



U.S. Commercial Service
American Embassy, Beijing
The People's Republic of China

通向中国

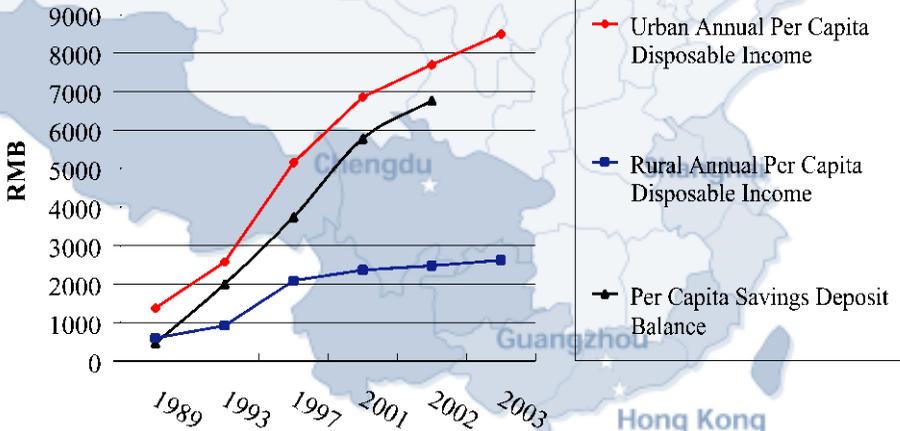
Contact China

A Resource Guide for
Doing Business in the People's Republic of China



China at a Glance

China Urban & Rural Income



At a Glance: The People's Republic of China

President:	Hu Jintao
Premier:	Wen Jiabao
Capital:	Beijing
Official Language:	Mandarin Chinese
Currency:	Renminbi (RMB)
Exchange Rate:	\$1 = RMB 8.28
Population:	1.3 billion
Urban Population:	501 million
Rural Population:	782 million
Urban Per Capita Disposable Income:	\$930
Rural Per Capita Annual Net Income:	\$299
Cities With Over 2 Million People:	40
Provinces:	23 (including Taiwan)
Autonomous Regions:	5 (Guangxi, Inner Mongolia, Ningxia, Tibet, Xinjiang)
Provincial Level Municipalities:	4 (Beijing, Shanghai, Tianjin, Chongqing)

2003 (Contractual) Foreign Direct Investment:	\$115 billion
2003 (Contractual) U.S. Investment in China:	\$12 billion
2003 GDP:	\$1.38 trillion
Official 2003 GDP Growth:	9.1%
Agriculture:	2.5%
Industry:	12.5%
Services:	6.7%
2003 Total International Trade:	\$852 billion
2003 U.S. Exports to China:	\$28 billion
2003 U.S. Imports from China:	\$152 billion
Can of Coca-Cola:	\$0.25
China's largest trading partners:	Hong Kong, European Union, United States, Japan

CONTACT **CHINA 2004**



A Resource Guide for Doing Business in the People's Republic of China



*U.S. Commercial Service
American Embassy, Beijing
The People's Republic of China*

Message from the Ambassador



The relationship between the United States of America and the People's Republic of China is arguably the most important bilateral relationship of the Twenty-First Century. China is not only the world's most populous nation, but it is also the world's fastest growing developing country. China will play an increasingly important role in shaping the future economic and political landscape of Asia, the world's economically most dynamic region. President Bush has repeatedly stated we want a candid, constructive and cooperative relationship with China and has instructed us to work towards that end.

This is a time of opportunity for those interested in doing business in China. As a member of the World Trade Organization ("WTO"), China and her leaders have made a bold commitment to accelerate China's journey along the path of reform and globalization that it began twenty-five years ago. China has pledged to continue to open its market, potentially the world's largest, to foreign goods and services and to abide by the WTO's rules-based system.

During the past two and a half years of WTO membership, China's economy has experienced extensive changes challenging both Chinese and foreign enterprises. Our Embassy and Consulates in Chengdu, Guangzhou, Shanghai and Shenyang support our bilateral commercial and trade ties that have been the bedrock of our complex bilateral relationship.

Going forward, I believe that commercial opportunities for American firms in China will only increase. You should note, however, that the vast agenda of policy changes now being implemented in China carry with them risk as well as opportunity. As former Beijing Embassy Commercial Counselor Melvin W. Searls, Jr. said in 1982, "Don't forget the three 'p's': preparation, perseverance, and patience!"

As a member of the original Foreign Commercial Service Office in China in 1982, I am particularly honored and pleased to provide this message of introduction to *Contact China*. I hope that this handbook will prove to be a useful tool for American businessman and firms interested in the China market. I also urge you to contact our United States Commercial Officers resident in Beijing, Shanghai, Guangzhou, Shenyang, and Chengdu to see how they can help you and your business succeed in China. They are an important business resource that should be part of your team.

We look forward to serving you. With kind regards, I am

Very truly yours,

A handwritten signature in black ink, which appears to read "Clark T. Randt, Jr." The signature is stylized and cursive.

Clark T. Randt, Jr.

Message from the Minister Counselor for Commercial Affairs



Welcome to China. For those of you attempting to enter this market for the first time, you are in for the experience of your life. Doing business internationally is always a challenge, but beginning a new venture in China brings the experience to a new level.

In the following pages you will find a wealth of helpful information. This booklet contains useful advice on market entry issues that will help you succeed in this market, and make sure you are paid for your product or service. There is a market research section that will assist you identify sales opportunities. In addition, there is information that will help you identify the resources you need to evaluate local demand patterns and plan your business strategy. Finally, one of the most useful sections is a listing of service providers who can give you in-depth support for your efforts in China.

We hope this booklet will put you on your first step toward a long and successful venture in China. Here, at the Foreign Commercial Services, ***your success is our only mission***. This can include helping you identify markets, avoiding pitfalls, advocating on your behalf, identifying clients, and assisting in your marketing efforts.

The Commercial Service is often called "the best kept secret in the U.S. Government." The fact that you have found us means that all of our expertise, energy, contacts, and programs are now at your disposal. The Commercial Service, along with all other elements of the U.S. Embassy are prepared to serve you.

Please feel free to call upon us at any time in your efforts to penetrate this vast and interesting market.

Sincerely,

A handwritten signature in black ink that reads "Craig Allen". The signature is written in a cursive style with a long horizontal line extending to the right.

Craig Allen

U.S. Commercial Service

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China

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Please visit our website at www.buyusa.gov/china/en

Editor's Caution

The economic and business environment in China is constantly changing, which means that some of the information in this book may be out-of-date before you even read it. To help us improve next year's book, please send suggestions by fax or E-mail to the Commercial Service Office in Beijing. We plan to post major changes to Contact China on our Website.

This guide is published by the U.S. Commercial Service - China as a service to U.S. exporters. Reference in this publication to any specific commercial product, service, manufacturer, or company does not constitute its endorsement or recommendation by the U.S. Government or the U.S. Embassy in Beijing.

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How the U.S. Commercial Service Can Help You

U.S. Commercial Service China Website

For more detailed information on any of the CS China products, services, and resources described in this booklet, please visit the U.S. Commercial Service section of the American Embassy-China website at www.buyusa.gov/china/en/

Our regularly updated, bilingual site contains:

- Detailed descriptions of CS China products, services, and resources
- Information on regional Chinese markets
- Lists of upcoming trade events
- Links to other useful websites
- Information on WTO & the Beijing 2008
- Olympics

Export Assistance Centers

U.S. Export Assistance Centers are the best place to start for international business inquiries. They are located throughout the United States bring U.S. Government export promotion resources to you. These centers are the result of a cooperative effort among the U.S. Commercial Service, the Small Business Administration, and the Export-Import Bank to help you increase international sales. For the location of the EAC nearest you, visit www.export.gov/comm_svc/eac.html

Export Assistance Centers can help by providing:

- Export and trade finance counseling
- Market research
- Access to business contacts
- Trade promotion events and programs
- International contract bidding support through the U.S. Advocacy Center

Gold Key Service (GKS)

Make your next trip to China more productive through the Gold Key Service. We will identify contacts and set up appointments during your trip to China - typically four per day - with potential agents and distributors, major end-users, key government officials, and other important contacts. The Commercial Service will provide a comprehensive briefing on doing business in China. We recommend six weeks lead-time. We can also locate an interpreter to escort you to your appointments. The GKS service fee is USD 600 for the first day, USD 300 for the second and each additional day. An interpreter is approximately an additional USD 150 per day.

Platinum Key Service (PKS)

The Platinum Key Service provides long-term, sustained support to a firm's activities in the China market. Whether you need help in developing and implementing a market entry strategy, are involved in a major project, or require U.S. government advocacy on a protracted trade dispute, the Platinum Key Service will ensure that you receive the long-term, focused support you need to achieve success. The Platinum Key Service fee is commensurate with level of service.

This market development support is defined in the scope of work statement that is tailored specifically to a client's unique needs. A dedicated account executive will help design and implement a strategy to meet your specific needs and oversee the delivery of all our services to you. Finally, each

month you will receive a monthly progress report from your account executive.

Among the types of services that Platinum Key clients may select are:

- **Consultations:** In-depth advice dedicated to specific client products/services which is focused on specific client goals/objectives
- **Early Alerts:** Early information on emerging business opportunities and major projects
- **Dispatches:** Focused bimonthly intelligence, analysis, and commentary on emerging opportunities, market trends, key players, government projects and policies specific to the client's needs. As appropriate, we will provide abstracts on relevant articles from major newspapers
- **Special Events:** Early notice on and priority treatment from U.S. Commercial Service sponsored events, e.g. roundtables, briefings, trade events, and meetings with industry/government players
- **Access to CS Services:** Priority access to U.S. Embassy and U.S. Consulate market information and services including customized tele- and video-conferences

International Partner Search (IPS)

Looking for representatives in China?

We will locate, screen, and assess potential qualified overseas sales representatives, agents, distributors, joint venture partners, licensees, franchisees or strategic partners for your products or services. We will search for up to six of the best-qualified contacts that are interested in representing your product, or in the type of business

relationship you specify, and provide comments and contact information for each. Turnaround time is 15 working days after we receive your company's product literature and payment. Each report is developed from on-the-spot research by U.S. Embassy and Consulate staff. The search is done on a regional basis so a request to Shanghai will turn up contacts in the Yangtze Delta while a request to Shenyang covers Heilongjiang, Jilin and Liaoning. The fee for IPS service is USD 450 for each related product line in each district.

International Company Profile (ICP)

To assist U.S. companies enter international business relationships with confidence, the International Company Profile (ICP) reports help U.S. companies evaluate potential business partners by providing a detailed report on Chinese companies. CS China now subcontracts part of these reports to Kroll Associates, a leading American investigative service firm. Reports include up-to-date information such as:

- Bank and trade references
- Principals, key officers and managers
- Product lines
- Financial data
- Reputation
- Market outlook
- And much more!

ICP reports cost USD 600 and can be delivered in 20 working days or less.

Customized Market Research (CMR)

We tailor market research to your specific product and help you define key sectors of the China market. This report will help you assess local and foreign competitors, determine sales channels and market size, and identify key industry contacts. A standard CMA answering nine typical questions costs you approximately USD 3,100 for each product line in each of our five consular districts in China. A non-standard CMA answers your own specific questions on your products or services.

Commercial Service Publications

We offer a wide range of publications about business in China, including:

- Industry Sector Analyses (ISA): in-depth industry reporting
- International Market Insights (IMI): brief, topical reporting
- Country Commercial Guide (CCG): an annual report on China's economy and business
- China Commercial Brief (CCB): a free, bi-weekly e-newsletter for U.S. companies interested in the Chinese market
- Olympics Hot Sheet: a free, news as it happens e-newsletter on Beijing 2008 Olympics developments

- U.S. Business Directories for five regions throughout China

Beijing, Shanghai and Guangzhou Commercial Libraries

CS China has three Commercial Libraries open to U.S. companies and other firms interested in sourcing products or services from America. Our staff can help you access Market Research Reports, locate information on key contacts or introduce you to our business facilitation programs. Library visits are by appointment only.

Shanghai Commercial Center

The U.S. Commercial Center in Shanghai offers a wide range of business services and facilities to help launch your business in China and Asia, including:

- Trade event support
- Conference facilities
- An up-to-date resource library
- A 20-member professional trade promotion staff

The Shanghai Commercial Center is located in the Shanghai Center (adjacent to the Portman Ritz Carlton Hotel) in the heart of Shanghai's business district. For more information please contact the Shanghai Commercial Center at (86-21) 6279-7630 or by fax (86-21) 6279-7639.

FCS Commercial Library Office Hours (by appointment only)

Beijing

Monday - Thursday

9:00 am - 12:00 p.m.

1:00 p.m. - 5:00 p.m.

Tel: (86-10) 8529-6655

Fax: (86-10) 8529-6558/9

Shanghai

Monday - Friday

9:00 am - 12:00 p.m.

1:00 p.m. - 4:30 p.m.

Tel: (86-21) 6279-7630

Fax: (86-21) 6279-7539

Guangzhou

Monday - Thursday

9:00 am - 12:00 p.m.

Tel: (86-20) 8667-4011

Fax: (86-20) 8666-6409

U.S. Export-Import Bank

The U.S. Export-Import Bank is pleased to offer its short-, medium-, and long-term programs to support sales of U.S. exports to the People's Republic of China. Exports of consumer goods, spare parts, raw materials, bulk agricultural commodities and quasi-capital goods can receive Ex-Im support under the Bank's short-term credit insurance policies. Ex-Im Bank's medium- and long-term loan and guarantee programs can support exports of capital goods and related services. For more information please contact Ex-Im Bank's Business Development Office in Washington, D.C. at (202) 565-3946, in the U.S. (800) 565-EXIM or fax (202) 565-3931. Letter of Interest Applications are available on-line on the Ex-Im Bank Website at www.exim.gov.

Trade and Development Agency

The Trade and Development Agency (TDA) provides funding for feasibility studies, orientation visits, specialized training grants, business workshops, and various forms of technical assistance that enable American businesses to compete for important developmental infrastructure as well as compete for industrial projects in middle-income and developing countries. TDA returned to China in 2001 after an 11-year absence. For more information about how TDA can help you, please visit www.tda.gov.

How the Embassy Can Help You

U.S. Embassy

2 Xiu Shui Dong Jie
Jianguomenwai
Beijing, China 100600
Switchboard: (86-10) 6532-3831, (86-10) 6532-3431

Commercial Section

The U.S. & Foreign Commercial Service (FCS, U.S. Department of Commerce) is the largest U.S. Government agency devoted to promoting American commercial interests abroad. In addition to counseling dozens of business people every day, FCS assists exporters by offering customized market-entry services, market research, trade leads, and access to business contacts. FCS also is an advocate for U.S. firms bidding on projects in China and works closely with Embassy Economic Officers and China's Ministry of Commerce (MOC) to help improve American companies' access to the Chinese market.

Agricultural Section

The Foreign Agricultural Service (FAS, U.S. Department of Agriculture) works to increase the sale of U.S. agricultural products to China. The FAS Office of Agricultural Affairs in Beijing focuses on market intelligence and government relations, with a particular interest in improving China's agricultural trade-policy environment and access to the Chinese market. The FAS Agricultural Trade Offices in Shanghai (covering Northern and Eastern China) and Guangzhou (covering Southern and Western China) sponsor promotional activities, support existing U.S. products, and aggressively help to promote and introduce new products from the United States.

Economic Section

The Economic Section (ECON, U.S. Department of State) oversees U.S.-China economic policy and trade and investment policy issues. It directly supports economic negotiations and exchanges, including talks on China's implementation of WTO commitments, market access problems, intellectual property rights issues, APEC, and broad-based economic policy dialogue. The ECON Section regularly exchanges views with a wide range of Chinese government contacts and with the U.S. and Chinese business communities. Economic officers welcome the opportunity to brief visiting U.S. businesspersons and others on economic developments in China.

