese-language material, but the details of tariff reductions and implementation measures are still hard to find in the vernacular. Though all these efforts together represent a promising start, the goals of transparency and due process will require steady progress and, perhaps more important, new ways of thinking about China's economy.

Furthering the effort: The role of foreign business

The programs outlined above are cementing a foundation for the broadening of WTO knowledge among PRC government regulators. Though they represent only a slice of the WTO-related activities taking place in China, they will continue to grow and evolve to support China's government apparatus as it works through the implementation of specific commitments. Foreign-invested enterprises themselves, through expansion of their operational activities, will also help Chinese officials get up to speed.

The most sophisticated foreign business leaders are discussing plans with relevant local or functional regulators. Whether these plans are to act on the discontinuation of local-content requirements or to establish a new banking venture under year-three commitments, a foreign business will benefit by discussing these issues early on with officials on the front line of implementation. Separately, FCS seeks American business Partners in WTO Implementation initiatives as a way to integrate business priorities into its ongoing local events. Foreign businesses participating in the many training and educational tasks may well feel as if they are herding cats—but their word is already spreading.

A learning process for everyone

Most China watchers are familiar with Deng Xiaoping's well-worn aphorism, that the color of the cat can be either "black or white, as long as it catches mice." It turns out that the color of the cat in question will be the calico that is the WTO.

It is not only Chinese officials who need to acclimate to this new calico. Most foreign businesspeople are not WTO experts, and the massive regulatory changes prompted by WTO accession have changed the operational landscape. Foreign investors should keep in mind that that not every commercial dispute will raise WTO issues. Websites including those of the WTO, the US Embassy in Beijing, and the US-China Business Council will serve as authoritative references. Cases are certain to arise where China is indeed WTO compliant or where an issue is not addressed by China's WTO accession agreement. In cases where authorities ignore Chinese WTO commitments, working through proper channels on the Chinese side is a prerequisite and will more often than not achieve results.

> FCS seeks American businesses to join its Partners in WTO Implementation initiative as a way to integrate business priorities into its ongoing local events.

Certain elements within China's complex political structure still oppose market opening and the loss of monopoly control. Despite such pockets of opposition, it is clear that the PRC government leadership is committed to adapting to the norms and requirements of the international trading system.

Chinese leaders stress that the WTO will change the way China's government works. They emphasize that Chinese officials need to develop procedures and institutions to move away from approval by administrative fiat and abrupt implementation of regulations, and toward transparency in decisionmaking that affects trade and foreign investment under a broader system of rule of law. Whether Chinese pragmatism and willpower will prevail, and do so in a timely manner, remains an open question. But the considerable foreign resources already marshaled to support their goals could well prove invaluable. 完

WTO *AT LAST.*

Trading Rights After China's WTO Entry

Xianwu Zeng

China has finally gained World Trade Organization (WTO) entry after 15 years of negotiations. The WTO Ministerial Conference approved by consensus the text of China's WTO accession documents on November 10, 2001, and China formally joined the organization on December 11.

Against this backdrop, many foreign companies are evaluating the scope of the impending relaxation of trading rights restrictions, which are among the most important WTO-induced changes they will face. Foreign investors are anxious to learn how they will be able to take full advantage of the substantial policy and regulatory changes. And, of course, they are making themselves aware of possible constraints that may still interfere with their trading operations in China.

Xianwu Zeng
graduated from Columbia Law School in 1995 and is currently an associate at Freshfields Bruckhaus Deringer in Hong Kong. He has published articles in *The International Lawyer, China Securities Handbook*, and *The China Law Reporter.*

China is taking steps to implement its WTO commitments on import and export rights

Trading companies and trading rights

Trading companies are firms solely engaged in the import and export of products; they do no manufacturing of their own. Until relatively recently, only Chinese state-owned trading companies could import and export goods to and from China.

Foreign companies were first allowed to establish trading companies in China in 1996. They could do so only through joint ventures in which the Chinese partner held a controlling equity interest, according to the Tentative Measures for the Establishment of Pilot Sino-Foreign Trade Companies (Tentative Measures), issued by the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and the State Economic and Trade Commission (SETC). Other stringent requirements in the Tentative Measures included mandates that foreign companies have at least \$5 billion in total sales the year before they apply and \$30 million in average trade volume with the PRC in each of the previous three years. Chinese partners, meanwhile, were required to have an average import-export volume of \$200 million for three consecutive years before they applied, with an export volume of at least \$100 million. These joint venture trading companies had to have registered capital of at least ¥100 million (\$12.1 million), which had to be paid up according to a schedule that is much shorter than that of typical Chinese-foreign joint ventures. Because of these restrictions, only five joint venture trading companies have reportedly been established in China since 1996, all located in either the Pudong District of Shanghai or the Shenzhen Special Economic Zone in Guangdong, as required by the Tentative Measures.

Wholly domestically owned trading companies, in contrast, have not been subject to these onerous requirements. For instance, the July 2001 MOFTEC Relevant Regulations Regarding Qualifications for Import and Export Rights (Import and Export Qualifications Regulations) only require domestically funded trading companies to have been established for one year and have a registered capital of ¥5 million (\$604,000)—a fraction of the \$12.1 million required for foreign-invested trading companies. In addition, domestic trading companies may import and export any type of product and technology not prohibited by the government (the regulations do not list specific prohibited products). But foreign-invested trading companies may only import and export products and technologies specified in the business scope for which MOFTEC has approved them.

China has restricted the rights of trading companies, whether they be foreign-invested or wholly Chinese-owned, to trade in certain products. Some recent regulations have loosened requirements for the establishment of foreign-invested and wholly PRC-owned trading companies, however. The most important example is MOFTEC's July 2001 Notice on Relevant Issues of Expanding Import and Export Management Rights of Foreign-Invested Enterprises (Trading Rights Notice).

The Trading Rights Notice, issued in preparation for China's WTO entry, allows foreign-invested production enterprises with annual export volumes of at least \$10 million to export items that they do not produce, unless the products are subject to quota or licensing controls or state monopoly operations. More important, the notice permits holding companies to import components for systems integration and allows foreign-invested research and development (R&D) centers to import small amounts of products manufactured by their parent companies for trial sale and market testing.

Though the Trading Rights Notice relaxed restrictions on certain types of companies, the easing primarily affected exports. Changes in import requirements were minimal—and only for holding companies and R&D firms. Reforms do not appear to extend to any other type of import-related activities, such as the import of products manufactured by other entities and regular sales and distribution operations.

Trading rights for manufacturers

The Chinese government permits—indeed encourages—foreign-invested and domestically funded production enterprises to export their own products, but limits importing to certain raw materials or equipment for production purposes.

Until the mid-1990s, domestic production enterprises were allowed to import machinery and equipment only for their own use in production. Regulations issued in 1999 allowed domestic production enterprises, which export more than $5 million worth of their own products annually, to establish and hold controlling interests in trading companies that import and export their own products and products manufactured by other entities that are related or similar to their own. In 2000, MOFTEC extended the business scope of domestic enterprises to include "the import and export of all types of commodities and technologies," with the exception of goods reserved for state-designated trading or prohibited by the state. This year's Import and Export Qualifications Regulations allow domestic enterprises to import and export all types of commodities and technologies, subject to the exceptions mentioned above, with certain minimal qualifications.

Trading under WTO agreements

Most of the terms of China's final WTO accession were made public in mid-November in the form of the Working Party Report, the Protocol of Accession, and the Schedule of Specific Commitments on Services. The Schedule of Concessions and Commitments on Goods was released in December. The final accession terms as they relate to trading rights include a number of significant commitments made during bilateral negotiations with WTO members, such as the United States, and in negotiations with the WTO Working Party on China's accession.

Retail, Wholesale, and Distribution

Integral to a company's success in China is the ability not just to import and export freely, but the ability to control distribution and sale of its product. Foreign investors have faced restrictions in operating retail and wholesale enterprises in China. The final WTO package for China ensures that the three-year phase-in period for the liberalization of trading rights is coordinated with the liberalization of distribution and sales rights.

Under WTO terms, China allows foreign businesses to form wholesale joint ventures to distribute all imported and domestically produced goods beginning one year after accession, with the exception of certain goods such as books and magazines, pesticides, and oil, which will be phased in within three years of entry. Within two years of China's entry, foreign majority ownership will be permitted and all geographic and quantitative restrictions will be phased out. Within three years no restrictions will apply, except for chemical fertilizers and processed and crude oil, which will be liberalized within five years of accession.

For retailing services other than tobacco sales, foreign service suppliers can engage in retail sales of all products with a few exceptions. Retailers of books and periodicals will be able to operate in China one year after accession; retailers of pharmaceuticals, pesticides, mulching films, and processed oil within three years; and retailers of chemical fertilizers within five years. Foreign chain store operators also face a number of restrictions. If they sell "products of different types and brands from multiple suppliers" and have more than 30 outlets, and distribute motor vehicles and other products (*see* Annex 2a of the Protocol of Accession), foreign majority ownership will not be permitted for the first five years of China's WTO membership. The WTO services schedule also details the geographic restrictions related to retailing, which are phased out five years after accession.

The state of play

As of year-end 2001, China had approved only one wholesale FIE—a joint venture between Japan's Marubeni Co. and Shanghai No.1 Department Store (Group) Co. Ltd. The current state of foreign-invested retail enterprises is more complicated: China's central authorities have approved 32 retail joint ventures, according to the Notice on Furthering the Work of Clearing and Rectifying Non-Trial Foreign-Invested Retailers, issued by the State Economic and Trade Commission (SETC), the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), and the State Administration for Industry and Commerce on August 6, 2001. The notice acknowledges that local governments have approved an additional 216 retail FIEs—a violation of the Commercial Enterprise Measures, which state that only SETC and MOFTEC have the power to approve such enterprises. These 216 joint ventures were ordered to restructure, according to procedures described in the notice, by the end of 2001 or cease operations. The status of these 216 enterprises is unclear as *The CBR* goes to press, however. China's task is to produce legislation to govern the transition of the current retail-wholesale environment to the post-WTO market.

—Xianwu Zeng

According to the Working Party Report, China agreed, upon accession, to eliminate for both Chinese and foreign-invested enterprises (FIEs) "any export performance, trade balancing, foreign exchange balancing and prior experience requirements, such as in importing and exporting, as criteria for obtaining or maintaining the right to import and export."

The Working Party Report also says that China will phase in trading rights on a progressive schedule within three years of its WTO entry. FIEs thus will be allowed to import and export all but a few types of products and technologies throughout China. According to the report, any joint venture with minority equity share may acquire trading rights one year after China's entry. Two years after accession, joint ventures in which foreign parties hold majority interests may acquire trading rights. Wholly foreign-owned enterprises (WFOEs) earn trading rights three years from China's WTO entry. China also committed to allow trading rights within three years for foreign companies not invested in the country.

For wholly Chinese-owned trading companies, the minimum registered capital requirement will fall from ¥5 million ($604,000) to ¥3 million ($362,000) after one year and sink to ¥1 million ($121,000) after two years. Domestic trading companies will no longer be subject to approval three years after accession. But the trading company, three years after China's WTO entry, may well become a historical relic as trading rights become available generally throughout the economy, except for goods designated for state trading. Indeed, the final Working Party Report clarified that "foreign-invested enterprises would not be required to establish in a particular form or as a separate entity to engage in importing and exporting nor would [a] new business license encompassing distribution be required to engage in importing and exporting."

Some goods, primarily agricultural, are reserved for state trading. But China agreed to establish tariff-rate quotas (TRQs) for some products. Some of these TRQs will gradually increase until they are phased out. Others, such as the TRQ for wheat, will continue. Yet China agreed to set aside portions of the TRQs for wheat, corn, rice, sugar, vegetable oil, and cotton for nonstate trading. This means that as of day one of China's membership, for example, any enterprise with trading rights may seek to obtain a TRQ allocation to import cotton.

Implementation by the day

China is in the process of formulating more detailed and specific legislation to implement its WTO commitments. MOFTEC has established three new WTO groups, the Department of WTO Affairs, the China-WTO Notification Inquiry Center, and the Fair Trade Bureau for Import and Export, which will handle WTO-related implementation and litigation, WTO notifications and inquiries, and issues related to unfair trade practices, respectively. The Beijing Foreign Economic and Trade Commission established an office for complaints lodged by FIEs. The State Administration for Industry and Commerce plans to establish a new bureau to improve registration services for foreign companies. Other government agencies, including the State Administration of Foreign Exchange (SAFE), are also amending existing legislation and drafting new regulations that are in line with the WTO agreements (*see* p.8).

Chinese authorities are expected to amend or replace the Tentative Measures, among a long list of others, with laws and regulations that treat Chinese domestic companies and foreign companies equally.

As *The CBR* goes to press, laws are emerging by the day. The substance of the legislation on trading rights, like the legislation released to date, will surely be guided by China's WTO commitments.

Forex, quotas, and other constraints

Despite these groundbreaking changes, FIEs may continue to encounter constraints on trading rights beyond those that China maintains during the phase-in period.

Foreign exchange

The Tentative Measures require joint-venture trading companies to perform foreign exchange settlement, conversion, and remittance and to balance their foreign exchange. This last restriction is contradicted, however, by State Council and People's Bank of China regulations that, since late 1996, have eliminated the need for FIEs to maintain foreign exchange balancing under current accounts.

In addition, SAFE allows foreign-invested trading companies to use renminbi to purchase foreign currency for import payments. SAFE also no longer requires them to use foreign currency generated from exports to pay for imports, because trade is considered a current account item. Finally, the requirement for foreign exchange balancing was removed from the amended Sino-Foreign Equity Joint-Venture Law, Sino-Foreign Cooperative Joint-Venture Law, and Wholly Foreign-Owned Enterprise Law (together, the Three Laws) and their implementing rules released over the last year.

MOFTEC has since confirmed that the Three Laws nullify the foreign exchange balancing requirement in the Tentative Measures. Chinese legislators have made no indication, however, that cumbersome rules on foreign exchange settlement, conversion, and remittance will be repealed anytime soon. As a result, FIEs may find it difficult to conduct import-export activi-

China will phase in trading rights on a progressive schedule within three years of its WTO entry. FIEs thus will be allowed to import and export all but a few types of products and technologies throughout China.

Chinese legislators have made no indication that cumbersome rules on foreign exchange settlement, conversion, and remittance will be repealed anytime soon.

ties quickly and efficiently even after they officially receive trading rights.

- **Quota and import licenses**

MOFTEC intends to amend or repeal quota and import licenses that are inconsistent with China's WTO agreements, but during the transition period these restraints will remain in place. China's final WTO entry terms call for the elimination of all WTO-inconsistent quotas within three years of China's entry. Annex Three of China's Protocol of Accession lists the quotas, a group of which were to disappear January 1, 2002. Among the largest remaining quotas are those for autos and auto parts. Every January 1, a new round of quotas will be eliminated, according to China's commitments.

Chinese central-government authorities may have difficulty ensuring that local authorities do not impose trade barriers by legislation or by arbitrary interpretation and implementation of existing national laws and regulations. The first few years of China's entry in particular will serve as a transition period in which local enterprises and industries will feel the impact of free competition—caused by the lifting or reduction of import tariffs—and will need to adjust to the new rules.

There are elements in China's WTO accession package that attempt to help the Chinese government in this area. In particular, the Working Party Report contains a section on China's legal framework. There is also a mechanism to ensure uniform administration of laws—and to request action from the government when instances of uneven implementation occur. Companies that request such action will receive a report on the results of their request.

- **Government reform**

The Chinese government, in the Tenth Five-Year Plan (2001-05) ratified in March 2001, introduced measures to cope with the challenges that WTO entry will pose and to comply with WTO rules.

Under the five-year plan China will, among other reforms, formulate, amend, and implement laws and regulations; streamline the process of administrative examination and approval; promote investment and in financing of structural reforms; and break down departmental and trade monopolies and local protection. The government must also prepare state-owned enterprises for equal market access through restructuring and streamlining. Methods adopted so far include debt-for-equity swaps, sale of non-performing loans, and mergers and consolidations. All of these, if implemented successfully, will be positive developments from the perspective of foreign companies that wish to trade with China. In reality, however, results are likely to be uneven, causing headaches for foreign-invested traders.

A better approval process

MOFTEC has indicated that it is moving away from a case-by-case examination of applications toward a more routine registration procedure for the establishment of trading companies, though during the phase-in period this examination process will continue. The end result of this reform will be to leave government authorities with much less discretion than they now exercise. In time, MOFTEC will relax its control over all but a very few protected industries or products.

Large-scale industrial enterprises are currently permitted to use a simplified registration and reporting system to export their own products and to import machinery, equipment, components, and raw and ancillary materials for their own production. The 1999 MOFTEC Notice Regarding the Registration and Recording System for National Large Industrial Enterprises' Import and Export Rights sets out the specific procedures for this purpose. This simplified procedure, however, does not apply to distribution or to the import and export of products that are made by other entities. Nevertheless, China's future commitment to liberalize trading rights in the domestic market should also apply both to foreign-invested enterprises and enterprises not invested in China.

A gradual shift

China is moving from a trading rights approval procedure that can be difficult and time-consuming and that gives wide discretion to approval authorities to a more simplified registration and reporting system that is faster, easier, and less discretionary. Though this will undoubtedly promote trading activities between China and various WTO members, it will not happen overnight. In the meantime, foreign investors and traders will only be successful in China if they comply with the many laws and regulations that the country will continue to issue.

Meanwhile, exactly how the PRC will phase in its new trading rights regime is an open question. By revising current laws and issuing new ones, China hopes to provide foreign investors with an environment in which they "will feel safe in doing business in China and will think the economic policy and regulations in China are transparent, stable, and predictable," according to Long Yongtu, vice minister of MOFTEC and China's chief trade negotiator. Indeed, transparency, stability, and predictability in the legal system will be crucial to China's successful integration into the world trade body and the world economy. 完

WTO AT LAST.

COMMENTARY

Asia's Competitiveness Endgame: Life After China's WTO Entry

Chi Lo

Asia is now considering its economic prospects as China enters the World Trade Organization (WTO). Some investors are concerned that China will become a major deflationary force in Asia. Others are worried that China will inflict significant damage on Asia's growth by pulling away foreign investment and by increasingly hollowing out Asia's manufacturing base as facilities continue to shift to the mainland.

Though the deflation concern is valid, as entry to the WTO will help consolidate China's competitive power, the second fear is flawed. Asia has not lost, and will not lose, foreign investment to China. Rather, China's improving economic well-being will benefit Asia's exports in the long term and will exert external pressure on Asian economies to restructure.

Chi Lo
is chief economist for Northeast Asia for Standard Chartered Bank Global Markets, Hong Kong.

