

COUNTY OF
SAN BERNARDINO



ECONOMIC DEVELOPMENT AGENCY

**Gateway to China Trade Mission
Hong Kong, Shenzhen & Guangzhou**

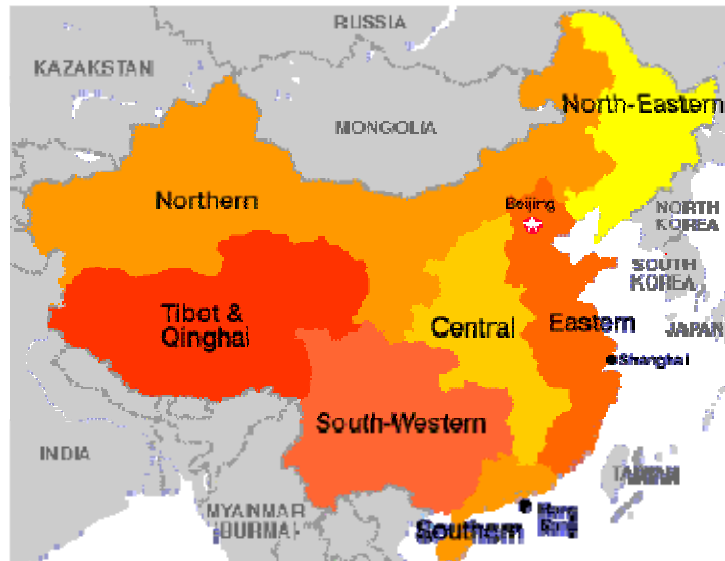
Country Commercial Guide

Gateway to China Trade Mission Country Commercial Guide

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“The coming of age of China in the first half of this century might be the most important event that the world will see”

-Richard L. Armitage, Deputy Secretary of State
January 30, 2004

Executive Summary

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

Meanwhile, China's economy continues to be healthy. Last year the official rate of Gross Domestic Product (GDP) growth was slightly over 8 percent and the number of foreign firms doing business in or with China has grown exponentially. According to Chinese statistics from last year, 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 15 percent in 2002 and 36.6 percent in the first quarter of 2003. China is America's sixth largest export market, after Germany.

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.

Proceed with Prudence

American companies continue to have mixed experiences in China. Some have been extremely profitable, while others have struggled. To be a success in China, American companies must thoroughly investigate the market, pre-qualify potential business partners, take steps to assure that they will be paid, and craft contracts which minimize misunderstandings between the parties.

China often lacks predictability in its business environment. Predictability can be provided by a transparent and consistent body of laws and regulations. China lacks both. Its current legal and regulatory system can be opaque, inconsistent, and often arbitrary. China has a government that tends to be mercantilist. China has made significant progress toward a market-oriented economy, but parts of its bureaucracy still tend to protect local firms and state-owned firms from imports, while encouraging exports. WTO accession will certainly help in this area as well.

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.

Foreign businesses have tended to under-estimate the challenges of establishing operations in 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, don't 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.

It is important to understand that while reform is absolutely essential for China to fully participate in the world trading community, in many areas, these changes have not yet taken place. Companies must deal with the current environment in a realistic manner. Risk must be clearly evaluated. If a company determines that the risk is too great, it should seek other markets.

China's accession to the WTO brings new opportunities. Some have described it as, "the beginning of time," for trade relations. Problems will not disappear over night, but with WTO accession, the tools become available to address the many challenges of doing business in the Chinese market. As disposable income grows, China's market potential will expand as well. This will be a gradual process, but the combination of WTO and an expanding economy bode well for U.S. business in the years ahead.

I. MARKETING U.S. PRODUCTS & SERVICES

Distribution & Sales

Before China's accession to the WTO, China prohibited foreign companies from distributing imported products or providing repair and maintenance services. China is liberalizing its distribution system to provide full distribution rights for U.S. firms. Current restriction for most distribution related services will be phased-out within three years from the date of accession, although the schedule of commitment until that time varies according to the service (for more information on China's commitments on the WTO please refer to our website, www.usembassy-china.org.cn/fcs).

