Exploring market opportunities in

CHINA

International Business

“China – the new superpower of the world”

“China aims at being the leading shipbuilding country in the world by 2015”

“China plans to land a human on the moon by 2020”

International Business

A unique student project

International Business (IB) is an annual project carried out by students attending the Norwegian universities of science and technology (NTNU), the Norwegian School of Economics and Business Administration (NHH), and the Norwegian school of Management (BI). This unique and recognized project is carried out in close collaboration with Innovation Norway and their network of contacts in development of this report. The main purpose of this project is to study potential markets for international business ventures, and support Norwegian enterprises considering entering these markets. Since its beginning in 1984, IB has visited all continents, each year selecting a new country of focus in cooperation with Innovation Norway.

Developments and trends beyond our boarders are determent for a small country like Norway. Globalization and increased business complexity increases the importance of such elements and pull foreign markets and the opportunities they offer closer to us. To take advantages of these opportunities and understanding the development, information and knowledge is vital. IB's primary goal is to provide information and insight into areas that are important to enterprises waiting to set up business or invest in foreign markets.
IB also develops the participating students' international understanding as communication and information gathering skills, and is a forum for contact between students and the business sector. The information and conclusions of the report are based on extensive research prior to our stay abroad and our meeting with companies and institutions in the country of focus. The whole project is financed through the companies advertising in this report and their extensive goodwill. We would like to use this opportunities to thank them for their support, a necessarily to render this project possible.

In addition to the paper-copy, the report is also available on our website: www.ib.no. Some of the earlier reports and works and future information about International Business is also available at our home page.

International Business is an independent, voluntary, non-profit student organisation, and is fully responsible for the content in this report.

Acknowledgement

Ambassador of Norway

All eyes are turned towards China, an enormous market with great investment opportunities. However, the challenges that meet investors are many. China is a market where the possibility for great profit is daunted by the possibility for great financial losses.

Norway and China have as countries good relations, and our bilateral trade is on the rise and has significant impact in Norway. China has become Norway's largest trading partner in Asia. However, we are both geographically and culturally far apart, and Norwegians and Chinese have relatively little knowledge of one another. The public at large in both countries, including business, R&D institutions and universities need more information. At the Embassy in Beijing and at the Consulate General in Shanghai we do our best to keep Norwegian industry and institutions informed about developments in China, and the opportunities these can give for Norwegian business.

The NTNU student project "International Business" can be an important contribution to fact finding on China with particular relevance for Norwegian business and potential investors.

Tor Chr. Hildan

Former Minister of Trade and Industry

China and Norway can look back at half a century of good diplomatic relations. Our commercial cooperation forms one of the most important pillars of our bilateral relations. China has become Norway's largest trading partner in Asia. Chinese imports have even become a factor in the Norwegian consumption price index by keeping inflation low. The number of investments by Norwegian companies in China is showing a steady increase, ad Chinese companies are showing great interest in business opportunities with Norwegian counterparts.

Norwegian industry must strengthen its knowledge-based technology level, in order to maintain a leading position in the future global industry. Innovation and continued dialogue with our global partners is the key factor to develop valuable knowledge and create new opportunities.

China is transforming itself steadily. Previous efforts have turned China into a key player in the international economic arena, and future efforts will have to be equally considerable. Exactly how this may increase business opportunities for Norwegian companies is an important question. The current project undertaken by three leading academic institutions will provide us with some answers and thereby contribute to the further development of economic relations between Norway and China.

Ansgar Gabrielsen

Former Commercial Councellor Innovation Norway

Norway and China share a long history of well-established ties. This year we celebrate the 50th anniversary of diplomatic relations to highlight common achievements, but also to emphasize the importance for further deepening of our bilateral economic relations. Innovation Norway emphasizes stronger Sino-Norwegian cooperation in business, science and technology for the future. Special attention will be paid to increased business collaboration in the Maritime Sector, Marine Sector, Energy Sector and Environmental Sector.

Several Norwegian companies have discovered the business opportunities that exist in the Chinese market. Many of our largest companies have established themselves in China already but also several smaller Norwegian companies plan to or have established themselves in the Chinese market. A key concern for further investment by Norwegian companies is how China will continue to adapt to international business standards and create a predictable and transparent investment climate for the future.

Innovation Norway assists Norwegian companies in many ways. When setting up a business, partner search, provide market analysis as well as general promotion work.

In addition to companies Innovation Norway also emphasize cooperation with universities and colleges in Norway. These institutions represent knowledge relevant to improve the Sino- Norwegian cooperation. Every year students from Norwegian School of Management – BI, Norwegian School of Economics and Business Administration – NHH and Norwegian University of Science and Technology – NTNU, work in project teams, to carry out a market research project. This started in 1986. The outcome of these projects has proved to be valuable information for the Norwegian business sector.

The project topic this year is China. We believe the Chinese economic development will affect the Norwegian industry even more in the future. The effects on Norwegian macro economy are already present. To understand better and improve our knowledge about this upcoming market has become increasingly important. We believe that the project team of this year will bring forward much interesting and important information of China for the Norwegian business.

Harald Nævdal

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SEB has been represented in China since 1983. This has given us in-depth knowledge of the specific conditions affecting this colossal market – knowledge that is continually fed back to customers in our home markets.

We currently offer a wide range of offshore financial solutions in China, including trade finance, commercial lending, exports and project financing.

Nordic business in China is expanding year by year, and growing numbers of companies are moving their production units here. In order to meet escalating requirements and strengthen our local base, we intend to open our own branch office later this year in Shanghai, China's leading financial nexus.

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Part 1

- Politics
- Econemy
- Society
- Technology

Politics

It is considered very important to understand the history of China in order to understand the mentality of the Chinese and their way of thinking. This section therefore provides a background for understanding the political system and forces in China today. It shortly describes the background prior to Mao and, then goes through Chinas four generations of leadership starting with Mao ending today. This will be followed by a description of the current political situation

HISTORICAL PERSPECTIVE

Chinese history is among the world's oldest recorded, going back nearly 5000 years, and it is hence the oldest continuous major world civilization. Furthermore China has since the Han dynasty period (206 BC to AD 220) up until the early modern period been one of the most advanced countries in terms of technology. Chinese people are conscious of their long history and of China's former eminent position in the world, and today this directly influences political opinions and attitudes to international relations. The economic reforms being carried out nowadays have the intention of getting China back into its "proper" place as a world leading country.