Environment, Science & Technology Section

The U.S. Embassy Environment, Science, Technology & Health (EST&H, U.S. Department of State) section covers a wide range of issues in the areas of environment, science, technology, and health. EST&H manages official cooperation between the U.S. and China as well as compiles reports in many areas of interest to U.S. business. Over 200 EST&H section reports are available at www.buyusainfo.net/adsearch.cfm

Political Section

The Political Section (PS, U.S. Department of State) reports on a wide range of topics of significance to U.S. interests and policy, from non-proliferation and human rights to Chinese political developments and social changes. The Political Section also supports many high-level visitors who come to Beijing each

year, including Congressional, Judicial, and Executive branch officials. The Political Section also plays an important advocacy role in explaining U.S. Government policies and positions to the Chinese Government and the general public.

Public Affairs Section

The Public Affairs Section (PAS, U.S. Department of State) manages the United States Government's official information, educational and cultural exchange activities in China. Concurrently, PAS is the official voice of the United States Embassy in China. Through its Press Section, PAS handles all public affairs matters and media relations concerning the Embassy, the United States Government and its policies toward China. PAS' Cultural Section manages the Fulbright Program, the International Visitors Program, the American Center for Educational Exchanges, a speaker program and other activities.

American Citizen Services

The American Citizen Service (ACS, U.S. Department of State) unit in the Consular Section of the Embassy assists Americans who need to replace lost or stolen passports, notarize documents, register births, or who are experiencing medical, financial or legal difficulties. It is also a valuable source of general information. ACS is open Monday through Friday from 9:00am to 12:00 noon and from 2:00pm to 4:00pm (Chinese and American holidays excepted). All Americans who stay in China should register at ACS in person, by fax 6532-4153 or on-line at www.usembassy-china.org.cn/us-citizen. ACS telephone number is (86-10) 6532-3431 ext. 5609, 5028, 5344. In case of an after-hours emergency, please call (86-10) 6532-1910. Similar services are available from the Consulates General in Chengdu, Guangzhou, Shanghai, and Shenyang for persons in their districts. Be sure to bring your

passport with you when you come to the ACS unit for service.

Visa Unit

The Embassy in Beijing and the Consulates General in Chengdu, Guangzhou, Shanghai and Shenyang process all categories of nonimmigrant visas. Under U.S. law, it is the visa applicant's responsibility to establish that he or she has compelling reasons to return to China; consular officers alone are authorized to adjudicate visa applications. The Commercial Service or other sections of the Embassy are not able to facilitate or interfere in the visa process. U.S. firms who are planning to sponsor and/or host Chinese business travelers should ensure that they are fully familiar with the applicant (s) before assisting them. They should provide clear and specific invitation letters to the applicants while advising them to provide accurate information on their application forms. Approved visas are generally issued in one or two working days, though cases submitted through the Chinese government can take several weeks to wind through the Chinese bureaucracy. Applicants and sponsors should note that most visa applicants need appointments for visa interviews. The Consular Section in China implemented a Visa Information Call Center on March 3, 2004. The call center will now be the one-stop center that will provide visa-related information to visa applicants and schedule their non-immigrant visa interview appointments for the U.S. Embassy in Beijing and the U.S. Consulates General in Chengdu, Guangzhou, Shanghai, and Shenyang. For all non-government applicants, this is the only way to schedule an interview. Travel should be planned well in advance. Please consult the website for more information www.usembassy-china.org.cn/visa.

Market Overview

China's accession to the WTO, on December 11, 2001, heralds a new era and offers significant opportunities for American exporters. Accession to the WTO symbolizes China's ongoing integration into the world economy, a transition from central planning to market-based regulatory principles. China's WTO membership is changing the way business is conducted. The transition is gradual, however, and not without bumps in the road.

Meanwhile, China's economy continues to be robust. Last year the official rate of Gross Domestic Product (GDP) growth was slightly over 9 percent and the number of foreign firms doing business in or with China has grown exponentially. According to Chinese statistics from 2002, foreign firms invested over USD 57 billion in China. Chinese statistics suggest that American companies invested approximately USD 4 billion in 2002, including the continued expansion of American companies already operating in China.

Since 1990, U.S. **exports** to China have grown almost 12 percent annually. Since joining the WTO, American exports have accelerated substantially, growing 23 percent in 2003 and 30.4 percent in the first quarter of 2004. China is America's fifth largest export market, after the United Kingdom. In 2003, China consumed 3.6 percent of total U.S. exports. In 2003, exports from China to the rest of the world were up 28 percent and imports rose 56 percent.

The growth of imports in many key sectors, such as energy, chemicals, machinery, telecommunications, medical equipment,

construction, services and franchising suggests that China will remain an interesting and viable market for some time to come. With China's accession to the WTO, the number of sectors with market potential accessible to American companies will expand dramatically.

Despite the high level of interest, China remains a medium-sized market, albeit one with vast potential. Last year, China's GDP was USD 1.38 trillion. This is about the size of the economy of Italy. Spread over a population of 1.3 billion, this does not represent a large amount of disposable income for the people of China. Last year, rural per capita GDP was USD 298.66 and urban per capita GDP was USD 906.89.

With a relatively small market and low disposable income, it is clear that China will be a selective consumer of American goods. Not only are tastes different than in the U.S., but also the ability to pay for relatively expensive American products will not be universal. Companies wishing to enter the China market need to make certain that an existing market, or market potential exists for their products. If there is an existing market, companies need to find out how crowded it is. American suppliers also need to determine their competitive advantage, find a market niche, and understand the distribution channels. For products with untapped market potential, market penetration costs should be clearly established. Any marketing plan should also have funding included for a company Intellectual Property Rights (IPR) protection program.

American companies who have sound marketing

plans have done well in China. The attraction of China's huge potential for future business has spurred great interest in this market. Unfortunately, not all companies have been careful enough in their planning and execution, and as a result many U.S. firms find the Chinese market frustrating and difficult. The successful companies are those that have thoroughly investigated the market, pre-qualified business partners, assured payment will be made and crafted contracts that minimize misunderstandings. Successful ventures are scrupulous in their "due diligence," verify all claims made by potential partners, and receive extensive advice from lawyers, accountants, and even private investigators.

Since you are reading this, we know that you already have an interest in doing business in China. We probably do not have to encourage you to be excited about this market. Given the huge potential of doing business in China, your interest is justified. This is a market too important to ignore. Your interest, however, is to be part of the **successful** group of companies doing business in China, and to avoid the pitfalls.

The problems of doing business in China can be grouped in four large categories:

- *China often lacks predictability in its business environment.* A transparent and consistent body of laws and regulations can provide predictability. Achieving this requires strong central authority, with clear and uniform economic goals, and the ability to enforce its will throughout the country. China is lacking in both. Its current legal and regulatory system can often be opaque, inconsistent, and arbitrary. Political power in China is disbursed

among competing bureaucracies with conflicting interests. Frequently, they not only disagree among themselves, but also with their own, reform-minded top leaders. With China's accession to the WTO, this situation is improving, but major shifts in the business environment will not occur overnight.

- *China still tends to be mercantilist and protectionist.* China has made significant progress toward a market-oriented economy, but some elements of its bureaucracy still tend to protect local firms and state-owned firms from imports, while encouraging exports. This means that foreign firms and products can be subject to de facto discrimination or unfair treatment. Again, WTO accession for China will bring slow improvement in this area.
- *China has the remnants of a planned economy.* In many sectors of the Chinese business community, the understanding of free enterprise and competition is incomplete. The Chinese economy is often prone to over-investment and over-production, for reasons not related to supply and demand. Local bureaucrats sometimes keep companies alive by artificial means, even though the firms have not been profitable for years. Banks have often been ordered to give loans to insolvent companies, when there is no hope of repayment. American businesses must be wary of businesses which appear on the surface to be viable, on-going concerns, but which are in reality, bankrupt.
- *Foreign businesses have been over-enthusiastic about China.* Encouraged by a government eager for foreign capital and technology, and entranced by the prospect of 1.3 billion

consumers, thousands of foreign firms have charged into the Chinese market. These companies often do not fully investigate the market situation, do not perform the necessary risk assessment, and fail to get counsel. Without the necessary preparation, these companies often stumble into bad business deals, resulting in trade complaints and lost investments. ***Lack of thorough, due diligence is the primary cause of financial losses for American businesses.*** Companies often assume that China is "different," and do not think they need to investigate partners or clients. They do not protect themselves to make certain they get paid. As a result, through bad business deals, careless American companies lose millions of dollars in China each year. Most of these losses could have been avoided by proper due diligence and risk analysis.

For the next few years, we assume the following:

- The Chinese economy will continue to grow, but the growth will be slower than in the recent past. You should not discount the possibility of significant problems arising in the Chinese economy from unforeseeable political or economic disruptions. The problems in the state sector - especially the banking system - could rapidly become critical if they are not managed properly. Unemployment could cause social unrest. WTO will actually increase the economic volatility of China, as adjustments are made to meet its requirements.
- China will continue to have a collective, conservative leadership that pursues economic liberalization because it must. Reform will be slow, and in certain sectors, grudging. Nevertheless, economic growth will be the Chinese Government's major source of legitimacy. As a result, liberalization will continue, but will be tainted with mercantilism and protectionism. There will continue to be regional protectionism that impacts both foreign

Did You Know?

China in the WTO: What it Means for U.S. Business

On December 11, 2001 China became the 143rd member of the WTO (World Trade Organization). And although China has already been working hard on liberalizing their economy for over 20 years, this accession truly validates their long march. For U.S. interests, China's accession is a very positive thing. With the WTO we can expect lower market barriers, a more transparent investment environment, tariff reductions, support of WTO dispute resolution, and development of a working legal system in China. But bear in mind, while these reforms will happen, they will not take place overnight. Many of the reforms are being phased in over the next few years while others we may not see for over a decade.

For more information and a free .pdf version of CS China's WTO guide booklet, please visit www.buyusa.gov/china/en/wto.html or pick up a hard copy at one of our Commercial Libraries.

and domestic products. Improvement will be slow, but sustained.

- The WTO agreement will provide U.S. policymakers with a new tool to create market openings in China, but the agreement will not lead to quick changes in the fundamental business environment. Progress will be hindered by both a lack of understanding of the WTO process, and by violations committed by individuals with a full knowledge of the rules. Nevertheless, top Chinese Government officials will continue to strongly support WTO, resulting in increasing acceptance by national and local government leaders.
- The WTO agreement will lead to increased interest in the Chinese market by U.S. businesses and political institutions. Thus, the pressure on the USG and private sector service providers to provide services in China will steadily increase. As various phases of the WTO agreement become effective (i.e. tariff reductions, service agreements, etc.), the demands on services by U.S. business will increase rapidly. Similarly, implementation and compliance activities by various USG elements will begin immediately and will be effective in modifying behavior.

Top Ten Tips for Doing Business

In this environment, it is necessary for American companies to have a well-planned strategy. The following list is not comprehensive, but a guideline for an initial market evaluation. Companies entering this market should consider the following:

1. Have clear contract terms. When entering into a contract with a Chinese partner you must be careful. Specify exact terms of payment, and performance standards. Set time lines. Pay careful attention to details, such as initialing pages of contracts and signing properly. **Do not attempt to enter into an agreement without sound legal advice.** Have your own legal counsel. Do not rely on the legal advice from your Chinese partner. Beware of claims that the Chinese law requires specific covenants in your contract. Verify this with your own counsel. Do not agree to provisions in a contract that are not under your control. For example, if your client or partner wants you to specify in the contract that they must visit your plant in the United States, remember that you cannot guarantee that he or she will receive a visa. This could invalidate your contract. Make certain that your partner is not a shell subsidiary of a larger company. If the partner defaults, do you have the ability to collect from the parent company? Specify this in your contract. **Remember that the best contracts are those that do not have to be enforced.** Make certain your client or partner is not only willing, but also able to do all they say they will do in the contract. Assure yourself that it is in their best interest to perform as agreed. Lastly, be careful that your partner is allowed by law to fulfill the promises in the contract. Do not assume that local or provincial officials actually have the authority to give you permits and permissions.

Verify these claims from independent sources.

2. Make certain your project is economically viable. Profitability of a project or the sale of goods and services should be based on sound economic criteria. Do not rely on promises of subsidies, special considerations, or non-market related sources of income to create a profit. If subsidies are offered, they should be used to augment profit, not create it. Make certain your partner has the authority to offer subsidies and assure yourself from independent sources that the subsidies will actually be paid. Look for examples of companies who have actually received such benefits.

3. Make sure you know your partner. Do your "due diligence," and do it well. Check the reliability of the data on your partner or customer from independent sources. Avoid being "stovepiped" - talking only to a narrow band of people to whom your partner or buyer directs you. Seek other sources of information outside the stovepipe.

4. Make sure you get paid. A contract with an insolvent partner or customer is worthless. Pay careful attention to how you get paid, when you get paid, and in which currency. If you want to be paid in U.S. Dollars, be certain you are able to convert profits. Use letters of credit, and other financial instruments to protect yourself. If you do not want to use a letter of credit, require your partner to make advanced payment. Remember that Chinese companies usually do not use terms that allow unsecured payments after delivery of the product. For example, payment terms of "30% letter of credit, 70% payment 120 days after delivery," would not be customary in China. For large projects, terms of "70% advance payment, 30% letter of credit," would not be unusual.

NEVER agree to unsecured payments after delivery. Doing so signals your potential partner that you do not know what you are doing, and marks you as a gullible target for fraud. Remember that providing a product without payment is called charity, and unless you are running a philanthropic organization, this is not your intended goal. Before you complete any sale, make sure you know how and when you will be paid. Most importantly, know why you will be paid. You should understand the motives of your partner to pay you. If you do not build mutually beneficial reasons into your contract, you may not get your money.

5. Do not enter into prohibited agreements. American companies have often entered into agreements with promises from local officials that national rules will not be enforced in the provinces. Indeed, often they are not. Problems arise when these rules are applied suddenly- sometimes retroactively - leaving the company with little recourse. You must be ready to obey WTO compliant regulations, even if you initially can successfully avoid them. Seriously question any agreement where you are told you can ignore or avoid rules.

6. Never agree to pay bribes of any kind. This is not only a bad business practice, but may cause you to be in violation of the U.S. Foreign Corrupt Practices Act (FCPA). You should be aware that China is also cracking down on corruption. You do not want your business to be associated with corrupt officials or illegal practices. You also do not want to be the cause of your Chinese partner being punished. In severe cases, accepting bribes may be punishable by death. Many American companies have reported that their Chinese partners respect their requirement to be in compliance with

the FCPA and do not expect American companies to pay bribes. If pressed for a bribe, you may need to remind local officials of this fact. No contract is worth the potential negative outcomes of bribery.

7. Be careful to base your business on WTO compliant rules. The U.S. government cannot support you if you are relying on a business plan that is not WTO-compliant. China has agreed, as part of WTO accession, to change its rules to make them compliant. Some American companies may have taken advantage of old rules, which protected existing industries. As such rules are replaced, they will need to modify their business plan. Otherwise they may find their competitive advantage eroded by the new lack of protectionism.

8. Search for problems before they materialize. In addition to creating pro forma balance sheets, spend some time at the beginning of a project to create scenarios of what you will do if things go wrong. Try to anticipate possible problem areas. If you can not find any, you are not looking hard enough. Create a strategy to deal with potential problems. Have dispute resolution scenarios in place. You know how much profit you want to make, but do not forget your company can lose as well.