Trading Companies: Among the most notable legal changes as a result of WTO is the release in July of 2001 of the Expanding Import and Export Management Rights of Foreign Invested Enterprises (FIEs) rule. The rule now allows manufacturing FIEs to become export trading companies, purchasing and exporting any products free from quotas, license control and government monopoly. This is the first step towards implementing China's commitment to liberalize trading rights. FIEs in foreign trade zones are now allowed to establish offices outside the zones which will enable FIEs to establish distribution networks across the country before the phase-in of the distribution rights. However, the law does not cover the establishment of FIE service suppliers (distribution companies), which is not required until December 11 2002, and then only through joint ventures in which an FIE has a minority stake. However, given the complexities of the markets in China it is advised that foreign companies use a domestic Chinese agent for both importing into China and marketing within China.

With careful selection, training and constant contact, a U.S. exporter can obtain good market representation from a Chinese trading company, many of which are authorized to deal in a wide range of products. Some of the larger companies have offices in the U.S. and other countries around the world, as well as a network of offices and affiliates in China. However, given transportation and communication difficulties as well as regional peculiarities, most of these trading companies cannot provide diversified coverage throughout China. China's WTO accession promises a three-year phase in of improved trading rights that should improve such conditions for foreign firms.

Local agents: In addition to trading companies, China is witnessing an explosion in local sales agents who handle internal distribution and marketing. Most of these firms do not have import/export authorization. They are the next layer down the distribution chain, buying imported products from those that do. They may be representative offices of Hong Kong or other foreign trading companies, or domestic Chinese firms with regional or partial national networks.

Given China's size and diversity, as well as the lack of agents with wide-reaching capabilities, it makes sense to engage several agents to cover different areas, and to be cautious when giving exclusive territories. China can be divided roughly into at least five major regions: the South (Guangzhou), the East (Shanghai), the Central/North (Beijing-Tianjin), West China and the Northeast.

Local Agents

The ability of foreign firms to distribute directly their products in China is subject to strict limitations. In general, foreign firms are only allowed to sell products that they manufacture in China and must go through local agents to distribute imported goods. China has agreed to gradually eliminate distribution restrictions as part of its bid to join the WTO.

Establishing a Representative Office

Representative offices are the easiest type of offices for foreign firms to set up in China, but these offices are limited by Chinese law to performing "liaison" activities. As such, they cannot sign sales contracts or directly bill customers or supply parts and after-sales services for a fee, although most representative offices perform these activities in the name of their parent companies. Despite limitations on its scope of business activities, this form of business has proved very successful for many U.S. companies as it allows the business to remain foreign-controlled.

China's Company Law, which has been in effect since July 1, 1994, permits the opening of branches by foreign companies but, as a policy matter, China still restricts this entry approach to selected banks, insurance companies, accounting and law firms. While representative offices are given a registration certificate, branch offices obtain an actual operating or business license and can engage in profit-making activities.

Establishing a representative office gives a company increased control over a dedicated sales force and permits greater utilization of its specialized technical expertise. The cost of supporting a modest representative office ranges from \$250,000 to \$500,000 per year, depending on its size and how it is staffed. The largest expenses are rent for office space and housing, expatriate salaries and benefits.

Establishing a Chinese Subsidiary: A locally incorporated equity or cooperative joint venture with one or more Chinese partners, or a wholly foreign-owned enterprise (WFOE), may be the final step in developing markets for a company's products. In-country production avoids import restrictions - including relatively high tariffs - and provides U.S. firms with greater control over both intellectual property and marketing.

The role of the Chinese partner in the success or failure of a joint venture cannot be over-emphasized. A good Chinese partner will have the connections to help smooth over red tape and obstructive bureaucrats; a bad partner, on the other hand, can make even the most promising venture fail. Common investor complaints concern conflicts of interest (e.g., the partner setting up competing businesses), bureaucracy and violations of confidentiality. American companies should bear in mind that joint ventures are time-consuming and resource demanding, and will involve constant and prudent monitoring of critical areas such as finance, personnel and basic operations in order for them to be a success.

Some companies prefer to establish a wholly foreign-owned enterprise (WFOE, often pronounced "woofy") rather than a joint venture, with a view to retaining greater management control, due to concerns over intellectual property rights (IPR) protection, desire for simplicity, or for other reasons of corporate policy. The law on WFOEs requires that they either provide advanced technology or be primarily export-oriented, and restricts or prohibits them in a number of service and public utility sectors. However, an increasing number of U.S. companies find WFOEs, which now account for roughly 20% of all foreign-invested enterprises (FIEs), to be a viable entry vehicle to the China market, taking much less time and money to set up than a joint venture (see Chapter IV).