China's economic liberalization after WTO entry will lead to a more efficient and prosperous Asian economy

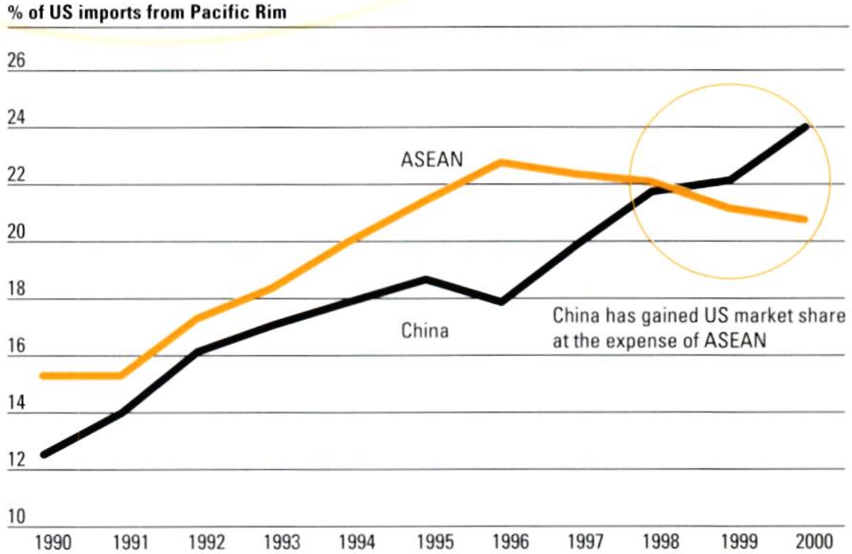
China will not enjoy a free lunch in the WTO, however. The short-term economic pains from creative destruction will be high. This creative destruction has been under way for some time and includes the ongoing reform of China's inefficient state sector, which now produces less than 25 percent of China's total industrial output, down from over 80 percent in the early 1980s. In recent years, the closure of state-owned enterprises has released about 7 million surplus laborers into China's economy annually, raising China's true unemployment rate to an estimated 8 percent or more, as opposed to the official 3.1 percent. But the country's positive cyclical and reform outlooks point to steady economic growth, in turn encouraging continued reforms. China thus will remain an attractive investment hub while Asia struggles in the short term to find balance in an ever-more competitive world.

A formidable force

Chinese exports recovered quickly after the 1997-98 Asian financial crisis, even though China was not a WTO member and did not devalue its currency like its Asian neighbors. Indeed, other Asian countries were unable to prevent a loss of market share to China despite their currency devaluations. China now accounts for 24 percent of US imports from the Pacific Rim, up from less than 20 percent in 1997 (*see* Figure 1). The composition of these imports has remained relatively unchanged during this period and includes electrical and power-generation equipment, apparel, furniture, and plastics.

China's advantage over other Asian nations is that it has the lowest labor costs in the region after Indonesia (*see* Figure 2). In addition, China's excess capacity remains high, despite inventory reductions in the past few years (*see* Figure 3). Inventory liquidation has put pressure on supply levels and, together with low labor costs, enabled China to cut export prices and win market share from its neighbors.

Figure 1
China's and ASEAN's US Market Share



NOTE: ASEAN = Association of Southeast Asian Nations (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam)
SOURCE: China Economic Information Center (CEIC)

WTO-induced reform and rising competition will increase China's competitive power and put downward pressure on most Asian currencies in the years to come. China's export push has already exerted deflationary pressures on Asian export prices (*see* Figure 4) and currencies, though China's currency has not come under such pressure itself. There is nevertheless a chance that volatility in the foreign-exchange market could lead to a vicious cycle of competitive devaluation, which could pressure China to lower the value of the renminbi (RMB).

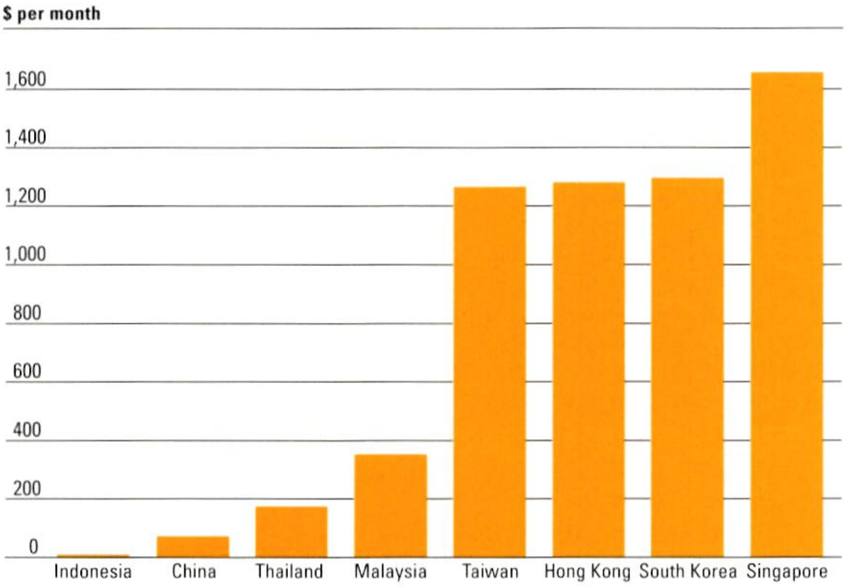
A difficult transition

Opening up to foreign competition will inflict short-term negative shocks on the Chinese economy. The dismantling of nontariff trade barriers, such as burdensome administrative and customs procedures, will cause a greater competitive shock than the nominal tariff cuts imply. Industries that have relied on these protective barriers to survive will suffer. Rising competition will also shock China's financial system, given its shaky foundations.

WTO membership will boost China's labor-intensive industries and increase exports that rely on imported inputs, since imports will become cheaper. However, capital-intensive industries, such as steel, automobiles, agriculture, machinery, and heavy chemicals, will suffer in the short term, given China's comparative disadvantage in capital-intensive production.

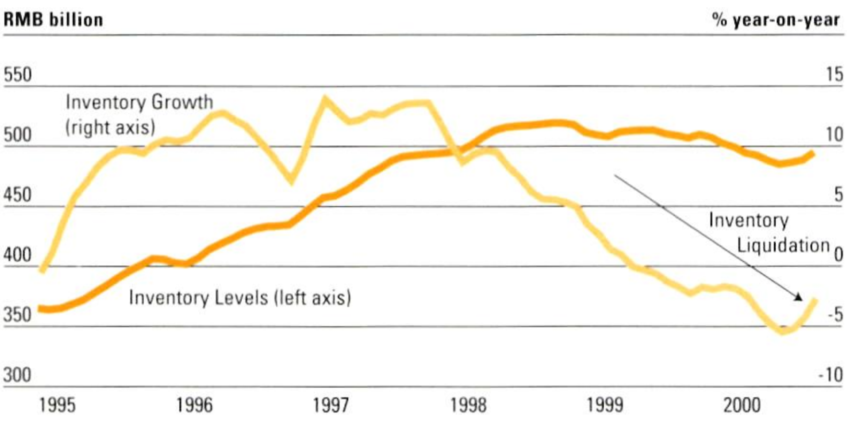
In the next few years, China may opt to undertake policies, like those that other Asian countries have implemented, to boost exports further. These include granting exporters lower taxes and loans at lower interest rates, and even devaluing the RMB. China is unlikely to choose devaluation in the short-term, however; there is actually strong underlying pressure on the RMB to appreciate, not depreciate, because of the country's strong balance of payments surplus. There is also little political necessity. Beijing wants to avoid any move that could trigger instability, including currency devaluation, in the run up to the leadership change late this year.

Figure 2
Wages: China Remains Near the Bottom



SOURCE: CEIC

Figure 3
Chinese Inventories Remain High



SOURCE: CEIC

Challenging Japan

Chinese exporters are already competing with Japanese companies, as China's export structure has shifted rapidly towards electronics and machinery and away from primary goods (*see* Figure 5). Last year China's trade surplus with the United States finally surpassed Japan's US trade surplus (*see* Figure 6).

Japan has good reason to worry: the fast climb of Chinese exports up the value-added ladder has led to a record trade surplus with Japan. The cheap prices and rising quality of Chinese exports have prompted many Japanese industries to seek government protection. The irony is that, after the initial wave of expansion into China's vast domestic market in the late 1980s, Japanese firms are rediscovering China as a cheap production base for export back to Japan. Thus, many of the products on Japan's protection list are actually made by Japanese subsidiaries in China.

Pressuring Asia

China's enhanced competitive power will not only have short-term economic effects on Asia, it will become a long-term source of deflation for tradable goods, squeezing Asia's pricing power. Foreign capital inflows will augment China's supply of capital while an abundant labor supply, which will include surplus labor resulting from structural reforms, will curb any sharp rise in Chinese labor costs. China's downward pressure on Asian currencies will also continue under WTO.

Economies with export structures similar to China's will feel most of the competitive stress. Thailand, the Philippines, and even Taiwan will face enormous competition from China in primary and low value-added industries, such as agriculture and textiles, respectively. Taiwan faces a particularly daunting next few years, as Taiwan investment moving to the mainland will speed up. Hong Kong serves as a case in point. Hong Kong's entire manufacturing base relocated to China within a decade in the 1980s to escape high local production costs, leaving only the high value-added segments, such as logistics and marketing, in the territory. Taiwan manufacturers are experiencing the same pressure from falling export prices and rising Chinese competition. Hong Kong succeeded in rejuvenating itself into a financial and services center, thanks to its strong entrepreneurial spirit and unique geographical and political positions. Taiwan's challenge is to reinvent itself under the shadow of its political and economic problems (*see* p.28).

A growth and investment engine

Nevertheless, the emergence of Chinese economic clout will also benefit Asia's growth by being a source of demand. As a percentage of its GDP, China imports as much from Asia as Japan does. China has also been running a trade deficit with Asia since 2000. This trend is likely to continue as the WTO opens more doors for Asian exports to China and as China's import appetite grows in step with incomes and demand for industrial upgrades.

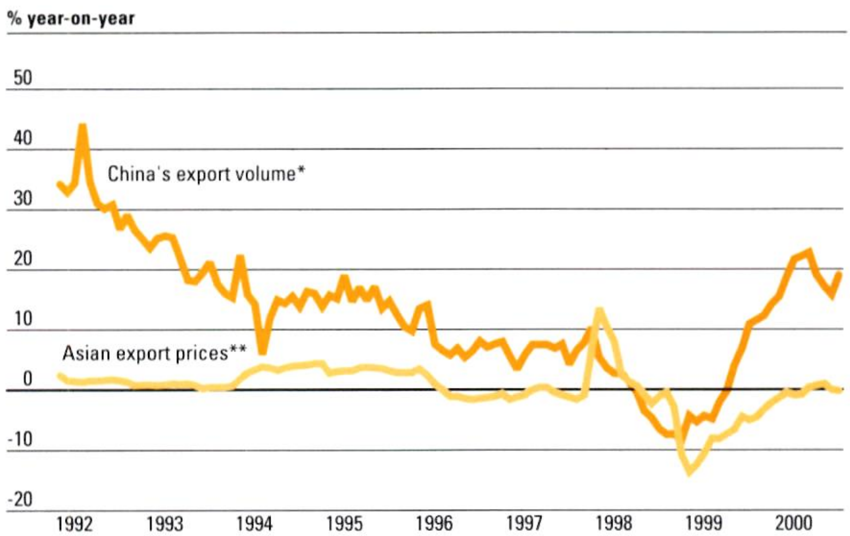
Contrary to common perceptions, China has not gained foreign direct investment (FDI) at the expense of the rest of Asia. In fact, FDI inflows to Asia have risen along with inflows to China (*see* Figure 7). This is in part because multinational companies want to be closer to their customers and production partners and therefore have invested throughout the global production chain. Also, Asian economies are at different stages of development and FDI has gone to areas with comparative advantages—some to countries with abundant labor and some to countries with technological know-how.

Economic ties between China and Asia are buoying intraregional investment and trade flows, providing a cushion for Asian exports against slowing demand in the United States and Japan. While China is likely to continue to receive the bulk of foreign investment to Asia, global outsourcing means that the Asian investment pie is still growing. Strong FDI inflows to China will benefit the rest of Asia via intraregional demand for goods and services.

A push for reform

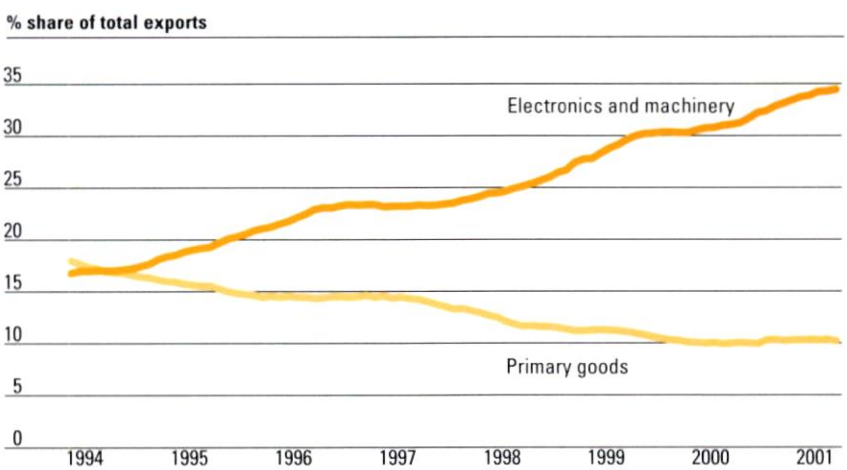
More subtly, China could also become a force for reform in Asia. Most governments slipped on reforms as their resolve eroded during the sharp economic rebound after the 1997-98 Asian crisis. Firms have been reluctant to sell off assets and reduce debts, and banks have been slow to write off bad loans.

Figure 4
Chinese Exports' Deflationary Impact



* Approximated by Hong Kong's re-export volume
** Includes Hong Kong, South Korea, Taiwan, and Thailand
SOURCE: CEIC

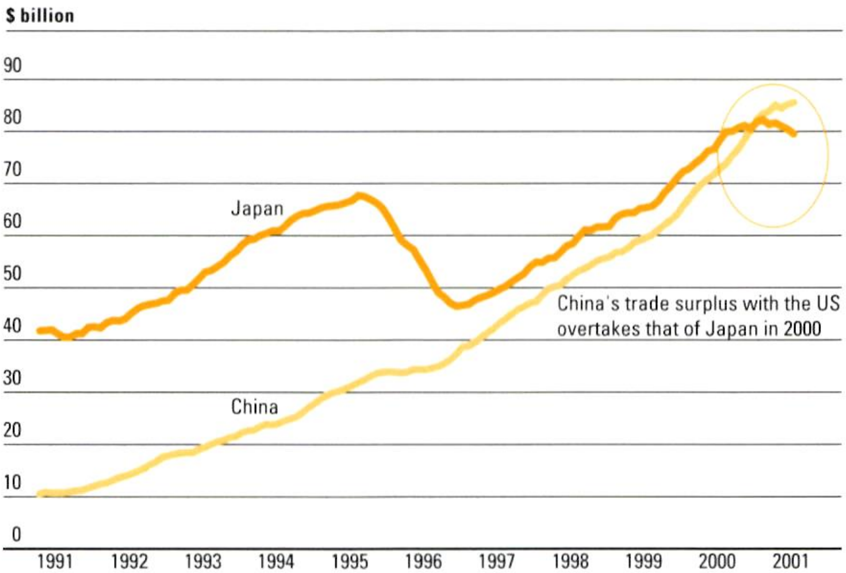
Figure 5
Chinese Export Structure* Shifting



* 12-month rolling sums (each data point reflects the sum of total activity for the previous 12 months)
SOURCE: CEIC

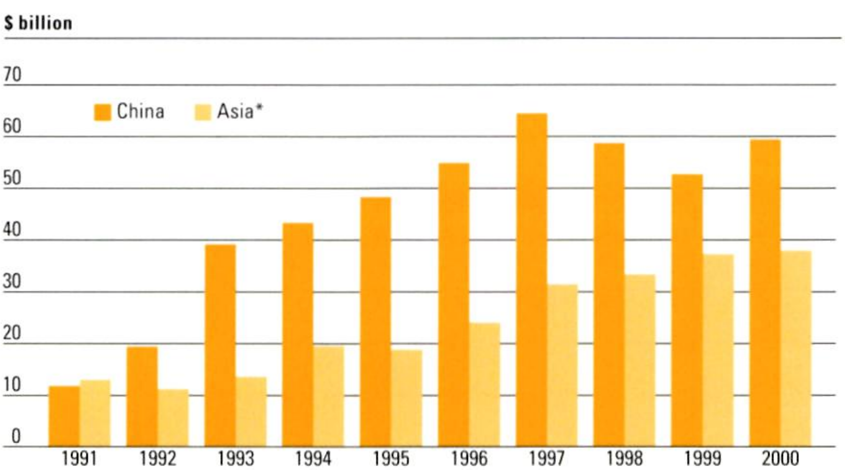
Asia's large trade surplus is not a sign of economic vigor; rather, it reflects, in part, a failure to generate strong domestic demand because of insufficient reforms.

Figure 6
US Trade Deficit* with China and Japan



* 12-month rolling sums
SOURCE: CEIC

Figure 7
FDI Flows Into Asia and China



* Includes South Korea, Singapore, Malaysia, Thailand, and Taiwan
SOURCE: CEIC

The failure of many governments to implement reforms after the Asian crisis is worsening Asia's economic drag, as weak banks and inadequate corporate reform have crimped domestic expansion. Interest rate cuts have become ineffective in boosting demand, as banks saddled with bad loans are reluctant to lend and debt-ridden companies cannot borrow.

Japan is a prime example of how fiscal expansion without reform produces minimal growth. Tokyo has reportedly spent around $1 trillion since 1993 on stimulus packages, but the economy has only crawled along at an annual average growth of 1.6 percent. Thus, from a reform perspective, Asia's large trade surplus is not a sign of economic vigor; rather, it reflects, in part, a failure to generate strong domestic demand because of insufficient reforms. Asia's economies still rely on export demand for growth.

Southeast Asia, except Singapore, is at risk of being marginalized as a site for foreign investment because the region lacks the aggressive reforms and the economic size of China. Beijing has pushed ahead with structural reforms since the Asian crisis, while many Asian governments have failed to sustain their restructuring efforts. As Beijing continues to liberalize its economy according to WTO mandates, other countries will be pressed to follow to meet the Chinese challenge.

China's success will ideally spur Asia's reform efforts and lead to a more productive region in the long term. In reality, Asia may experience uneven development on its road to greater efficiency, with areas of strong performance coexisting, uneasily, with areas of weakness. Nevertheless, a strong Chinese economy will not be a bull in the china shop, but rather will raise the level of welfare across all of Asia. 完

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WTO and the Taiwan Strait: New Considerations for Business

Karen M. Sutter

Business pressures are converging with World Trade Organization (WTO) commitments, raising the prospect that barriers to cross-Strait trade and investment in both the PRC and Taiwan will soon fall significantly. The pace and scope of cross-Strait liberalization will depend, however, on the extent to which the Taiwan government opens its market to PRC goods and services and allows Taiwan firms to pursue new openings in the PRC—legally.

The process may be slower than some expect, because of political jockeying to gain credit for policy shifts and security concerns about the pace and scope of liberalization, especially on the Taiwan side. But as both sides continue to ease general trade and investment barriers, further cross-Strait integration and specialization seem inevitable. To remain

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

Taiwan's government mulls closer economic ties with the mainland, while its businesses forge ahead

globally competitive and to capitalize on commercial opportunities in the PRC, Taiwan businesses will likely continue to pull government policy along while testing and skirting existing restrictions.

Government restrictions and political tensions have made commercial transactions inefficient. The Taiwan government until quite recently prohibited investments in the PRC of more than $50 million and still requires a case-by-case review of investments in sensitive sectors such as information technology (IT), chemicals, real estate, and infrastructure. Taiwan also limits Taiwan firms' investments in the PRC according to their overall financial exposure and ownership structure.

Taiwan's Ministry of Economic Affairs (MOEA) classifies potential investments in China as permitted, prohibited, and "special case." Permitted projects are in industries in which Taiwan is no longer internationally competitive, industries that are not a critical part of a production chain or labor intensive, or projects for which the PRC can supply key raw materials for production. Prohibited investments include projects that involve critical technologies and products related to national defense, strategic industries, and infrastructure. Special-case investments are typically under $50 million.