Due to their superior economic and military powers in the beginning of the 19th century, Western countries were able to obtain more and more economic and political privileges from China through unequal treaties. The gradual fall of China under foreign powers has later been seen upon as a period of "national humiliation". The Chinese Empire collapsed in 1911 and was succeeded by a Republic of China government led by the right-winged Kuomintang.

First generation leadership

Power struggles later broke out between The Kuomintang and the Communist Party of China (CPC), but after Japan's invasion during WW2 were The Kuomintang leaders forced to flee off to Taiwan. October 1 1949 the CPC proclaimed the founding of the People's Republic of China (PRC) under the leadership of Mao Zedong.

For the next years CPC acted out massive economic and social reformations, adopting a political and economic order modeled on the Soviet example. The CPC gradually expanded its power of control, repressing political opponents harshly. In 1958 Mao initiated a new economic development program "The Great Leap Forward", trying to turn China into an industrial economy. The result was one of the world's worst man-made famines, in which approx 30 million people died.

Second generation leadership

General Secretary of the Party in the early 1960s, Deng Xiaoping, became dominant in the government adopting pragmatic economic policies for the social reconstruction. Afraid of loosing political grounds due to Deng's increased popularity Mao started a movement in 1966 known as the Great Proletarian Cultural Revolution in order to fight these new "capitalist" policies. This lasted for 3 years after which the political situation gradually stabilized. Mao died September 9 1976, and after his death Deng Xiaoping was re-instated in all his previous leadership positions, pursuing the course of economic reform.

In 1989 high inflation intensified the population's dissatisfaction with the government because of slow reform speed and government corruption. Students went to Tiananmen Square to protest and their unwillingness to retreat led to Chinese soldiers entering the scene and opening fire towards unarmed civilians on June 4. There are no official figures on how many were killed, but one estimate is several hundreds. In the aftermath of this incident the speed of development slowed down.

Third generation leadership

In 1992 a number of younger and pro-reform leaders came into power. An increased number of political figures entering the higher positions had backgrounds from engineering and natural sciences rather than revolutionary struggles. Together with Deng Xiaoping's call for faster and bolder economic reforms, China shifted gears and the pace accelerated. This is considered the end of the Deng era.

President Jiang Zemin is the key figure in the "third generation" leadership. Because Mr Jiang was lacking the revolutionary background that would have favored his position in the party, he never gained the profound authority within the party such as Deng or Mao. His leadership had thus a more collective style with decisions based on debates and compromises.

In March 2001 the next five-year plan for China was revealed at the National People's Congress (NPC). It emphasized continuing economic reforms and China entering the WTO as a main goal. The difficult relationship between China and USA remained an obstacle for China entering WTO. This relation was improved after September 11 the same year, when China joined the US-led coalition against terrorism. December 11 2001 China accedes to the WTO.

Fourth generation leadership

Mr Jiang retired as General Secretary of the CPC in November 2002 during the 16th party congress and as President in March 2003, but he kept his important position as chairman of the Central Military Committee (CMC).

Jiang Zemin was replaced in both positions by Hu Jintao. The head of the NPC and the premier were also replaced during these same events by Wu Bangguo and Wen Jiabao respectively, along with great staff changes in the government bureaucracy. Within the party structure almost all members of the Politburo Standing Committee (PSC) together with half of the members of the Party Central Committee (PCC) were newcomers after the 16th congress.

However, Mr Jiang still played an important role. In November 2002 his own political philosophy, the Theory of the Three Represents, was written into the party constitution, next to Marxism-Leninism, Mao Zedong Thought and Deng Xiaoping Theory. Mr Jiang's status within the party was hence confirmed. The Theory of the Three Represents is adopted as party ideology and it serves the role as legitimizing the party's turn to capitalism, for example in allowing the entrance of private entrepreneurs.

China's government is hence considered to be in the "fourth generation" leadership, led by Hu Jintao. His success in the early months of 2003 bringing the spread of the SARS disease under control strengthened his leader position. Furthermore, the Chinese government's popularity increased also after the successful manned space mission in October 2003 (China being the third country in the world to have completed such a mission). The state currently has R&D as a target area. Chinese government has created a list of ten areas they will focus on in order to improve the general level of technology in society. Especially in the big cities they already have attained a good base; for example in Beijing there is broadband internet all over.

Both Mr Hu and Mr Wen also have worked to establish "men of the people" images. To do so they've paid visits to rural areas, and they have urged party officials to identify more closely with the lives of ordinary people. They have also tried to shift the media attention from the leading officials to the lives of Chinese people.

As shown above China has since its founding gone through different periods characterized by four different leaders. Deng Xiaoping and Mao Zedong have the most profound authority within the Chinese population. Deng was the man who brought China forward towards an industrialized country. Mao was the strong leader and "Father" of China. Still today it is difficult to find Chinese people that openly state anything critical about Mao and the years under his rule; it seems inappropriate to do so. With the CPC's diminishing power of control in society these attitudes anchored in the Chinese population might change in the future.

CURRENT POLITICAL SITUATION

Government Structure

Characteristic of China's political structure is the one-party ruling and a parallel division of power at different levels between the state and the ruling party, with the power of the party generally surpassing that of the state.

The Constitution

China has not one, but two constitutions: the state constitution and the CPC's constitution. In general revisions to the state constitution follow changes to

President Hu Jin Tao hilser.

the party's constitution. The most recent revision of the party constitution was in 2002 when Mr Jiang's theory of the Three Represents was added. As expected the National People's Congress (NPC) approved similar changes to the state constitution during their session in March 2004.

The Party Constitution's guiding ideologies now include Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory and the Three Represents thought. Strange as it may seem these are not concurrent with each other, but they are rather aimed at reflect changes in official ideology.

State structure

For administrative purposes China is divided into 22 provinces, 5 autonomous regions (regions pre-dominated by non-Han ethnic groups), 4 municipalities (Beijing, Shanghai, Tianjin, Chongqing) and two Special Administrative Regions /SARs (Hong Kong and Macau). The SARs have separate governments, legal systems and quasi-constitutions, but the Chinese central government is responsible for their foreign affairs and defense.