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.

Licensing contracts must be approved by and registered with the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). A tax of 10-20% (depending on the technology involved and the existing applicable bilateral tax treaty) is withheld on royalty payments (see section F of this chapter).

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 which then leases out and oversees several franchise territories within the territory. Within three years of WTO accession, restrictions on equity share, number of outlets and geographical area are to be eliminated. Currently the State Economic and Trade Council is drafting a franchising law which will be forwarded to the State Council for their review. The draft law is not expected to be done until the end of 2002 or early 2003.

Direct Selling

Major U.S. direct selling companies entered the China market in the early- to mid-1990's, when China's legal and regulatory framework for this industry was not very clear. Direct selling was quickly modeled after by domestic Chinese companies, some of whom abused this legitimate format of doing business and operated scams to rip off consumers and evade taxes. In early 1998, the Chinese government started implementing a series of strict controls over this industry, culminating in the re-licensing of all direct selling companies. Although a few major U.S direct selling companies were re-issued the business license, restrictions are severe and requirements many, resulting in difficult 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 clearly defined regulatory powers over the industry, an effective Chinese certificate authentication system, secure and reliable on-line settlement system, and an efficient physical delivery system. Many U.S. IT sector companies have been actively engaged in jointly developing these systems in China, and WTO accession will increase the speed of these developments.

II. SELLING FACTORS & TECHNIQUES:

Relationships

Personal relationships in business are critical. The Chinese feel more comfortable dealing with "old friends," and it is important for exporters, importers, and investors to establish and maintain close relationships with their Chinese counterparts and relevant government agencies. It is equally important that American exporters encourage strong personal relationships between their Chinese agents or distributors and the buyers and end-users. A web of strong personal relationships will help ensure smoother development of business in China.

Advertising

Advertising is an effective way to create product awareness among potential consumers in China. Channels for mass advertising include publications, radio, television, billboard displays, internet, and sports sponsorship.

China's retail boom and increasing competition among retailers is making China's advertising industry grow even faster than the economy as whole. According to China's National Advertising Association (under the State Administration for Industry and Commerce, or SAIC), over-all advertising spending reached \$ 8.7 billion in 2000, a 17% growth over 1999's volume. China has about 70,747 advertising businesses, including more than 380 foreign joint ventures. Foreign advertising firms are limited to taking an equity stake of up to 51% in joint venture enterprises. All of the major international advertising firms are present in China.

Television advertising takes the largest single portion of the Chinese advertising market. China's regular television viewing population is 84% of China's 1.2 billion people. Major articles sold on television include toiletries, foodstuffs, pharmaceuticals, liquor, and home electronics. Television stations in big markets (Beijing, Guangzhou, Shanghai) require advertisers to book and pay for specific spots two to ten months in advance.

Now that China is in the midst of a consumer revolution, foreign products, complete with advanced marketing, advertising and research techniques, are leading the way. Brand awareness is increasingly important and sophisticated advertising is beginning to play a crucial role in charming the Chinese consumer. Foreign products are expected to continue making inroads despite 1999 regulations calling for more control over customer surveys that help foreign firms enhance their marketing effectiveness.

China's 1995 Advertising Law contains guiding principles that set broad requirements. For example, one of the requirements is that advertising should "safeguard the dignity and interests of the State." Comparison advertising is not allowed, nor is the use of superlatives. Chinese restrictions within the advertising sector include requirements for the verification of safety and hygiene from the relevant ministries that monitor various consumer products. Censorship standards vary considerably throughout China.

Electronic Commerce & The Internet

The rapid growth of the internet raises interest in using "e-commerce" in China. Though China remains a developing country, the ambitious use of high technology has made inroads with the growth of governmental and business-to-business forms of e-commerce. Government at all levels seeks to use technology to inform the public about laws, deal with customs and simplify procedures, and businesses are beginning to conduct bidding, process sales and handle contacts on-line. In addition, direct marketing and sales-on-line have begun despite the lack of credit card usage and distribution difficulties. Beijing and Shanghai SAICs have begun a licensing process to create a "reasonable and reliable market." In May 2000, nearly 30 internet companies were awarded licenses to sell online advertising.