9. Limit your exposure. Do a thorough risk analysis before you begin doing business in China. Know your own company's risk profile and weigh it carefully against the realities of the China. Be realistic about how much risk you are willing to accept in your business venture. Make sure you use reliable sources for this assessment. Use more than news media sources, or your immediate partners to evaluate the market. Set milestones in the project for performance. Have an escape

strategy for each stage of the project, even though you do not plan to use it. Remember that you should not have a separate risk policy for China. Losing money in China is exactly the same as losing money anywhere else. Your methods of assessing risk may differ in China, but your policy should not.

10. Mind the store. Projects and sales in China require constant attention. Do not assume they will run themselves. Follow up on all details. Never let your partner assume you have forgotten about them. Keep in mind that the last payment is just as important as the first one.

Market Entry Options for Foreign Firms

Trading Companies and Local Agents: With China's accession to the WTO, foreign companies operating in China will be allowed full trading and distribution rights beginning December 11, 2004. Still, trading companies and local agents remain an important option to consider. With careful selection, training and constant contact, U.S. firms can obtain good market representation from a Chinese trading company, many of which are authorized to deal in a wide range of products. Local agents who handle internal distribution and marketing offer relatively low-risk representation.

Representative Offices: Representative offices are the easiest type of offices for foreign firms to set up in China, but they are limited by law to performing "liaison" activities. They cannot sign sales contracts, directly bill customers or supply parts and after-sales services for a fee.

Chinese subsidiaries: A locally incorporated equity or cooperative joint venture with one or more Chinese partners, or a wholly foreign-owned

enterprise (WFOE), avoids import restrictions - including relatively high tariffs - and provides greater control over both marketing and management. Successful joint ventures require good partners, time, and patience. If you are not willing to provide constant monitoring of critical areas such as finance, personnel, and basic operations, then consider other market entry alternatives.

Wholly Foreign Owned Enterprises: Establishing a WFOE helps retain greater management control and IPR protection. The current law on WFOEs requires that firms either provide advanced technology or be primarily export-oriented, and restricts or prohibits them in a number of service and public utility sectors. With WTO accession, many of these requirements are being phased out.

Licensing: Technology transfer is another initial market entry approach used by many companies. It offers short-term profits but runs the risk of creating long-term competitors. Due to this concern, as well

as intellectual property considerations and the lower technical level prevailing in the China market, some firms attempt to license older technology, promising higher-level access at some future date or in the context of a future joint venture arrangement.

Franchising: China has no laws as yet which specifically address franchising, but many foreign companies are beginning to establish multiple retail outlets under a variety of creative arrangements, including some which for all practical purposes function like franchises. Virtually all of the foreign companies who operate multiple-outlet retail venues in China either manage the retail operations themselves with Chinese partners (typically establishing a different partner in each major city) or sell to a master franchisee that then leases out and oversees several franchise territories within the territory. Within three years of WTO accession (December 11, 2004), restrictions on equity share, number of outlets and geographical area are to be eliminated.

Did You Know?

Beijing 2008

On July 13, 2001, Beijing won the bid to host the 2008 Summer Olympics. Not only is this an extremely exciting event for China, it is also a tremendous business opportunity. The City of Beijing is planning to invest more than \$23 billion in preparation for the Olympic Games in 2008. Much of this money will be spent on construction projects in the following areas:

Olympics facilities, transportation, telecommunications, and environmental improvements. While some of the projects are continuations of city improvements that have been planned for years, others are entirely new projects that will now come to fruition since Beijing has been officially selected to hold the Olympics. The Beijing municipal government has promised that bidding on these projects will be open on an equal basis to both foreign and domestic companies.

For up to date news and bidding announcements, subscribe to CS China's Olympics Hot Sheet (e-newsletter) at www.buyusa.gov/china/en/hotsheets.html

Direct selling: The U.S direct selling industry is working pro-actively with various Chinese government departments and agencies, as part of an overall effort toward China's WTO accession, to construct a fairer business climate in this industry. The implementation of WTO commitments promises to change this method of marketing in a rapidly changing business environment.

E-commerce: The Chinese government has adopted an open attitude towards the advent of electronic commerce in China. Interest among both Chinese and international businesses focuses on investing and on establishing vertical integration and sales channels on-line. Investment is risky, however, due to the lack of defined regulatory powers over the industry, effective Chinese certificate authentication systems, secure and reliable on-line settlement systems, and an efficient physical delivery system.

Regional Briefs

Shanghai and East China

CS Shanghai consular district covers Jiangsu, Anhui, and Zhejiang provinces and the City of Shanghai. The region's GDP was nearly USD 375 billion in 2003, accounting for roughly 25 percent of China's total GDP. The GDP of Shanghai alone grew 11.6 percent to nearly USD 73 billion in 2003, accounting for over five percent of China's total output. GDP per capita in Shanghai is over USD 4,500.

Shanghai is the industrial, financial, and commercial center of China. It hosts a concentration of manufacturing activity in the key industries of automotive, electronics, telecommunications, machinery, textiles, iron and steel, and petrochemicals. Shanghai has a population of over 16 million, not including up to four million temporary workers.

In 2003, exports from Shanghai to other parts of the world including the rest of Asia, Europe, and North America were USD 48.5 billion, constituting about 11 percent of China's total exports. About 25 percent of China's total exports pass through Shanghai's ports. Two-way trade between the City of Shanghai and the U.S. was more than USD 19 billion last year, amounting to 11 percent of China's total trade with the U.S.

Foreign direct investment (FDI) in East China has been increasing steadily in the last four years and was especially impressive in 2003, given the fear that SARS would have a negative effect on investment flows from overseas. Contracted FDI for

the region in the year 2003 was USD 55.5 billion. In Shanghai, cumulative contracted FDI rose to nearly USD 74.5 billion, representing eight percent of China's total. Actual realized investment was just USD 5.9 billion, but this represented over 30 percent of China's total.

The U.S. is one of the top investors in Shanghai. The U.S. share of Shanghai's cumulative contracted FDI in 2003 was USD 8.2 billion, or more than 11 percent of Shanghai's total. There are about 4,000 U.S.-invested projects in Shanghai. The American Chamber of Commerce in Shanghai is the largest in Asia, with over 2,400 members and attracts 50 new companies per month. More than 4,000 Americans are long-term residents of Shanghai and many more work on short-term visas.

The Shanghai Municipality has the same political status of a province and receives preferential treatment from the Chinese Government, particularly as an incubator for reforms and pilot projects. Costs tend to be somewhat higher in Shanghai than in nearby cities, but the business environment is generally more transparent.

Sectors to watch in the region are IT, telecommunications services, transportation infrastructure (ports, metro and light rail), distribution services, environmental technologies, construction materials, architectural and engineering services, industrial equipment, machine tools, and manufacturing process controls.

Key Contacts

American Chamber of Commerce in Shanghai (AmCham)

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 Fax: (86-21) 6279-7643
www.amcham-shanghai.org

Shanghai Municipal People's Government Foreign Economic Relations & Trade Commission (SMERT)

Tel: (86-21) 6275-2200
 Fax: (86-21) 6275-1159

Shanghai Foreign Investment Development Board

Tel: (86-21) 6236-8800
 Fax: (86-21) 6236-8024
www.fid.org.cn

Southern China

The Guangzhou consular district covers the provinces of Guangdong, Fujian, Hainan Island, and the Guangxi Autonomous Region. The area has a population in excess of 200 million, and contains some of China's richest cities, as the South was the first area in China to be opened to the outside world.

Much of that development, especially in Guangdong, has been fueled by the region's proximity to the Hong Kong Special Administrative Region (HKSAR) and Taiwan. HKSAR has provided much of the capital, technology and business savvy that has made the Pearl River Delta China's most prosperous region. Meanwhile, Taiwanese firms are the leading investors in Fujian, which is home to two of China's wealthiest and most developed cities, Xiamen and Fuzhou.

The rest of Southern China is not as well off as Guangdong and Fujian. Hainan Island enjoyed a

boom in the late 1980's when it was declared a Special Economic Zone, but that boom went bust when many of Hainan's special privileges were revoked. Hainan is still trying to develop as a tourist center, but its appeal is largely to Chinese vacationers. Guangxi, home to famous Guilin, is largely mountainous, rural, and poor.

The concentration of highly polluting industries has created considerable environmental problems. The population density (over 25 million in the Pearl River Delta alone) has contributed to increasing infrastructure problems for the movement of goods and people. This has led to an increased initiative to develop transportation infrastructure such as roads, bridges, and mass transit facilities, as well as airports.

Key Contacts

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www.investgd.com/english/index.asp

Guangdong Sub-Council of the China Council for the Promotion of International Trade

Tel: (86-20) 8657-8331 ext 1837/1972/1989/1969, 8655-0805
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www.getgd.net

Guangzhou Municipal Bureau of Foreign Trade and Economic Cooperation

Tel: (86-20) 8108-1272
 Fax: (86-20) 8109-7451
www.gztrade.com.cn

Shenzhen Municipal Bureau of Foreign Trade and Economic Cooperation

Tel: (86-755) 8210-4338

Fax: (86-755) 8209-9760
www.szboftec.gov.cn
www.szinvest.com

Dongguan Municipal Bureau of Foreign Trade and Economic Cooperation

Tel: (86-769) 242-3333, 242-3351
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The Bureau of Foreign Trade and Economic Cooperation of Fujian Province

Tel: (86-591) 785-3616 (24 hour)
 Fax: (86-591) 785-6133
www.fiet.gov.cn

The Department of Foreign and Economic Cooperation of Guangxi Zhuang Autonomous Region

Tel: (86-771) 532-4530, 533-1249
 Fax: (86-771) 532-1237, 531-4247
www.gxdoftec.gov.cn
www.investgx.gov.cn

The Foreign Investment Bureau of Xiamen Special Economic Zone

Tel: (86-592) 505-4860, 505-4856
 Fax: (86-592) 505-4859, 504-3092
www.fdi-xiamen-cn.com/v4/html/index.php

The Hainan Provincial Department of Commerce

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 Fax: (86-898) 6533-8762

The Northeast

The Shenyang consular district is comprised of three provinces: Liaoning, Jilin and Heilongjiang. With a population of over 107 million people, the region is rich in natural resources and is known as China's center of state-owned heavy industrial manufacturing. While reform of public sector enterprises continues to lag behind schedule throughout the region, provincial governments are

encouraging development of private sector businesses in several sectors including information technology, telecommunications, environmental technologies, automobile parts, and tourism.

Regional leaders would like to see the Northeast become the fourth great coastal area to increase trade and draw in foreign investment. While it is well known that the Chinese government strongly encourages the economic development of the Southwest through its Great Western Development Initiative, it is little known that the Northeast is also a top priority.

In October 2003, the 16th Communist Party Congress endorsed the Rejuvenate the Northeast Initiative. In November, the National Development and Reform Commission announced its approval of 100 projects that are expected to require an investment of USD 7.3 billion (61 billion RMB). The Chinese central government plans to cover only 20% of planned investment by allocation of funds from the State treasury. The financing tools are expecting to primarily include interest subsidies on commercial loans from State policy banks and market liberalization to attract foreign and domestic investment. The projects will be unevenly distributed throughout the Northeast, with Liaoning having secured approval for 52 project proposals, Jilin with 11 projects, and Heilongjiang with 37 projects. Liaoning is home to about 10 percent of China's large and medium size state-owned enterprises.

Shenyang, the capital of Liaoning Province, is considered the industrial center and transportation hub for Northeast China. Shenyang's comprehensive manufacturing base is divided into forty sectors, including nonferrous metals, chemicals, automobiles, aircraft, machine tools, building

materials, electronics, textiles, pharmaceuticals and light industrial products. Shenyang's GDP reached USD 16.9 billion (140 billion RMB) in 2002. Industrial production accounted for 43.9% of city GDP, while agriculture accounted for 6% and services for 50.1%. Liaoning's GDP reached USD 66 billion (545 billion RMB), among which industrial production accounted for 47.8% of provincial GDP, agriculture for 10.8% and services 41.4%.

In November 2003, the central government released statistics that clearly demonstrate the comparative strength of the Northeast over the Southwest in terms of international trade activity. In 2002, total trade value for the Northeast reached USD 29.79 billion, which represented 4.7 percent of China's total trade. The Southwest accounted for USD 9.17 billion, which was 1.5 percent of China's total trade in 2002. With regard to foreign direct investment, the Southwest utilized USD 1.08 billion, while the Northeast utilized USD 5.18 billion. Liaoning typically attracts about 75% the Northeast region's foreign direct investment.

Liaoning Province is the region's leader in international trade. In 2002, its total trade value reached USD 21.7 billion, with imports accounting for USD 9.37 billion and exports accounting for USD 12.36 billion. This total trade activity represents a 9.8% increase over 2001. Meanwhile, in Jilin, total trade value reached USD 3.7 billion, up 15.4% over 2001. Total trade value in Heilongjiang reached USD 4.3 billion, up 28.6% compared to 2001. Comparing Liaoning's import volume between its partners in 2002, the United States ranked third, with imports valued at USD 576 million. Liaoning's imports from Japan hit USD 3.2 billion; and imports from South Korea reached USD 1.58 billion in 2002.

Key Contacts

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The Southwest

Chengdu, the capital of Sichuan Province, is the most important commercial center in West China. This metropolis of 10.44 million lies 1,500 miles from China's eastern seaboard. The city has a market reach of 200 million consumers and it is the distribution center for southwest China. The Chengdu consular district encompasses Sichuan, Yunnan and Guizhou Provinces, the Tibet Autonomous Region, and the Municipality of Chongqing. Sichuan Province boasts one of the most diversified industrial bases in the country

and Chengdu is a key manufacturing center for the electronics, machinery, pharmaceuticals, chemicals, metallurgy and food processing industries. The IT industry has been designated as the Number One Project for growth in Sichuan Province. Sichuan is also the national headquarters for feed grain companies. In 2003, the city of Chengdu had a GDP of USD 22.6 billion (187 billion RMB), a 13% increase over 2002.

Chongqing, the most recently established municipality directly under the Central Government, is the largest administrative municipality in China with a population of 30.9 million. Chongqing is strategically located in the upper reaches of the Yangzi River. According to current patterns of Chinese economic development, there are three economic belts: the eastern, western, and central belts. Chongqing has been identified as the connecting point between the eastern and western belts. Chongqing has received a great deal of financial and policy support from the Central Government, enabling its economy to grow rapidly and increasingly compete with Chengdu. Chongqing is famous for the scenic Three Gorges and the Three Gorges Reservoir. Once the construction of the Three Gorges Dam is completed, river navigation between Chongqing and Shanghai will become more reliable. Pillar industries in Chongqing are machine building, metallurgy, chemicals and pharmaceuticals. Since the early 1980's, many companies in the national defense industry have shifted to manufacturing civilian products, playing an important role in the automobile and motorcycle industries in the city. With its strong heavy industry foundation, Chongqing is expected to become the automotive capital of western China. In 2002, Chongqing had

a GDP of USD 23.7 billion (197 billion RMB), a 10.3% increase over 2001. Southwest China's economy has enjoyed relatively sustained growth in recent years and will continue to grow at 9 to 10% over the next few years.

Key Contacts

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Chongqing Commission of Foreign Trade and Economic Cooperation

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Industry Briefs

Aerospace and Aircraft

Over the next twenty years, China predicts that its air transportation passenger volume is expected to grow 8.5% annually. It will become the world's second largest aviation market and will need to acquire an additional 1,588 aircraft to handle the volume. Expansion of airport infrastructure will also continue with 40 airports slated for construction or upgrade under China's current five-year plan, which began in 2001. Furthermore, a new system of regional control centers and full conversion from program to radar-based air traffic control will be introduced over the next 10-15 years, will make the skies safer for the increase in air traffic. In addition, China will install satellite-based navigation system its mountainous western region.