The state power is invested in the NPC and other local people's congresses in something called - The People's Congress System. Deputies to the congresses at all levels are elected by the people, but often under the party's control.

NPC – National People's Congress. This is the supreme organ of state power in China; NPC passes laws and treaties, nominates the executive and approves the constitution. It has around 3000 members, indirectly elected at lower-level people's congresses. The election levels are the provinces, the autonomous regions, the municipalities, the special administrative regions and the armed forces. The NPC is elected for five year terms and they usually meet once a year. When NPC is not in session its Standing Committee exercises state power. The NPC Standing Committee meets every two months. The power on a day-to-day basis is given to the chairman, vice-chairmen and secretary-general. Due to China being a one-party system, the legislature is subordinate to the party. But in recent years the Standing Committee and other specialist groups have taken a more active role in questioning government work and developing legislature.

The State Council – The Central People's Government, is the highest state administrative body. The council's composition is determined by the NPC, and it carries out the laws enacted and the decisions adopted by the NPC and the Standing Committee. The State Council is composed of the premier, vice-premiers, state councilors, the heads of the ministries and commissions, the auditor-general and the secretary-general. At the lower levels of the state administration there are the local governments.

Due to large number of lower-level governments (1660 counties at the lowest level) the national government has difficulties controlling all lower-level officials. This often leads to policies, regulations and strategies being decided upon by central government not always being implemented on local level. Companies usually have to operate with town or village level (sometimes provincial level), and should be aware of the fact that not all central regulations necessarily are being followed everywhere.

POLITICAL FORCES

The Communist Party of China

The CPC had 66.4 million members in 2002, which is 5.2% of the entire population. This makes it the largest political party in the world. Of these were 17.5% women and 6.2% from ethnic minorities. 77.7% of members are over 35 years old, but 78,6% of the new members recruited in 1997-2002 were educated at high school and above, underlining the shift also seen at the higher levels in the CPC becoming more "technocratic".

Joining the party is still considered important for ambitious government officials, but the tendency in the population in general is that the attractions of party membership is diminishing in accordance to the loss of CPC dominance in everyday life.

Party Structure

The CPC's structure is parallel to that of the government, but it is considered supervising. The main decision-making body is the Party Central Committee that meets in plenary session twice a year. This committee has 198 full members and 158 alternate members. Between the sessions the power lies in the Politburo, which has 24 members. Above the Politburo is the Politburo Standing Committee (PSC), which has nine members. The PSC is considered the most powerful

political institution of China. Both members of the Central Committee, the Politburo and of PSC are decided upon at the national congress of the CPC, which is held every five years; the most recent taking place in November 2002.

The general secretary is the party leader, currently held by Hu Jintao (who also is China's president). The central secretariat handles the day-to-day issues of the party. A particularly powerful body is the Central Commission for Discipline Inspection. They are responsible for the internal discipline within the party, and they are managing a strong network of informers, spies, and personnel files.

Chinese Communist Party's role

China do have other parties that CPC, they are however so small that they don't have any practical influence on the political situation. As what can be compared to a political alibi the CPPCC – The Chinese People's Political Consultative Conference, was established already in 1949 as a forum that officially provides for policy discussions between the ruling party and other social and political organization. However, the forum is considered powerless, and the eight non-Communist "democratic" parties present are all supporting the leading role of the CPC.

In the Ministry of Foreign Affairs of the PRC one can read:

"…The non-Communist parties of China are neither parties out of office, nor opposition parties, but friendly parties that "coexist over a long period of time, engage in mutual supervision, show utter devotion to each other, and share honor and disgrace, weal and woe" with the CPC…."

The CPC has tried hard to maintain its power. Independent trade unions that were started during the student protests in the months before the Tiananmen Square incident were denounced as "counter-revolutionary". Still CPC remains on the alert of any sign of organization among workers.

Organized dissent or questioning of the CPC's right to rule is not tolerated. Any organization that can gather a large number of people is considered threatening. Possible attempts of such protesting organizations is treated harshly. Internet is also looked upon as potentially dangerous, due to the globalization of information available. Access to internet sites are therefore censored, as well as the national media. However, according to Chinese students it is relatively easy to get passed the censorship on the internet.

In spite of strong reactions by the CPC to the growth of regional independence movements, there has still been a consistent trend of decentralization the recent years, where local governments have been given more resource mobilization powers and spending responsibilities.

International relations

China's foreign policy is currently aimed at providing a peaceful international environment within which it can develop its economy. There are however, some challenging external relations to consider.

The relationship with USA is China's most important and most difficult. Unexpected events like the NATO's bombing of the Chinese embassy in Belgrade in 1999 and the collision of a US spy plane with a Chinese military jet in April 2001 have not improved the relation. Taiwan has also posed a conflict area, with the US providing Taiwan with weapons and protecting the island from Chinese territorial ambitions. But the US also has conflicting interests in China. The Chinese emerging market is interesting for American business, but can at the same time be perceived as a possible threat for US interests in East Asia, at least in the future. The US policy towards China has therefore not been so consistent the past years, but recently they have warmed up so that in September 2003 Colin Powell described them as the best they've had since the 1970s.

China has also a difficult relationship with Japan. This is mainly due to the cruelties committed during the Japanese invasion of China in the 1930s. In spite of this, economic links between the countries have developed substantially. China is Japan's largest supplier and Japan represents China's third largest export market.

China's ties with Russia are not based on economic issues, but are more political in nature. China and Russia usually react in a similar opposition manner to US foreign policy decisions. But this has weakened slightly since the September 11 attacks in 2001. Russia has been a major arms supplier to China in recent years.

North Korea has traditionally been one of China's allies. But in the past years China has improved the

relation to South Korea. This together with China's effort in working with the ties to the US has made China a more active participant in trying to ease the Korean tensions.
India and other countries in the Association of South-East Asian Nations (ASEAN) have long been suspicious of China and their regional objectives. But closer trade and investment relations have improved the situation. In November 2002 an important agreement was established - a free trade area within the ASEAN countries from 2010.

As for Norway and China, they could October 4 2004 celebrate the 50th anniversary for the establishment of diplomatic relations between the two countries.

Challenges

The main internal challenges to the Chinese society and the political stability are corruption and social instability.