Labeling & Marking Requirements

Under Chinese law governing safety and product-quality standards, certain imported commodities must be inspected and certified to be in compliance with compulsory national, domestic trade or contractually stipulated standards (see Section I). Once a quality certificate for a product is issued, a safety label can be affixed.

All products sold in China must be marked - in the Chinese language - with the relevant information. The State Administration for Quality Supervision, Inspection, and Quarantine requires imported and exported (but not domestic) food items such as candy, wine, nuts,

canned food and cheese to have labels verified and products tested for quality before a good can be imported or exported. According to the Food Labeling Standards of China, imported foods shall have clear markings that indicate the country of origin in addition to the name and address of the general distributor that is registered in the country.

III. PRODUCT PRICING & CUSTOMER SERVICE

Most Chinese consumers are sensitive to price and will usually choose the less expensive product unless they can be swayed by better after-sales service or clearly better product quality. For larger purchases, attractive financing that lowers the effective price is offered by Japanese, European and other foreign governments' companies and may make some U.S. products less competitive.

Foreign companies are normally not permitted to directly provide after-sales service and customer support for their products sold into China. Foreign Invested Companies (FIEs) can provide such services on products that they manufacture in-country. Foreign firms sometimes engage authorized Chinese entities to provide service, often on a contractual basis, or to establish service centers jointly that can provide both spare parts and after-sales service. American companies complain that such arrangements give them inadequate control over the quality of customer service and result in the loss of customer confidence. Some companies opt to provide regular servicing from bases outside of China, such as Hong Kong.

IV. INTELLECTUAL PROPERTY RIGHTS PROTECTION

In spite of steady, significant progress in improving its intellectual property legal and regulatory regime, China continues to be a challenging environment for IPR protection. Criminal penalties are seldom applied, while administrative sanctions are frequently too weak. Trademark and copyright violations are blatant and widespread. While Chinese officials are increasing enforcement efforts, violations continue to outpace enforcement.

In recent years, China has had some success in closing down factories that produce illegal optical disks (CDs, VCDs, and CD-ROMs) and computer software products - only to see an increase in such products smuggled across its borders. Limited market access for products such as foreign movies and computer software provides an additional incentive for smugglers and counterfeiters. The authorities have also conducted thousands of raids at both the manufacturing and the retail level, resulting in the confiscation of counterfeit or smuggled products.

Patents: In 1998, China reorganized its patent office as the State Intellectual Property Office (SIPO) in an effort to improve IPR coordination and enforcement. As envisioned, SIPO will have authority over the Patent Office as well as the Trademark Office, and the National Copyright Administration.

China acceded to the Patent Cooperation Treaty on January 1, 1994, and will perform international patent searches and preliminary examinations of patent applications. Under the patent law, foreign parties must utilize the services of a registered Chinese agent to submit the patent application. Initial preparation of the application may be done by foreign attorneys or the Chinese agent.

Copyrights: In March 1992, China established bilateral copyright relations with the U.S. and in October 1992 acceded to both the Berne Convention and the Universal Copyright Convention. China also joined the Geneva Phonogram Convention in April 1993. Following accession to the Berne

Trademarks: China's trademark regime generally comports with international standards, with the principal exception of lack of equal recognition accorded to foreign well-known trademarks. Such recognition may be especially important in light of enhanced enforcement that may be accorded well-known marks under recent rules and regulations. The United States continues to raise these issues with Chinese authorities.

Under the trademark law, foreign parties must utilize the services of registered Chinese agents to submit the trademark application. Preparation of the application may be done by foreign attorneys or the Chinese agent.

V. Local Professional Services

The system for regulation of foreign commercial activity in China is difficult to navigate and non-transparent. Companies new to market are strongly encouraged to retain professional services to structure commercial transactions. Establishing a wholly foreign owned subsidiary, joint venture, or representative office requires compliance with complex contract approval requirements, business registration requirements, taxation regulations and statutes, and labor regulations. Many foreign banks, accountants, attorneys, and consultants have established offices in China and are familiar with Chinese requirements. Some Chinese professional service providers also have substantial experience serving foreign clients.