The General Administration of Civil Aviation of China (CAAC) is making efforts to rationalize the country's airlines. China's smaller, less-profitable airlines have been merged into China "Big Three" airlines (Air China, China Eastern, and China Southern). Airlines are concentrating on expanding the number of smaller, single-aisle aircraft while phasing out additional wide-body, twin-aisle aircraft in the Chinese fleet. CAAC also expects the airlines to improve operating efficiencies and concentrate on developing a modern, "hub-and-spoke" air routing system, which it hopes to have in place by 2005.

Airports and Ground Equipment

During the 10th five-year plan, China will improve the national airport system and will build more

regional airports. The important projects include relocating Guangzhou Baiyun Airport, increasing the abilities of the Beijing and Shanghai Airports as national air transfer centers and international airports, and improving trunk airports on the subsidiary hub knot. In line with preferential policy, CAAC plans to build more airports in the western region. By 2006 there will be 160 airports with scheduled airlines, and there will be 260 by 2015.

Along with passenger airport equipment, a big growth area appears to be in air cargo. New agreements have been signed to add cargo-carrying capacity on three Chinese airlines. That additional capacity will require better ground facilities.

China strives to improve aviation security systems and equipment, computer information management, settlements ticketing systems, global distribution systems and E-commerce. Airport retail concessions are also a new concept for the Chinese airport authorities to ponder. As airports face the challenge of making money, they are considering bringing in partners for food and other retail concessions.

Finally, safety equipment - including emergency vehicles - has been an area of interest for Chinese airport authorities. Foreign investment directed toward airport infrastructure construction, technology upgrade and management training will receive priority.

The outbreak of Sever Acute Respiratory Syndrome (SARS) in April 2003 caused a significant downturn in China's aviation industry. China's airlines and related enterprises implemented cost-saving measures to minimize the losses and they have emerged in relative good financial position. General air traffic now exceeds pre-SARS levels.

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2003 Air Traffic	
Cargo Traffic	17.07 billion tons 3.5% increase
Passenger Traffic	87.59 million persons 1.9% increase

U.S. Position in the Market

China is a developing country building infrastructure in virtually every area of its economy, including telecommunications, roads, ports and rail.

Competitive financing can be a major barrier to success for U.S. firms. The Chinese are sophisticated at playing one competitor against another. While CAAC thinks highly of U.S. products and services, competition continues to be fierce.

Political issues between our two countries often have a strong influence on U.S. sales, especially of aviation equipment.

Key Contacts

General Administration of Civil Aviation of China (CAAC)

Tel: (86-10) 6403-0868
Fax: (86-10) 6403-0868

CAAC Air Traffic Management Bureau

Tel: (86-10) 6731-8866 x 2252
Fax: (86-10) 6731-8519

China Aviation Supplies I/E Corporation

Tel: (86-10) 6568-7858
Fax: (86-10) 6568-6902

Major Shows/Exhibitions

China International Aviation and Aerospace Fair

Zhuhai, November 2004
Zhuhai Airshow Co. Ltd.
Tel: (86-756) 3369-235
Fax: (86-756) 3376-415
E-Mail: Zharshow@pub.zhuhai.gd.cn
www.airshow.com.cn

10th Aviation Expo/China 2005

Beijing, September 2005
China Promotion Ltd. Beijing Representative Office
Tel: (86-10) 6872-8993
Fax: (86-10) 6871-6028
E-Mail: cpexhbit@public.fhnet.cn.net

Automotive

Under the umbrella of the country's protectionist policies, China's automotive industry has witnessed rapid development since the country opened up to the outside world and adopted economic reforms. China now has the capability to manufacture a complete line of automobile products, and form large, automotive enterprises, such as China First Automobile Group Corp. (FAW), Dongfeng Motor Corp. (DMC), and Shanghai Automotive Industry (Group) Corp. (SAIC). Currently, domestic motor vehicles make up 95 percent of the national market share.

China had a total of 5,400 automotive enterprises at the end of 2003. The total value of output in the automotive sector in 2003 was USD 103.4 billion. While sales of USD 101.2 billion imply a current production overcapacity, the market will be expanding as more private interests look to purchase or upgrade their family automobile. The automotive industry in China is a money-making endeavor, overall profit in 2003 was USD 8.7 billion.

Since 1998, individuals have purchased 50% of motor vehicles in China. As economic development continues, this percentage will grow steadily and become the main force bringing growth in China's automobile market. As the government continues to encourage private purchase or use of automobiles, a continued high annual growth rate of private ownership is expected.

Impact of the WTO

China's accession to the WTO helped facilitate the development of the automobile market by

encouraging an open, rational market structure. However, membership in the WTO also meant reduction of tariffs, reduction of non-tariff barriers, and a general opening up of the country's service sector. China's domestic auto industry is weak in comparison with that in developed countries, and will face increasing competition as the market becomes internationalized.

Alternative Fuel Vehicles

China encourages the development of clean and fuel-efficient vehicles in an effort to sustain continued growth of the country's automobile industry. By the end of 2005, China plans to reduce the average vehicle fuel consumption by 10 percent. The proportion of vehicles burning alternative fuel will be increased to help reduce the country's energy consumption. Priority will be given to facilitating the research and development of electric and hybrid vehicles as well as alternative fuel vehicles.

Auto Parts

Currently auto parts and accessories enjoy lower tariffs than cars (the average tariff is 25% for parts and accessories and 40% for cars). China has agreed to lower tariffs on imported auto parts and accessories to 10% over a period of five years from the WTO accession date (December 2001). Although this difference in duty rate was initially responsible for an increase in car-kit imports, that loophole has been tightened. Now, only replacement parts and accessories enter China at the lower duty rate.

Used Motor Vehicles

Although there are case-by-case exceptions for antiques and diplomats, it is currently illegal to import used motor vehicles into China.

Automotive After-Sales Products and Services

China's after-sales products and services market still lags far behind those of developed countries. WTO commitments will bring about significant changes in the after-sales market. China now faces the following challenges:

- Swift establishment of an information feedback system with end-users in order to improve service
- Modernize the outdated sales system to reflect the shift from a planned economy to a market economy
- Increase the competitiveness of domestic auto parts and accessories
- Crack down on counterfeit products

U.S. Position in the Market

China's production capacity is approximately 5.5 million cars per year. Demand lags and inventory continues to pile up. Thus this sector appears to be facing several tough years. With continued economic growth, however, continuing development of roads and expressways, and expected reforms in used cars and financing legislation, the auto market outlook should improve for U.S. interests.

Key Contacts

State Economic and Trade Commission Investment and Planning Department

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China Association of Automobile Manufacturers (CAAM)

Tel: (86-10) 6859-5239
Fax: (86-10) 6959-5234

China Automotive Technology and Research Center

Tel: (86-10) 6328-3523
Fax: (86-10) 6346-2256

Ministry of Communications (MOC)

Tel: (86-10) 6529-2215
Fax: (86-10) 6529-2248

Major Shows/Exhibitions

China International Trade Fair for Auto Maintenance Technology and Equipment, Automobile Spare Parts and Accessories

March 9-12, 2004
Tel: (86-10) 8460-0317/ 8460-0321
Fax: (86-10) 8460-0325

The 8th Beijing International Automotive Industry Exhibition (Auto China 2004)

June 9-16, 2004
Tel: (86-10) 8460-1973
Fax: (86-10) 6467-7385

Computers and Networking

China has become a unique combination of large consumer base and strong manufacturing power of IT products. The rise of China's status in consumption and production of IT is dramatically changing the world's IT market and industry. One of the world's most important and fastest growing IT markets, China attracts IT suppliers and service providers from around the globe.

According to industry predictions, China's IT market size will grow over 18% annually over the next five years. Computer systems, including desktops, notebooks, and servers, could see a growth of 14.1%; digital products, including digital cameras, MP3 players, and PDA's will grow 38.3%; the networking market will grow 22.7%; the software market will grow 19.5%; and professional IT services will grow 23.9%.

Personal Computers

Urban Chinese consumers have more buying power than ever before. Coupled with a thirst for the latest technology and parents' desire to provide their children with every educational advantage, this sector has experienced rapid growth. In 2003, China's total sales volume of desktop PC's reached 11 million with a total sales value of USD 8.27 billion, up 6.6% over the previous year. Computers with multimedia features and hyper thread technologies, high-reliability, good cost-benefit ratio, and environmental friendliness are popular. Due to the development of mobile and networked computing, notebooks have been gaining popularity. In 2003, total sale volume was more than 1.2 million with a sales value of USD 2 billion.

Notebooks with wireless connection, multimedia functions, wide screens, light weight, and thin dimensions appeal to consumers.

Chinese domestic manufacturers dominate the PC market. U.S. PC manufacturers, however, are gaining increasing market share against the local manufacturers by using unique, direct-selling business models and localizing production. U.S. suppliers dominate the high-end server and notebook markets.

Growth of the Internet

Both the growth of Internet users and the development of Internet infrastructure have been dramatic in China over the last decade. As of January 2004, China reported 79.5 million Internet users. China now boasts the world's second largest Internet subscriber group, second only to the US. According to the latest statistics:

- Total number of computers connected to the Internet- 30.89 million
- Total number of Chinese domain names- 340,040
- Total number of Chinese web sites- 595,550
- Total international gateway bandwidth- 27,216 Megabits

With an explosive growth of broadband subscribers (17.40 million by January 2004) and with an increasing number of Chinese portals, E-commerce business has witnessed dramatic growth but is still far from booming. Limited use of credit cards, Internet security concerns, and inadequate product delivery distribution systems have prevented E-commerce in

China from reaching its full potential. E-commerce is experiencing limited success in the major cities where distribution is better and C.O.D. or pre-payment mechanisms are available.

In 2003, networking services reached USD 2 billion, up 60.5% over the previous year. On-line gaming, short messaging, and search engine markets are all witnessing strong growth. The search engine market in particular has recorded a nearly 400% growth rate, with market size surpassing USD 80 million. The ISP and domain name service markets both increased over 25%. System integration, web hosting, and IT consulting markets are all increasing by substantial margins.

Networks and High Performance Computers (HPC)

China seeks to import servers and workstation computers that support the Internet and local networks. China also seeks the information technology associated with these HPC's and across many areas of electronic commerce, but faces constraints on purchasing power and access. Large U.S. companies dominate the HPC market, although some domestic firms are becoming strong competitors. HPC's and encryption software from the U.S. require export licenses.

U.S. Position in the Market

U.S. firms in computer and networking markets dominate the high-end IT market in China. Domestic firms dominate the mid to low-end PC market and the Chinese government seeks to promote domestic information technology producers. Hardware makers in particular will face stiffening price competition. However, as the world leader in the majority of areas of the IT industry, U.S. firms hold firmly their positions as the suppliers of high-end hardware such as HPCs,

servers, networking devices, critical components and systems such as CPUs, operating systems as well critical applications.

Key Contacts

Ministry of Information Industries (MII)

Tel: (86-10) 6602-0839

Fax: (86-10) 6601-1370

www.mii.gov.cn

China Internet Network Information Center (CNNIC)

www.cnnic.net.cn

United States Information Technology Office

Rm.332,3/f Lido Office Tower, Lido Place

Chaoyang District, Beijing 100004

Tel:(8610) 6430-1368/69/70/71/72

Fax:(8610) 6430-1367

www.usito.org

Major Shows/Exhibitions

Computerworld Expo/China

IDG World Expo (Asia)
April 7 - 10, 2004
Beijing, China
Tel: (86) 10-6526 3095
Fax: (86) 10-6526 0865
E-mail: beijing@idg.com.cn

CeBIT Asia 2004

The Shanghai New International Expo Centre,
China
April 26-29, 2004
Deutsche Messe AG
Tel: (49) 511-89/33133
Fax: (49) 511-89/33140
E-mail: Sandra.Mathews@messe.de

China International Optoelectronics Exhibition and Conference

April 27-29, 2004
Intex Shanghai (77 Xing Yi Road, Shanghai, China)
Reed Exhibition Shanghai Office
Tel: (86-21) 6361-4450-115
Fax: (86-21) 6352-3055
E-mail: Shelley.Xia@reedexpo.com.cn
www.reedexpo.com

China International Exhibition on Connector Industry

May 8-10, 2004
Intex Shanghai (77 Xing Yi Road, Shanghai, China)
Worldwide Exhibitions Service Co., Ltd.
Tel: (86-21) 5234-0646, 5234-0650, 5234-1226,
5234-0065
Fax: (86-21) 5234-0649
E-mail: cice@sh-wes.com or cice2003@163.com
www.sh-wes.com

Environmental Technologies

China's acute environmental problems stem from a deteriorating natural resource base, dense population, heavy reliance on soft coal, outmoded technology, under-priced water and energy, and breakneck industrial growth. The World Bank estimates that air and water pollution cost the Chinese economy up to eight percent of GDP. In response, the Chinese Government has unleashed a burst of environmental legislation, shut down thousands of small, dirty factories, and decreed that China will reduce its total pollution discharge by 10% from the 2000 level by 2005.

Offsetting the apparent market opportunities, local enforcement of environmental laws is spotty, investment in pollution control infrastructure inadequate, and competition from domestic firms increasingly strong. Products enjoying the best sales prospects include low-cost flue gas desulfurization and de-Nox systems, air and water monitoring instruments, drinking water purification products, vehicle emissions control and inspection devices, industrial wastewater treatment equipment, and hazardous waster treatment technologies.

Environmental Investment

China is expected to spend USD 84 billion (1.2% of GDP) on environmental protection to meet the goals of the 10th five-year plan (2001-2005). Yet, according to World Bank estimates, two percent of the GDP is needed just to bring air quality standards to levels near those seen in the U.S. during the 1980s. During this 5-year period, the central government is expected to make 11.4%

(USD 9.7 billion) of the investment, while 34% will come from provincial and local governments and the remaining 55% from business enterprises. Meanwhile, some booming coastal cities such as Shanghai, Xiamen, and Dalian claim to be spending 2-3% of local GDP on environmental protection. Beijing has committed to spend at least USD 5.4 billion on environmental clean-up in preparation for hosting the 2008 Olympics (see: www.buyusa.gov/china/en/hotsheets.html)

The central authorities inevitably look to local governments and foreign lenders to provide the lion's share of investment. Determining which projects will ultimately receive funding and necessary approvals is often a daunting task. Many U.S. environmental firms have looked to World Bank and Asian Development Bank projects for opportunities. The U.S. Trade and Development Agency offers feasibility study grants in the environmental and energy sectors in China. The future may be brighter as affluent cities increase spending, multinational investors uncork new sources of demand, and municipalities experiment with new project financing models.

Air Pollution Control

China recently overhauled its clean air act and now mandates desulfurization systems on all new power plants and industrial facilities located in designated sulfur dioxide and acid rain control zones. China is also embarking on an ambitious campaign to curb vehicle emissions in major cities by improving bus and rail mass transit, phasing out leaded gasoline, issuing new tailpipe standards,

developing alternative fuel technologies, and investing in emissions control and inspection equipment.

Water and Wastewater Treatment

China and its foreign lenders still spend far more on the water sector than on air and solid waste, especially on the clean up of priority river basins and lakes. But domestic competition is also stiffest in this market. China plans to require all cities with populations over 500,000 to build wastewater treatment facilities by 2006. To meet funding demands, water tariffs have been on the rise in most major cities in the last few years, and cities are starting to levy increased wastewater surcharges. Many cities have encouraged BOT-type concession projects to attracting foreign investment in this sector. Low tariffs and fragmented tariff collection regimes, however, create risk management challenges for potential investors.

Solid Waste Management

China is slowly beginning to enforce its comprehensive, solid and hazardous waste law. China mapped out an aggressive blueprint for the treatment of hazardous waste in 2002. At present, China plans to allocate USD 1.8 billion for the construction of 31 hazardous waste treatment centers and 300 centralized medical waste treatment facilities, reconstruction, expansion and establishment of 31 warehouses for provincial radioactive waste, and the establishment of 31 additional provincial hazardous waste registration centers. The State Environmental Protection Administration is now in the process of identifying advanced hazardous waste treatment technologies suitable for China's situation. In other sectors, low-cost resource recovery and refuse handling systems enjoy the best prospects. Regular mixing

of municipal and industrial waste streams has hampered the composting sector.