Social discontent is today representing a challenge to the CPC's power. The population's dissatisfaction is mainly due to corruption, the stagnation of income in rural areas due to economic changes and to the government's attempts to reform the large state-owned enterprises (SOEs). The latter has been necessary to ensure economic sustainability, but it has resulted in a large amount of lay-offs.

The crime level in China is very low based on an international comparison. But it has been rising the past years. This has led to harsh responses from the government, without gaining the wanted effect. According to Amnesty international more than 1000 people were executed in 2002; this is more than in the rest of the world together. The crime rise is probably due both to a weakening of the CPC's control and to the increased social aggravation faced by certain groups. Crime towards foreigners is considered particularly severe, as Chinese authorities then are "loosing face" abroad. Serious crime against foreigners is hence rare.

The government is working on pension issues, unemployment and medical care systems, but the task is extremely complex and costly and so far it has been just a start. There is also a tendency to punish more severely senior officials that are involved in corruption cases; in September 2002 the vice-chairman of the NPC, Cheng Kejie, was executed after being found guilty of corruption.

In line with China's development over the past years one can wonder whether China will change its political system into a multiparty one. According to Professor Zhou Dunren at the Fudan University of Shanghai, China do not currently have the institutional system to support a new political structure. Such an attempt could result in complete chaos and further destabilize the situation. He believes that the government is however becoming more and more democratic, and this development will most probably continue, but the country has to change in its own way and at its own pace.

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Economy

In the late 1970s, the People's Republic of China initiated a process of "opening and reform" with the overall aim of encouraging the modernization of the Chinese economy while maintaining a socialist structure. The major economic and social upheavals in the country since that time have led, in particular, to the emergence of new forms of economic activity, resembling those of a market economy, and to growing integration into the world economy.

Over the same period, China also recorded remarkably high and sustained levels of economic growth. Measured on a purchasing power parity (PPP) basis, China in 2004 stood as the second-largest economy in the world after the US, although in per capita terms the country is still poor. The average real GDP growth of the order is of 8 per cent per annum between 1978 and 2004. As a result, the country today has been a quadrupling of GDP since 1978, which was $1,266 billion that ranked as sixth biggest economy in the world, and is at the center of world economic interests.

Under this policy of opening up to foreign trade and investment and of domestic structural economic reform, China gradually reduced the scope of mandatory planning, decentralized economic decision-making and allowed market forces to operate. As a result, china today seems to have nearly completed its transition from a planned economic system to a system closer to a market economy. China stands apart from the world's other transitional economies in that it applied these economic reforms in an unchanged political context. The Chinese transition was thus first and foremost an economic transition, in which the presence of a centralized and authoritarian government ensured that the reforms were implemented gradually. Indeed, this gradual implementation of reform is the principal distinguishing feature of china's economic transition, setting the country apart particularly form the countries of Russia and other Eastern European countries.

In general, reform measures were adopted in a selective, partial and pragmatic way: selective, because at first they affected only a few coastal provinces, which became the engines of the reform process; partial, because they were simply introduced into the existing economy, leading to the emergence of a mixed system retaining a number of "socialist" characteristics; pragmatic, because many of the reforms were often introduced when required by economic developments. This selective, partial and pragmatic approach makes the Chinese transition process a unique case.

ECONOMIC STRUCTURE

Before1978, China's economy had a weak foundation in agriculture, and the ratio between light and heavy industries was unbalanced. Since 1978, China has undergone a rapid process of growth and transformation and adopted a series of policies and measures. Priority has been given to the development of light industry, expanding the import of top-quality consumer goods, strengthening the construction of basic industry and facilities, and devoting major efforts to develop tertiary industry, so as to make China's economic structure more coordinated, optimized and balanced. The result has been spectacular growth of industry with annual rate of 30.4 percent in 2003. The relative size of China's industrial sector - reaching around 50 percent of GDP - is larger than any other Asian newly industrializing economies (NIEs) or ASEAN-4 countries. It even stands out when comparing with a broader set of both developing and developed countries.

The relations between different industries and within industries in terms of proportion have clearly been improved; the proportion of primary industry has declined, while that of the secondary and tertiary industries has grown. The growth of the overall national economy was formerly driven by the primary and secondary industries, but now it is being driven by the secondary and tertiary industries. Actually the growth of secondary industry becomes the main engine of rapid development for China's economy.
China's WTO entry is a potential watershed for industrial reform. China's industries sector will benefit from its current comparative advantages in labor-intensive industries, while many inefficient industries and firms will lose ground. Over the longer term, in order to sustain its industrial development China will have to move up the technological ladder, from lower to higher value-added industries.

While the whole industrial structure is changing, the internal structure of every industry has also changed greatly. In the total output value of agriculture, forestry, animal husbandry and fisheries, the proportion of pure-agricultural output value has declined, while that of forestry, animal husbandry and fisheries has grown. The structure of light and heavy industries has escalated from the light pattern structure stressing "consumption compensation" to the heavy-pattern structure of "investment guidance". Within the tertiary industry the proportion of the traditional industries, such as communications, transportation and commerce, has declined, while real estate, banking, insurance and telecommunications have developed rapidly.

	GDP composition by sectorAgriculture	Structure of employment
Argiculture	15.4%	50%
Industry (of which: manufacturing)	51.1% (35.4%)	23%
Services	33.5%	27%
Total	100%	100%

Sources: Pocket World in Figures, "The Economist", 2005

ESTABLISHMENT OF THE DIVERSIFIED-OWNERSHIP ECONOMY

Before the introduction of policies of reform and opening to the outside world, China had a unitary public ownership economy, which lacked vitality. Through the reforms however, the Chinese government has encouraged the development of diversified economic elements while insisting on the primacy of public ownership.

The structure of China's secondary industry changed fundamentally during the 1980s. Until 1978 output was dominated by large state-owned enterprises (SOEs). Since then much of the boom in manufacturing output has been produced by "collective" enterprises under the aegis of local governments—particularly the township and village enterprises (TVEs)—or, increasingly, by private entrepreneurs or foreign investors, either in wholly owned enterprises or in joint ventures with Chinese interests. By 2002 the share of state-owned and state-holding enterprises in gross industrial output value had shrunk to 41%. However, state-owned companies, controlled by economic ministries in Beijing, taken in isolation represented only 16% of industrial output. State-holding enterprises may control large numbers of state firms, and are not 100% state-owned.