Accountants

Chinese law requires representative offices and foreign invested enterprises to engage the services of accountants registered in China to prepare officials submission of annual financial statements and other specified financial documents. Therefore, only Chinese accountants and joint venture accounting firms may provide these services. All the Big Five accounting firms (KPMG Peat Marwick, Pricewaterhouse Coopers, Deloitte Touche Tohmatsu, Ernst & Young, and Arthur Andersen) have established offices in China and provide services ranging from providing advice on taxation matters and preparation of investment feasibility studies, to setting up accounting systems that are in compliance with Chinese law.

Attorneys

During the past ten years, many U.S. and international law firms have received approval to register in China as a foreign law firm. Prior to 1992, most foreign law firms were registered as consulting firms. More than one hundred foreign law firms currently operate in China, of which nearly thirty are based primarily in the United States.

Foreign law firms registered in China are restricted to advising clients on legal matters pertaining to the jurisdiction where they are licensed and general international business practices. Although a foreign lawyer may not offer a legal opinion, clients can obtain assistance with structuring transactions, drafting contracts, and resolving disputes. Only attorneys licensed in China may appear in court and provide legal advice on Chinese legal matters. Foreign law firms are currently allowed to open only one office in China and are not allowed to employ Chinese lawyers in that firm. Foreign lawyers are not permitted to qualify to practice law in China and are not allowed to form a joint venture with Chinese lawyers

Due Diligence

Undertaking a due diligence investigation prior to engaging in a trade or investment transaction can minimize risk of encountering commercial disputes. The primary causes of commercial disputes between Chinese and American companies concern breach of contractual payment obligations, irregularities in accounting practices, financial mismanagement, undisclosed debt,

and struggle for control within joint ventures. These problems can be minimized by investigating the financial standing and reputation of local companies before signing contracts with them. Both U.S. and Chinese firms with offices in China conduct due diligence investigations; the former include Dun & Bradstreet, Kroll Associates, PricewaterhouseCoopers and Pinkerton Consulting Services. The fees charged by these companies may be considered a useful investment to ensure that the local customer or partner is financially sound and reliable.

Management Consultants

Foreign companies new to the Chinese market typically engage the services of local consultants to develop market entry strategies, conduct due diligence investigations, and identify potential investment partners, sales agents and customers. More than 100,000 companies are active in the Chinese consulting industry, of which approximately 65% are foreign firms. Licensed and unlicensed firms compete in the market, and the regulatory environment for this services sector is unclear.

VI. Import Tariff & Customs Regulations

The most comprehensive guide to Chinese Customs regulations is The Practical Handbook on Import & Export Tax of the Customs of the PRC, compiled by the General Customs Administration. This guide contains the tariff schedule and national customs rules and regulations. It may be obtained for 220 RMB plus shipping and handling from:

Xing Sheng Zhong Hai Fa Xing Zhong Xing Company.

#6 Jian Nei Da Jie

Dong Cheng Qu, Beijing 100730.

Phone: (86-10) 6519-5923 Fax: (86-10) 6519-5616

Tariff Rates: The Customs General Administration (CGA) assesses and collects tariffs. Import tariff rates are divided into two categories: the general tariff and the minimum (most-favored-nation) tariff. Imports from the United States are assessed at the minimum tariff rate, since the U.S. has concluded an agreement with China containing reciprocal preferential tariff clauses. The five Special Economic Zones, open cities, and foreign trade zones may offer preferential duty reduction or exemption. Companies doing business in these areas should consult the relevant regulations.

On top of normal tariff duties, both foreign and domestic enterprises pay either value-added taxes (VAT) or business taxes, depending on the nature of their business and the type of products involved. VAT applies to enterprises engaged in import-export, production, distribution or retailing activities.

China offers a comprehensive program of tax incentives and concessions. The general VAT rate is 17% but necessities, such as agricultural and utility items, are taxed at 13%. Enterprises regarded as small businesses (annual production sales of less than renminbi 1 million or annual wholesale or retail sales of less than renminbi 1.8 million) are subject to VAT at the rate of 6%. Unlike other VAT payers, small businesses are not entitled to claim input tax credits for VAT paid on their purchases. Different standards apply regarding VAT rebates. The applicable rebate method is a function of the establishment date of the enterprise. Certain limited categories of goods are exempt from VAT.

In an attempt to stimulate exports, the State Tax Administration increased VAT rebates several times in 1999, up to 17% (a full rebate) for certain kinds of processed exports. Exporters complain that it takes months to obtain the rebates and amounts are often miscalculated. A

recent crackdown on fraudulent VAT rebate application has made rebates completely unavailable in some areas of Guangdong and Fujian provinces.