Despite these impediments, Taiwan capital, goods, and know-how have continued to move across the Strait, in most cases indirectly via Hong Kong. In many cases, investment restrictions have encouraged Taiwan entrepreneurs to incorporate abroad in Hong Kong or tax havens like the Cayman Islands and British Virgin Islands. To skirt equity caps, companies have formed international consortiums of several players and phased in major investments over time. Ironic situations can result: As Taiwan's Grace Semiconductor Manufacturing Co. was breaking ground on its new integrated circuit facility in the Pudong district of Shanghai, in 2000, legislators in Taipei were still debating whether to ease restrictions on semiconductor investments in the PRC.

Taiwan's Administrative Yuan has in fact proposed simplifying the classification into a general category that will require case-by-case approval and a prohibited category. The plan also includes the much-discussed lifting of the $50 million ceiling on individual investments and a simplification of approvals for investment projects under $20 million. If approved, Taiwan is expected to implement this plan in 2002.

Current commercial scene

By the end of 2000, Taiwan had committed a total of $51.9 billion in investment in the PRC. Some analysts put contracted investment at up to $100 billion by including investment from Taiwan firms via offshore companies in Hong Kong and the tax havens—about 50 percent of Taiwan's cumulative outbound foreign direct investment. According to Taiwan's MOEA, by the end of 2000 almost three-quarters of Taiwan firms had investments in the PRC (*see* Table 1).

Taiwan firms have increasingly been relocating IT components businesses to the PRC. According to MOEA, between 1997 and 2000, electronics jumped from 20 percent to 60 percent of all approved Taiwan investment in the PRC. The real figure is likely even higher considering the many IT investments that were structured offshore during this period.

According to MOEA, between 1997 and 2000, electronics jumped from 20 percent to 60 percent of all approved Taiwan investment in the PRC.

Cross-Strait trade continues to tilt in favor of processing-related goods flowing from Taiwan to the PRC. Total trade in 2000 reached $30.5 billion, with a surplus of $20.5 billion for Taiwan (*see* Table 2). Top trade products include machinery and mechanical appliances and parts, electrical machinery and parts, chemicals, plastics, base metals (especially iron, steel, and copper), and textiles and related goods. By the end of the third quarter of 2001, trade was up 5 percent to $23.4 billion. This figure reflects a significant downturn in the third quarter—in the first half it was 8.6 percent.

Growing cross-Strait investment and trade is also driven in part by changing patterns in East Asia. The 1990s saw large inflows of foreign investment and cross-border specialization, especially in intermediate goods. China quickly became a base for more technology-intensive industries such as machinery and electronics, thanks to its lower trade barriers and labor costs. Upon China's WTO entry barriers will fall even further, allowing for even more cross-border specialization and interdependence in manufacturing trade in areas such as chemicals, steel, and IT. For example, as signatories to the Information Technology Agreement, PRC and Taiwan must lower tariffs on most IT imports to zero over a five-year period.

WTO pressures

During its meeting in Doha, Qatar, in mid-November 2001, the WTO ministerial conference separately approved the terms of accession for both China and Taiwan; they acceded on December 11 and January 1, respectively. Taiwan acceded under the name of "Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu," or "Chinese Taipei" for short.

WTO-induced liberalization across the Strait is likely to be slower and less dramatic than many envision. China will not phase in its most significant openings, especially in services, until two to five years after accession. Taiwan also may move slowly to remove existing barriers to PRC products. Also, direct links, including shipping and aviation, are not covered by the WTO commitments of either the PRC or Taiwan; these rights are traditionally negotiated bilaterally. Ongoing political gridlock in Taiwan and Beijing's willingness to wait out Taiwan President Chen Shuibian's tenure make progress on direct links unlikely in the short term. The global economic downturn could further slow the effects of these phase-ins, as a large percentage of cross-Strait trade and investment remains tied to exports to third markets such as the United States.

Economic woes

Meanwhile, many in the Taiwan government remain concerned about the acceleration and intensification of economic integration with the PRC. As a WTO member, Taiwan will have to open its agricultural sector to PRC imports, its services sectors to PRC investment, and its manufacturing sector to even more rapid relocation to the mainland.

Underlying Taiwan government officials' debates is the question of whether Beijing gains an advantage over Taiwan as the island's firms further knit Taiwan's economic future to that of the mainland. Pure commercial interests are also at stake—many existing bans stem less from security concerns than from a desire to protect certain sectors from direct competition with PRC products, such as chemical and agricultural products.

The island's economic downturn is forcing the Taiwan government simultaneously to handle pressure from firms that are considering relocating offshore to keep costs down and pressure from labor interests to keep jobs within Taiwan. Official unemployment is now more than 5 percent, and many analysts say the real level could be as high as 7-8 percent. Some experts now predict Taiwan could end the year with a decline in GDP of 1-2 percent. Though the downturn is in part tied to the global slowdown, especially in IT products, it also reflects the structural challenges Taiwan faces as traditional industries such as chemicals and manufacturing lose their competitive edge—a trend likely to continue. Many argue that the island's high-technology sector is moving to the mainland too rapidly, and protectionist voices in agriculture and other manufacturing sectors are growing louder.

In preparing for WTO accession, the Taiwan government was tightlipped on what options it might pursue. Some observers speculated that Taiwan might opt to apply Article 13 of the General Agreement on Tariffs and Trade (GATT), the WTO predecessor agreement, which states that a new member can opt not to apply WTO principles to another member. In early November, however, Taiwan officials said that they would not pursue this option, probably because of opposition from Taiwan's own business community and other WTO members.

Another option available to Taiwan is a national security exemption discussed in several of the WTO agreements, including Article 21 of the GATT and Article 14 of the WTO General Agreement on Trade and Services. There appears to be strong international pressure on Taiwan not to liberally invoke Article 21, which has been typically used only in rare instances as a temporary measure. Taipei does not appear to have ruled out these options as emergency measures to restrict certain trade and investment vis-à-vis the PRC. Nevertheless, these exemptions are controversial. Taiwan will most likely turn instead to widely used (and WTO-consistent) mechanisms such as quotas on textiles and other sensitive products, product-specific and general safeguards, subsidies, antidumping measures, export controls, and standards to control the flow of goods and services from the PRC to Taiwan. Regulations that govern PRC trade and investment are not specifically discussed in Taiwan's Working Party Report, but would need to be adjusted to allow PRC-invested firms the same benefits as those enjoyed by firms from other WTO members.

Changes could occur in the following areas:

- **Taiwan imports from the PRC** Taiwan tightly controls PRC exports to the island. MOEA's Regulations Governing Permission of Trade Between the Taiwan Area and the Mainland Area, issued in April 1993 and amended in October 1996, ban nearly half of all PRC products from Taiwan. Some raw materials and inputs used in export processing for re-export to third markets are exempt from the list. Taiwan currently bans about 44 percent of agricultural and industrial goods from the PRC, and almost 80 percent of these products are agricultural. According to Article 8 of this regulation, PRC goods may not enter Taiwan if they endanger national security or have a negative impact on domestic industries.

MOEA has prepared the List of Mainland Agricultural and Industrial Products Allowed to Enter the Taiwan Market, which reportedly includes 482 agricultural products and 5,295 industrial products that will be allowed into Taiwan from the PRC following WTO entry. Recent press reports indicate that Taiwan's WTO commitments include a provision that will allow it to set import quotas and maintain special safeguard provisions on 22 agricultural products and 14 related agricultural products including Asian pears, cane sugar, dried mushrooms, fish, garlic, meat, peanuts, poultry, and red beans. Taiwan's Working Party Report indicates that the Consolidated List of Commodities Subject to Import Regulations and Commodities Entrusted to Customs Import Examination has been filed with the WTO Secretariat. Some of the products included are likely listed with the PRC in mind.

- **Taiwan exports to the PRC** Taiwan will likely fold certain existing restrictions on trade and investment with the PRC into an export-control regime that would handle the approval of trade and investment involving sensitive dual-use technologies. MOEA has already stated that specific product bans will continue for 12-inch wafers, substrates for certain types of liquid-crystal displays, weapons-grade chemicals and other defense products, and sensitive high-technology products and products that are tied to Taiwan-government research and development. In September 2001, Taiwan's Executive Yuan drafted a new measure, designed to control the flow of sensitive information, that would prevent Taiwan military personnel and public servants from working in the PRC after they retire.

- **Restrictions on Taiwan firms investing in the mainland** MOEA will likely continue to lift restrictions on Taiwan firms investing in the mainland while showing more flexibility over the approval of projects. Though this move to ease investment restrictions is likely to boost business confidence significantly, it also acknowledges projects that are already under way via indirect channels. Any jump in official Taiwan investment figures should thus be considered against unofficial estimates of what has been moving into the PRC market via offshore structures. The Taiwan government will reportedly issue a six-month grace period for firms that have illegally invested or entered into technology cooperation in the PRC, during which they can register with MOEA.

In addition to raising the $50 million investment ceiling, the Taiwan government is re-examining restrictions on investment in certain strategic sectors such as semiconductors. Despite strong resistance in some quarters, other sensitive sectors such as petrochemicals may not be far behind, given the demands of Taiwan's major industry players. One possible solution involves the establishment of capital allocation ratios, whereby companies could invest certain maximum levels in the PRC, provided they have already invested a certain level in Taiwan. MOEA has also stated that it will allow investment in 1,400 to 1,900 new product areas in the PRC.

In early October 2001, the Taiwan Ministry of Finance and the Central Bank of China (Tai-

Table 1
Taiwan's Foreign Direct Investment in the PRC (1989-2000)

	Number of Projects			Contracted Investment ($ million)			Utilized Investment ($ million)		
Year	Taiwan	Total PRC	% Share*	Taiwan	Total PRC	% Share	Taiwan	Total PRC	% Share
1989	539	5,779	9.33	431.69	5,599.76	7.71	154.79	3,392.57	4.56
1990	1,103	7,273	15.17	889.97	6,596.11	13.49	222.40	3,487.11	6.38
1991	1,735	12,978	13.37	1,388.52	11,976.82	11.59	466.41	4,366.34	10.68
1992	6,430	48,764	13.19	5,543.35	58,123.51	9.54	1,050.50	11,007.51	9.54
1993	10,948	83,437	13.12	9,964.87	111,435.66	8.94	3,138.59	27,514.95	11.41
1994	6,247	47,549	13.14	5,394.88	82,679.77	6.53	3,391.04	33,766.50	10.04
1995	4,847	37,011	13.01	5,849.07	91,281.53	6.41	3,161.55	37,520.53	8.43
1996	3,184	24,556	12.97	5,140.98	73,276.42	7.02	3,474.84	41,725.52	8.33
1997	3,014	21,001	14.35	2,814.49	51,003.53	5.52	3,289.39	45,257.04	7.27
1998	2,970	19,799	15.00	2,981.68	52,102.05	5.72	2,915.21	45,462.75	6.41
1999	2,499	16,918	14.77	3,374.44	41,223.02	8.19	2,598.70	40,318.71	6.45
2000	3,108	22,347	13.91	4,041.89	62,379.52	6.48	2,296.28	40,714.81	5.64

SOURCE: PRC Ministry of Foreign Trade and Economic Cooperation
* Does not include Taiwan investment through third countries

wan) allowed the offshore banking units of three Taiwan banks and seven foreign banks with operations in Taiwan to provide services through overseas branches of mainland banks and foreign bank branch offices in the PRC. This move should facilitate transactions for Taiwan firms operating in the PRC, as they now may raise capital overseas without having to establish finance companies in tax havens. Separately, the easing of some PRC investment restrictions could indirectly benefit Taiwan's banks by giving them more direct control and information about the PRC projects they have been financing via third parties.

● **Restrictions on PRC firms investing in Taiwan** MOEA has taken some tentative steps toward allowing PRC direct investment in Taiwan. In late 1999, the Taiwan government discussed raising the ceiling on mainland-held stakes in foreign companies investing in Taiwan from 20 to 50 percent. In late 2000, Taiwan's Legislative Yuan relaxed restrictions on the travel of PRC citizens to Taiwan for pleasure and work and eliminated the provision that Taiwan citizens who live in the mainland for over four years automatically lose their citizenship. Taiwan also eased restrictions on the travel of PRC journalists to Taiwan in 2000. In September 2001, Taiwan passed two amendments that will allow PRC capital investment in Taiwan real estate in certain instances. The first amendment requires MOEA to approve investment case by case and disqualifies land that is currently used for national defense and economic purposes. The second amendment eases the roughly 25 percent double taxation burden on Taiwan businesses when they remit money back to Taiwan.

Keeping control

To maintain some element of control over burgeoning cross-strait trade and investment, the Taiwan government has been trying to keep its policies realistic. Chen, who struggled early in his term of office, regained some momentum with the formation and meeting of the Economic Development Advisory Council (EDAC) in summer 2001. EDAC, which included representatives from Taiwan's business community and major political parties, agreed on a range of economic recommendations, including the liberalization of direct trade and investment, the creation of more flexible cross-Strait capital flow mechanisms, and the opening of travel and tourism. [For a summary, see *www.taipei.org/press/mac0828.htm.*] Nevertheless, progress remains difficult because of ongoing debates within the ruling Democratic Progressive Party, political gridlock in the legislature and between the legislative and executive branches, and the inability to work with Beijing. Though the decision to lift the $50 million investment ceiling was significant, it will be important to see how liberal the government will now be on case-by-case investment approvals, for example, and whether restrictions on firms' overall investment exposure remain.

Direct links?

The impetus for direct shipping, aviation, and communications links has been building for some time. After months of playing cat-and-mouse over the establishment of "mini links," a trial shipping route began via Taiwan's Kinmen, Matsu, and Penghu islands in early 2001. But this trade is symbolic and merely legitimizes products that were likely being smuggled. The PRC supports direct trade and has promised to open all ports to direct trade as a way to try to influence debate in Taiwan.

Beijing has withheld additional openings, apparently to prevent Chen from claiming credit, and because PRC leaders would like a more definitive commitment to the "one China" concept from Taiwan. Senior-level political opposition leaders from Taiwan are fighting among themselves to take credit for liberalization and have reportedly urged Beijing to wait out Chen's term, which ends in 2004, before embarking on major cross-Strait liberalization initiatives.

In the absence of further movement, Taiwan's Ministry

Table 2
Cross-Strait Trade, 1990-2001

Year	Total ($ million)	Total % Change	PRC Imports from Taiwan ($ million)	PRC Imports % Change	PRC Exports to Taiwan ($ million)	PRC Exports % Change
1990	2,574.0		2,254.3	21.4	319.7	241.9
1991	4,233.0	64.5	3,369.0	61.3	594.8	86.0
1992	6,578.1	55.4	5,880.1	61.6	698.0	17.3
1993	14,934.8	119.4	12,933.1	120.4	1,461.8	110.7
1994	16,327.0	13.4	14,084.8	8.9	2,242.2	53.3
1995	17,882.0	9.5	14,783.9	4.9	3,098.1	38.1
1996	18,984.9	6.1	16,182.2	9.4	2,802.7	-9.5
1997	19,838.2	4.5	16,441.7	1.6	3,396.5	21.2
1998	20,499.2	3.3	16,629.6	1.1	3,869.6	13.9
1999	23,478.6	14.5	19,528.5	17.4	3,950.1	2.1
2000	30,533.3	30.1	25,493.7	30.6	5,039.6	27.6
Jan.-Sept. 2000	22,268.0		18,562.5		3,705.5	
Jan.-Sept. 2001	23,384.1	5.0	19,768.0	6.5	3,616.1	-2.4

SOURCE: PRC General Administration of Customs, *China's Customs Statistics* of Transportation and Communications has been pushing for an expanded role for transshipment centers to address the clamor for more efficient cross-Strait trade. This proposal would allow a higher percentage of imported content and would allow PRC products to clear Taiwan Customs, which would facilitate packaging and processing in Taiwan. The proposal would also allow cargo transshipment via air; this program is now being piloted out of Taiwan Chiang Kai Shek International Airport outside Taipei and Hsiaokang Airport in Kaohsiung. Depending on how broadly the measures are applied, they could allow more imports into Taiwan. The proposal also suggests allowing all of Taiwan's ports to act as offshore transshipment centers. Currently only Kaohsiung, Taichung, and Keelung are authorized to handle cross-Strait shipments via offshore transshipment centers.

Companies on both sides of the Strait continue to position themselves for the eventual realization of direct links. Taiwan's China Airlines reportedly acquired a 25 percent stake, valued at $45 million, in the PRC's China Eastern Airlines in September 2001. The deal, which still requires both governments' approval, not only would allow cross-Strait passenger and cargo flights but would also help China Eastern compete with the dominant PRC carrier Air China and multinational corporations like United Parcel Service and FedEx Corp. Four Taiwan companies—China Airlines, EVA Airways Corp., Far Eastern Air Transport Co., and Taiwan Airport Service Co.—own a 49 percent stake in the Gaoqi cargo terminal in Xiamen, Fujian, which is expected to open in 2003. Their PRC partner is the Xiamen city government, which holds a 51 percent stake. The PRC's China Ocean Shipping Co. (COSCO) has been negotiating to invest in cargo facilities at Taipei Port, though it might face PRC government hurdles in addition to the Taiwan restrictions.

Major issues for Beijing

Taiwan's accession to the WTO presents a conundrum for Beijing. Membership gives Taiwan equal status with the PRC in the WTO. Membership also enhances Taipei's ability to work with other governments, eroding Beijing's attempts to isolate Taiwan internationally. On issues where Beijing and Taipei may disagree, the WTO allows for the multilateralization of their disputes, but only if either side opts to pursue them within the WTO context.

Some analysts argue that Taipei may test Beijing by maintaining many existing investment and trade restrictions it has against the PRC after accession to the WTO, knowing full well such restrictions are not WTO-compatible.

But Beijing is likely reluctant to challenge or work specifically on issues involving Taiwan through WTO multilateral procedures and will continue to try to work bilaterally. Recent conversations in Beijing indicate that debate remains quite heated over how PRC officials will handle this issue, but some advisers appear to be arguing for a multilateral route with Taiwan. Of course, any continuing Taiwan barriers could also be challenged in the WTO by an affected third party as well. And not all the offensive options rest with Beijing: Taiwan may have political as well as commercial incentives to launch a WTO case against the PRC. At the same time, the PRC and Taiwan may find themselves united within the WTO on certain issues, and PRC liberalization will draw Taiwan businesses further into the mainland economy.

Taiwan will likely fold certain existing restrictions on trade and investment with the PRC into an export-control regime.

The agenda for US firms

US interests in cross-Strait economic relations are complex. From a political risk perspective, the development of common interests across the Strait is good for US firms because it promotes stability. From an economic perspective, however, the situation is not so clearly cut. On one hand, US companies stand to gain from increased efficiencies. Both Taiwan and the PRC are important commercial partners for the United States. The United States imports many products from Taiwan-invested firms in the PRC, both from the PRC directly and via Hong Kong. Further opening will allow US firms to improve their partnerships with Taiwan firms and coordinate their operations in Taiwan and China.