However, apart from the notable exception of agricultural sector, the internal reforms had not until quite recently brought about any genuine restructuring of economy, which is still dominated by the inefficient public sector. To this day state-owned enterprises still absorb more than half of all fixed-capital and employ 60 percent of the urban working population, although

their share in industrial output is shrinking. In contrast, the gradual liberalization of foreign trade and opening up to foreign investment have had a structural impact on the economy that acted more quickly by introducing both competition and foreign technology, neither of which had been present before. Simple observation of the facts suggests that the opening process initiated in the late 1970s allowed China to exploit its comparative export advantages and also to acquire foreign technology through foreign direct investment (FDI).

FDI

With its fast growth and large amount of inflows, foreign direct investment ("FDI") has greatly contributed to the Chinese economy in terms of capital formation, employment creation, labor training, export promotion, technology transfer, productivity improvement and competition.

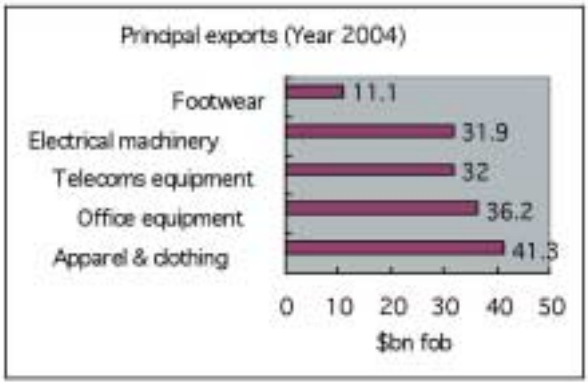
During the last 20 years, China has become the largest foreign direct investment recipient among the developing countries and attracted around 30 per cent of the total foreign direct investment inflows into developing countries and nearly 50 per cent of total foreign direct investment inflows into the East and Southeast Asia. In 2003, FDI record rose a hard-won 1.44 per cent from the previous year, to reach US$53.5 billion in paid-in terms. However, over 60 per cent of the FDI into China is actually from Chinese Overseas in Hong Kong, Taiwan, Macau and other countries. The slowdown of FDI inflows into China since 1997 could be explained by various factors, mainly because of the impact of Asian Financial Crisis, and the lower market rates of return on investment in China than the foreign investors expected.

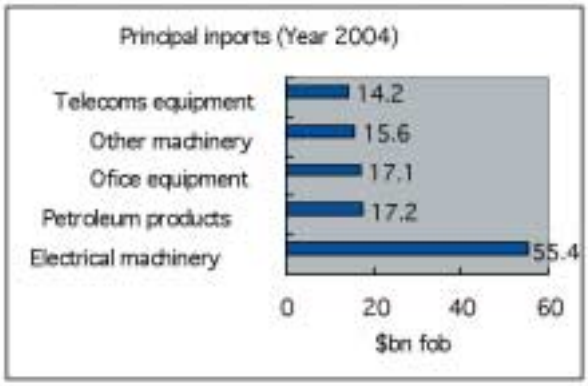
According to China's laws and regulations, foreign investors can choose between three different forms to invest in China, namely: contracted joint ventures, equity joint ventures, and wholly foreign-owned enterprises. There are many reasons for foreign investors to prefer creating wholly owned ventures to joint ventures. However, two reasons are most important. One is to maintain maximum operating independence from Chinese participation. Another is to access fully all corporate resources and technology from the parent company and to more effectively protect their technologies, especially when the foreign enterprises are in technology-intensive industries.

Despite China's continued priority for attracting FDI with advanced technologies, there remain restrictions on the organizational forms of foreign direct investment entry. There are 31 industries that are not allowed the establishment of wholly foreign-owned enterprises, and 32 industries in which the Chinese partners must have majority share holdings or are in a dominant position. Nearly half of these industries are high technology industries, which will be likely to undercut China's effort to attract high technology FDI. As a result, FDI has been playing an increasing important role in the Chinese economy. However China's current FDI policy is still relatively restricted in terms of FDI entry forms, foreign ownership shares, and industry scope. Moreover, China still extensively uses fiscal and other incentive policies to encourage some specific types of FDI and to induce FDI flows into some targeted regions and industries. China's FDI policy regime needs to be further liberalized, particularly on competition policies, industrial policies and intellectual property rights' protection and enforcement.

IMPORT AND EXPORT

China has maintained favorable trade relations with other countries since the 1990's. In 2004, the total exports amounted to $325.6 billion, and imports amounted to $295.2 billion. The three top main export destinations are the USA, Hong Kong and Japan, which altogether accounted for over 50% of total exports. Unfortunately imports from South Korea, Japan, Taiwan and Hong Kong are higher than exported goods. These countries generally are importing machinery, transport equipment, and chemical products into China. China alone accounted for one-fifth





Sources: Pocket World in Figures, "The Economist", 2005

Economic openness Index	Import/GDP	Export/GDP	Foreign trade/GDP
China	25%	23%	48%
Norway	28%	41%	69%
USA	6.7%	11%	17.7%

of global trade expansion between 2000 and 2003. The expansionary effect on the global economy was particularly evident in Asia, where China accounted for a large share of the growth of exports. But China's growing appetite for soybeans, copper, and iron ore contributed significantly to economic expansion elsewhere as well, notably in Chile and Brazil.

In the last several years, China has become the top 10 most important trade partners to Norway. In 2004, import from China was 16.2 billion NOK, and export to China was 6.1 billion NOK, with balance 10 billion NOK in favor of China. The top three imports were: office machinery (2.5 bn NOK), Telecom (2 bn NOK) and Apparel & Clothing (3.7 bn NOK); While the top exports to China were: Machinery & Transport equipment (1.9 bn NOK), Mineral oil & product (1.2 bn NOK), Chemical products (1.1 bn NOK), and Seafood (855 mn. NOK). The total trade amount with China exceeded that with Japan, which was 11 billion NOK for import and 6.9 billion NOK for export (of which 2.6 bn NOK was for seafood). Norway's import from China had also exceeded that from the USA, which was 15.8 bn NOK in 2004. China will continue playing a critical role in trade to Norway in the coming years.