China's accession to the WTO is likely to accelerate the phase out of its two-tier tax system for domestic and foreign enterprises. Domestic enterprises have long resented rebates and other tax benefits enjoyed by foreign invested firms. The move towards national treatment will mean the gradual elimination of special tax breaks enjoyed by many foreign investors. In addition, increasingly sophisticated collection methods are reducing loopholes for all market participants.

Customs Valuation

According to Chinese Customs regulations, the dutiable value of an imported good is its CIF price, which includes the normal transaction price of the good, plus the cost of packing, freight, insurance, and seller's commission. In 1998, the Customs Administration launched an ambitious program to standardize enforcement of customs regulations throughout China as part of a larger campaign to combat smuggling. The program has reduced some of the flexibility of local customs officials to "negotiate" duties. However, customs officials still have wide discretion concerning the category in which an import is placed.

Trade Barriers

The Bilateral Agreement on China's WTO Accession is only the latest of fifteen trade agreements negotiated between the United States and China since 1979. These agreements cover everything from civil aviation and satellite exports to agriculture and intellectual property rights protection. Each of these agreements has played a role in China's gradual process of trade liberalization, and created new opportunities for U.S. exporters.

The Chinese government has recognized for a number of years that economic reform and market opening are cornerstones of sustainable economic growth. Nonetheless, these reforms have been difficult and often painful for certain constituencies, particularly in the aging industrial sector and heavily protected agricultural sector. Thus, while China today has a vastly more open and competitive economy than 15 years ago, there are still many significant barriers in place.

High Tariffs

For example, some motor vehicles face tariffs of over 80%. U.S. industry points out that tariff rates for sectors in which China is trying to build international competitiveness remain especially high. Under the bilateral WTO agreement, once China accedes to the WTO its industrial tariffs will fall from an overall average of about 15% to an average of 9.4 % several years after accession. The motor vehicle tariffs will eventually fall to 25%. Tariffs for U.S. priority agriculture products will quickly fall from an average 31.5% to 14.4%. If China signs the Information Technology Agreement (ITA), which should occur upon China's WTO accession, tariffs on all ITA goods - such as semiconductors and computer hardware - would be eliminated by January 1, 2005. Until accession takes place, however, tariffs will continue to act as an effective import barrier.

Import Quotas

WTO rules bar quotas and other quantitative restrictions. Specifically, the agreement requires China to eliminate existing quotas for the top U.S. priority products upon accession and phase out remaining quotas, generally by two years but no later than five years after accession. At present, however, quotas limit over 40 categories of imports, including automobiles, grains, edible oils, and certain textile products. Monopoly importers, such as those that exist for theatrical film imports, are able to establish de facto quotas.

Import Substitution Policies

China committed to eliminate all import substitution policies and regulations as one of the conditions of the 1992 market access MOU, but periodically continues to issue such regulations. Recent examples in the fields of generic medicines, telecom equipment, pharmaceutical pricing, power generation, and the automotive industry have been the result of informal directives that have not been publicly announced.

U.S. Export Controls

If an exporter needs information on the regulations relating to the sale of its goods to China, they can request an advisory opinion from BIS. The advisory opinion will supply the exporter with a commodity classification and any restrictions on the export of that item to China. For more information about advisory opinions or U.S. dual-use export controls, exporters should view the BIS website at www.bis.doc.gov or contact:

BIS Exporter Services Division

Western Regional Office Tel: 949-660-0144 Fax: 949-660-9347

U.S. Embassy-Beijing, Commercial Section

John Larkin, BIS Officer Tel: 8610-8529-6655 x811 Fax: 8610-8529-6558

The U.S. State Department's Office of Defense Trade Controls, under the Arms Export Control Act and the International Traffic in Arms Regulations (ITAR), controls the export of items listed on the U.S. Munitions List, including satellites and related technology. For information on State Department export licensing procedures see the relevant State Dept website of the Office of Defense Trade Controls at <http://www.pmdtc.org>. A point of contact for State Department Licensing business advocacy matters at the State Dept is David Nobles, Tel. 202-647-1817. In the U.S. Embassy in Beijing, the point of contact for State Dept. Licensing matters is the Economic Section, Tel: 86-10-6532-3431, Fax 86-10-6532-6422.