U.S. Position in the Market

American firms have lagged behind their competitors despite China's high regard for U.S. technology. Many American companies attribute this to the substantial tied-aid programs of other developed countries, which subsidize their firms' entry into the China market. Some Chinese end-users credit the aggressive marketing, flexible financing, and the ability to provide turn-key solutions of U.S. competitors.

Useful Websites

China State Environmental Protection Administration

www.sepa.gov.cn

China Assn. of Environmental Protection Industry

www.cepi.com.cn

Professional Association for China's Environment

www.chinaenvironment.net

Shanghai Environment Online

www.envir.online.sh.cn

World Bank - China Pollution Intensities

www.worldbank.org/nipr/data/china

Asian Development Bank China site

www.adb.org/PRC/

U.S. Dept. of Commerce Environmental Industries

www.environment.ita.doc.gov

U.S. Trade and Development Agency (USTDA)

www.tda.gov

Key Contacts

State Environmental Protection Administration Bilateral Cooperation Division

Tel: (86-10) 6615-1934
 Fax: (86-10) 6615-1762
 E-mail: mailbox@zhb.gov.cn
 www.zhb.gov.cn

Major Shows/Exhibitions

5th China Summit Water/Wastewater Management

Date: 22 - 23 April 2004
 Venue: Inter Continental Pudong, Shanghai, China
 Contact: Ms. Cynthia Yeo, Event Manager
 80 Marine Parade Road #13-02 Parkway Parade
 Singapore 449269
 Tel: (65) 6346 9132
 Fax: (65) 6345 5928
 E-mail: cynthia@cmtsp.com.sg
 www.cmtevents.com/chewater.htm

SWET 2004

The 2nd Shanghai International Solid Waste Equipment & Technology Exhibition

Date: May 12-14, 2004
 Venue: Shanghai Exhibition Center
 Add: 1000 Yan An Road (M), Shanghai
 Contact: Mr. Stanley Dai or Ms. Helen Yuan
 Tel: (86-21) 6247-2347, 6279-2828 ext. 235
 Fax: (86-21) 6247-2349
 E-mail: stanley@siec-ccpit.com or yuanlan@siec-ccpit.com
 www.siec-ccpit.com

CET 2004

The 2nd Shanghai International Cleaning Equipment & Technology Exhibition

Date: May 12-14, 2004
 Venue: Shanghai Exhibition Center
 Add: 1000 Yan An Road (M), Shanghai
 Contact: Mr. Stanley Dai or Ms. Helen Yuan
 Tel: (86-21) 6247 2347, 6279 2828 ext. 235
 Fax: (86-21) 6247 2349
 E-mail: Stanley@siec-ccpit.com or yuanlan@siec-ccpit.com
 www.siec-ccpit.com

EPTEE 2004

The 5th China (Shanghai) International Environmental Protection Technology & Equipment Exhibition

Date: May 19 -21, 2004
 Venue: Shanghai World Trade Mart
 Add: F/20, No. 5 Building, Lane 251, Caoxi Rd.,
 Shanghai Zip code: 200235
 Contact: Ms.Linan
 Tel: (86-21) 5464-1713, 5464-1743
 Fax: (86-21) 6494-2305
 E-mail: zmes@zhongmao.com.cn
 www.eptee.com

WSDWTF 2004

The 5th China (Shanghai) International Water Supply & Drainage and Water Treatment Technology & Equipment Exhibition

Date: May 19 -21, 2004
 Venue: Shanghai World Trade Mart
 Contact: Ms.Linan
 Tel: (86-21) 5464-1713, 5464-1743
 Fax: (86-21) 6494-2305
 E-mail: zmes@zhongmao.com.cn
 www.eptee.com

International Conference on the Urban Dimensions of Environmental Change Science, Exposures, Policies and Technologies

Date: 25-28 May 2004
 Venue: East China Normal University Shanghai,
 China
 www.montclair.edu/globaled/shanghai/

IFAT CHINA 2004

International Trade Fair for Environmental Protection

Date: June 29-July 2, 2004
 Venue: Shanghai New International Expo Centre
 (SNIEC)
 Contact: Ms. An Jun
 Tel: (86-21) 6876-6868 x 812
 Fax: (86-21) 6876-5909
 E-mail: an.jun@mimi-shanghai.com
 www.ifat-china.com

**China International Environmental Protection
Expo 2004 & Second Session of China
International Exhibition on Environmental
Monitoring Instrumentation**

Date: September 2- 4, 2004
Venue: Dalian Xing Hai Exhibition center
Contact person: Hu Zhinan and Hu Xiaoxin
Tel: (86-411) 253-8638, 253-8605
Fax: (86-411) 253-8616

**POLLUTEC CHINA 2004
China International Air, Water, Green City and
Renewable Energy Technology Show**

Date: November 3-5, 2004
Venue: Intex Shanghai, China
Contact: Ms. Josephine Lee
Tel: (86-10) 6526 0126
Fax: (86-10) 6526 0940
E-mail: jolee@reedexpo.com.cn

**China International DeSOx and DeNOx
Exhibition & Conference 2004**

Date: November 9-11, 2004
Venue: Beijing International Convention Center,
Beijing China
Contact: Ms. Lisa Zhang
Add: Room 817#, Building A2, Bai Lang Yuan, 36#
Fu Xing Road, Haidian District, Beijing, 100039
China
Tel: (86-10) 8820-2751
Fax: (86-10) 8820-2617
E-mail: lisa@dsdne.com
www.dsdne.com

Healthcare Products and Services

Excluding Japan, China's medical device market is the largest in Asia, and one of the fastest growing in the world. The medical sector experienced 18% growth in 2002, and approximately 15% growth in 2003. Imports account for approximately 50% of China's USD 2.5 - 3.0 billion medical device market, with the U.S. accounting for approximately 36% of those imported products. As China's WTO commitments are phased in over the next two years, the instability of the regulatory environment is expected to negatively affect profit expectations. Over the next 10 years, however, China is expected to demonstrate increased profitability.

Healthcare Services

The market for high quality, patient-oriented healthcare services is small, but growing steadily. There are many successful foreign and joint venture healthcare service providers in the China. Their experiences point to growing opportunities for U.S. companies looking to invest in this segment of the market. Eighty-five percent of Chinese people lack health insurance and only 1-2% of the population can afford high-end Western medical care. China's ongoing healthcare reforms are not designed to expand the number of insured, but rather to replace government funding with enterprise/employee funding. In the past, all government employees and workers at state-owned enterprises enjoyed virtually free medical care for themselves and their dependents. In 2001 a new, urban medical insurance system began offering basic health care to urban workers. It currently provides health care insurance for 100 million people (mainly those with urban residence permits).

Product Registration

Two Chinese agencies have regulatory roles in the approval processes for medical devices. All medical and dental equipment must be registered with the State Food and Drug Administration (SFDA) before sales and distribution in China. The General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ) is tasked with establishing technical standards for imports and exports through compulsory product certification. In addition, the State Administration for Technical and Quality Supervision is responsible for certifying all pressure vessels.

Market Access

China's rapidly changing regulatory environment will likely have a short-term negative impact on the overall market. A new regulatory system, established by the SFDA in 2001, was designed to streamline a confusing regulatory framework. AQSIQ also introduced a new certification system (China Compulsory Certification System) in 2002 for certain medical equipment. Both are viewed as steps towards resolving national treatment and transparency issues, yet neither has revised expensive, time-consuming, and redundant product testing requirements. It is unclear if or when this regulatory and certification system will be redressed. With its accession to the WTO, China reduced its tariffs on medical devices in 2003. The general tariff rate for medical devices and equipment currently stands between 17% and 35%.

Market Position

Chinese end-users view U.S. products as having superior quality and possessing the highest level of advanced technology. U.S. products must be more price-competitive and offer better after-sales service. The domestic industry, meanwhile, is consolidating, upgrading, and beginning to compete on medium-level technologies.

Key Contacts

Ministry of Health (MOH)

No.1 Nanlu, Xizhimenwai, Xicheng District, Beijing
100044, China

Tel: (86-10) 6879-2290

Fax: (86-10) 6879-2295

State Food and Drug Administration (SFDA)

Address: A38 Beilishilu, Xicheng District, Beijing
100810, China

Tel: (86-10) 6831-3344

Fax: (86-10) 6831-5648

General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)

Tel: (86-10) 6599-3922

Fax: (86-10) 6599-4421

People's Liberation Army (PLA) Bureau of Drugs & Medical Instruments

Tel: (86-10) 6821-6117

Fax: (86-10) 6821-6628

Housing

The operation of China's real estate market went smoothly in 2003 with a basic balance between supply and demand. The total investment in the development of real estate in the country was USD 96.6 billion (800 billion RMB), accounting for 8% of GDP and 20% of total investment in fixed social assets.

On December 1, 2002, an administrative rule allows foreign investors to establish wholly foreign-funded building enterprises.

According to China's WTO commitments, by 2005, China must allow foreign investors engaged in the building industry to set up their own enterprises for research, design, and marketing. In addition, restrictions on the establishment and scope of solely foreign-funded enterprises in the building industry will end. In essence, U.S. investors will enjoy the same treatment as Chinese enterprises.

Home Ownership

Individual home ownership has made marked increases. As a result of the housing reform program and continually rising incomes, demand will continue to be strong, especially in urban areas. The urban population is expected to rise from 400 million in 2000 to 960 million in 2050, and new city residents will require an estimated 5.2 billion square meters of housing before 2020 and another 6.6 billion square meters between 2020 and 2050. China wants to raise per capita living space per person from 9.6 square meters in 1999 to 12 square meters by 2020 and to 16 square meters by 2050.

In 1999, the Chinese government ordered state-owned banks to increase home mortgages to 15% of total lending, and made lending terms more attractive to borrowers. Currently, standard mortgages require a 20% down payment.

Intellectual Property Rights (IPR) violations are a serious concern in the housing products market. The market is filled with illegal, locally-produced imitations, which are much cheaper than their technologically-advanced, foreign counterparts.

Additional reforms now provide a substantial tax advantage for Chinese in the high-income bracket that own homes. People in this category are a small minority with respect to China's overall population, but are comparable in numbers to the entire population of Canada. Many people are buying consecutive homes just so they can continue receiving the tax benefit.

Home Financing

State issued "employment credits" are making affordable housing a reality. These credits are redeemable as cash supplements to first-time home buyers. Home mortgages are increasingly accessible to the average citizen, with rates and terms more in line with buyers' financial realities.

Building Materials

Growth rates for both domestic and imported building materials are strong. The living space of the average Chinese is estimated to grow from only six square meters per urban dweller in 2000 (nine square meters overall) to 12 square meters by 2005. Energy-efficient building materials will be in

demand to maintain these levels of growth. Double-paned windows, efficient heating and cooling systems, insulation, and wood products also have strong potential.

There is also a large market for interior decoration and furniture products. Most housing in China is sold unfinished. Thus, it is the homeowner's responsibility to transform their domicile into a more livable space. Carpeting, flooring, furniture, and fixtures are just some examples of the possible markets U.S. exporters can target to penetrate the market.

U.S. Position in the Market

U.S. firms enjoy an excellent reputation in China, and are viewed as high-quality suppliers. According to Chinese statistics, U.S. products still enjoy a substantial percentage of the import market. In most cases however, imported products are significantly more expensive than domestically-manufactured alternatives. Import tariffs range from 5%-25%.

Key Contacts

Ministry of Construction

Tel: (86-10) 6839-4049

Fax: (86-10) 6831-3669

www.cin.gov.cn

Association of Building Materials Industries

Tel: (86-10) 6831-1144

Fax: (86-10) 6831-2191

Major Shows/Exhibitions

The 4th China International Housing Industry Exhibition

Venue: China International Exhibition Center, Beijing

Date: July 1-4

Contact: Ms. Wang Xin

Organizer: The Center for Housing Industrialization, Ministry of Construction

Tel: (86-10) 6839-4485, 6839-4491

Fax: (86-10) 6839-4697

Email: wx@chinahouse.gov.cn

<http://www.chinahouse.gov.cn>

The 3rd Beijing International Green Building Materials Exhibition

Venue: China International Exhibition Center, Beijing

Date: November 24-27

Contact: Ms. He Xuling, Mr. Xia Xiaodong

Organizing Committee: China Building Materials Industries Association

Tel: (86-10) 8808-2303, 8808-2308

Fax: (86-10) 8808-2305

Email: hxl@gbm.com.cn

<http://www.gbm.com.cn>

Pharmaceuticals

China's pharmaceutical market grew 15% in 2003, the fastest in the world. China is the ninth-largest pharmaceutical market in the world, with nearly USD 7 billion in sales in 2003. China's changing healthcare environment is designed to extend basic health insurance to a larger portion of the population and to give individuals greater access to products and services

Medicines

The pharmaceutical market in China is dominated by its non-branded generic industry that operates with basic technology and simple production methods. Domestic pharmaceuticals are not as technologically advanced as western products, but nonetheless occupy approximately 70% of the market in China. Domestic companies are mainly government-owned and some are fraught with overproduction and losses. Upon entering the WTO, the Chinese government began consolidating and upgrading the industry in an effort to compete with foreign firms.

Many hospitals derive 60% of their revenue from prescription sales. During the last two years, while the number of independent pharmacies grew rapidly they failed to replace hospital pharmacies in some cities. Hospitals still remain the predominant outlets for distributing pharmaceuticals in China. Yet over time, this will change with administrative split of hospital pharmacies from healthcare services, and with mounting competition from retail pharmacy outlets. The government is now encouraging the development of drug stores, and classifying certain pharmaceuticals as over-the-

counter (OTC) drugs, but the full effect might not be seen for several years.

Dietary Supplements

Total sales volume in the dietary supplements sub-sector doubled from USD 3 billion in 1998 to USD 6 billion in 2001, and then fell to USD 2.4 billion in 2002. During 2003 sales volume remained basically the same at USD 2.5 billion. However, experts estimate that the industry will reach a total sales volume of USD 10 billion by 2010, and will continue to rise as consumers seek products for curative weight loss, immune system strengthening, and other health enhancing benefits. Over 3,000 domestic manufacturers of dietary supplements produce more than 4,000 different types of products. Domestic manufacturers have failed to develop product branding and credibility and rely heavily on advertising to generate sales. As such, most domestic products, due to a lack of credibility among consumers, tend to have short life cycles. High-quality imported products only account for 10% of total sales. Foreign companies report that complicated product registration, expensive and time-consuming certification requirements, and inexperienced and inefficient distributors are common obstacles in China. In October of 2003, the registration of dietary supplement and health food was transferred from the Ministry of Health (MOH) to the State Food and Drug Administration (SFDA), which should improve the product registration process.

WTO

In accordance with its (WTO) commitments, China will allow foreign and local enterprises to import products and engage in distribution services by July 1, 2004. Furthermore, China has also implemented new drug administration laws to streamline product registration and protect Intellectual Property Rights (IPR). These new laws will likely have a negative effect on market growth and profitability during the transitional period. Over the next 5-6 years, however, this market is expected to demonstrate increased profitability.

Intellectual Property Rights

After joining the WTO, China has revised many laws to address IPR protection requirements. China has agreed to six years of "data exclusivity" and has committed to implementing a patent linkage system. The SFDA has worked to crack down on counterfeiters but without greater resources and stricter legal consequences these actions will not be enough to curb this rampant problem.