Economic Openness Index is an indicator to measure the extent to which the country depends on its foreign trade. From the table above, we see that Norway is such a country that rely on its foreign trade, especially on exports (most of which is Oil), and China has enlarged its exports more and more. After accession to WTO, more quotas on exports from China will be cancelled, for instance Apparel and Clothing, we can predict that China's export on Clothing will be over 70% in the global market. However, besides the labor-intensive commodities, China is upgrading the more value-added products, together with its low labor cost advantage, to optimize its structure of exports as well as the structure of economy.

FOREIGN EXCHANGE

China's foreign exchange regime underwent a major reform in 1994, as a result of the deepening of its overall economic reform. China adopted a market-based and managed floating exchange rate system, setting a goal for the currency to become convertible for current account transactions. The official exchange rate and the foreign exchange coordination rate were merged to produce a single exchange rate, which was set at 8.7 yuan/US$ at the beginning of 1994. In April 1994, China's foreign exchange center, located in Shanghai, started operation and marked the beginning of China's inter-bank foreign exchange market. The value of the RMB appreciated slightly to about 8.3 yuan/US$ by mid 1995 and have stayed at 8.28 yuan/US$ since September 1998 until present.

During the Asian financial crises that started in Thailand in 1997, the RMB was under severe pressure to devalue amidst sharp declines of several Asia currencies. The RMB remained unchanged and proved to be a pillar for stability in the international monetary system, a stance that won appreciation by China's neighbors and the policy makers in the Untied States and international financial institutions.

China's low labor cost has made China one of the major exporters of labor-intensive products in the world. China has also been one of the major recipients of foreign investments. As a result, China's foreign exchange reserves increased significantly at the beginning of the 21st century. By end of June 2003, China's foreign exchange reserves reached about $350 billion. These developments have triggered intense debates about the valuation of RMB since 2002. RMB is undervalued according to Purchase Power Parity (PPP), perhaps by as much as 40 percent. It is argued that the undervalued RMB may lead to deflation in neighboring countries and has contributed to the U.S. trade deficit with China and millions of job loss in the U.S. manufacturing industry. China is urged to revalue the RMB or let it float in the foreign exchange market.

The Chinese government says it will move towards a more flexible exchange rate in the medium term, but for the moment it wants to keep the RMB stable in order to support broader economic stability. It would be unwise for China to float the RMB until it has cleaned up its banking system.

MACRO-POLICY

One can argue whether the Chinese government employs a "soft landing" or "hard landing" policy toward the booming economy. Economists stated that from 2003 to early 2004, China's economy was overheated and the biggest risk was not inflation, but overinvestment. In 2003, inlcuding first quarter of 2004, spending on fixed assets (plant, property and infrastructure) grew by 43%. Investment accounted for 42% of GDP in 2003, and an even greater share in 2004. No economy can sustain such a colossal rate of capital accumulation. In April 2004, Mr. Wen Jiabao, the Prime Minister of China claimed that the government had to take a 'very forceful policy' to cool down the overinvestment. By September 2004, the growth of broad money and bank loans both slowed to 14 percent, well below the peak levels of over 20 percent in mid-2003. And GDP growth, which was 9.3 percent in 2003 and 9.8 percent in 2004Q1, slowed to 9.6 percent in the second quarter and 9.1 percent in the third quarter (National Bureau of Statistics 2004). Many observers have thus concluded that Chinas desired soft landing is almost here. The talk of a hard landing is premature, because there are several differences between today and the early 1990s. Policy has been tightened sooner this time. In 1993 inflation was already 15% (it rose to 28% at its peak) before the central bank tightened, while money-supply growth then was twice as rapid as today's. In the early 1990s, real interest rates were negative, falling at one point to minus 13%. Today, bank lending rates are positive. Even so, the level of 5.3% is far too low for an economy in rapid growth.

Moreover, the Chinese authorities engineered this outcome without increasing interest rates (the modest adjustment of interest rates was not made until late October 2004, with 0.27% increase by the central bank for the first time in nine years) or altering the exchange rate-relying instead on administrative controls on bank lending, new investment projects, and land use. Beijing says it will intensify efforts to stimulate growth through spending on infrastructure - such as water supply and power grids - and poverty relief and through rural tax reform. The State Council, China's highest executive body, has issued new guidelines requiring companies to use more of their own capital and less debt to fund steel, aluminum, cement and property projects, the sectors which show most signs of overheating. Provincial government leaders have also been told to be stricter about approving investment in these sectors.

CURRENT PROBLEMS

Geographic Imbalance

China's Opening and reform policy started from the coastal regions. The geographically selective implementation of the policy brought about an unequal distribution of growth across provinces. During 1978-1996 period, China's high overall GDP growth, 9.5 percent a year on average, obscures fairly large interprovincial disparities. For the period as a whole, there was a gap of 7.1 percentage points between the growth rate of the most dynamic province (Guangdong) and that of the least dynamic (Qinghai). Furthermore, a regional classification of provinces reveals that on average the coastal provinces grew faster than the inland provinces. The most dynamic provinces are located along China's north-south coastline and hence are all adjacent or close to one another. As one might expect, this concentration of growth on the coast has led to an increase in the relative disparity between regions. These differing provincial growth paths were naturally accompanied by income disparities. By 2004, per capita income levels in most of the coastal provinces had moved closer to those of the municipalities (excluding Shanghai, which

led over the others quite a lot), whereas those of certain inland provinces (especially Guizhou and Yunnan) remained very low.

The gradual geographical extension of the reforms also brought about a highly unequal regional distribution of foreign capital flows throughout the period. From 1983 to 2003, around 80 percent of FDI flows went to the coastal regions, while only 12 percent to the center and the west regions. Furthermore, the share of exports in GDP is also four to five times higher in the coastal region than in the two other regions.

The Chinese government has however a long term strategic plan in order to develop the western regions and get a more balanced economy. The local government also employs intensive tax and favorable investment policies to attract more foreign investments as well as local investment inflows, and combining the abundant local natural resources to develop relative industries and business.

CSR worries

Growth is putting pressure on China's infrastructure, especially in the booming Pearl River Delta—while other regions see high levels of unemployment. A lack of labour mobility has led to labour shortages in some areas. The well-known "low labor cost" derived from the low payment, immature welfare system, and funding-lack pension system. Wen Jiabao, the prime minister, hopes to address workers' concerns by cutting farmers' taxes and giving them better medical care and education. The condition of China's labor system will be illustrated in details in the successive part "CSR issue".
Another long-term threat to growth is the deterioration in the environment, notably air pollution, soil erosion, and the steady fall of the water table especially in the north. China continues to lose arable land because of erosion and economic development. The 'sand storm' years ago in Beijing alarmed government to strict the environmental protection policy on companies and communities.