On the other hand, US firms may not be allowed to take advantage of falling cross-Strait barriers. Taiwan's maintenance of some barriers toward the PRC and PRC-invested entities may affect US companies trying to trade with and invest in Taiwan via their PRC-based ventures. Some blanket protections prohibit US companies from directly or indirectly exporting a variety of products, including IT hardware and chemicals, from their facilities in the PRC to customers in Taiwan. US companies are already confronting cross-Strait protectionism in shipping and aviation. Carriers from China and Taiwan specifically licensed for cross-Strait trades are the only carriers designated to conduct direct links so far. Though it makes sense that such a sensitive sector as shipping would be opened first on a trial basis to PRC and Taiwan carriers, the question remains as to when shipping will open to US and other foreign carriers. The US-China Maritime Agreement has expired, and one outstanding dispute involves the inability of US flag carriers to transship via Kaohsiung onward to PRC ports. Similar issues could arise with regard to passenger and air cargo rights.

US firms will need to find a way to participate with PRC and Taiwan firms on an equal footing if they are to realize fully the benefits of new markets and economies of scale that growing integration across the Strait promises. 完

Three "C"s: Civil Society, Corporate Social Responsibility, and China

Nick Young

As reform in China deepens, independent organizations are springing up in the gaps left by a retreating government

The world, we are told, is divided into three spheres of action: government (also known as "the state"); business ("the market"), and some altogether vaguer amalgam of citizen action and participation known collectively as "civil society" or, less engagingly, the "third sector." This division overlooks the cross-cutting nature of important social institutions, such as the law, the media, and the family, which don't fit easily into one box or another.

The idea of civil society nonetheless has remarkably broad appeal. For some, it represents a renewal of participatory-democratic possibilities—and a means by which to keep capital in check. For others, it represents a further means to ensure the retreat and containment of the state. For those somewhere in the middle, civil society is a useful compromise: a way to balance market imperfections so that the environment and other good causes get a fair hearing. The three-sector framework also helps focus attention on the fact that all three sectors are changing in size, shape, and role at the same time, and perhaps nowhere so fast as in China.

The government retreats...

The Chinese government has been gradually downsizing and withdrawing from direct economic management. Though this process is by no means complete, it remains to be seen how much further, and how smoothly, it will go. The "socialist market" is still strongly interventionist. State-owned enterprises continue to dominate the poor, western provinces, despite government efforts to lure private investment there. The banking system remains politically directed, making it hard for private entrepreneurs to access credit, despite the uncontested dynamism of the private sector. Entrepreneurs are also constrained by the lack of an adequate legal framework and, even more, by the absence of an effective judiciary. And the Chinese Communist Party elite continues to enjoy broad, discretionary powers, inviting rampant corruption despite denunciations from the top leadership and the execution of high profile culprits.

The retreat of government is perhaps most pronounced in the provision of social services. One aspect of this is the de-linking of cradle-to-grave welfare provision from state work units. At the same time, health and education services have largely shifted to a "user pays" principle, resulting in a marked growth in inequality of access. Investment is heavily concentrated in urban areas, where populations can afford to purchase services, whereas heavily indebted local governments in rural areas often cannot even afford to pay their schoolteachers. In poor rural areas, people can seldom afford to use local health facilities that are caught in a vicious cycle of rising prices and falling quality. The government is attempting to address some of the most pressing problems through a range of social insurance schemes, but these are generally undercapitalized and have limited reach (*see The CBR*, May-June 2001, p.18). Funding troubles are only exacerbated by the fact that China's taxation system does not meet the requirements of its new economy: It takes in far less revenue than it should and has difficulty transferring funds to the areas that need them most.

Nonetheless, the government appears to be recasting itself as a facilitator, rather than as a direct provider, of social services. There are few signs that it intends to scale up provision to meet the massive demand for new kinds of services generated by demographic, economic, and social change. Rising aspirations will only increase demand for these services. A growing, more affluent, and more empowered managerial and professional class will seek quality education, care,

Nick Young is editor of *China Development Brief* (*www.chinadevelopmentbrief.com*).

counseling, and rehabilitation for disabled, chronically, or mentally ill relatives or those with drug or alcohol problems. They will also be more inclined to seek legal redress for infringements of their rights. Even if private and nonprofit service providers only cater initially to urban elites, their activities may nonetheless expand general social perceptions of the quality of life possible for people with special needs or problems.

At the same time, the relative freedom and mobility of the market also bring in their wake new sources of social stress and problems that are unlikely to be resolved by government fiat: prostitution; crime; drug use; trafficking in women and children; the structural problems of a large rural-urban migrant population without full urban residency rights or access to basic services; a growth in numbers of street children, vagrants, and beggars; an increase in single parent families; and, arguably, an increase in people suffering from depression or other kinds of mental illness as a result of societal stress—from lengthy commutes to increased competition in job markets. Finally, as Chinese cities become larger, more anonymous, and more dominated by concrete and cars, and as rural environments become more degraded, there is very likely to be a surge in demand for improved environmental amenities and quality of life.

In sum, the Party and government face a daunting combination of existing service gaps, expanding demand for services, and severe fiscal constraints, but show little appetite for the task.

...and social forces advance

Instead, the government is passing the baton to "social forces"—an unspecified blend of private and nonprofit service providers. Policy statements and even laws enacted by the National People's Congress are spattered with appeals to these social forces. A more or less clear green light has been given to private hospitals and schools, including universities. Major public universities, such as Beijing and Qinghua, have established private foundations to capture philanthropic funding (the Beijing University Foundation has a subsidiary registered in California), and major hospitals in eastern provinces are following suit. The 1999 Public Welfare Donation Law was clearly designed to facilitate the flow of private funds to such institutions, with a particular eye to wealthy, overseas Chinese donors such as Hong Kong billionaire Li Ka-Shing, who has endowed a university and hospital in his native Guangdong Province.

In several parts of the country, civil affairs bureaus have contracted out the management of orphanages to international charitable organizations. Education and health authorities in some areas are reportedly exploring similar arrangements with private service providers. In many cities, nonprofit and private service providers—though there is seldom a clear distinction between the two—have established retirement homes with varying degrees of local government investment and support.

China has yet to develop clear standards and an adequate inspection system for institutions and services of this kind. It is, however, evidently pursuing an American model of private and nonprofit provision, backed by private and public insurance schemes, rather than a European model of mainly state-delivered social services.

The rise of governmental nongovernmental organizations

On the nonprofit side, the government has, over the last 20 years, established a number of official charitable organizations, some of which have proved able to mobilize substantial private funding. Best known is the China Youth Development Foundation's flagship Project Hope, which since 1989 has raised more than $200 million to build rural schools and provide scholarships for students from poor areas. Much of the funding has come from corporations and overseas Chinese but, according to the foundation, fully 64 percent of ordinary urban Chinese citizens have also contributed. Other big-league players are the China Children and Teenagers' Fund, established in 1981 by the Women's Federation, and the Poverty Alleviation Foundation, established in 1989. A relative newcomer is the China Charity Federation, which since its founding in 1994 has developed a national network of local chapters mobilizing funds for disaster relief and a wide range of health, social-welfare, and poverty-reduction projects, from cancer research to micro-irrigation.

Skeptics have argued that these official nonprofit organizations are mere proxies and fundraising mechanisms for government. This is too dismissive. It is true that the official nonprofit groups articulate their roles in terms of supporting government and Party policy: indeed, anything else would be illegal, even unconstitutional, in communist China. And where, in a society so dominated by government, was the initial impetus for a nonprofit sector to come from, if not from government itself? Many of the official foundations have, over the years, developed a tangible ethos of being separate from, but acting in harmony with, government; and government itself is progressively withdrawing the financial support, usually in the form of salaries and office space, that was a hallmark of the early days.

Several of the official foundations have achieved standards of financial transparency and accountability that are quite novel in China. From its founding, the China Charity Federation has published accounts audited *pro bono* by KPMG China, and many of the other official charities have since followed suit. Transparency is essential to winning donor trust and has

The most persuasive case for autonomous civil society will be demonstrable success in creating new and effective forms of social provision—just as the most persuasive argument for the market economy turned out to be that it worked for the peasants who, back in the late 1970s, went ahead and decollectivized without asking government permission.

helped the China Charity Foundation attract substantial endowment funds from international corporations, including a HK$25 million ($3.2 million) donation from HSBC.

Such success fuels the argument for loosening the ties between these agencies and their government sponsors, and the agencies themselves appear keen to stand on their own feet. A landmark conference, hosted in Beijing in October 2001 by the Poverty Alleviation Foundation, drew together delegates from dozens of Chinese and international nonprofit agencies and called on the Chinese government to liberalize the legal framework and registration processes for nongovernmental organizations.

But while this top-down experiment in the creation of a nonprofit sector appears to be leading quite smoothly towards more mature and independent organizations, the government remains wary of grassroots community groups. Existing regulations firmly tie any citizen group to an official government or Party sponsor and limit diversity by insisting that only one group of any one kind can register at any administrative level. Rules also prevent organizations from conducting activities outside of their place of registration, constraining their natural growth. What's more, the continuing Falun Gong affair has illustrated the worst fears of Chinese conservatives, who appear to reason that the movement is the result of allowing ignorant people too much freedom. Given numerous recent episodes of rural unrest, and the disaffection of those who have lost out under reform, such as the laid-off workers who formed the rank and file of Falun Gong, the State Council will likely be in no hurry to extend freedoms for associations that might allow more space for dissidents (and "splittists") to organize.

Grassroots organizations sprout

Nevertheless, over the last few years a surprising number and variety of independent organizations have grown up between the cracks in the legislative pavement. These include well- (and legally) established, but authentically nongovernmental, groups such as the Amity Foundation, the Chinese Christian service organization, which now receives more than $5 million a year in funding from international church groups for social welfare and community development projects that it implements in every province in China. The Catholic Church has several smaller, but vibrant, counterparts, such as Beifang Jinde, which grew out of a Catholic newspaper in Hebei Province. In several cities the YMCA and YWCA have reemerged from their hibernation during the Mao years to run neighborhood development programs, offering recreational facilities for young people, organizing networks of volunteers to befriend older citizens, and running training programs for laid-off workers.

The academic community has also spawned many nongovernmental groups that have grown in the shelter of academic institutions. These engage, variously, in policy research and advocacy; networking around specific rights-based themes such as domestic violence and child abuse; legal advice services for disadvantaged constituencies; and rural development programs that pioneer bottom-up, participatory approaches.

Next comes a small but brave array of people who have espoused specific causes. In descending order of popularity, these causes are the natural environment, the rights of women, and the rights of migrant workers. These small groups of people have found different means of advocating and providing services, in a more or less legal way.

The greens are the most numerous and vocal issue group, receiving generous coverage from a

Environmental Educators Initiative: BP's Flagship Social Investment Program

Some corporations operating in China not only support capacity building directly related to their immediate needs but also focus on the long-term environmental outlook of the country.

BP has been working for over four years with the World Wide Fund for Nature to support environmental education in schools using a multidisciplinary approach. In July 1997, BP signed a unique agreement to work with the World Wildlife Fund and the Chinese government to develop and test environmental education materials and methodologies with the aim of transforming the existing primary and secondary school curriculum.

To maximize its impact, the program focuses on "teaching the teachers." Rather than delivering training directly to schools, the program sets out to help China integrate appropriate environmental education into national teacher-training programs in all subject areas. After a three-year trial run at three universities, the program is now expanding to 10 universities and is developing certificate and masters degree courses in environmental education.

Visits to the "pilot schools," where teaching materials and methodological approaches are tried and tested, provide interesting insights into the program. Children are encouraged not only to understand environmental issues but also to take action themselves. This results in a diverse range of extracurricular activities: rubbish collecting, recycling drives, water pollution testing, visits to restaurants to discourage the use of disposable chopsticks, and handicraft classes to make items such as cloth shopping bags as a way to encourage parents to use fewer plastic bags.

Equally important, the program provides a test bed for the Chinese Ministry of Education as it turns its attention to improving the quality of Chinese education through the concept of "learner-centered education." The program's challenging goal is to change teaching methods and people's behavior. As China has a long tradition of learning by rote and by imitating the teacher, the program is working against deep-seated approaches to education by introducing problem-based, student-centered approaches.

"The company's philosophy has been evolving towards building capabilities and supporting our business strategy by creating broader value for a range of stakeholders," says Dr. Gary Dirks, executive president, BP China. Dirks was attracted by the program's focus on future generations and long-term impact, as well as the potential for company involvement. "We also made it clear from the start that we didn't want to be passive. We wanted to be involved in the design of the program and how it is implemented."

The program began by establishing Environmental Education Training Centers in three key teacher-training institutions: Beijing Normal University, East China Normal University in Shanghai, and Southwest China Normal University in Chengdu, Sichuan. The project aims to have an impact on more than 200 million schoolchildren in China.

—Pia MacRae

Pia MacRae works in BP's Government and Public Affairs team, Beijing.

carefully cultivated support base in the Chinese media. "Environmental awareness raising" of course falls comfortably within the policy parameters of the central government, which understands the need to push through some unpopular measures—realistic energy and water pricing in particular—and can use help in preparing the public ground. Green nongovernmental organizations also make more convincing propagandists than government slogan writers. But the green groups nonetheless occasionally come into sharp conflict with local governments that are prepared to sacrifice environmental quality for short-term gain. The greens thus play an important role in advancing the boundaries of advocacy in China.

Finally, there are those determined individuals who, in their private or professional lives, have come across problems that the state is doing nothing to address. Typical of this group are the many parents of disabled children who, after a long and fruitless search for cures or treatments, set up some facility of their own: an autistic school, a daycare center for children with cerebral palsy, or an educational toy exchange.

Official hostility on the wane

For individuals who are forming groups on their own initiative, the times may be changing. Several years ago, independent initiatives of this kind met with active hostility from the government departments responsible for these neglected constituencies. Civil affairs or Disabled Persons Federation officials simply could not accept that ordinary people were entitled or qualified to start inventing their own kind of community care and frequently intervened to close their efforts down. Schools founded to cater to the children of migrants, who are ineligible to enter urban state schools, have experienced similar harassment from education authorities, and in some areas the official Women's Federation has proved equally hostile to private citizens' initiatives to provide services to women.

Bureaucratic hostility now appears to have abated somewhat. Starting from the bottom, as a grassroots group, remains far from easy, but the early pioneers have staked out some of the most difficult terrain and, in the current atmosphere of cautious endorsement for nonprofit activity, outright suppression of private initiative appears more sporadic. However, for many groups, formal legal recognition remains extremely difficult, if not impossible. Government fears over Falun Gong have paralyzed registration procedures even for patently anodyne and explicitly charitable organizations. It seems the state prefers to tolerate unofficial initiatives that it can crack down upon if the political winds change, rather than allow them to exist formally in the first place.

This is an important time, therefore, for the small, independent organizations to prove their worth. To most Westerners, it is a matter of common sense that releasing the sheer creativity of ordinary people in the realm of community and social development will bring benefits comparable to those achieved by releasing private initiative in the economy. But this is not obvious to a Chinese Communist Party beset by problems on many fronts. Much less is it likely to be swayed by abstract arguments about the right to freedom of association. The most persuasive case for autonomous civil society will be demonstrable success in creating new and effective forms of social provision—just as the most persuasive argument for the market economy turned out to be that it worked for the peasants who, back in the late 1970s, went ahead and de-collectivized without asking government permission.

Domestic corporate responsibility

How are Chinese businesses faring in the new division of social responsibilities? Their role is certainly changing—but often in the opposite direction to that prescribed by advocates of increased corporate social responsibility. Chinese enterprises are increasingly liberated from welfare functions and allowed to get down to the simple business of showing a profit. Some of the most economically dynamic sectors of the economy, such as the nominally "collective" rural industries, have thrived in an almost completely unregulated environment. Environmental standards and a 1995 Labor Law exist on paper, but China has no remotely comprehensive or effective enforcement mechanisms. Many of these frontier industries have been highly polluting and have offered rock-bottom wages and minimal health and safety standards to non-unionized rural migrants, of whom there is nonetheless a steady supply. Such industries have been highly profitable.

The government's characteristically pragmatic approach seems to have been "let it happen, develop rules later." Nevertheless, the National People's Congress recently amended the Trade Union Law to grant unions more leverage in representing workers in disputes and new powers for legal recourse. Several media reports interpret the amended law as tacitly recognizing workers' right to strike. According to a 1998 All-China Federation of Trade Unions survey, only 4 percent of private sector companies have union branches; but under the new law, all enterprises with 25 or more "unionists" must set up a trade union committee.

The international corporate role

So where does all this leave international corporations with China operations? Life is uncomplicated for those who see corporate social responsibility in terms of philanthropic donations:

The most visionary proponents of the concept of corporate social responsibility see it not as a mere charitable retrofit—somewhere between community relations and brand promotion—but as a redefinition of the role of the company in society.

Western consumers prefer to believe that they can have their cake and eat it without either destroying the environment or hurting other people.

China has a growing range of worthy, officially sanctioned, and reasonably transparent causes that will be delighted to receive a check. Project Hope alone has received millions of dollars from US corporations, including roughly $2 million apiece from Motorola Inc. and The Coca-Cola Co. Both companies continue to channel funds through the Youth Development Foundation, with Coca-Cola gradually switching the emphasis to university scholarship programs. Several other companies are doing likewise, as higher education becomes fee-based and harder for less privileged students to access. IBM Corp. has put tens of millions of dollars into IBM technology centers in Chinese universities, supplemented by teacher training and scholarship programs. Hewlett-Packard Co. has also supported the training of information technology teachers.

While education remains a favored cause, disaster relief also attracts large donations, and the China Charity Federation has received international corporate support for many of its social welfare projects.

Corporations wishing to assist some of the smaller, community organizations will find no shortage of suitable candidates, but should be aware that these are, as yet, small and fragile operations that could be diverted, corrupted, or simply suffocated by large injections of funds.

Some companies take a more hands-on approach to strengthening local charitable initiatives by allowing employees time off to undertake voluntary work in the community. HSBC, in collaboration with the China Charity Federation, does this in an imaginatively integrated program. Volunteers from the bank's branches help out in retirement homes that were established with the bank's support, and where the bank also funds professional training for full-time care staff.

But even this is to construe corporate social responsibility in a rather narrow sense. The most visionary proponents of the concept see it not as a mere charitable retrofit—somewhere between community relations and brand promotion—but as a redefinition of the role of the company in society. Responsible businesses, the argument goes, should be driven by a triple bottom line: not just profits for the shareholders, but also long-term environmental sustainability and demonstrable benefit to the wider community.

Some of the visionaries reside in corporations, such as BP and The Body Shop International Plc, that strive to present themselves as exemplars of this new business ethic (*see* p.36). But the vision is also driven by demand. Western consumers prefer to believe that they can have their cake and eat it without either destroying the environment or hurting other people. Religious organizations, labor unions, and some pension fund investors are becoming increasingly keen to find ethical investment portfolios that search for a morally palatable return on capital. These concerns are keenly spearheaded by an array of pressure groups—another face of civil society—gunning for big corporations that fail to demonstrate fair dealing throughout their supply chains. This may not amount to the global rejection of multinational corporations that Naomi Klein predicts in her best-selling book, *No Logo*, but it is a significant new consumer—and shareholder—pressure that may profoundly affect the way that private business is done.

International corporations invariably argue that their first contribution to corporate social responsibility is the introduction of Western business practices. But this is hard to argue for export-processing industries, since so much of the work is repeatedly subcontracted, making it hard for even determined companies to keep an eye over the whole supply chain. Indeed, it appears that, at least in one case, much manufacturing piecework was done by rural women in their homes.