Customs Contact Information

Beijing:

General Administration of Customs

Foreign Affairs Division

6 Jianguomenwai DaJie

Tel: 86-10-6519-5243 or 6519-5399

Fax: 86-10-6519-5394

General Administration of Customs Website: <http://www.customs.gov.cn>

Shanghai Customs Website: <http://www.shcus.gov.cn/apec/index.jsp>

Tianjin Customs Website: <http://tjc.online.tj.cn/>

Guangzhou Customs Website: <http://haiguan.gzfeihua.com/customs.html>

China Business Etiquette: Quick Tips

Clothing

- Conservative suits for men with subtle colors are the norm.
- Women should avoid high heels and short-sleeved blouses. The Chinese frown on women who display too much.
- Subtle, neutral colors should be worn by both men and women.
- Casual dress should be conservative as well.
- Men and women can wear jeans. However, jeans are not acceptable for business meetings.
- Revealing clothing for women is considered offensive to Chinese businessmen.

Interaction

- Do not use large hand movements. The Chinese do not speak with their hands. Your movements may be distracting to your host.
- Personal contact must be avoided at all cost. It is highly inappropriate for a man to touch a woman in public.
- Do not point when speaking.
- To point do not use your index finger, use an open palm.
- It is considered improper to put your hand in your mouth.
- Avoid acts that involve the mouth.
- It is more acceptable to give gifts either in private or to a group as a whole to avoid embarrassment.
- The most acceptable gift is a banquet.
- Quality writing pens are considered favored gifts.
- The following gifts and/or colors are associated with death and should not be given:
 - Clocks
 - Straw sandals
 - A stork or crane
 - Handkerchiefs
 - Anything white, blue or black

Banquets & Meals

- Do not start to eat or drink prior to the host.
- As a cultural courtesy, you should taste all the dishes you are offered.
- Sample meals only, there may be several courses.
- Never place your chopsticks straight up in your bowl. By placing your sticks upright in your bowl you will remind your host of joss sticks which connotes death.
- Do not drop the chopsticks it is considered bad luck.
- Do not eat all of your meal. If you eat all of your meal, the Chinese will assume you did not receive enough food and are still hungry.
- Tipping is considered insulting, however the practice is becoming more common.

Communication

- Bowing or nodding is the common greeting; however, you may be offered a handshake. Wait for the Chinese to offer their hand first.
- Applause is common when greeting a crowd; the same is expected in return.
- Introductions are formal. Use formal titles.
- Often times Chinese will use a nickname to assist Westerners.
- Being on time is vital in China.
- Appointments are a must for business.
- Contacts should be made prior to your trip.
- Bring several copies of all written documents for your meetings.
- The decision making process is slow. You should not expect to conclude your business swiftly.
- Many Chinese will want to consult with the stars or wait for a lucky day before they make a decision.
- Present and receive cards with both hands.
- Never write on a business card or put it in your wallet or pocket. Carry a small card case.
- The most important member of your company or group should lead important meetings. Chinese value rank and status.
- Allow the Chinese to leave a meeting first.

Basic conversation guide

Yes = shì

No = bú shì

Thank you = xiè xiè

Hello = Ni hao

Goodbye, Goodbye = zài jiàn

I do not understand = wǒ bù míng bái / wǒ bù dǒng

What's the price? How much does it cost? = zhè duō shǎo qián?

I would like to buy = wǒ yào mǎi...

Do you accept credit cards? = nǐ jiē-shòu xìn yòng kǎ ma?

Where is...? = ...zài nǎ lǐ?

An airport = fēi-jī-chǎng.

The station = huǒ chē-zhàn

Post office = yóu jú

The bank = yín háng

The police station, the police force = jǐng wù chá jú

The pharmacy = yào fáng

One ticket to..., please. = Yì zhā-ng qù ...de piào.

Would you have any vacancies for tonight? = jīn-wǎn nǐ méi yǒu kòng-fáng?.

Language Spoken

Official language: Chinese. There are many different dialects and variations of dialects in Chinese. English is used for commercial correspondence. However, an interpreter is often required during personal contact with Chinese businesspeople

Currency Exchange

1.00 USD (United States Dollars) = **7.94090 CNY** (China Yuan Renminbi)

1.00 CNY (China Yuan Renminbi) = **0.125930 USD** (United States Dollars)

NOTES