FORECAST

China faces two separate questions. Will its economy slow significantly over the next few years? And can China sustain rapid growth for another couple of decades? The answer to both questions might be yes. However, according to the "Catch up" effect, we can predict that China is still in the peak time of "up growing", Chinese economy can keep on booming in at least 5 years. The GDP growth will continue as 8-10 percent annually.
The government has and will struggle to (a) sustain adequate jobs growth for tens of millions of workers laid off from state-owned enterprises, migrants, and new entrants to the work force; (b) reduce corruption and other economic crimes; and (c) keep afloat the large state-owned enterprises, many of which have been shielded from competition by subsidies and have been losing the ability to pay full wages and pensions.

China's Accession to the World Trade Organization helps strengthen its ability to maintain strong growth rates, but at the same time puts additional pressure on the hybrid system of strong political controls and growing market influences. Foreign investment will go on remaining a strong element in China's remarkable economic growth. Growing shortages of electric power and raw materials will hold back the expansion of industrial output in the coming years.

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NTNU

Society and Culture

China is known for its long history, great culture, fine art and delicious food. In this section follows a brief introduction to this vast society and culture.

HISTORY

China is one of the areas where civilization developed earliest and it has a recorded history of nearly 5000 years. Around the 21 century B.C, the slave society began in China, with the founding of Chinas first dynasty, that of the Xia. The subsequent dynasties, the Shang, and the Western Zhou saw a further development of the slave society. This era was followed by the spring and autumn and Warring States periods, marking the transition from slave society to feudal society. Over the next 1700 years, agriculture and animal hold developed greatly, and the skills of handling silk spread widely. Bronze smelting and casting skills reached a relatively high level and the sophistication level on iron smelting increased. China was also for many centuries a leading civilization in the work of art and sciences.

In 1840 Britain started the opium war against china, and it resulted in china dividing. In to "spheres of influence", controlled by the big foreign countries. China was now turned into a semi-colonial, semi-feudal country.

The modern history of china started when the Republic of china was formed by Sun Yat Sen after the democratic revolution in 1911. After World War two a new dictatorship was established by the communists under the lead of Mao Zedong. It ensured Chinas sovereignty, but led to strict control over people's everyday lives. The marked oriented reform was introduced by Mao's successor Deng Xiaoping. He also decentralized economic decision-making. In the 21st. Century A.D. economic control is quite relaxed, while political control is still tight.

DEMOGRAPHIC SITUATION

Population

China is the country in the world with the most inhabitants and, in January 2005 the population passed 1.3 billion. Despite the fact that the government has lead a restrictive population policy since 1962 with one child-policy since 1982, the population is continuously

growing. However, the growth was only 0.57% in 2004.

Ethnic groups: There are 56 different ethnic groups in China, where Han is the biggest and the rest are minority groups. According to the Constitution of the People's Republic of China, all ethnic groups are equal. This includes that their lawful rights are guaranteed by the state and, that discrimination is prohibited. This also includes regional autonomy for national minorities. The most diversified province is the Yunnan province that hosts more than 20 ethnic groups.

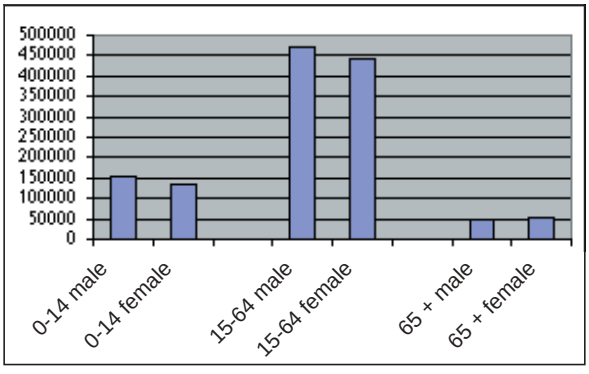
Han: Around 92% of the Chinese are Han and, they have their name after the sophisticated Han Dynasty 206 B.C.-220 A.D. They live in every part of China, but mainly along the great rivers.

Zhuang: This is the largest minority group in China. The earliest appearance of the Zhuang is nearly 1000 years old, from the Song Dynasty. The Zhuang live mostly in the south-western part of the country. Some tend to mix with other ethnic groups and others concentrate in a small part of Guangxi. In 1955 a Zhuang writing system, which was based on the Latin alphabet, rather on the Chinese characters, was developed.

Manchu: The Manchus descend from the Sushen tribe which dates back to times before Christ. The Manchu people are found in the forests and mountains in the north-western part of China and therefore they mostly work with agriculture. Originally they have their own spoken and written language, but many have adopted Mandarin through the years.

Hui: Their first appearance is in the literature of the Northern Song Dynasty, 960-1127. This group is widely spread all around the country. The Hui have adopted the Han lifestyle and live now therefore with the Han and speak their language. Their religion is Islam, but they are not fundamentalists.

Age structure (all numbers in 1000)



Age distribution

Due to the one child-policy and the declining mortality, the Chinese population is growing old. Many families have chosen to raise boys instead of girls, so the distribution of the genders is also interesting.

Where people live

The average population density is 135.4 people per sq km (2000). However, the mass is not evenly distributed. The largest density is along the great rivers and on the fertile plains in the east, with areas of more than 1000 inhabitants per square meter, whereas the smallest density is in the south-western mountains and the highland in the west, where Tibet, Xinjiang and Qinghai have less than 10 people per square meter. Most Chinese live in the countryside, but more and more people choose to move to the cities.

Social structure

Family relations (implications of one-child-policy): The one-child-policy was necessary to stop the rapid population growth, but now this policy has lead to other serious problems. One is that the population grows older. Another is the overrepresentation of boys. To reduce future problems, the government is loosening up the policy by accepting two children per married couple in cases where both parents are only children or the first born child is a girl. Two children are also allowed in certain sparsely populated areas. There are certain special rules for ethnic minorities as well. Another issue is that the government has succeeded in altering the visions the Chinese have regarding how many children are wanted in a family. The trend shows that many people wish to only get one child in order to be able to offer everything to this child. Because of this, a new generation of young emperors, spoilt boys, is growing up. This new generation is nevertheless very well aware of their responsibility of taking care of their parents and grandparents in the future. Therefore many work very hard to get a good education and a well paid job. In many families, three generations still live together, but the trend is smaller families with tight contact with the grandparents. This is a result that there are no homes for elderly people so that the family has to take care of the oldest.