Western civil-society organizations, from the free-Tibet campaigners who have realized that international capital is more responsive to Western public opinion than the Chinese government, to groups like Sweatshop Watch, determined to hit the pockets of offending toy and garment industries, are becoming increasingly sophisticated in their tactics. For example, many of these organizations have bought shares in target companies to force shareholder debates that draw wider, public attention. International development nongovernmental organizations are also starting to "advocate" to the corporate sector. They have spent decades criticizing governments and multilateral institutions such as the World Bank, but increasingly identify multinational corporations as the players that most count in shaping the lives of people in developing countries. A case in point is the recent campaign by Médecins Sans Frontières and others to secure the release of patents on anti-AIDS drugs for third-world victims. Among these groups there will be no shortage of those who see efforts by international corporations to support community development or civil society in China as an evasion of their responsibilities for working conditions.

But for companies that take corporate social responsibility seriously, unprecedented opportunities abound. With its entry into the WTO, China probably stands closer to the international community of nations than at any point in its history. Western investors are likely to have a profound impact on evolving business models; and this may well involve new relationships between corporations and civil society on both sides of the Pacific. 完

Ensuring Health and Safety in China Operations

Catherine Gelb and Virginia A. Hulme

Case studies illustrate how US companies meet the environmental health and safety standards China imposes on their China operations—and the standards they impose on themselves

Along with China's rapid economic growth over the past 20 years has come widespread pollution on a scale that has given rise to global concern. In recent years, however, there has also been a growing awareness at all levels of Chinese society of the urgency of halting, and reversing, environmental degradation. Even as unprecedented grassroots efforts spring up around the country to keep communities green, the central government is rapidly developing an international-standard body of laws on environmental issues.

Enforcement of environmental laws, as with almost every area of Chinese law, is a challenge. Enforcement is less of an issue, however, with some of the largest foreign direct investors. Not only are these foreign investments in China among the highest-profile commercial operations in the country, but their internal policies generally require that they establish the same environmental standards in China that they do at home. In some cases, these standards exceed those China imposes; in other cases, China's standards are stricter. Such attention to the environment at the operational level is crucial to making China's environmental law regime effective.

The following case studies illustrate how two large US companies—General Electric Co. and Corning Inc.—approach compliance with environmental standards in China. A third profile, of Liberty Mutual's occupational safety and health research center in China, is an example of how foreign companies are bringing their special expertise to China.

1 General Electric: EHS in China

The China operations of General Electric Co. use the same environmental health and safety (EHS) compliance systems as GE's operations around the world, explains Ellen Proctor, GE's EHS counsel and manager for Asia. Proctor supports GE China's EHS compliance program, working with line managers in all of its China businesses—including plastics, lighting, medical systems, and industrial systems manufacturing facilities. GE has more than 30 investments in China, including joint ventures and wholly foreign-owned businesses. EHS is part of every aspect of these operations, from sales and technological development to distribution and services.

GE's Six Sigma quality management system helps guide the EHS system for the company. In statistical terms, Six Sigma quality refers to the level of quality equivalent to achieving fewer than 3.4 defects per million "opportunities." The company also has placed a priority on "digitizing" its EHS efforts through a customized software system it calls GE PowerSuite™, which is part of the company's intranet.

GE's EHS policy, which is part of the company's set of integrity policies governing the conduct of all business units and employees, requires compliance with applicable EHS laws and regulations; measures to prevent workplace injuries and illnesses; assessment of EHS impacts in the design and production of GE's products and services and before starting a new activity or project; elimination of unreasonable risks from GE's facilities, products, services, and activities; and "to the extent reasonably practicable," reduction of the use and release of toxic materials.

The policy also requires the company to continually improve the firm's EHS systems and performance as an integral part of GE's operations. The company focuses on training and involving everyone from the top management down in EHS compliance—a total of 8,200 employees in China. GE builds its EHS program through training plant managers and other business leaders on EHS and the periodic review of injury

Catherine Gelb
is editor of *The CBR.*

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

rates (determined according to US Occupational Safety and Health Administration [OSHA] standards), percentage completion of EHS training, and other compliance metrics.

Of course, any global EHS program must be tailored somewhat to local conditions. The company implements a global health and safety management system called the GE Health and Safety Framework, which has 21 individual elements (*see* Box). A scorecard is used to track the progress of all GE units in China and the rest of the world. GE also has a "tool kit" based on Chinese laws for air, water, waste, and other environmental characteristics. As Proctor notes, "our approach is twofold: we want to implement a global EHS program that provides the same, high level of EHS performance around the world . . . and we also want to make sure that we comply with the letter and spirit of China's EHS laws and regulations."

Monitoring the monitoring

GE has a three-tiered auditing system to monitor its EHS compliance. An EHS self-assessment takes place each year in both the manufacturing and service areas of the business, covering air, water, waste, chemical management, industrial hygiene, health and safety, emergency preparedness, and materials transportation. In China, the self-assessment checklists have been customized to identify applicable Chinese requirements. GE businesses also conduct audits every 24 months on a rotating basis and track all audit findings and how long it takes to resolve any findings.

The GE PowerSuite™ web applications enable the company to manage EHS information, such as monitoring and recordkeeping requirements, industrial hygiene monitoring results, audit findings, and time-sensitive compliance requirements. For example, the applications include a calendar into which managers can enter inspection dates. Reminders to conduct these inspections are then e-mailed to the responsible employees. The system can accept Chinese characters, so managers in China can input and manage data in Chinese.

The best part of the PowerSuite™ web applications, Proctor explains, is that they allow a wide audience to view and manage EHS information in real time. Users find that the system helps them fit EHS into their daily activities. A plant manager can see what EHS issues staff need to address; a regional EHS manager can analyze audit findings or injury and illness trends at a site, or across a country, or an entire region; and GE corporate offices can download EHS metrics on a periodic basis without requiring people to prepare additional reports. Digital "cockpits" summarize key EHS metrics for EHS and business leaders and provide a snapshot overview at all times of EHS performance and program implementation.

Use of tools like the Health and Safety Framework and PowerSuite has helped GE focus on "leading-indicator" measurements. Using injuries as a principal measure, Proctor notes, is not good enough—it means you are too late to prevent an adverse event. So, for instance, GE's plastics manufacturing facility in Nansha, Guangdong, logs how many "safety contacts" a manager has per month. These are conversations with workers about safety and include praise for safety equipment use and explanations of why a particular EHS policy exists.

The importance of training

Training is critical to the success of EHS, according to Proctor. The PowerSuite training tracker helps an EHS manager track all of the EHS training that must be delivered at a particular manufacturing or service unit. This includes training that is required by Chinese law, as well as additional training that GE requires to meet its global EHS program expectations.

China imposes overall responsibility on the employer to provide sufficient health and safety training to enable workers to do their jobs safely and also requires specific EHS training on certain subjects. In some cases, workers must take specific training courses organized by the PRC government and obtain training certificates (for instance, for forklift operators, electricians, and welders). In other cases, the rules may simply leave it to the discretion of the company to develop and deliver the training (for instance, for staff who handle flammable chemicals or provide first aid). Additional GE training requirements include audit skills, how to perform a job safety analysis, and hazard awareness. This training is done through a combination of live demonstrations, classroom training, and pictures.

In addition to the thousands of units of basic EHS training, GE business leaders take part in EHS compliance leadership training. High-level managers in Asia attend a special one-day, in-person training class that includes a section on EHS—in 2001 GE ran four classes in China. Finally, all GE plant managers must attend a two-day, in-person training class on the company's EHS management system and their EHS responsibilities as plant managers. The firm typically holds this training course in China every other year.

Reporting and best practices

GE sites submit monthly and quarterly EHS performance and program implementation measurements to their business EHS headquarters. The GE Corporate Environmental Programs Group summarizes these performance measurements in a report to the company chair on a quarterly basis. The Corporate Environmental Programs Group also reviews programs during Session E—an annual meeting at which line managers (not EHS managers) must stand up in front of their business leaders and the Corporate Environmental Programs Group and report on their EHS progress by outlining last year's performance and the coming year's commitments.

Twenty-One Elements of GE's Health and Safety (H&S) Framework

1. Site H&S Plan
2. H&S Expectations and Performance Appraisal
3. Hazard Analysis and Regulatory Compliance
4. Employee Involvement
5. H&S Specialist
6. Accident Reporting, Investigation, and Follow-Up
7. H&S Training
8. Health, Safety, and Housekeeping Inspections
9. Personal Protective Equipment
10. Contractor H&S
11. Emergency Preparedness and Fire Protection
12. Job Safety Analysis
13. High Risk Operations
14. H&S Reviews of New and Modified Facilities and Equipment
15. Industrial Hygiene
16. Chemical Management
17. Ergonomics
18. Motor Vehicle Safety
19. Medical Services
20. Program Evaluation
21. Energy Control and Power Lockout for Maintenance Activities

For example, in the spring of 2001 GE Medical Systems held its Session E in Tokyo at which managers from India, China, and elsewhere in Asia gathered for a site-by-site, country-by-country review.

GE sites in China interact regularly with local environmental protection bureaus (EPBs) and labor bureaus. For example, government regulators perform routine inspections, and GE sites must submit annual reports on hazardous waste generation. The regulators are deeply involved in issuing approvals for new and expanded manufacturing sites as part of China's "three simultaneous system," which requires that pollution control systems be designed, constructed, and operated in parallel with any industrial development. The company also shares information and best practices with the EPBs.

How much responsibility should the company take for EHS outside the plant—for instance, among its suppliers, contractors, and purchasers?

Incremental approach

GE has had to work hard to make its EHS compliance systems work in China in part because of the growth of the company's operations in the country, which has been in the double digits for the last few years. The company acknowledges that evolving global standards of care raise a tough question: how much responsibility should the company take for EHS outside the plant—for instance, among its suppliers, contractors, and purchasers?

As a partial answer to this question, GE notes that its global contractor safety program applies in China. The program includes prescreening and selection of contractors based on their health and safety programs and past safety performance; preproject review to ensure contractor employees have received appropriate health and safety training; formal orientation to discuss the project health and safety plan and GE's EHS procedures; regular inspection of contractor activities to ensure that the company's EHS procedures are being followed; and enforcement of the company's EHS expectations, which can include dismissal of contract employees, work stoppage, and even dismissal of contract firms. Some GE facilities have implemented additional controls, such as badge systems, work-permit systems, and employment of safety monitors to oversee contractor activities. Day-to-day enforcement of GE's standards is critical to the effectiveness of the program.

GE's integrity policy requires that it do business only with suppliers that comply with applicable laws and any additional GE standards that may apply. Unacceptable practices include employing workers younger than the local legal minimum age; using forced, prison, or indentured labor, or workers subject to any form of compulsion or coercion; lack of commitment to observing applicable environmental laws and regulations; and failure to provide workers with a workplace that meets applicable health and safety standards. In many cases, the supplier qualification will include an onsite EHS review before GE will issue a purchase order.

GE and EHS

GE aims to create a culture "passionate" about EHS, according to Proctor. To help the company achieve "EHS excellence" in all its operations, Proctor says, GE is building a culture of EHS compliance in its China operations. That means, she explains, training on *what* company expectations are and *why* they are important, as well as the use of systems that reward good performance and impose sanctions for failure to follow EHS procedures. It helps that many of GE's EHS programs are grounded in China's legal requirements. In general, Proctor says, the company has found that when trying to protect people's safety and their community, "EHS is a universally accepted language."

2 Corning: Cleaning China's Air

Corning Inc. is a leading global producer of an essential component of the catalytic converters that clean carbon monoxide, hydrocarbons and other volatile organic compounds (VOCs), and nitrogen oxides from automobile exhaust. The company makes ceramic substrates in the United States and Germany, and at a wholly foreign-owned facility in China, Corning (Shanghai) Co., Ltd., in Pudong.

The substrate—the base of the catalytic converter—is a roughly 2-to-7-inch-long cylinder (it can also be oval or asymmetric in shape) that contains thousands of parallel channels in a honeycomb-like arrangement along the length of the cylinder. The substrate is coated with a variety of different precious metals that act as catalysts that react with the harmful gases and transform them into water, carbon dioxide, and nitrogen gas. Corning has produced honeycomb shaped substrates in the United States since 1974, after the 1970 US Clean Air Act mandated automobile emissions reductions, and has worked to improve the design ever since.

Joseph Allen, director of operations and general manager of Corning (Shanghai), estimates that Corning has a little more than half of the market for catalytic converter substrates worldwide. Japanese firms NGK Insulators, Ltd., and Denso Corp. are also significant suppliers of these products. A variety of smaller companies also produce similar products. Allen believes Corning has been successful in keeping ahead of the competition in this market because of the capital-intensive nature of the product and the constant need for technological refinements.

In addition to its catalytic converter substrate plant in Shanghai, Corning, which receives a large percentage of its revenues from telecommunications equipment (particularly fiber optics), recently bought two wholly foreign-owned enterprises and now operates in Chengdu, Sichuan; Shenzhen; Tianjin; and Wuxi, Jiangsu. The company is in the process of restructuring to form a holding company.

A big bet

The greenfield substrate plant, located in Pudong's Jinqiao Export Processing Zone, got its business license in 1999. The $77 million investment qualified for tax incentives the PRC government grants to high-technology, environmental, and export-oriented facilities.

The plant—now Corning's Asian manufacturing hub for the substrates—exports more than 90 percent of its output, mainly to auto companies in Asia. Corning's Asian customers include South Korea's Kia/Hyundai Automobile Group, Daewoo International Corp., Ssangyong Corp., and Renault Samsung Motors operations; India's Maruti/Suzuki and Hyundai Motor India Ltd.; and China's Chang'an Automobile (Group) Co., Ltd., Chongqing Chang'an-Suzuki Automobile Co., Ltd., Shanghai Volkswagen Automobile Co., Ltd., Shanghai GM Automobile Co., Ltd., China FAW Group Corp., FAW-Volkswagen Automotive Co., Ltd., and other local minivan and light-duty vehicle suppliers. This is Corning's smallest substrate plant—the others are in Erwin, New York; Blacksburg, Virginia; and Kaiserslautern, Germany—but the plant has the capacity to increase its output if the market demands it.

Though most of Corning's product is exported, in January 2000 rules went into effect requiring all of China's cars and light-duty vehicles to be equipped with catalytic converters. Enforcement is spotty at best, however, in part because of local protectionism. This is why Corning's domestic Chinese customers are largely the major foreign-invested auto plants. Shanghai Volkswagen has catalytic converters in most of its autos. General Motors Corp.'s Shanghai plant has catalytic converters in all of its cars. Local protectionism also reduces the potential domestic market, but the substrates are expensive to make, so Corning is well positioned to lead the market in China as demand grows.

Building a clean facility

At the outset, Corning did a full environmental impact assessment as called for in the PRC business license application. The Jinqiao zone was unable to provide any history about the land, but zone officials agreed to clear away the trash left on the site. The company's environmental due diligence for the impact assessment, which included drilling for soil samples, uncovered evidence that the land had been part of a swamp and that it contained no solvents like turpentine, oil, or other hazardous material.

The substrate production process generates waste. Corning had to apply for environmental permits for various properties of the wastewater, noise levels, and air emissions from the central-level Environmental Protection Administration, and the local bureaus of labor and inspection and quarantine. Corning has a policy of making sure its facilities in China meet or exceed New York State, US, or PRC regulations, whichever are tightest. The exhausts for the kilns, which fire the ceramic substrates, meet the even stricter European standards. An afterburner incinerates VOCs, and a scrubber removes hydrofluorides, from the kiln exhaust. Settling ponds are part of the water-treatment process.

Corning showed its building plans to the government and explained the reasoning behind the company's decisions. In some cases, the company had to explain why it was exceeding local Chinese standards.

Complex issues arose during the construction of the plant over which aspects of water, exhaust, and noise pollution the government considered to be within the facility's boundaries and thus Corning's responsibility. Shanghai noise pollution regulations, for example, call for a maximum noise level of 50 decibels (db) outside the plant, at the fence line—but the background noise in the plant's vicinity initially was 49db. Corning had to work to minimize this level. The PRC government also required that water leaving the plant be cleaner than water coming into it. The company's dust collectors and top-of-the-line equipment ensure that the plant releases silica dust at one-tenth of the maximum level permitted in Chinese regulations.

Corning's Shanghai plant has received its ISO 14000 certificate, and the Jinqiao zone as a whole is moving toward this environmental management standard as well. Jinqiao already had recycling in place when Corning arrived but the company's representatives asked Jinqiao officials to show them the solid waste-treatment facilities. Allen describes these facilities as "amazing" and notes, "all solid waste streams are picked over in greater detail than those in the West." The local environmental protection bureau conducts periodic technical sampling and measurement. The local labor bureau inspects the plant for dust, noise, and chemicals—every three to six months if it finds a violation, otherwise every year.

Up and running, safely

The Shanghai plant has a full-time EHS engineer, whose role is that of a facilitator rather than a policeman; Allen says he has made clear to the entire plant staff that they are all responsible for EHS.

Corning has a policy of making sure its facilities in China meet or exceed New York State, US, or PRC regulations, whichever are tightest. The exhausts for the kilns, which fire the ceramic substrates, meet the even stricter European standards.

Corning starts its daily production and shift meetings with a daily report of incidents and "watch-outs." The EHS engineer reports weekly to Allen's business staff. The engineer submits a monthly report to Allen and the company's corporate safety and environmental groups, which audit the plant annually. Under the ISO 14000 procedures, the plant conducts its own internal auditing and oversight.

The company has procedures in place for EHS violations. For example, inside the plant, the PRC legal maximum noise level is 85db on the production floor, above which hearing protection is required. Corning sets its own maximum internal noise level at 82db. If the plant exceeds this 82db internal limit, the company issues a temporary rule requiring that all workers on the floor wear hearing protection, while it launches an investigation to identify the cause of the noise problem and correct it.

If an incident affects a part of the production process, the computer that runs the given machine logs the failure so that there is no way for the incident to escape notice.

Plant operators are under written instructions to report EHS incidents immediately. If an incident affects a part of the production process, the computer that runs the given machine logs the failure so that there is no way for the incident to escape notice. The operator then informs the production manager and the EHS engineer immediately so that they can begin investigations into the incident. If there is an actual discharge of hazardous material, Allen would also be informed and would inspect the plant personally. After the investigation gathers the facts of the case, the staff undertakes any necessary damage control actions, writes up a detailed incident report according to a standard format, and notifies the proper authorities.

"Corning has a strict policy of being open with government authorities," Allen explains. "Covering up EHS incidents in any way is one of our few grounds for immediate dismissal." Allen says that the plant uses this procedure for all EHS incidents extensively and that the number of EHS "actions" is closely monitored.

EHS training and education

One of the EHS challenges Corning faced when setting up in China was educating its workforce and suppliers. "When unsafe or questionable environmental practices are the norm, it takes some effort to change attitudes," Allen explains. "The good news is that training has been very successful." Corning offers technical skills training in first aid and fire prevention. The company also designed case-based training sessions to raise awareness of EHS and to demonstrate the management's commitment to EHS. Allen says that the company found the employees of the plant overwhelmingly willing to learn. The corporate headquarters has designed its own training courses, but the Shanghai facility tends not to use them because of language and distance barriers. Corning headquarters monitors the Shanghai plant's own efforts.

Fresh air

Allen asserts that China in general and Shanghai in particular are working hard to raise standards to Western levels in all areas, especially in the environmental realm. Yet, he observes, laws continue to be ambiguous. He stresses that learning which agencies to deal with and developing relationships with those agencies are both still extremely important. Corning has taken an open approach that has worked well to date when coupled with "a philosophy to exceed regulations if at all possible."