U.S. Position in the Market

Imported and locally-produced, foreign joint-venture medicines account for 30% of the market, with U.S. products well regarded for their high quality and reasonable prices. The drug distribution system in China is inefficient and adds considerably to the retail costs of medicine. Many U.S. companies complain of strict import regulations, low profitability, complex licensing procedure, hospital bidding, and reimbursement schemes.

Key Contacts

Ministry of Health (MOH)

Tel: (86-10) 6879-2290
 Fax: (86-10) 6879-2295
 State Food and Drug Administration (SFDA)
 Tel: (86-10) 6831-3344
 Fax: (86-10) 6831-5648

General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)

Tel: (86-10) 6599-3922
 Fax: (86-10) 6599-4421

People's Liberation Army (PLA)

Bureau of Drugs & Medical Instruments

Tel: (86-10) 6821-6117
 Fax: (86-10) 6821-6628

Major Shows/Exhibitions

The 52nd China National Pharmaceutical Ingredients Fair

Dates: May 25-27, 2004
 Venue: Nanjing Int'l Exhibition Center, Nanjing
 Number of exhibitors: 1,100, frequency: biannual
 Organizer: China Pharmaceutical Exhibition Corp.
 12/f, Sinopharm building, #20 Zhichun, Haidian District, Beijing 100088, China
 Tel: (86-10) 6202-8899 ext. 3202
 Fax: (86-10) 6235-8733
 E-mail: fairshows2@cpec.com.cn
 www.cpec.com.cn

Sino-Dentech 2004 - the 9th int'l Dental Equipment & Affiliated Facilities Exhibition

Date: June 8-11, 2004
 Venue: Beijing Exhibition Hall, Beijing
 Number of exhibitors: 350 frequency: annual
 Organizer: International Health Exchange Center, Ministry of health, China
 Room 1607, #1, Xizhiwenwai Nan Road, Beijing 100044, China
 Tel: (86-10) 6879-2895, 6899-2542
 Fax: (86-10) 6879-2543
 E-mail: yhymay98@vip.sina.com

**3rd China International Exhibition of
Rehabilitation, Nursing & Healthcare for Elderly
and Disabled people**

Date: July 15-17, 2004

Venue: Shanghai Int'l Exhibition Center, Shanghai

Number of exhibitors: 100, frequency: annual

Organizer: Shanghai Civil Affairs Administration

Show management: Intex Shanghai Co. Ltd.

Tel: (86-21) 6295-8364, 6295-8365, 6275-5800

Fax: (86-21) 6278-0038, 6275-7210

E-mail: inteskb4@sh163.net, intexfj@sh163.net

www.china-aid.com

**Chinahospeq 2004: the 3rd China Int'l Medical
Equipment & Facilities Exposition and
Symposia**

Date: August 9-11, 2004

Venue: Beijing exhibition hall, Beijing

Number of exhibitors: 300, Frequency: annual

Organizer: International Health Exchange Center,
Ministry of Health, China

Rm. 1607, #1, Xizhiwenwai Nan Road, Beijing
100044, China

Tel: (86-10) 6879-2895, 6899-2542

Fax: (86-10) 6879-2543

E-mail: yhymay98@vip.sina.com

After several years of poor growth, investment in China's power industry is regaining momentum. Official statistics show power consumption growth in China averaging 7.8% annually throughout the 1990's. Starting from the second half of 2002, China's electricity supply was far short of demand because of dry spells that decreased hydroelectric supply, generator shortage, and unexpected demand from energy-intensive industries. During this period, twenty-one provinces, municipalities, and autonomous regions in China suffered large-scale electricity shortages. Some had to implement blackouts to limit electricity consumption. China's electricity consumption reached 1,891 billion kwh in 2003, up 15.4 percent over 2002, a record since 1978. Meanwhile, China's electricity output reached 1,908 billion kwh in 2003, up 15.3 percent over 2002. China Electricity Council (CEC) forecasts that the electricity supply and demand situation will be even tighter in 2004 and that the power supply problem would linger through 2005. Starting from 2006, CEC estimates that the electricity supply and demand will reach equilibrium. The installed electricity generating capacity in China reached 384.5 GW by the end of 2003, up 7.8 percent over 2002. National Development and Reform Commission of China estimates that an additional 37GW of new generating capacity will be added in 2004. According to the International Energy Agency, to meet rapidly-growing electricity demand, China will invest a total of nearly 2 trillion U.S. dollars in electricity generation, transmission, and distribution in the next 30 years. Half of the

amount will be invested in power generation, the other half will go to transmission and distribution.

To end the corporation's monopoly of the power industry, China's State Council dismantled the State Power Corporation (SPC) in December 2002 and set up 11 smaller companies. SPC had owned 46 percent of the country's electrical generation assets and 90 percent of the electrical supply assets. The smaller companies include two electric power grid operators, five electric power generation companies and four relevant business companies. Each of the five electric power generation companies owns less than 20 percent (32 GW of electricity generation capacity) of China's market share on electric power generation. Ongoing reforms aim to separate power plants from power-supply networks, privatize a significant amount of state-owned property, encourage competition, and revamp pricing mechanisms.

In March 2003, State Council established the State Electricity Regulatory Commission, the first supervisory body for China's basic industries. The Commission will carry out a structural reform of the power industry, speed up the construction of laws and regulations, develop an electrical supply trading market, and establish a supervisory organization.

U.S. Position in the Market

While China recognizes the need to import foreign technology, it also wants to localize as much of this technology as possible. China continues to demand full technology transfer and localization whenever possible, despite provisions in the WTO

agreement between China and the U.S. that should give U.S. exporters some relief in these areas.

Many U.S. power equipment manufacturers and related construction/engineering firms have formed joint ventures in this market.

Market potentials for U.S. companies are in controls, monitoring and safety equipment, energy-efficient and environmentally-friendly equipment, and management support systems for power generation and electric utilities.

There is also strong demand for the following products: 900 MW and above thermal power generating equipment, gas turbines, 500 MW and above hydro power turbines, large-capacity, pump storage units, advanced nuclear power station equipment, clean-coal technology power generating equipment, 750 and above kv transmission lines equipment, above 1.3MW capacity wind turbines, thermal power plant flue gas desulphurization equipment, power industry automation equipment, and middle and high voltage capacitors.

Recently, several U.S. capital investors in China's power generation sector have experienced contract disputes concerning failure to honor power purchase agreements and access to promised permits.

Key Contacts

National Development & Reform Commission, Energy Bureau

38 Yuetan Nanjie, Beijing 100824
Tel: (86-10) 6850-2876
Fax: (86-10) 6850-1458
www.ndrc.gov.cn

**State Electricity Regulatory Commission,
Department of International Cooperation**
86 West Chang'an Boulevard, Beijing 100031
Tel: (86-10) 6659-7322
Fax: (86-10) 6659-7305
www.serc.gov.cn

**China Electricity Council, Department of
International Cooperation**
No.1, Lane 2, Baiguang Road, Beijing 100761
Tel: (86-10) 6341-5533
Fax: (86-10) 6354-5305
www.cec.org.cn

Major Shows/Exhibitions

EP China 2004

(The 10th International Exhibition on Electric Power Equipment and Technology)

Electrical China 2004

(The 3rd International Exhibition on Electrical Engineering, Electrical Equipment and Contractor's Supplies)

July 7-10, 2004

China International Exhibition Center, Beijing
Tel: (86-10) 8460-0971
Fax: (86-10) 6467-7385
E-mail: info@bj.adsale.com.hk

The 15th Conference on the Electric Power Supply Industry (CEPSI)

October 18-22, 2004
Shanghai International Convention Center,
Shanghai
Tel: (86-10) 6341-5563
Fax: (86-10) 6354-4560
E-mail: yanggenxin@cepsi2004.com
www.cepsi2004.com

Semiconductors and Software

The semiconductor, co-processor, and software markets have expanded in China. The rapid development in microprocessors and network software means that these new markets are offering potential for growth.

Software Market

China's software industry, with the considerable aid of government incentive programs, has entered into a steady growth period after more than ten years of struggling development. Nevertheless, Chinese software only accounts for 2% of the global software market, and 33% of the domestic market.

In 2003, China's software market grew 16%, a sales revenue totaling USD 4.8 billion. Foreign software still dominates the Chinese market and should continue to realize strong sales potential, especially in the system administration software market.

Year	Sales Amount (US\$ billion)	Growth Rate%
2003	5.16	15.8%
2004	6.33	22.6%
2005	7.73	22.1%
2006	9.26	19.7%
2007	10.95	8.3%

Sources: CCID Consulting Co.

The Chinese government has prioritized informatization, the development and promotion of Information Technology. Policies such as value-

added rebate on domestically created software and a new government procurement law, which covers software, are designed to encourage foreign direct investment as well as nurture the development of domestic industry.

The emphasis now placed on the construction of enterprises' IT infrastructure will provide market opportunities for foreign and domestic software companies. Finance, telecommunication, bank, and foreign trade industries are the key sectors that require software products. E-Government initiatives and individual Internet development provide market opportunities for systems software, networking software, support software, and industry application software. The Ministry of Education is also promoting the development of information technology in universities, middle schools and primary schools, which will increase demand for education software.

Semiconductors and Components

Driven by strong market demands and government policy support, China's semiconductor industry is experiencing a period of rapid expansion, becoming one of the biggest semiconductor markets in the world. In 2003 China accounted for 18% of the world's semiconductor sales, compared to 15% in 2002. The total value of China's semiconductors imports in 2003 was USD 25 billion.

Ninety percent of China's semiconductor needs are met by imports, but there is growing competition from domestic suppliers bolstered by huge investments that enhance domestic manufacturing and designing capacity. Certain government

policies favoring domestically made semiconductors may also complicate foreign suppliers' sales of semiconductors.

The semiconductors made in China, for use low and mid-level consumer products, meet 10% of China's domestic need. Domestic semiconductor manufacturing technology is at the 8-inch wafer, 0.25 - 0.18 micron standard, while the current international norm is at the 12-inch wafer, 0.13 micron standard. Chinese semiconductor design firms design circuits above the 0.5 microns level, while 90% of the design firms in the U.S. and Europe design circuits below 0.25 levels.

A small number of firms have made substantial inroads in developing CUP, DSP, memory, and high-end communication, but cannot yet supply these products on a large scale. China's 2003 sales of domestically produced semiconductors accounted for 3.4% of total global revenue, and satisfied 17% of China's domestic market.

Intellectual Property Rights (IPR)

Protection of IPR is extremely important in the software and semiconductor industries, especially in China. U.S. firms should take precautions to utilize appropriate contractual and legal measures to protect their intellectual property. Chinese copyright authorities at the local level are usually small offices, which hinders enforcement efforts. Implementing China's WTO agreement on Trade-Related aspects of Intellectual Property Right (TRIPS) will pressure China to more aggressively enforce IPR laws

The proliferation of foundries in China has increased the occurrence IC and semiconductor piracy. Retail software piracy costs an estimated loss of USD 500 million. Many Chinese individuals and enterprises are still unwilling to pay for

licensed software due to financial constraints, the perception that software has no value, and the widespread availability of cheap, pirated software. Yet as more Chinese companies and software and IC developer's software products fall victim to IPR violations, pressure for better protection has increased. The long-term solution against piracy lies in mobilizing domestic firms to take the lead in IPR protection. Currently, Chinese companies involved in research, banking, and technology are less willing to purchase pirated software.

Key Contacts

Ministry of Information Industries (MII)

Tel: (86-10) 6603-8891
 Fax: (86-10) 6601-1370
www.mii.gov.cn

MI Dept. of Electronics and IT Products

Tel: (86-10) 6820-8202
 Fax: (86-10) 6827-1654

China Software Industry Association

Tel: (86-10) 62143871
 Fax: (86-10) 62186579
www.csia.org.cn

United States Information Technology Office (USITO)

Tel: (86-10) 64301368/69
 Fax: (86-10) 64301637
 E-mail: usito@iuol.cn
www.usito.org

Business Software Alliance (BSA)

Tel: (65) 6292-2072
 Fax: (65) 6292-6369
www.bsa.org

China Semiconductor Industry Association (CSIA)

Tel: (86-10) 68208269
 Fax: (86-10) 68208587
www.csia.net.cn

China Beijing Semiconductor Industry Association

Tel: (8620) 82001846
 Fax: (8610) 82000103
 www.bjic.gov.cn

Major Shows/Exhibitions

China Computerworld

Infoex-world Services Ltd., Beijing
 Tel: (86-10) 6825-9420
 Fax: (86-10) 6825-9768
 E-mail: Zhangwy@public3.bta.net.cn

CeBIT Asia 2004

The Shanghai New International Expo Centre, China

April 26-29, 2004
 Deutsche Messe AG
 Tel: (49) 511-89/33133
 Fax: (49) 511-89/33140
 E-mail: Sandra Mathews@messe.de

China International Optoelectronics Exhibition and Conference

April 27-29, 2004
 Intex Shanghai
 Reed Exhibition Shanghai Office
 Tel: (8621) 63614450-115
 Fax: (8621) 6352 3055
 Shelley.Xia@reedexpo.com.cn

Shina International Exhibition on Connector Industry

May 8-10, 2004
 Tel: (8621) 52340646
 Fax: (8621) 52340649
 www.sh-wes.com

E-Commerce Summit 2004

China Electronic Commerce Association

Tel: (86-10) 6820-0718, 6820-0725
 Fax: (86-10) 6820-0717
 E-mail: help@cegn.net

NEPCON China

Reed Exhibitions

Tel: (86-21) 6361-4450
 Fax: (86-21) 6352-3055
 www.nepconchina.com

SEMICON China

Tel: (86-21) 5049-5688
 Fax: (86-21) 5049-5788
 www.semi.org/semiconchina

IC China 2004

The 2nd China International IC Industry

Exhibition & Seminar

September 1 - 3, 2004
 Shanghai
 Tel: (8610) 6820-7449; 6820-8269
 Fax: 6820-8578
 E-mail: Louisa@csia.net.cn

Telecommunications Equipment

With USD 28 billion invested in infrastructure in 2003, 8.6% more than in 2002, China's telecommunications market continued its rapid growth. The investment helped generate total revenue of USD 55.8 billion, 14 % more than 2002.

China owns the world's largest fixed-line and mobile networks in terms of both network capacity and number of subscribers. By the end of 2003, the China's fixed-line telecom network reached 354 million subscribers, a penetration rate of 27%. By the end of 2003 mobile network subscribers stood at 336 million subscribers, a penetration rate of 26%.

2004 Development Plan

In 2004, China's Ministry of Information Industry (MII), the most important government regulator in the telecommunications industry, projected that Chinese telecom carriers would invest USD 24 billion in 2004 to recruit 40 million fixed line telephone subscribers and 52 million cellular phone users. MII expected the number of fixed line telephone users to reach 394 million, raising the penetration rate to over 30% by the end of year. Under this plan the number cellular users will grow to 388 million, a penetration rate of 30%. With such an investment, Chinese telecom carriers expect to generate revenue of USD 63 billion, 12% growth over 2003.

Government Regulators

MII is the principal regulatory agency for China's telecommunications industry. MII, subject to oversight by the State Council, has a wide variety of responsibilities. According to the 2001 MII

Annual Report, "the Ministry of Information Industry is a regulatory body in charge of the manufacture of electronic and information products, communications, and the software industry, as well as the promotion of informatization of the national economy and social services in the country." Its many duties include the development and management of China's communications networks as well as the nation's telecommunications and information technology equipment manufacturing industries. MII, among other duties, is responsible for developing equipment standards, allocating broadcast spectrum, managing satellite orbital slots, developing tariff rates for telecom services, managing emergency and disaster relief related communications systems, and managing the telecommunications numbering system and Internet domain name registration.

MII's responsibilities occasionally conflict, and may preclude, the Ministry from functioning as a truly-independent regulator. Its responsibility to foster the development of China's IT and telecom equipment industries, for example, can result in MII applying pressure to network operators to purchase Chinese-manufactured equipment rather than imported equipment.