Corning's own environmental goals are twofold. First, the company plans to focus on "keeping up with changing regulations." Second, the plant will work to improve EHS systems continuously, by measuring kilograms-to-the-landfill and other waste standards, incident numbers, and other critical EHS elements. These reviews will lead to the development of further EHS goals and improvement projects.

3 Liberty Mutual and OHS in China

Liberty Mutual Insurance Group's interest in occupational health and safety (OHS) started in 1912, when the company was founded by an act of the Massachusetts legislature to provide workers in the state with compensation insurance. Liberty formalized this interest in 1954, with the founding of the Liberty Mutual Research Center for Safety and Health in Hopkinton, Massachusetts. Liberty's business has since expanded into other types of insurance, but its operations in China still focus on workplace safety.

Liberty opened a representative office in Shanghai in 1996 devoted solely to coordinating Liberty's safety research in China and translating many of its products into Chinese. The company opened two Safe Work Centers in Shanghai and Chongqing in 2000 to conduct research on workplace health and safety issues. Since 1999, Liberty has also co-organized the annual China Safe Work Forum with the Bureau of Work Safety of the State Economic and Trade Commission (SETC), now the State Administration of Work Safety, since February 2001. In addition to its safety office, Liberty has insurance representative offices in Chongqing and Beijing that research the China insurance market and cooperate with local and central government agencies and ministries.

● **China Safe Work Forum** The China Safe Work Forum is an annual conference that brings together Chinese and international experts in occupational safety and health for three days of discussion and exchange of information about

Council Bulletin

Event Wrap-Up

Washington

November
Issues Luncheon: China's Legal Preparations for WTO: Report on a Work in Progress Featured Christopher Parlin, partner at Kaye Scholer LLP

Working Meeting with the US Department of Commerce on the Joint Commission on Commerce and Trade and WTO Training Agendas Featured Cheryl McQueen, director, Office of the China Economic Area, and colleagues

Roundtable: China's IT Development Featured Carl J. Dahlman, lead specialist, and Jean-Eric Aubert, senior policy adviser, in the Knowledge Networks and Distance Learning division of the World Bank Institute, and co-authors of the World Bank's forthcoming publication, *China and the Knowledge Economy: Seizing the 21st Century*

Meeting Featured officials from Xinjiang Uygur Autonomous Region and Qinghai Province

December
Issues Luncheon: Year-End Review Session Featured key congressional staffers

Beijing

December
Seminar: Distribution Fraud Featured: Peter Humphrey, senior manager, Pricewaterhouse-Coopers Investigations Asia

Shanghai

December
Digital Videoconference Presentation: China in the WTO: Now What? Featured Robert Cassidy, Long Aldridge & Norman LLP; Mike Gadbaw, General Electric Co.; Christina Lund, Office of the US Trade Representative; and Karen Sutter, the US-China Business Council. Moderators: Robert Kapp, the US-China Business Council, and Catherine Houghton, US and Foreign Commercial Service

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the latest developments in the field, the situation in China, and insurance for workplace injuries. These conferences have taken place over the last three years in Chongqing (1999), Beijing (2000), and Shanghai (2001).

- **Shanghai Safe Work Center** The Medical Center of Fudan University in Shanghai signed a cooperative agreement with the Liberty Mutual Research Center for Safety and Health in 1997. To date, the collaboration has studied injury and illness recordkeeping and surveillance systems in Shanghai and Pudong, as well as lower-back pain among workers in Shanghai. It has also surveyed Chinese-language research publications on lower-back pain among workers in China. In 2000, Liberty and the Medical Center of Fudan University cemented their relationship by establishing the Liberty Mutual Safe Work Center to conduct further research on health and safety issues.
- **Chongqing Safe Work Center** In late 2000, Liberty's Research Center and Chongqing University agreed to set up a Safe Work Center. According to a newsletter published by Liberty's US-based Research Center, the Chongqing center "will collaborate with the Research Center to conduct scientific research into the work-related risks and hazards in Western China. The Chongqing center's goal is to promote workplace health and safety, improve productivity and efficiency, and reduce the financial and social burdens associated with occupational injuries and diseases." Initially, the center will collaborate with a "broad group of universities, government agencies, and industry associations, ...in the Pan-China Joint Study of Workplace Injury." This group, organized by SETC's Administration of Work Safety and Liberty's Research Center, will study occupational injuries in China's coal mining, petrochemical, and machinery manufacturing industries. The Chongqing center will also work with Liberty's Research Center to develop a graduate course on occupational safety and health for Chongqing University.

Apart from these three initiatives, Liberty shares its research findings with Chinese counterparts, has brought Chinese safety experts to the United States for exchanges and training, helped sponsor the translation of the International Labor Organization Encyclopedia into Chinese, and cosponsored a book called *China Workers' Injury Insurance* with the Ministry of Labor and Social Security's Research Institute of Social Security. It has also signed agreements with SETC's Bureau of Work Safety to conduct a comprehensive study of workplace accidents and solutions in China, and with the Disabled Persons' Federation to study worker injury insurance in China. 完

OPPORTUNITIES

JANUARY-FEBRUARY 2002

INTRODUCTORY NOTE

Opportunities introduces significant charitable, cultural, and educational projects that seek American business support and aims to assist companies in identifying programs meriting their assistance. The materials contained in *Opportunities* are boiled down; our aim is to provide contact information and only the most skeletal description of each organization's interests. I strongly encourage interested companies to make direct contact with some or all of the programs contained here, so that each firm can review for itself the more detailed materials that individual organizations can provide.

The importance of American corporate participation in programs that bring benefit to the people of China and strengthen the bonds of US-China friendship beyond the commercial realm cannot be overstated. We congratulate the many American firms that support a wide range of important and positive efforts in China and hope that *Opportunities* will help companies to explore new ways of making a difference.

Robert A. Kapp
President, The US-China Business Council

(Note: The purpose of *Opportunities* is to facilitate direct contact between interested companies and project developers. The US-China Business Council is not a sponsor of any project listed in *Opportunities* and makes no recommendation with regard to corporate assistance to any specific project.)

US Institution: **The Asia Foundation**
Chinese Institutions: **China Administrative Legislation Research Group; Center for Administrative Law Studies, National School of Administration; Center for Chinese Public Law Studies, Beijing University Law School**
Project Description: **The Chinese Administrative Law Research Group, a group of Chinese legal specialists, will conduct research on the drafting of China's first-ever Administrative Procedure Act**

For over 20 years, The Asia Foundation, a private, nonprofit, nongovernmental organization, has supported programs in legal development, local governance reform, community development, nonprofit sector growth, and the protection of women's rights. The Administrative Procedures Act will codify the rules, procedures, and measures necessary to achieve China's compliance with WTO standards of trade and commerce administration at the national and sub-national level. Administered and managed by The Asia Foundation, the program includes research, international consultation, and drafting, with a draft to be submitted to the Legislative Affairs Commission of the National People's Congress in December 2003. The Asia Foundation is the only organization, public or private, that has been approached to work with the Chinese Administrative Research Group on this important project.

US institution: **The Asia Foundation**
Chinese Institutions: **State Council Office of Legal Affairs; Provincial and Municipal Governments, Office of Legal Affairs**
Project Description: **Program focuses on administration of China's trade rules and measures and mechanisms necessary to enable China to comply with WTO rules.**

This program will train legal affairs officials at the provincial and municipal levels who will be responsible for drafting and implementing local laws, regulations, and other measures to ensure China's compliance with WTO provisions. The 40 participants will include key legal affairs staff from all 28 provinces, four provincial-level cities (Beijing, Chongqing, Shanghai, and Tianjin), and eight other commercially important municipalities including Shenzhen and Guangzhou in Guangdong; Dalian, Liaoning; and Qingdao, Shandong. The program will include training and consultation in China with an experts' advisory panel and through an international study tour.

Contact Information: Nancy Yuan, Vice President and Director, Washington
The Asia Foundation
1779 Massachusetts Ave., NW Suite 815 Washington, DC 20036
Tel: 202-588-9420 Fax: 202-588-9409 E-mail: nyuan@dc.asiafound.org

US Institution: **Cooperative Housing Foundation**
Chinese Institution: **China Society for Promoting the Guangcai Program**
Project Description: **Poverty reduction and economic development**

The Maryland-based nonprofit Cooperative Housing Foundation designed the China Public-Private Partnership Program for Integrated Community Development to reduce the incidence of poverty in designated areas of China, especially among ethnic minorities. The program will develop and test a model for broadening the impact of local economic development in Hunan Province and Tibet Autonomous Region. The program will be implemented in partnership with the China Society for Promoting the Guangcai Program, with continuing support from the United Nations Department for Economic and Social Affairs.

Contact information: Michael Doyle, President and CEO
Cooperative Housing Foundation 8601 Georgia Ave. Suite 800 Silver Spring, MD 20910
Tel: 301-587-4700 Fax: 301-587-7315 E-mail: mailbox@chfhq.org Website: www.chfhq.org

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US Institution: **Medical Books for China International**
Chinese Institution: **Ministry of Health**
Project Description: **Collects and ships donated medical books, teaching materials, and equipment to more than 1,000 medical universities in China**

Medical Books for China International (MBCI), a nonprofit organization, has been collecting and shipping medical books, journals, audio and video tapes, and other educational materials to China since 1981. Through its 10 distribution centers, MBCI has sent materials to libraries of institutes, medical universities, colleges, and hospitals in every province, autonomous region, and province-level municipality of China.

MBCI welcomes donations of medical materials not more than 10 years old (please contact MBCI for specific requirements) as well as individual and corporate tax-deductible contributions to help defray shipping expenses.

Contact information: Mary Zoe Phillips, Secretary-Treasurer
Medical Books for China International 13021 E. Florence Ave. Santa Fe Springs, CA 90670
Tel: 562-946-8774 Fax: 562-946-0073 E-mail: mbci@aagl.com

US Institution: **Friendship Homes and Schools**
Chinese Institutions: **Foreign Affairs Office of the Liangshan Yi Autonomous Prefecture, Sichuan Province, China**
Project Description: **Dedicated to giving children the homes and educational tools needed to fulfill their potential**

Friendship Homes and Schools (FHS), a 501(c)(3) tax-exempt nonprofit organization, works with orphans of primary- and middle-school age in China. With the help of local government officials, FHS provides housing, food, clothing, and education to more than 60 children from various ethnic groups—Han, Hui, Tibetan, and Yi—who live and study together. FHS also organizes trips to visit the children in China as a way for supporters and other interested parties to gain understanding of the environment in which they live. The trips also contribute to the children's financial support.

FHS welcomes support from individuals, families, and organizations.

Contact information: Lois Drake, Founder
Friendship Homes and Schools 216 South Marina Street, Suite 309 Prescott, AZ 86303
Tel: 520-776-8836 Fax: 520-776-8874 E-mail: fhs@optimacompany.com Website: www.anian.net/fh&s.html

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US Institution: **China-US Center for Sustainable Development**
Chinese Institution: **Administrative Center for China's Agenda 21**
Program Description: **Projects to promote sustainable development in China**

Created under a bilateral agreement signed during Premier Zhu Rongji's trip to Washington, DC, in April 1999, the China-US Center for Sustainable Development (CUCSD)'s goal is to promote new forms of environmental and sustainable development cooperation between China and the United States. A primary focus of CUCSD is to engage the private sector in project-based activities in the areas of energy, water resources, sustainable communities, forestry, agriculture, and land-use planning. CUCSD is a nongovernmental organization that partners with Chinese official and nongovernmental organizations to select and implement projects.

CUCSD seeks corporate and individual support.

Contact Information: Wang Miansheng, CUCSD China Projects Officer
David Bleyle, CUCSD Senior Advisor
China-US Center for Sustainable Development
One World Trade Center 121 SW Salmon St., Suite 210 Portland, OR 97204
Tel: 503-279-9567 Fax: 503-279-938 E-mail: mwang@apecnetwork.org, dbleyle@apecnetwork.org

US Institution: **Vital Voices Global Partnership**
Project Description: **Leadership Training for Chinese Businesswomen and Entrepreneurs**

Vital Voices Global Partnership (VVGP) is a worldwide nongovernmental organization of emerging women leaders committed to building democracies, strong economies, and peace. Its work focuses on three critical areas: expanding women's political participation in politics and civil society; increasing successful entrepreneurship; and fighting human rights abuses, such as trafficking in women and children. Vital Voices Global Partnership, in collaboration with Georgetown University, will launch a training program for emerging Chinese businesswomen and entrepreneurs in the fall of 2001.

VVGP seeks individual and corporate support for tax-deductible scholarships and mentors for ongoing training relationships.

Contact information: Joan D. Winship, Advisor on Strategic Alliances
Vital Voices Global Partnership 1050 Connecticut Avenue, NW, 10th Floor Washington, DC 20036
Tel: 202-772-1067 or 772-4126 Fax: 202-772-2353 E-mail: joanwinship@vitalvoices.org

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US Institution: **The Dui Hua Foundation**
Project description: **Improving human rights in China and the United States**

The Dui Hua Foundation, a nonprofit organization, works to advance the protection of universally recognized human rights in the United States and China. *Dui hua* means dialogue in Mandarin, and the foundation engages both PRC and US officials in dialogue about human rights policies in an effort to improve these policies in both countries. The foundation also researches human rights situations and cases and distributes information through publications and testimonies.

The foundation seeks corporate and individual support.

Contact information: John Kamm, Executive Director
The Dui Hua Foundation 850 Powell Street Suite 404 San Fransisco, CA 94108
Tel: 415-982-8949 Fax: 415-421-5450 E-mail: duihua@duihua.org

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Chinese Institution: **Shanghai Discovery Children's Museum**
Project description: **To establish the first interactive children's museum in Shanghai**

The project organizers plan to establish the Shanghai Children's Discovery Museum to provide a hands-on, educational museum for young children (under 7). Exhibits and programs will cover the areas of science, nature, art, music, and humanities.

The project seeks initial capital of about $2 million to establish the museum. Corporate donations are especially welcome. Once established, operations will be funded by a combination of admission fees, memberships, related services, and annual fundraising campaigns.

Contact information: Nancy Wang, President
Shanghai Discovery Children's Museum A21-6 Nice Year Villa 3333 Hongmei Road Shanghai, China 201103
Tel: 86-13-501-803-125 Fax: 86-21-6218-8488 E-mail: nancywang6000@yahoo.com
Website: www.shanghaidiscovery.org

Chinese Institution: **China Population and Environment Society**
Project Description: **Raise public awareness of environmental and population issues in China**

China Population and Environment Society (CPES), a nongovernmental organization, aims to improve public awareness about population and environmental issues in China. Recent projects have included the Young Environment Protection Guardian Series, a collection of illustrated books to educate children on environmental protection, and the Atlas of Population, Environment, and Sustainable Development of China.

CPES is seeking corporate sponsorship to help distribute the Young Environment Protection Guardian Series to school libraries in western provinces.

Contact information: Shen Yimin, President
China Population and Environment Society PO Box B-128 No. 14 East Chang'an Street Beijing 100741, China
Tel: 86-10-6512-1005 Fax: 86-10-6512-1005 E-mail: shenym@public3.bta.net.cn

www.China

The following websites provide information that may be useful to companies seeking more information on corporate social responsibility in China and related issues:

www.bsr.org

The US-based Business for Social Responsibility (BSR) provides advisory and training services for companies interested in socially responsible business practices. BSR covers a wide range of topics, including business ethics, community investment, governance and accountability, and the environment. The public version of BSR's website includes topic reviews, conference news, and case studies. Visitors can also buy books and reports online.

www.iccr.org

The Interfaith Center on Corporate Responsibility (ICCR) is an investment coalition of 275 Protestant, Roman Catholic, and Jewish institutional investors that range from religious groups to healthcare corporations. ICCR researches the social responsibility of its portfolio companies and works as a group of shareholders to press for change. ICCR is divided into issue groups that cover labor conditions, community economic development, and military resolution, among other topics. The public website also offers links to outside publications and websites, ICCR press releases, and order forms for published reports and the monthly ICCR newsletter, *Corporate Examiner.*

www.unglobalcompact.org

The UN Global Compact is a set of nine principles addressing human rights, labor, and environmental issues that participating companies implement on a voluntary basis. The website contains background information and UN studies on the policies addressed under the compact—which includes a pledge of noncomplicity in human rights abuses and the right to collective bargaining. Companies can also find links to organizations that support the charter and news on ongoing pilot projects and upcoming meetings.

www.iso.org

This website contains free information about the International Organization for Standardization, a worldwide federation of national standards bodies from some 140 countries. The mission of ISO, a Greek word meaning "equal", is to promote international standardization of everything from toy safety to air quality. The organization certifies companies for quality standards management (ISO 9000), environmental management (ISO 14000), and more than 13,000 other business, government, and social standards. Visitors can read up on current ISO issues and the standards development process, find a schedule of upcoming events, and purchase ISO standards and other publications. Although the site contains little China-specific information, foreign and Chinese companies rely heavily on ISO certification for their PRC operations.

www.ilo.org

The International Labor Organization (ILO) helps formulate human and labor rights laws and practices. The free website features two trilingual (English, Spanish, and French) databases. One database, ILOLEX, includes more than 75,000 documents related to international labor standards, covering topics such as ratification information, interpretations, complaints, general surveys, and ILO conventions and recommendations. The other database, NATLEX, features the full text of laws on labor, social security, and other related matters from over 175 countries.

www.fairlabor.org

The Fair Labor Association (FLA) is a nonprofit organization that brings together apparel and footwear companies, consumer and labor rights groups, and universities with the purpose of applying an industry-wide code of conduct. FLA hires independent inspectors to monitor member-company factory conditions worldwide and helps member companies implement a range of labor codes and self-monitoring procedures. The website posts the FLA charter and workplace code of conduct and outlines monitoring procedures.

www.laborrights.org

The Washington-based International Labor Rights Fund (ILRF) promotes the enforcement of labor rights internationally through public education and mobilization, research, litigation, legislation, and collaboration with labor, government, and business groups. ILRF's current projects page includes a section on labor rights in China, where visitors can find the US Business Principles for Rights of Workers in China (a document that lays out basic human rights and labor requirements that companies that have adopted the principles agree to meet in their China operations), news articles about labor rights in China, and reports and papers on labor problems in China.

www.unhchr.ch

The Office of the United Nations High Commissioner for Human Rights promotes and supports international cooperation for human rights and responds to violations. The website posts international human rights legal instruments and agreements, provides background information on particular human rights issues, and outlines the functions of the organization's various subgroups. Visitors can use four databases on the site—covering treaty bodies, charter-based bodies, news, and human rights education—free of charge.

www.hrw.org

Human Rights Watch is a nonprofit organization that investigates human rights abuses worldwide. The HRW website posts the organization's vast collection of background briefs, commentary, and press releases, organized by issue and country. Visitors can also read up on HRW campaigns. The corporations and human rights page posts commentary and background pieces on corporate abuses and other issues, including the UN Global Compact (*see above*), as well as more extensive reports.

www.hrichina.org

Human Rights in China (HRIC) was founded by Chinese scientists and scholars to track human rights developments in China. The HRIC website, which has English and Chinese versions, posts press releases as well as biographies and interviews with Chinese political prisoners and dissidents. Visitors can also browse links, articles, and reports from different sources, organized into categories such as women's rights, workers' rights, media and censorship, and Tibet.

www.state.gov/g/drl/rls/hrrpt/

The US State Department's Country Reports on Human Rights Practices can be found on this website. The reports are released every year on February 25.

China and the WTO: Changing China, Changing World Trade

by Supachai Panitchpakdi and Mark L. Clifford.
Singapore: John Wiley & Sons, 2002.
260pp. $21.95 hardcover.