Other Chinese government agencies that have influence in the telecommunications industry include the State Council Informatization Office (SCITO), National Development and Reform Commission (NDRC), the Ministry of Science and Technology (MOST), China's State General Administration of Quality Supervision and

Inspection and Quarantine (AQSIQ), and the Ministry of Commerce (MOC).

Telecom Operators

A competitive market environment is taking shape in China's telecommunications sector. China has six licensed basic telecom operators—China Telecom, China Netcom, China Mobile, China Unicom, China Railcom, and ChinaSat. In 2004, they will continue to expand and optimize their networks in order to meet the growing need for telecommunications services and compete against local competitors as well as potential competitors from multinational companies that are planning to explore business opportunities in this lucrative market.

Regulatory Regime and Market Access

China does not yet have a Telecommunications Act. However, based on its WTO commitments, MII has promulgated The Telecommunications Regulations and Regulations to regulate foreign investment in the telecommunications industry.

MIl requires testing for most telecom equipment, including terminal devices as cell phones, phones and fax machines and network products like switches and base station equipment. MII will then issue certificates for these products. There are two kinds of certificates: Type of Approval (TA) for radio products and telecom equipment network access license for all other products. MII's Radio Regulatory Department is authorized to test radio products and issue TA certificates while MII's Telecom Administration Bureau issues telecom equipment network access licenses.

In addition, some the telecom products may also need to obtain CCC Mark (China Product Compulsory Certification Mark) from AQSIQ.

Testing of telecom products by the carriers is a must even if these products will be sold to local operators.

Tariffs: Upon accession to the WTO, China signed the Information Technology Agreement (ITA), thereby committing to eliminate tariffs on all products covered by the ITA. China eliminated tariffs on two-thirds of the ITA products were on January 1, 2003, and will eliminate tariffs on all remaining products by January 1, 2005.

Distribution Channels

In the telecom sector, all Chinese telecom carriers have adopted a two-layer purchasing structure. Because of this only the company headquarters and provincial branches have decision-making power to procure equipment. Headquarters manages the purchasing of equipment that affects the national network; while provincial branches are only allowed to buy procure products for local sections of the network.

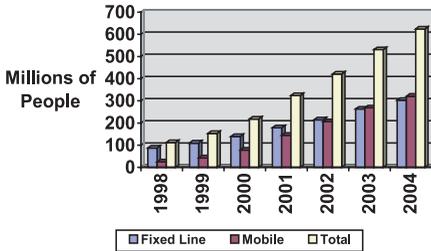
Larger vendors are advised to work directly with the carriers to sell products. Smaller firms may want to start with agents and distributors that have necessary resources such as government and industry connections, as well as technical support.

U.S. Position in the Market

U.S. firms, large and small, are competitive in the telecom sector. They are able to offer advanced technologies at reasonable prices and often provide follow-on services to equipment sales. Rapid development of China's telecom industry and increased competition between network operators will create more sales opportunities for U.S. firms. At the same time, rapid development of China's indigenous telecom equipment manufacturers increases competitive pressures facing U.S. equipment vendors.

U.S. network operators will be afforded more market entry opportunities as China phases in its WTO obligations.

Telephone Subscribers in China



Note: the 2004 figures are based on MII's projection.

Key Contacts

Ministry of Information Industry

Tel: (8610) 6601-1219
 Fax: (8610) 6601-1370
 www.mii.gov.cn

TELPO (Xiao Xi Tian Office)

Tel: (8610) 6238-2481
 Fax: (8610) 6238-2482

TELPO (Yuetan Office)

Tel: (8610) 6809-4061
 Fax: (8610) 6802-8601

Major Shows/Exhibitions

SIT Shanghai 2004/ China ELECOMM 2004

INTEX Shanghai/ Shanghai Mart, Shanghai, China
 June 23-26, 2004
 Informatization Commission of Shanghai Municipal
 People's Government
 Tel: (8621) 62472423
 Fax: (8621) 65455124
 E-mail: siec2@sh163.net

Transportation Infrastructure

The Chinese government is in the midst of a massive upgrade of their existing transportation infrastructure. Until recently, China's economy was able to continue to grow despite deficiencies in infrastructure development. The Chinese government now realizes that China must have an efficient mechanism to move goods and people across this 9.3 billion sq. km. land mass. According to World Bank statistics, goods lost due to poor or obsolete transportation infrastructure amounted to one percent of China's GDP according to the most recent survey (mid 1990's).

Passenger rail traffic has priority over freight on the many single-track rail lines across China. Due to this, cargo transportation times are longer than necessary, often lasting days, weeks, or more. This transportation priority conflict also bottlenecks investment interests in all but a few coastal regions. For this reason China is doubling existing railroad tracks to alleviate the freight train issues, building expressways to cut down on vehicular travel times, extending roads to new locations, adding or improving ports for greater use of China's waterways, and developing and improving airports across the country. All of these projects bring opportunities to U.S. construction equipment, engineering, and electronics and safety devices companies. Projects most sought after are those funded by the World Bank, Asian Development Bank, OECF, and similar multilateral lending agencies that use transparent bidding procedures.

In 2003 the total investment in Railway sector was USD 8.2 billion (67.9 billion RMB). This investment

went towards 1,983 km of new railway track, expanding 813 km of single-line track expanded into multi-line track, and 965 km of new, electrified railway.

Railway locomotive technology and equipment has risen to a new standard. All locomotives have either an electricity-driven engine or diesel-driven engine.

June 29, 2001 saw the beginning of the construction of the new Qinghai-Tibet Railway, an ambitious effort to further China's plans to develop interior regions. In 2003 the project reached the Kunlun-Tanggula Mountains at an elevation of 4,500 to 5,000 meters. Construction of this rail line is still under way. Difficulties such as laying track over frozen terrain have caused total project cost to rise considerably.

Distribution Services

Because China previously banned foreign companies from engaging in freight forwarding unless they form a joint venture with local partners, many stayed away. With China's accession into WTO, this and other structural issues regarding distribution services must reform to adapt to international standards. Expected reforms are to be fully compliant with negotiated WTO accession terms by the end of 2006.

Highways

China's has been rapidly developing its highway system in the past few years.

In 2002 67,000 km of highways were added, bringing the total distance of highways to 1.8 million km.

Total investment in highway key projects in 2003 was USD 16.8 billion (139 billion RMB). The funds for highway projects were mainly from domestic loans and self-collected sources. Of investment sources for highway construction, 7% came from state budget funds, 10% from taxation on car purchases, 39% from domestic loans, and the remaining 43% was from self-collected and other funds.

Highways play a key role in transportation in west China. Highways account for more than 90% of the total transportation infrastructure in the West.

In China's western interior 93% of passenger transport and 85% of freight transport utilize highway routes. In eastern China, however, the speed of highway construction has not kept pace with local economic development, causing bottlenecks in inter-region distribution channels.

The Ministry of Communications has formulated an overall plan for accelerating road construction in western China. By 2010 China will construct eight national highways, and an additional eight trans-provincial highways by 2020. All the highways will form a national network, providing western areas transportation links to coastal regions and neighboring countries.

Ports

By the end of 2003 China's ports had more than 33,441 productive berths, including 810 berths for ships above 10,000 DWT (dead weight tonnage). In 2003 these berths handled a total of 3 billion tons of cargo and about 30 million TEU (twenty-foot equivalent unit) containers.

Of China's seven ocean ports, Shanghai leads, handling 100 million tons of cargo annually.

Shanghai and Shenzhen ports rank as the world's fifth and eighth largest, respectively handling 6 million and 5 million TEUs.

The Port of Shanghai is going through a significant upgrade. Shanghai Model Port Alliance is behind many of the upgrade activities that will make Shanghai a more automated port facility, minimizing both the loss of goods and time while helping Customs collect more accurate tariffs. Should the current upgrade to Shanghai's ports reap planned benefits, similar investments are slated to replicate the process at China's remaining ports.

China's first law on ports management took effect on January 1, 2004. This law provides clear guidance to encourage overseas and domestic investment in ports with respect to construction and management.

U.S. Position in the Market

U.S. firms' advanced technology and experience make them very competitive for projects using a transparent bidding system, such as those funded by the World Bank, Asian Development Bank, or other multilateral funding sources. Due to the massive upgrade program in transportation infrastructure, the ability to compete on projects in China depends a great deal on financing. In most cases, locally financed projects tend to use local construction products and services. Due to a lack of government funds, BOT (Build, Operate, Transfer) project financing is a possibility for U.S. firms, though these may not be viable business opportunities.

Key Contacts

Ministry of Communication (MOC)

Tel: (86-10) 6529-2249, 6529-2237, 6529-2250

Fax: (86-10) 6529-2201,

Department of Highways (MOC)

Tel: (86-10) 6529-2725, 6529-2750

Fax: (86-10) 6529-2746

Ministry of Railroads (MOR)

Tel: (86-10) 5184-6915

Fax: (86-10) 6398-1065

Major Shows/Exhibitions

China Transpo 2004

(Road and Water Transport Technology & Equipment)

September 1-4, 2004, Beijing National Agricultural Exhibition Center

Exhibition Organizers:

Transport Technology Exchange Center: Mr. Liu

Song and Mr. Liu Jing

Tel: (86-10) 6491-4811, 6495-3232

Fax: (86-20) 6491-4814

E-mail: ttec@ttec.com.cn

Beijing International Exhibition Center of CCPIT

Beijing Sub-Council

Mr. Zhai Yingjie and Mr. Wang Dongsheng

Tel: (86-10) 6427-7470, 8425-1220

Fax: (86-20) 6425-1287, 8425-3010

E-mail: chaiyingjie@ccpitbj.org

Major Shows/Exhibitions

China Transpo 2004

(Road and Water Transport Technology & Equipment)

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Tel: (86-10) 6427-7470, 8425-1220

Fax: (86-20) 6425-1287, 8425-3010

E-mail: chaiyingjie@ccpitbj.org

U.S. Export Controls

The Bureau of Industry and Security (BIS) is the primary agency responsible for dual-use export controls. The Export Administration Regulations identify the export licensing requirements for exporting dual-use items to China. Any questions relating to the licensing requirements for exporting particular goods, technology, or software to China should be directed to the BIS Exporter Assistance Offices located in Washington, D.C. (202-482-4811), Newport Beach, CA (949-660-0144), and San Jose, CA (408-998-7402). The BIS website, www.bis.doc.gov, also offers guidance and answers to frequently asked questions.

In addition to the commodity-based controls, U.S. exporters need to also be aware of certain licensing requirements, restrictions, and prohibitions relating to specified end-uses and end-users in China. The Tiananmen Sanctions of 1990 are still in effect and prohibit the export of crime-controlled items, as designated on the Commerce Control List (CCL), to China. The Tiananmen Sanctions also prohibit the export to China of items listed on the U.S. Munitions List and curtails the sale of controlled items to the Chinese police and military.

The United States Government's Enhanced Proliferation Control Initiative (EPCI) requires the U.S. Department of Commerce (USDOC) and exporters to scrutinize end-users of U.S. exports of all kinds. This regulation requires a Validated License application if the exporter has "reason to know" that the end-users might be involved in missile, nuclear, chemical, or biological weapons

proliferation. Periodically both the State Department and USDOC identify sensitive end-users and add them to the USDOC Entity List. For such identified firms, U.S. exports and U.S. origin re-exports require an individual validated license for virtually all shipments to these entities. The Entity List can be viewed at the USDOC Bureau of Industry and Security website.

On June 14, 2002, the BIS published the "Unverified List." This is a list of companies where BIS was unable to conduct pre-license checks (PLCs) or post shipment verifications (PSVs) for reasons outside the control of the U.S. government. The list notifies exporters that involvement of a listed person as a party to a proposed transaction constitutes a "red flag" as described in the guidance set forth in Supplement No. 3 to 15 CFR Part 732 of the EAR. Under that guidance, the "red flag" requires heightened scrutiny by the exporter before proceeding with a transaction in which a listed person is a party. The "Unverified list can be viewed on the BIS website.

From May 2002 to April 2004, the U.S. State Department published sanctions against a number of Chinese entities for violating the Iran Nonproliferation Act of 2000, the Iran-Iraq Nonproliferation Act, and Executive Order 12938, as amended by Executive Order 13094, on the Proliferation of Weapons of Mass Destruction. These sanctions prohibit the sale of any item on the U.S. Munitions List, defense articles, defense services, or design and construction services controlled under the Arms Export Control Act to the listed entities.

They also require a denial of new licenses and the suspension of existing licenses for the sale of items controlled under the Export Administration Act (EAA) or the EAR to the listed entities. In certain instances, U.S. companies are prohibited from importing any items from the designated entities. A list of the sanctioned entities and the prohibitions can be found in the federal register publications.

If you have any questions, you may call the Export Control Attaché at the U.S. Embassy-Beijing, Commercial Section. The telephone number is 8610-8529-6655 x811, and the fax number is 8610-8529-6558.

Key Contacts

Note: Several U.S. Companies listed in Contact China have regional offices throughout China.

Accounting

American Appraisal

Tel: (86-10) 6539 1334/5

Fax: (86-10) 6539 1336

www.american-appraisal.com

Deloitte Touche Tohmatsu CPA Ltd.

Tel: (86-10) 6528-1599

Fax: (86-10) 6528-1598

www.deloitte.com

Ernst & Young Hua Ming

Tel: (86-10) 6554-5577

Fax: (86-10) 6554-4718

www.ey.com

KPMG

Tel: (86-10) 6505-6300

Fax: (86-10) 6505-6306

www.kpmg.com.cn

Lipsher Accountancy Corporation

Tel: (86-20) 8556-2988

Fax: (86-20) 8556-2988

www.prctaxman.com.cn/

PricewaterhouseCoopers

Tel: (86-10) 6561-2233

Fax: (86-10) 8529-9000

www.pwcglobal.com/cn/

Advertising

BNI Information Co., Ltd.

Tel: (86-10) 8262-5522, 6255-2556

Fax: (86-10) 6264-8550, 6264-8551

www.bni.com.cn

Dentsu Young & Rubicam - Shanghai

Tel: (86-21) 6351-8588

www.yr.com

The Hoffman Agency

(See listing under Public Relations)

Business and Trade Associations

American Chamber of Commerce

Tel: (86-10) 8519-1920

Fax: (86-10) 8519-1910

www.amcham-china.org.cn

American Soybean Association

Tel: (86-10) 6505-1830

Fax: (86-10) 6505-2201

www.asachina.orgg

Association for Manufacturing Technology (AMT)

Tel: (86-10) 6410-7374-5

Fax: (86-10) 6410-7334

www.amtchina.org

Association of Equipment Manufacturers (AEM)

Tel: (86-10) 6849-2403

Fax: (86-10) 6849-2404

www.aem.org

U.S.- China Business Council

Tel: (86-10) 8526-3920, 6592-0727

Fax: (86-10) 6512-5854

www.uschina.org.cn

U.S. Grains Council

Tel: (86-10) 6505-1302, 2320

Fax: (86-10) 6505-0236

www.grains.org

U.S. Information Technology Office (USITO)

Tel: (86-10) 6430-1368-77

Fax: (86-10) 6430-1367

www.usito.org

U.S. Wheat Associates

Tel: (86-10) 6505-1278, 3866

Fax: (86-10) 6505-5138

www.uswheat.org

Consulting Services

A. T. Kearney, Inc.

Tel: (86-10) 6505-2264

Fax: (86-10) 6505-5009

www.atkearney.com

Accenture

Tel: (86-10) 6561-2088

Fax: (86-10) 6561-2077

www.accenture.com

The American Chamber of Commerce

The American Chamber of Commerce in the People's Republic of China (AmCham-China) represents U.S. companies and individuals doing business in China. The chamber membership comprises more than 1500 individuals representing more than 700 companies. Although based in Beijing, AmCham-China has affiliates in other cities and its members have operations throughout the country. The chamber's mission is to provide a forum for Americans engaged in business in China and to work with Chinese and U.S. government authorities to help foster vibrant and constructive commercial relations between the two countries.