Incoming World Trade Organization (WTO) Director-General Supachai Panitchpakdi has the background, timing, and credentials to make strong statements on the historic accession of China to the WTO and the shape of the global trade body. His co-author, a respected Hong Kong-based journalist with *BusinessWeek*, adds a dash of critical insight on how trade relates to development, human rights, and antiglobalization groups. The result is a compelling and forceful case for giving China the benefit of the doubt during its early phases of WTO implementation.

In *China and the WTO*, Supachai and Clifford offer optimistic views about the prospects for China's reform, Asian cooperation, and WTO-related growth in developing countries. The book makes a sustained and focused case that China must succeed as a new WTO member and a future participant in the next round of global trade talks. The authors also direct attention to the rise of China, primarily as it influences Asia and the WTO. In addition, the book speaks to issues concerning the "world split between those who benefit from the increasing wealth and openness of globalization and those who don't." The authors' views are that China's entry will lessen environmental, social, political, and security tensions around the world—rather than increase them.

"One of China's biggest obstacles is institutional. This is where China's entry into the WTO becomes most uncertain. Better institutions of all sorts—from courts to the police force to corporate boards—are indispensable in cementing economic reform in China."

—from *China and the WTO*

Although it went to press before the release of the final accession package for China, this book serves as a primer on the US and EU bilateral market-access agreements that together encompass the bulk of China's WTO entry terms. The themes of the book stress the principles and broad commitments made by China, and on these particulars, the book is vital for anyone trying to understand the significance of the problems and prospects facing the PRC. The authors make an important contribution to the debate that will arise from the process of integrating China into the world economy.

A problem for the book, and indeed for any research assessing the economic impacts of China on the world, is one of evidence. Critics often debate the evidence about China, and usually most of them are partly right. Many observers note that PRC statistics are in need of much greater accuracy, and even Premier Zhu Rongji is said to have quipped: "Our statistics are no less true than last year." This humor works because all but the most committed skeptics recognize the positive trends resulting from economic reform, and a majority, at least in America at the time of Congress's vote on permanent Normal Trade Relations for China, believe that China's economic reforms are heading in the right direction. The authors acknowledge that the measures for basic indicators ranging from national income accounts to unemployment and bad bank loans are open to dispute and present the best case they can for giving China the benefit of the doubt.

Some Washington officials and nongovernmental organization skeptics want so-called "compliance police" to monitor and sanction China's shortcomings as it struggles to build government capacity and implement the principles and commitments made to the WTO. These readers may find the book too optimistic and lacking in a basic skepticism about conditions in China. But the authors make a convincing case for patience and forbearance, emphasizing that the WTO is fundamentally significant to a global economic order and that China has a rightful place in the body. China's WTO entry should have a positive influence on internal reform and on the Asian economies badly in need of recovery after the regional financial crisis and US recession (*see* p.22).

In response to the impacts of the September 11 attacks in America, the authors focus on the contribution of the WTO to the continued viability of globalization. On this point at his book launch in Beijing, the incoming director-general said that at Doha, Qatar, the WTO succeeded in three areas: the members avoided a Seattle breakdown, set the basis for the new trade round, and reasserted an economic priority for the global political and military coalition against terrorism. For such statements and more, this book will merit wide attention.

—Stephen J. Anderson

Stephen J. Anderson is a commercial officer with the US & Foreign Commercial Service in the US Embassy in Beijing.

International Rules: China's Legal Strategy After WTO Accession

by He Yanmei, Li Jun, and Ni Zhengmao. Shanghai: Shanghai Academy of Social Sciences, 2001. 304 pp. ¥20 ($2.42) softcover.

Now that China is a World Trade Organization (WTO) member, how will it meet WTO standards and obligations? The authors, scholars from the Shanghai Academy of Social Sciences, examine this issue from a legal perspective.

As the authors point out at the beginning of *International Rules: China's Legal Strategy After WTO Accession*, China must meet international competition while maintaining economic growth at home. The authors argue that China cannot rely solely on exports to maintain growth, as some Asian countries have done, because so many domestic hurdles need to be overcome. These include the lack of experience in market economies; the old traditions of the planned economy; local protectionism; and most of all, insufficient preparation for the domestic application of WTO rules.

As a WTO member, China will have to meet the WTO's three underlying principles: free trade, transparency, and national treatment. In terms of free trade, China will have to lower tariffs, abandon its quota system, and reform its import permit system. The authors suggest that China should also issue new foreign trade and antidumping laws to revise the current single tariff mechanism. They recommend introducing a special tariff system that will include emergency, retaliatory, antidumping and antisubsidy, and environmental tariffs to protect domestic industries.

Under WTO rules, China's government must also meet international standards for transparency. Traditional government intervention in corporate operations must give way to market competition. The authors assert that China should introduce ISO 9000 standards for implementing the WTO's Technical Barriers to Trade agreement and should introduce a new Customs Price Estimation Agreement to regularize the customs reporting system.

Many PRC laws contravene the principle of national treatment, under which all members must give the same treatment to domestic and foreign goods and services. For instance, Chinese lawyers have more access than foreign lawyers to the market for clients engaging in litigation. China has long allowed foreign law firms to take on non-litigation cases in its territory, but has restricted their litigation cases. To remedy this and other situations, the authors recommend a review of domestic trade laws and "internal documents"—indeed such a review is well under way, and several important foreign investment laws have already been revised to meet WTO rules. Still, the authors advocate that the PRC enact a National Treatment Law to eliminate unnecessary local intervention.

For Chinese firms, the authors note, WTO entry means not only that PRC companies must comply with world standards, but also that they have a chance to increase their international competitiveness. Chinese firms have suffered in recent years from foreign antidumping charges. Domestic companies often refrain from appearing in court because of the high litigation fees abroad. After entry, China can resort to the WTO's dispute settlement body to argue for equal treatment. In addition, China's own antidumping and price laws are being revised to protect the interests of domestic industries.

The WTO rules on subsidies will act as an incentive for the government to increase investment in agriculture. The authors recommend establishing an agricultural association and agricultural conglomerates to increase the international competitiveness of this sector.

The authors also emphasize the importance of personnel training. After all, future competition will be based on the quality of human capital. China is in great need of professionals specializing in international trade and WTO rules and practices.

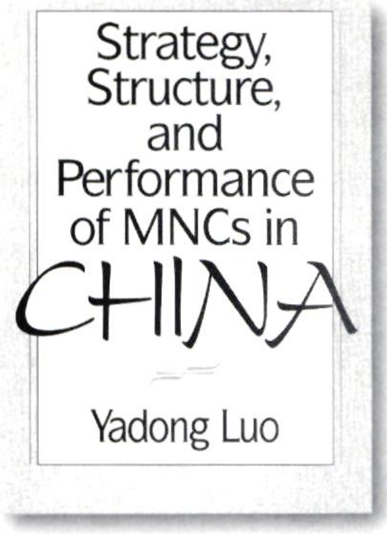
The book offers vivid examples throughout to illustrate the importance and urgency of enacting new laws and revising those that do not conform to WTO rules. *China's Legal Strategy After WTO Accession* could serve as a textbook for students majoring in trade and law. The book is also a good introduction to China's legal strategy after WTO entry for readers interested in China and WTO research.

—*Dong Ke*

Dong Ke is a research assistant at *The CBR*.

Strategy, Structure, and Performance of MNCs in China

by Yadong Luo. Westport, Connecticut: Quorum Books, 2001. 320pp. $72.50 hardcover.



Yadong Luo's book *Strategy, Structure, and Performance of MNCs in China* provides a broad analysis of organizational behavior and strategies of multinational corporations (MNCs). In the book, Luo undertakes a comparative study of Western versus Asian business practices in China. Among Luo's findings are that Asian MNCs tend to focus on direct product promotion while Western MNCs concentrate their efforts on research and development. He finds no difference in the return on assets between these two approaches, however.

Luo, an associate professor of International Business and Strategies at the University of Miami, has written this book for the newly minted manager to China or the student of Chinese business management. The book primarily serves to provide statistically significant data sprinkled with mini-case studies, along with a breakdown of foreign direct investment flows into China during the reform era.

While Luo provides a basic framework of how successful and unsuccessful MNCs have operated in China, he makes some glaring oversimplifications. For instance, he notes that Japanese investment practices were constrained mainly by Japan Inc. itself. He tries to make the case that Japanese firms preferred to trade first and then invest because they were overly risk averse. While this is true to a certain extent, Luo does not mention that in most industrial sectors, the more realistic explanation for the cautiousness of Japanese firms is their strong resistance to co-production in, and transfer of business technology to, China. The exception is, of course, when technology is the primary good, such as in semiconductor manufacturing. And here, Luo does lay out the dynamics of Japan's NEC Corp. and its successful production facility in China.

The author also does not give adequate attention to German business models in China. Luo discusses the highly profitable Shanghai Volkswagen Automotive Co., Ltd. and its success in establishing local sources for a high percentage of its parts and materials, but does not seem to have a handle on the *politics* of German business practices in China, which have been far more successful than those of Japan.

These political aspects will eventually change once China starts implementing World Trade Organization standards and norms, and maybe it's asking too much for one book on foreign direct investment in China also to embrace business politics. Nevertheless, Luo fails to state what was really behind the success of Shanghai Volkswagen: political considerations by China blended with economic pragmatism and entrepreneurial enthusiasm on Germany's part.

These oversights are truly a shame, since Luo's thorough research could have been the basis for much more incisive analysis of China's business environment. To his credit, however, the appendices, consisting of six case studies, warrant careful examination for the valuable details they provide on company-specific strategies.

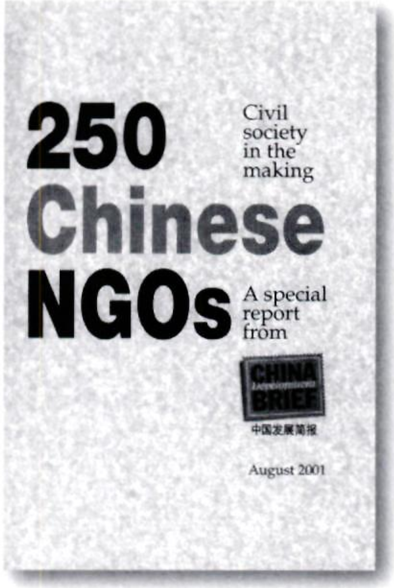
In the end, Luo's drive to provide a comprehensive understanding of MNCs in China over the past two decades produces an inconsistent, albeit statistically rich, explanation of the real reasons why certain multinational businesses in China thrive while others fail.

—Mark T. Fung

Mark T. Fung is a PhD candidate in China Studies at The Johns Hopkins School of Advanced International Studies.

250 Chinese NGOs: Civil Society in the Making

Nick Young, editor. Beijing: *China Development Brief*. 2001. 300pp. $35 (¥290) softcover.



250 Chinese NGOs: Civil Society in the Making is a directory of Chinese nongovernmental organizations from every province, municipality, and autonomous region. Each of the more than 250 organizations, arranged geographically, is allotted one page with complete contact information in English and Chinese, as well as a brief description of the organization's goals and activities in English.

The directory is a useful reference tool, but is by no means comprehensive. In his introduction, an essay on the emergence of civil society in China (*see* p.34), the editor points out that because of time and resource constraints, the organizations listed are almost exclusively in urban areas. Many organizations focus on a few popular issues—the environment, women's rights, migrants' rights, legal aid, and poverty alleviation—though a glance at the table of contents shows that educational and religious associations, as well as those aiding the handicapped, are also well represented.

One of the main problems nongovernmental organizations in China face is that they fall into a legal gray area and are often unable to register themselves as legal organizations. This unclear legal status leaves many organizations open to government criticism or worse. The directory tries to clarify this murky area by including several relevant Chinese laws, translated into English.

Though the volume offers a wealth of contact information for the foreign investor interested in supporting these worthwhile organizations, Young cautions companies to examine the organizations carefully; many are so small that they would have difficulty managing large influxes of money.

Nevertheless, the directory is an invaluable resource for the many foreign companies with long-term commitments in China that support the emergence of a strong nongovernmental sector in the country.

—*Virginia A. Hulme*

Virginia Hulme is associate editor of *The CBR*.

China Business

Sales and Investment

SEPTEMBER 16 – NOVEMBER 15, 2001

Compiled by Dong Ke and Richard Burns

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

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

Accounting and Insurance

OTHER

Fortis Group (Belgium)/Tai Ping Life Insurance Co., Ltd, a unit of China Insurance Group

Signed agreement to purchase 24.9% of the equity in Tai Ping Life, which will enable Fortis to sell life insurance throughout China. $88 million. 10/01.

St. Paul Companies, Inc. (US)

Established representative office in Beijing. 10/01.

Advertising and Public Relations

INVESTMENTS IN CHINA

AOL Time Warner Inc. (US)/Shanghai Industrial Investment Holdings Co.

Will set up media joint venture. (US:33%-PRC:67%). $60 million. 11/01.

Agricultural Commodities and Technology

OTHER

International Fund for Agricultural Development, World Food Program

Will provide loans and free grain to western China for the next five years. $85 million. 10/01.

Banking and Finance

CHINA'S IMPORTS

Diebold, Inc. (US)

Won contracts from Bank of Communications and China Everbright Bank to supply automated teller machines. $12 million. 9/01.

INVESTMENTS IN CHINA

Goldman Sachs Group, Inc. (US)/Cinda Asset Management Corp. (Beijing)

Will set up joint venture to resolve Cinda's bad assets. 11/01.

OTHER

Fortis Investment Management NV (Belgium)/Haitong Securities Co. (Shenzhen)

Will cooperate in fund management business in China. 11/01.

Franklin Templeton Investments Inc. (US)/Guangfa Securities Co., Ltd. (Guangdong)

Signed agreement to advise Guangfa on fund management. 10/01.

HSBC Holdings plc (Hong Kong)

Will set up its second back-office data processing center in Shanghai. 10/01.

LG Electronics Co., Ltd. (South Korea)/BOC

BOC will grant credit to LG for its worldwide development through BOC's domestic and overseas outlets. $200 million. 10/01.

Mansion House Group Ltd. (Hong Kong)/Guoxing Investment Management Co., Ltd., a unit of Sichuan International Trust & Investment Corp. (Sichuan)

Will set up investment management joint venture in Chengdu, Sichuan, that will manage a $100 million portfolio. 10/01.

Kreditanstalt fuer Wiederaufbau (Germany)

Signed agreement with PRC Ministry of Finance to finance imports of facilities for railway construction and assist economically disadvantaged areas in the central and northern parts of China. $84 million. 9/01.

Chemicals, Petrochemicals, and Related Equipment

INVESTMENTS IN CHINA

BP plc (United Kingdom)/Sinopec, Shanghai Petrochemical Co.

Will set up joint venture to build ethylene production complex in Shanghai Chemical Industry Park. (UK:50%-PRC:50%). $2.7 billion. 11/01.

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

BASF AG (Germany), Huntsman Corp. (US)/Shanghai Chlor-Alkali Chemical Co.; Shanghai Huayi Group Co.; Shanghai Gaoqiao Petrochemical Corp., a subsidiary of SINOPEC
Will jointly build chemical complex in Shanghai to produce key raw materials for construction and for manufacturing insulation. (Germany, US:70%-PRC:30%). $1 billion. 10/01.

OTHER

GeneMedix plc (UK)/Shanghai Institute of Biochemistry and Cell Biology, an institute of the Chinese Academy of Sciences
Signed agreement under which GeneMedix will have right of first refusal to worldwide commercialization rights over novel intellectual property and technologies generated by the Shanghai Institute. 9/01.

Consumer Goods

CHINA'S IMPORTS

Samsung Electronics Co. (South Korea)
Won contract to install 1,500 air conditioning systems in four buildings in Suzhou, Jiangsu. 10/01.

INVESTMENTS IN CHINA

Sigema Electronic GmbH (Germany)/Hefei Meiling Group (Anhui)
Established joint venture to produce and sell home air conditioners in Hefei, Anhui. $25 million. 11/01.

The Coca-Cola Co. (US)
Will build six more plants in China in the next five years. $150 million. 11/01.

Chia Tai Co., Ltd. (Thailand)
Will set up shopping mall, Chia Tai Square, in Pudong District, Shanghai. $335 million. 10/01.

Pacific Century Cyberworks Ltd. (Hong Kong), Pacific Department Store Group (Taiwan)/Xidan Shopping Co., Ltd. (Beijing)
Set up joint venture store, Pacific Department Store Beijing. (Hong Kong:10%; Taiwan:55%-PRC:35%). $36 million. 10/01.

BBA Group (UK)
Will establish BBA (China) Co. in the Tianjin Economic-Technological Development Area to manufacture lightweight spunbond materials used in diapers and feminine products. $68 million. 9/01.

Eastman Kodak Co. (US)/Shanghai Seagull Camera Co., Ltd.
Established joint venture, Shanghai Dahai Camera Co., Ltd., to produce digital cameras in Shanghai. $5 million. 9/01.

Guizhou TH Cement Group, a unit of Shui On Construction and Materials Ltd. (Hong Kong)/Government of Kaili (Guizhou)
Will establish a cement manufacturing joint venture, Guizhou Kaili TH Cement Co., Ltd. (Hong Kong:80%-PRC:20%). $7.25 million. 9/01.

OTHER

R. J. Reynolds Tobacco Co. (US)/China National Tobacco Co.
Will jointly conduct feasibility study on building a factory to process tobacco in China. 11/01.

Wal-Mart Stores, Inc. (US)
Will open chain store in Beijing. 11/01.

Mitsubishi Electric Corp. (Japan)/Westlake Electric Group Co. (Zhejiang)
Set up joint venture to manufacture handsets in Hangzhou, Zhejiang. 10/01.

Sanyo Electric Co., Ltd. (Japan)
Will sell magnetron tube technology and facilities to Midea Holdings Co. in Guangdong Province. $20 million. 10/01.

Akzo Nobel NV (the Netherlands)
Opened plant in Suzhou, Jiangsu, to manufacture car finishes, powder coatings, and transportation coatings. 9/01.

Electronics and Computer Software

CHINA'S IMPORTS

AsiaInfo Holdings, Inc. (US)
Won contract from China Unicom to provide customer care and billing software to China Unicom's national voice-over IP network. 11/01.

Applied Materials, Inc. (US)
Won contract from Grace Semiconductor Manufacturing Corp. in Shanghai to provide chip-making equipment. $200 million. 10/01.

AsiaInfo Holdings, Inc. (US)
Won contract from Zhejiang Telecom Co. to design and integrate the network system and provide high-end technical consulting services. 10/01.

NDS Group plc, a subsidiary of News Group (Australia)
Won contract from CCTV to provide an interactive television project by designing application software and supplying set-top boxes. 10/01.

AsiaInfo Holdings, Inc. (US)
Won contract from Sichuan Telecom Corp., a subsidiary of China Telecom, to provide integration services and software. 9/01.

iCan SP Inc., a subsidiary of Computer Associates International Inc. (US)
Will supply Air China Group with components of the iCan Provider Suite to manage the delivery of Air China's internal information technology services. 9/01.

Inktomi Corp. (US)
Won contract from Chinanet Co., Ltd., the data networking unit of China Telecom, to provide content networking software within ChinaNet's network to accelerate the delivery of audio and video content to broadband users in China. 9/01.

LDL Technology Ltd., a subsidiary of North 22 Technology Services Group Ltd. (Singapore)
Won contract from China Telecom Shanxi Corp. to provide broadband Internet access to Shanxi Province. $1.3 million. 9/01.

NITGen Co., Ltd. (South Korea)
Won contract from Shanghai Tongji Smartech Recognition Technology Co., Ltd. to provide fingerprint recognition technology. $1.5 million. 9/01.

INVESTMENTS IN CHINA

Hewlett-Packard Co. (US)
Will set up global software development center with Jinqiao Export Processing Zone Development Co., Ltd. in Pudong District, Shanghai. $15 million. 10/01.

Hitachi Ltd., Original Soft Co., Otsuka Corp., Toshiba Corp. (Japan)/Top Group (Shanghai)
Will set up joint venture to develop software and human resources. (Japan:50%-PRC:50%). $4.95 million. 10/01.

Toshiba Corp. (Japan), Wong's International (Holdings) Ltd. (Hong Kong)/Nanjing Postel Telecommunications Co. (Jiangsu)
Will set up joint venture in Nanjing, Jiangsu, to manufacture mobile handsets. 10/01.

Gigabyte Technology Co., Ltd. (Taiwan)/Legend Holdings Ltd. (Beijing)
Will establish joint venture to develop the contract manufacturing business and combine their motherboard factories in Dongguan and Huiyang, Guangdong. (Taiwan:50%-PRC:50%). $30 million. 9/01.

OTHER

Spatialight, Inc. (US)/China Electronics Corp.
Signed agreement to introduce Spatialight's liquid crystal on silicon microdisplay devices in rear projection and high definition televisions. 11/01.

Airspan Networks, Inc. (US)/Shanghai Post & Telecommunications Equipment Co., Ltd.
Signed agreement for Shanghai P&T to purchase the Airspan AS4000 wireless DSL system and build a support center and support network for Airspan products. 10/01.

Imaging Business Machines, LLC (US)/Beijing Imaging Information Technology Corp., Ltd.
Established partnership to provide bank image processing organizations with high-speed color capture equipment. 10/01.

Microsoft Corp. (US)/Shanghai Municipal Government
Signed MOU to set up a joint venture to provide web-based technical support for Microsoft's global customers. 10/01.

Philips Electronics NV (the Netherlands)/China Electronics Corp.
Signed agreement to transfer Philips's mobile handset activities to China Electronics. 10/01.

Siemens Mobile Phones A/S, a subsidiary of Siemens AG (Germany)/Sohu.com (Beijing)
Will jointly build an interphase platform that reconfigures online games for a wireless protocol. 10/01.

TCSI Corp. (US)/Wholewise Science and Technology Co., Ltd. (Fujian)
Signed agreement to initiate a technical exchange, technical education, and sales training program for Wholewise engineers. $1.45 million. 10/01.

CBCom Inc. (US)/Beijing Chinet Information Technology Co., Ltd.
Signed agreement to allow CBCom to acquire 30% ownership in Chinet. 9/01.

Intel Corp. (US)/Langchao Group (Beijing)
Signed agreement to jointly explore the server market in China. 9/01.

Tom.com Ltd. (Hong Kong)/China-channel.com, a website maintained by Xiamen Jingtong Technology Industrial Co. (Fujian)
Will jointly provide users with access to a range of Internet-based business services including domain name registration and access to virtual mainframes. 9/01.

Environmental Technology and Equipment

OTHER

Government of Norway
Will donate funds to establish an air quality management system to reduce air pollution in Shanxi Province. $1.1 million. 10/01.

Food and Food Processing

INVESTMENTS IN CHINA

CRE Beverage Ltd., a joint venture between South African Breweries plc and China Resources Enterprises Ltd./Sichuan Blue Sword Breweries Group
Established joint venture, China Resources (Sichuan) Blue Sword Breweries, in Sichuan Province. 10/01.

Top-Mill Investment Corp. (British Virgin Islands), Want Want Holdings Ltd. (Singapore)
Established a food-processing and fast-food-retailing joint venture, Nanjing My Warm Day Foods Co., in Jiangsu Province. $2.05 million. 10/01.

Cargill Inc. (US), Global Bio-Chem Technology Group Co., Ltd. (Hong Kong)
Will set up joint venture, Global Bio-Chem-Cargill (Holdings) Ltd., in Hong Kong, to build a corn syrup refinery in Shanghai. $10.3 million. (US:50%, Hong Kong:50%). 9/01.

OTHER

Nestle SA (Switzerland)
Will set up research and development center in Shanghai. $6 million. 11/01.

Medical Equipment and Devices

CHINA'S IMPORTS

International Remote Imaging Systems, Inc. (US)
Won contract from Science International Corp., in Guangdong Province, to provide urine sediment centrifuges and proprietary tubes for sediment analysis in laboratories in China. 10/01.

Metals, Minerals, and Mining

CHINA'S IMPORTS

Philippine Associated Smelting and Refining Corp. (the Philippines)
Will supply China Minmetals Group with copper cathodes and other products. $50 million. 10/01.

INVESTMENTS IN CHINA

Alcoa International Ltd. (US)/China Aluminum Corp. Ltd. (Chalco)
Signed MOU to create a joint venture at Chalco's Pingguo Aluminum Co. in southern China and for Alcoa to buy Chalco stock equal to 8% of Chalco's outstanding equity. (US:50%-PRC:50%). 11/01.

Nairit Co. (Armenia)/Shanxi Synthetic Rubber Group Co., Ltd.
Will build a rubber production project with an annual capacity of 3,000 tons in Shanxi Province. $100 million. 10/01.

Thyssen Krupp AG (Germany)/Angang New Steel Co. (Liaoning)
Will establish joint venture to build and operate a galvanizing plant in Dalian, Liaoning. (Germany:50%-PRC:50%). $180 million. 10/01.

Merrill Enterprises Holding China Co., Ltd. (Hong Kong)/Tongchuan Tianmu Agricultural Development Co. (Shaanxi)
Established joint venture to process castor oil. (Hong Kong:49%-PRC:51%). $20 million. 9/01.

Miscellaneous

CHINA'S IMPORTS

Tengtu International Corp. (US)

Won contract from PRC Ministry of Education to install Tengtu's application software in 35,000 schools throughout China. $163 million. 10/01.

OTHER

Hong Kong-Television Broadcasts Ltd. (HK-TVB)/CCTV

Will establish joint venture in Hong Kong. (Hong Kong:60%-PRC:40%). 11/01.

Phoenix Cable Television (Hong Kong)/China International Television Group, a subsidiary of CCTV

Will build joint venture to tap the global Chinese television market. 10/01.

Center for Education and Training (Canada), Tengtu International Corp. (US)

Will jointly develop an e-education system for English language study in China. 9/01.

European Union/Government of the PRC

Established a vocational training center in Shenyang, Liaoning, to train qualified workers to work in businesses with investment from the European Union. $13.89 million. 9/01.

Packaging, Pulp, and Paper

CHINA'S IMPORTS

Metso Paper, Inc., a subsidiary of Metso Corp. (Finland)

Won contract from Jilin Paper Co., Ltd., in Jilin Province, to supply a newspaper production line. $62.8 million. 10/01.

Petroleum, Natural Gas, and Related Equipment

CHINA'S IMPORTS

Daewoo International Corp. (South Korea)

Won contract from CNPC to supply hot coil and steel for a natural gas pipeline project in China. $14 million. 10/01.

INVESTMENTS IN CHINA

BP (United Kingdom)

Will increase investment in Yangtze River Acetyls Co., Ltd., a joint venture between BP and Sinopec, in Chongqing. $128 million. 10/01.

Shell China, a subsidiary of Royal Dutch/Shell Group (the Netherlands)/Sinopec (Beijing)

Will jointly build plant for producing gas out of coal in Yueyang, Hunan. $136 million. (the Netherlands:50%-PRC:50%). 11/01.

OTHER

Shell Exploration China Ltd., a subsidiary of Royal Dutch/Shell Group (the Netherlands)/CNOOC

Signed agreement to jointly examine options and plans for developing oil and gas reserves in the Bonan Block of Bohai Bay. 9/01.

Pharmaceuticals

INVESTMENTS IN CHINA

Altachem Pharma Inc. (Canada)/Erdos Cashmere Group Corp. (Inner Mongolia Autonomous Region)

Established joint venture, Beijing Erdos Altachem Pharma Ltd., to develop Altachem's technologies for treatment of blood and blood products designated to eliminate pathogens such as HIV/AIDS and hepatitis. (Canada:51%-PRC:49%). 10/01.

Glaxo Smith Kline plc (US)

Will establish pharmacy venture, Glaxo Smith Kline (Tianjin) Co., in Tianjin Economic and Technological Development Area. 10/01.

OTHER

Bayer AG (Germany)

Will build chemical production base in Caojing near Shanghai. $3.1 billion. 11/01.

Dendrite International, Inc. (US)

Opened branch office in Shanghai to offer services to local and foreign pharmaceutical companies in China. 10/01.

United Nations Industrial Development Organization/Liuyang Bio-Medicine Park (Hunan)

Will jointly build an international medicine research center in Hunan Province. 10/01.

Power Generation Equipment

CHINA'S IMPORTS

Alstom Power SA (France), Pegasus Technologies, Inc. (US)

Won contract from Beijing Huaneng Automation Engineering Co., a subsidiary of Huaneng Group, to build a neutral network combustion optimization project at the Yangliuqing Power Plant in Tianjin. 10/01.

Siemens Power Transmission and Distribution Group (Germany)

Won contract from the State Power Corp. of China for two turnkey energy converter stations in Anshun, Guizhou, and Zhaoqing, Guangdong. $316 million. 10/01.

Property Management and Development

INVESTMENTS IN CHINA

G&W Group Ltd. (Singapore)/Shenyang Longhan Property Development Ltd. (Liaoning)

Will set up joint venture in Shenyang, Liaoning, to engage in property development, property sales, and property management. $13.29 million. 11/01.

OTHER

Vision Century Investments (China) Ltd., a subsidiary of Vision Century Corp. Ltd. (Hong Kong)/Qinghua Science Park Development Center (Beijing)

Signed MOU to collaborate on the planning, development, management, and marketing of Qinghua related science and business park projects both in China and overseas. 9/01.

Telecommunications

CHINA'S IMPORTS

Big Sky Network Canada Ltd., a subsidiary of China Broadband Corp. (Canada)
Won contract from Jitong Network Communications Co. to enable broadband Internet access and Internet protocal (IP) telephony over Jitong's network in Chongqing. 11/01.

Datacraft Asia Ltd. (Singapore)
Won contract from Xinjiang P&T Administration to build a broadband IP network in Xinjiang Uygur Autonomous Region.
$4 million. 10/01.

Digital China Holdings Ltd. (Hong Kong), Nortel Networks Corp. (Canada)/China Railcom
Will deliver a nationwide, multiservice ATM backbone network for China. 10/01.

LM Ericsson AB (Sweden)
Won contract from Sky Networks Communications Group, in Hebei Province, to supply a system for mobile data services. 10/01.

LM Ericsson AB (Sweden)
Won contracts from Guangdong Mobile Communications Corp. to expand and upgrade its mobile network. $535 million. 10/01.

Motorola Inc. (US)
Won contract from China Mobile to expand and upgrade its general packet radio service network. 10/01.

Motorola Inc. (US)
Won contract from China Unicom to supply mobile telephone network parts and provide base stations and mobile switching centers to expand the network in Handan, Cangzhou, Hengshui, and Xingtai, in Hebei. $34.8 million. 10/01.

Nortel Networks Corp. (Canada)
Won contracts from China Telecom to upgrade ATM multiservice networks in Jiangsu and Shandong provinces and to provide its Shasta 5000 Broadband Service Node to Shanxi Telecom Co. for network-based firewall security. $12 million. 10/01.

Sybase Inc. (US)
Won contract to provide database management software to support the billing system for China Unicom's CDMA. 10/01.

Allgon AB (Sweden)
Won contracts from Beijing Telestone Technology Co., Ltd. to provide repeaters for CDMA and GSM networks in China. $18 million. 9/01.

Nortel Networks Corp. (Canada)
Won contract from China Unicom to provide optical ethernet solutions in Jiangsu Province and to provide multiservice ATM backbones in Anhui, Hebei, Heilongjiang, Hunan, Jiangsu, Jiangxi, Shandong, Sichuan, and Beijing. $18 million. 9/01.

Sewon Telecom Inc. (South Korea)
Won contract from Ningbo Bird Co., in Zhejiang Province, to provide 100,000 cell phones for wireless services based on CDMA. $115 million. 9/01.

Shanghai Bell Alcatel Mobile Communications System Co., a joint venture of Compagnie Financière Alcatel (France)
Won contract from China Mobile to supply, install, and commission products including base stations and a mobile switching center in Shanghai and Jilin Province. $70 million. 9/01.

INVESTMENTS IN CHINA

Motorola Inc. (US)
Will increase total investment in China to $10 billion by 2006. 11/01

KTF Co. (South Korea)/China Electronics Corp.
Will set up joint venture to develop and sell mobile phones based on CDMA standards in China. 10/01.

New Wave Technologies Ltd. (Singapore)/China Railcom
Will set up joint venture to sell and distribute satellite transceiver terminals in China. (Singapore:25%-PRC:75%) $2 million. 10/01.

Samsung Electronics Co., Ltd. (South Korea)/Kejian Telecom Technology Co. Ltd. (Guangdong); Shenzhen Zhixiong Electronic Co., Ltd. (Guangdong); NA
Will set up joint venture for research on CDMA technologies and production of CDMA phones. $20 million. 10/01

Kyocera International, Inc. (Japan)/China Zhenhua (Group) Science & Technology Co. (Guizhou)
Will set up joint venture in Guizhou Province to manufacture and market CDMA-standard mobile phones in China. (Japan:70-%-PRC:30%). $14.9 million. 9/01.

OTHER

Vodafone Group plc (UK)
Opened office in Beijing. 11/01.

Alcatel SA (France)/China Aerospace Science and Technology Corp.
Signed MOU to expand cooperation in telecommunications and the application, research, and launch of satellites. 10/01.

Alcatel SA (France)
Will gain control of its joint venture, Shanghai Bell Co., by buying stakes from the Belgian and Chinese governments and consolidating all of its 10 joint ventures in China to form Alcatel Shanghai Bell. $312 million. 10/01.

Equant NV (the Netherlands)/China Netcom Corp.
Will jointly offer data communications services to corporate clients in China. 10/01.

Hutchison Telecommunications Ltd., a subsidiary of Hutchison Whampoa Ltd. (Hong Kong)/China Mobile
Signed agreement to jointly develop general package radio service in China. 10/01.

Logica plc (Ireland)
Established partnership with Shanghai Datang Mobile Technology Co. to expand Logica's business in China. 10/01.

First Mobile Group Holdings Ltd. (Hong Kong)
Appointed by China Unicom to be an authorized CDMA distributor. 9/01.

Gosun Communications Ltd. (Guangdong)
Won license from Nokia to be one of its exclusive telecommunications retail chains in China. 9/01.

Government of South Korea/Shanghai Municipal Government
Signed agreement to set up a fund to finance joint ventures in wireless technology. $30 million. 9/01.

Philips Semiconductors Inc., a subsidiary of Koninklijke Philips Electronics NV (the Netherlands)/CEC Wireless (Beijing), Datang Telecom Technology & Industry Group (Beijing)
Signed agreement to set up joint venture to develop technology using TD-SCDMA (time division synchronous code division multiple access) wireless standard. 9/01.

Textiles and Apparel

INVESTMENTS IN CHINA

Sakai Ovex Co., Toray Industries Inc. (Japan)
Will establish joint venture, Toray Sakai Weaving & Dyeing (Nantong) Co., in Jiangsu Province, to expand production of polyester filament and nylon filament fabrics in China. $65.3 million. 10/01.

Transportation

CHINA'S EXPORTS

Shanghai Baoshan Iron and Steel Co.
Won contract from Fast Buyer Co., a subsidiary of Fiat S.p.A. (Italy), to supply automobile steel plates. 11/01.

CHINA'S IMPORTS

The Boeing Co. (US)
Won contract from China Southern Airlines Co., Ltd. to supply 20 Boeing 737-800s and 2 Boeing 747-400 freighters. $1.07 billion. 10/01.

Pratt & Whitney, a unit of United Technologies Corp. (US)
Won contract from Hainan Airlines Co., Ltd. to supply PW4000 engines to power the airline's Boeing 767-300s. 10/01.

Jenoptik AG (Germany)
Won contract from PRC Ministry of Railways to supply tilting technology systems. 9/01.

Metrologic Instruments, Inc. (US)
Won contract from China Shenzhen Airport Group Co., Ltd., in Guangdong Province, to supply its airport baggage scanning system. 9/01.

Thales SA (France)
Won contract from CAAC to supply and install an air traffic management system. $91.91 million. 9/01.

INVESTMENTS IN CHINA

YHI Holdings Pte (Singapore), Yokohama Rubber Co. (Japan)/Hangzhou Rubber (Group) Co. (Zhejiang)
Will set up joint venture, Hangzhou Yokohama Tire Co., in Zhejiang Province, to manufacture and sell car tires. (Japan:45%,Singapore:5%-PRC:50%). $12 million. 11/01.

Kerry Logistics Network Ltd., a unit of the Kuok Group (Hong Kong)/Beijing Municipal Government
Will jointly build a logistics hub in Beijing. $1.3 billion. 10/01.

Honda Motor Co., Ltd. (Japan)/Hainan Sundiro Motorcycle Co., Tianjin Motor Group Co., Ltd.
Set up joint venture to produce motorcycles in China. (Japan:50%-PRC:50%). $99.6 million. 9/01.

OTHER

PAS Peugeot Citroen Group (France)/Dong Feng Motor Industry Corp. (Liaoning)
Signed agreement to make and sell Citroen and Peugeot vehicles. 11/01.

Vietnam Airlines (Vietnam)
Inaugurated thrice-weekly service between Hanoi, Vietnam, and Kunming, Yunnan. 11/01.

Air France (France)
Will launch a third freighter between Shanghai and Paris. 10/01.

BMW AG (Germany)/Brilliance Automotive Holdings Ltd. (Liaoning)
Will jointly produce BMW cars in China. 10/01.

FedEx Corp. (US)
Established a FedEx-DTW Express Center in Shanghai Pudong International Airport. 10/01.

Ssangyong Motor Co. (South Korea)
Signed contract to sell its bus manufacturing factory in China to Huizhong Automotive Manufacturing Co., Ltd. of Guangdong Province. $2.8 million. 10/01.

GE Engine Service (Xiamen) Co., Ltd., a subsidiary of General Electric Co. (US)/Hainan Airlines Group Co., Ltd.
Hainan Airlines will purchase 10% stake in GE Xiamen. 9/01.

Hanjin Shipping Co. (South Korea), Kawasaki Kisen Kaisha Ltd. (Japan), Senator Lines GmbH (Germany), Yang Ming Marine Transport Corp. (Taiwan)/Cosco Container Lines Ltd. (Shanghai)
Established alliance to cooperate in global shipping industry. 9/01.

Sikorsky Aircraft Corp., a unit of United Technologies Corp. (US)/Shanghai Little Eagle Science & Technology Co., Ltd.
Signed MOU to establish joint venture, Shanghai Sikorsky Helicopter Co., to develop new type of light helicopters to meet China's domestic needs. 9/01.

TPG NV, a unit of Royal PTT Post and TNT (the Netherlands)/Shanghai Automotive Industry Corp.
Established joint venture to provide logistics services to the automotive industry in China. (the Netherlands:50%-PRC:50%). $30 million. 9/01.

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