AmCham-China's programs and services include aggressive U.S. and Chinese government relations efforts, a regular calendar of presentations on topics of interest to the American business community, social events, business surveys (including an annual compensation survey and a survey of office and expatriate housing costs), an annual White Paper on American Business in China, a monthly magazine China Brief, and an annual membership directory.

www.amcham-china.org.cn

www.amcham-shanghai.org

APCO Associates, Inc.

Tel: (86-10) 6505-5127

Fax: (86-10) 6505-5257

www.apcochina.com

Bain & Company China Inc.

Tel: (86-10) 6505-3388

Fax: (86-10) 6505-2222

www.bain.com

Deloitte Touche Tohmatsu Shanghai

(See listing under Accounting Firms)

Dun & Bradstreet International Consultant Co., Ltd.

Tel: (86-10) 8391-3118

Fax: (86-10) 8391-3119

www.dnbasia.com/cn

ERM China

Tel: (86-10) 6532-7958

Fax: (86-10) 6532-7956

www.erm.com

Ernst & Young HuaMing

(See listing under Accounting Firms)

Fleishman-Hillard Link, Ltd.

Tel: (86-10) 6597-5256

Fax: (86-10) 6597-5257

www.fleishman.com

Franklin Covey

Tel: (86-10) 8387-8706, 8563-6393

Fax: (86-10) 8375-2205, 6592-5186

www.franklincovey.com

Gallup Research Co., Ltd.

(See listing under Research/Information Services)

KPMG Peat Marwick Huazhen

(See listing under Accounting firms)

Kroll Associates (Asia) Ltd.

Tel: (86-10) 6515-5662

Fax: (86-10) 6515-5660

www.krollworldwide.com/

LionBridge

Tel: (86-10) 6528-0568

Fax: (86-10) 6528-0567

www.lionbridge.com/

McKinsey & Co., Inc. China

Tel: (86-10) 6561-3366

Fax: (86-10) 8529-8038

www.mckinsey.com/locations/greaterchina/

MTI Beijing Corp. Office

Tel: (86-10) 8497-0019, 8498-5203

Fax: (86-10) 8497-0065

www.mti.com

Pacific Resources International, LLC

Tel: (86-10) 8837-2407

Fax: (86-10) 8837-8748

www.priuusa.com

PricewaterhouseCoopers

(See listing under Accounting Firms)

Did You Know?

The US-China Business Council

The US-China Business Council is a private, non-profit, non-partisan member-supported organization. Serving member companies from offices in Washington, Beijing and Shanghai, the Council since 1973 has played a key role in providing US firms with the information, analysis, and contacts they need to succeed in the China market. The Council provides extensive, tailored Business Advisory Services on a wide range of business interests to member companies with commercial relationships in China. Its programs in the U.S., mainland, and Hong Kong also provide both broad gauge and highly business-relevant information. The China Business Review, a leading U.S. periodical on China trade, is published in Washington, along with the members weekly electronic newsletter and numerous focused studies on current business topics. Membership stands at approximately 240 firms and continues to strengthen in response both to China's economic growth and to the many challenges and complexities U.S. firms face in China.

www.uschina.org

www.chinabusinessreview.com

William Kent International, Inc. (WKI)

Tel: (86-10) 6512-0843/48

Fax: (86-10) 6512-0944

www.wkint.com/wki_china.html

Human Resources

AchieveGlobal (HK) Ltd., Beijing Rep. Office

Tel: (86-10) 8518-1996

Fax: (86-10) 8518-1997

www.achieveglobe.com

Hewitt Associates LLC

Tel: (86-10) 8527-5100

Fax: (86-10) 8527-5115

www.hewitt.com

Korn/Ferry Beijing Rep. Office

Tel: (86-10) 6505-2989

Fax: (86-10) 6505-1206

www.kornferry.com

Spencer Stuart, Ltd.

Tel: (86-10) 6505-1031

Fax: (86-10) 6505-1032

www.spencerstuart.com

Watson Wyatt

Tel: (86-10) 8529-9071

Fax: (86-10) 8529-9070

www.watsonwyatt.com

Interpretation Services

Many law firms provide translation services for legal documents and contracts. Additionally, freelance interpreters offer translation and interpretation services at various levels, from "courtesy call level" to UN certified simultaneous interpretation. For a list of freelance interpreters, please contact the Commercial Service by fax at (86-10) 8529-6558/9, or view our legal services section below.

Legal Services

Armstrong & Teasdale

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Fax: (86-21) 6279-8866

www.armstrongteasdale.com

Baker & Daniels

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Fax: (86-10) 6566-3760

www.bakerdaniels.com

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www.bakernet.com

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Fax: (86-10) 6846-8086

www.becker-poliakoff.com

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www.chadbourne.com

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www.coudert.com

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www.dwt.com

Dorsey & Whitney LLP

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 Fax: (86-21) 6288-3222
www.dorsey.com

Faegre & Benson LLP

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 Fax: (86-21) 6279-8968
www.faegre.com

Hogan & Hartson

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 Fax: (86-10) 6566-9096
www.hhlaw.com

Jones Day, Reavis & Pogue

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 Fax: (86-21) 5298-6569
www.jonesday.com

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 Fax: (86-21) 52984277
www.kayescholer.com

Leboeuf, Lamb, Greene & Macrae

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 Fax: (86-10) 6505-9235
www.llgm.com

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 Fax: (86-21) 6288-1255
www.mayerbrown.com

Morrison & Foerster LLP

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 Fax: (86-10) 6505-9091
www.mofo.com

O'Melveny & Myers

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 Fax: (86-21) 5298-5500
www.onmm.com
 Paul, Hastings, Janofsky & Walker LLP
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 Fax: (86-10) 6505-3459
www.phjw.com

Paul, Weiss, Rifkind, Wharton & Garrison

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 Fax: (86-10) 8518-2760/1
www.paulweiss.com

Perkins Coie

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 Fax: (86-10) 6505-6390
www.perkinscoie.com

Shearman & Sterling

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 Fax: (86-10) 6505-1818
www.shearman.com

Sidley Austin Brown & Wood

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 Fax: (86-21) 5306-8966
www.sidley.com

Skadden, Arps, Slate, Meager & Flom LLP

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 Fax: (86-10) 6505-5522
www.skadden.com

Squire Sanders & Dempsey

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 Fax: (86-10) 8529-8088
www.ssd.com

Sullivan & Cromwell

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www.sullivanandcromwell.com

Vinson & Elkins

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 Fax: (86-10) 6410-6360
 www.velaw.com

White & Case LLP, Shanghai Office

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 Fax: (86-21) 6323-9252
 www.whitecase.com

Public Relations

APCO Associates

(See listing under Consulting Services)

Burson-Marsteller

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 www.bm.com

Edelman Public Relations Worldwide

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 Fax: (86-10) 6518-1088
 www.edelman.com

Fleishman-Hillard Link, Ltd.

(See listing under Consulting Firms)

Hill & Knowlton Asia Ltd.

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 Fax: (86-10) 6512-3712
 www.hillandknowlton.com.cn

Ketchum Newscan

Tel: (86-10) 8580-3388
 Fax: (86-10) 8580-3318, 6539-1120/21
 www.ketchum-newscan.com

Ogilvy Public Relations Worldwide

Tel: (86-10) 6443-6488
 Fax: (86-10) 6443-6499
 www.ogilvy.com

Ruder Finn Asia, Ltd.

Tel: (86-10) 6462-7321~26
 Fax: (86-10) 6462-7327
 www.ruderfinn.com

The Hoffman Agency

Tel: (86-10) 6507-0985
 Fax: (86-10) 6586-8950
 www.hoffman.com/

Weber Shandwick Worldwide

Tel: (86-10) 8458-4750~59
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 www.webershandwick.com

Publishing and Printing

BNI Information Co., Ltd.

(See listing under Advertising)

Kinko's Document Solutions Center

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 Fax: (86-10) 6595-8218
 www.kinkos.com.cn

Real Estate

CB Richard Ellis

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 Fax: (86-10) 6539-1177/1178/1198
 www.cbre.com.cn

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The China Commercial Brief is a biweekly e-newsletter full of useful China business information gathered from a wide variety of Chinese and international sources. Subscribe to the CCB for weekly updates on the China market, including:

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Chinese Embassy and Consulates in the U.S.

www.china-embassy.org

Washington, D.C. (Embassy)

2300 Connecticut Ave. NW
Washington, DC 20008
Tel: (202) 328-2500
Fax: (202) 588-0032
www.china-embassy.org/eng/hzqz/default.htm

New York

520 12th Avenue
New York, NY 10036
Tel: (212) 868-7752
Fax: (212) 502-0245
www.nyconsulate.prchina.org

San Francisco

1450 Laguna St.
San Francisco, CA 94115
Tel: (415) 674-2900
Fax: (415) 563-0494
www.chinaconsulatesf.org

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100 West Erie St.
Chicago, IL 60610
Tel: (312) 803-0098
Fax: (312) 803-0122
www.chinaconsulatechicago.org

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Houston, TX 77006
Tel: (713) 524-4311
Fax: (713) 524-7656
www.chinahouston.org

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443 Shatto Place
Los Angeles, CA 90020
Tel: (213) 807-8088
Fax: (213) 380-1961
www.chinaconsulatela.org

Century 21 China Real Estate

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www.century21cn.com

Cushman & Wakefield

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Fax: (86-10) 6567-8500
www.cushwake.com

Jones Lang LaSalle

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Fax: (86-10) 6505-1330
www.joneslanglasalle.com

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www.bloomberg.com

Dow Jones & Co.

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Fax: (86-10) 6581-4086
www.dowjones.com

Dun and Bradstreet, Information Services

(See listing under Consulting Services)

Gallup Research Co. Ltd.

Tel: (86-10) 8528-8880
Fax: (86-10) 8528-8860
www.gallup.com.cn

ISI Emerging Markets

Tel: (86-10) 6510-2596
Fax: (86-10) 6510-2597
www.securities.com

Kroll Associates

(See listing under Consulting Services)

SinoTrust Business Risk Mgt

(See listing under Consulting Services)

Shipping and Relocation Firms

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 www.airborne.com

Allied Pickfords

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 Fax: (86-10) 8561-6272
 www.alliedpickfords.com.cn

Bax Global, Ltd.

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 Fax: (86-10) 6424-0247
 www.baxglobal.com

CV Global Logistics (Beijing) Limited

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 Fax: (86-10) 8769-4013
 www.cvlogistics.com.cn

Eagle Global Logistics

Shanghai Rep. Office
 Tel: (86-21) 5302-9988/6366
 Fax: (86-21) 5302-6166/6266
 www.eaglegl.com

Emerge Logistics (Shanghai) Co., Ltd.

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 Fax: (86-21) 5866-8205
 www.emergelogistics.com

Emery Worldwide Shanghai Rep Office

Tel: (86-21) 6466-9559
 Fax: (86-21) 6472-1824
 www.emeryworld.com

Federal Express Corp.

Tel: (86-10) 6468-5599
 Fax: (86-10) 6468-7363
 www.fedex.com

Globe Express Services

Tel: (86-21) 6336-6777
 Fax: (86-21) 6336-8777
 www.globeexpress.com

IDG Industrial Distribution (Shanghai) Co., Ltd.

Tel: (86-21) 5046-1155
 Fax: (86-21) 5046-0309
 www.idgshanghai.com

MSL Express Inc.

Tel: (86-21) 5385-1188
 Fax: (86-21) 5385-0588
 www.mslexpress.com.cn

Transoceanic Shipping Company, Inc.

Tel: (86-10) 6465-1080
 Fax: (86-10) 8448-8684
 www.transoceanic.com

UPS Parcel Delivery Service, Ltd.

Tel: (86-10) 6593-3962-3965, 6505-5005
 Fax: (86-10) 6593-3966, 6505-5115
 www.ups.com

Did You Know?

National Chinese Holidays 2004

- New Year's Day
- Spring Festival / Chinese New Year
- International Working Women's Day
- International Labor Day
- National Day

January 1
 January 22-24
 March 8
 May 1-3
 October 1-3

Chinese Government Offices will be closed

Useful Websites

U.S. Government Resources

www.usembassy-china.org.cn
U.S. Embassy in China
www.buyusa.gov
U.S. Commercial Service
www.commerce.gov
U.S. Department of Commerce
www.state.gov
U.S. Department of State
www.exim.gov
U.S. Ex-Im Bank
www.stat-usa.gov
U.S. National Trade Data Bank (NTDB)
www.ustr.gov
U.S. Trade Representative (USTR)
www.TDA.gov
Trade and Development Agency

U.S. Business Organizations in China

www.amcham-china.org.cn
American Chamber of Commerce (Beijing)
www.amcham-shanghai.org
American Chamber of Commerce (Shanghai)
www.uschina.org
U.S.-China Business Council
www.usito.org
U.S. Information Technology Office

Chinese Government Resources

www.tbjc.gov.cn
Beijing Foreign Economic and Trade Commission (PRC)
www.ccpit.org
China Council for the Promotion of International Trade
www.cei.gov.cn
China Economic Information Network
www.china-embassy.org
China Embassy Washington
www.fmprc.gov.cn
Ministry of Foreign Affairs (PRC)
www.mofcom.gov.cn
Ministry of Commerce (PRC)

www.mii.gov.cn
Ministry of Information Industries (PRC)
chinastatistics.com
National Bureau of Statistic
www.cdfa.org.cn
China Chain Store and Franchise Association
www.setc.gov.cn
State Economic and Trade Commission (PRC)
www.chinabidding.com.cn
Official e-Media for Governmental and Public Sector
Tendering Notices of the P.R.C.

General China Resources

www.chinabig.com
China Big Yellow Pages
www.business-china.com
China Business Net Pages
www.cbw.com
China Business World
www.chinadaily.com.cn
China Daily
www.china.com
China Internet Corporation
www.chinaonline.com
China Online - The Information Network for China
cn.yahoo.com/
China Yahoo
www.tdc.org.hk
Hong Kong Trade and Development Council
www.surfchina.com
Surf China Engine

Other

www.adb.org
Asian Development Bank (ADB)
www.wto.org
World Trade Organization (WTO)



U.S. Commercial Service Offices in China

Beijing

31st Floor, North Tower
Beijing Kerry Center
1 Guanghua Lu
Beijing 100020, China
Tel: (86-10) 8529-6655
Fax: (86-10) 8529-6558/9
Email: Beijing.Office.Box@mail.doc.gov

Chengdu (Southwest Region)

4 Lingshiguan Lu, Renmin Nanlu Section 4
Chengdu, Sichuan 610041, China
Tel: (86-28) 8558-3992/9642
Fax: (86-28) 8558-9221/3520
Email: Chengdu.Office.Box@mail.doc.gov

Guangzhou (Southern Region)

14/F China Hotel Office Tower, Room 1461
Liu Hua Road
Guangzhou 510015, China
Tel: (86-20) 8667-4011
Fax: (86-20) 8666-6409
Email: Guangzhou.Office.Box@mail.doc.gov

Hong Kong

26 Garden Road, Hong Kong
Tel: (852) 2521-1467
Fax: (852) 2845-9800
Email: Hong.Kong.Office.Box@mail.doc.gov

Shanghai

Shanghai Center, Suite 631
1376 Nanjing West Road
Shanghai 200040, China
Tel: (86-21) 6279-7630
Fax: (86-21) 6279-7639
Email: Shanghai.Office.Box@mail.doc.gov

Shenyang (Northeast Region)

52 Shi Si Wei Lu
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