Language

Approximately 95 percent of the Chinese population speaks Chinese, the languages of the Han people. Tibetan, Mongolian, Lolo and Thai are spoken by minorities living in china. The Chinese language belongs to the family of Sino-Tibetan languages. What separates Chinese from western language is the large scale of monosyllabic, the little inflection and that it's tonal.

Chinese has seven major language groups of which Mandarin language group forms the largest group, which consists of several dialects in the northern, central and western regions; Cantonese, Hakka, Xiang, Min, Gan and Wu dialects.
Guoyu (mandarin with a Peking pronunciation) is now the official language of mainland China, Taiwan and one of the official languages of Singapore.

Religion

Since 2002 China has officially been an atheistic country. Still, China is a country with a great diversity of religious beliefs. Citizen in china has great amount of religious freedom, and the main religions are Buddhism, Taoism, Islam, Catholicism and Protestantism. According to incomplete statistics, there are over 100 million followers of various religious faiths in China.

Confucianism has also been practiced in china along the history, but Confucianism is viewed as a moral teaching and ethical humanism rather than as a religion.

ART AND LITERATURE

China has a huge literary heritage, but much of it is inaccessible to Western reader because it can not be translated. Chinese old literature can be divided into two forms: Classical witch mostly contains work from the Chinese philosopher Confucius witch emphasize social relations and moral virtues, and vernacular, such as the prose epics of the Ming dynasty.

The Chinese art was developed in a relatively isolated geographic area, and therefore got a distinctive stamp witch gave the Chinese arts domination over arts from all over eastern Asia. The art is strongly connected to human fantasy; one example is decoration and figures of dragons.

Calligraphy is viewed as one of the highest forms of visual art in China. A person was often judged by the way he or she wrote. You can find calligraphy decorating temples etc all over china. The same tools, brush and ink, is also used in Chinese painting

Despite of the ravages of the time, war and ideology, there is still much to see architecturally. Among the historical architectural heritage are the imperial structures of Beijing, the colonial buildings of Shanghai, the occasional rural village and Buddhist, Confucian and Taoist temples.

EDUCATIONAL SYSTEM

Education can be divided into three categories: Basic education, higher education and adult education. The

Chinese Compulsory Education Law went into effect July 1, 1986 and this law calls for each child to have nine years of formal education.

The basic education

The basic education includes pre- school education, primary education and regular secondary education. Preschool is possible to enter from age tree to six, and can therefore last up to tree years. Because of the one child policy, preschool has been an important way for children to meet other children, since they often don't have sisters and brothers. The preschool education is developed by mobilizing resources of the whole society; local government, work units, social organisations and individuals. When turning six, the child enters first grade elementary school, and proce-

eds to grade five or six. The academic year is divided into two semesters, each consisting of 19 weeks, with a total of 38 weeks of lecturing for the year, and one extra week in reserve if extra time is needed.

Secondary education is divided into academic secondary education and specialized/ vocational / technical secondary education. Academic secondary education is divided into junior middle school and senior middle school, and a length of three year each, but only primary school and junior middle school are compulsory. Students at graduating year lower secondary school who wishes to continue their education, has to take a locally administered entrance exam. The result will decide if they get the chance to enter an academic upper middle school or a vocational secondary school.

Higher education

Higher education at the undergraduate level includes two-year junior colleges (often called short –cycle colleges), four-year colleges, and universities offering programs in both academic and vocational subjects. Many colleges and universities offer graduate programs, leading to the Masters or PhD degree. Adult education overlaps primary, secondary and higher education. A great many of higher educational opportunities also fall under the general category of adult education.

Healthcare

Through disease prevention and hygienic work, life expectancy has increased from 35 to 70 years since 1949. Yet, China suffers from having one of the poorest healthcare systems in the world. Earlier, state-owned businesses had the responsibility for their workers' healthcare, but nowadays many of these enterprises have collapsed, so the workers have to care about their own and the family's health. In order to be

medically treated, one has to pay in advance. As a greater part of the population is rather poor and can not afford insurance, many do not receive needed help. Even childhood immunisations are to be paid by the patients in certain rural areas. The problem is biggest in the rural areas. Bureaucracy also causes a low level of the healthcare, as most decisions have to pass many instances to be concluded. This of course takes time and costs a lot. And the main problem lies exactly in the money issue, as the government is not interested in investing in improving the outdated medical system. The spending on healthcare has actually decreased during the last two decades, during which the fight for capitalism has been going on.

Already in 1995 was the Law on the Prevention and Treatment of Epidemic Diseases, National Plan of Action for Eliminating Poliomyelitis introduced and, later in 2000 came the Program on Eliminating Iodine-Deficiency Diseases. These two programs have managed to reduce the incidences and deaths of certain diseases such as diphtheria and measles. But a rising problem is the fresh outbreaks of diseases such as tuberculosis and HIV. Especially the outbreak of SARS in 2003 showed the world how bad the healthcare conditions really are in the country.

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China: Opportunities and Challenges

Technology

China has a proud history of scientific accomplishments and the nation is the origin of inventions like the paper, gunpowder, the compass and printing. Following the economic growth the last decade the technological level in every part of the Chinese society has blossomed; the research and development for commercial activities have increased, the country has started to produce high-tech products and the Chinese people grows more and more dependant on products requiring high level of technology like mobile phones and computers.

COMMUNICATION

Telecommunication

The development of posts and telecommunication began in 1978, and has taken giant steps since then. China has made use of advanced technology to improve the telecom system i.e. they have taken use of optical cables, digital microwave networks, satellites, program-controlled exchanges etc. China has built up its public telecommunications network to cover the whole nation, and also linking China up with the rest of the world.

Today China's mobile communication is keeping up with the rest of the world. The data telecommunications have grown from nothing to the stage of having an efficient network. The transport, posts and telecommunications level are continuously rising.

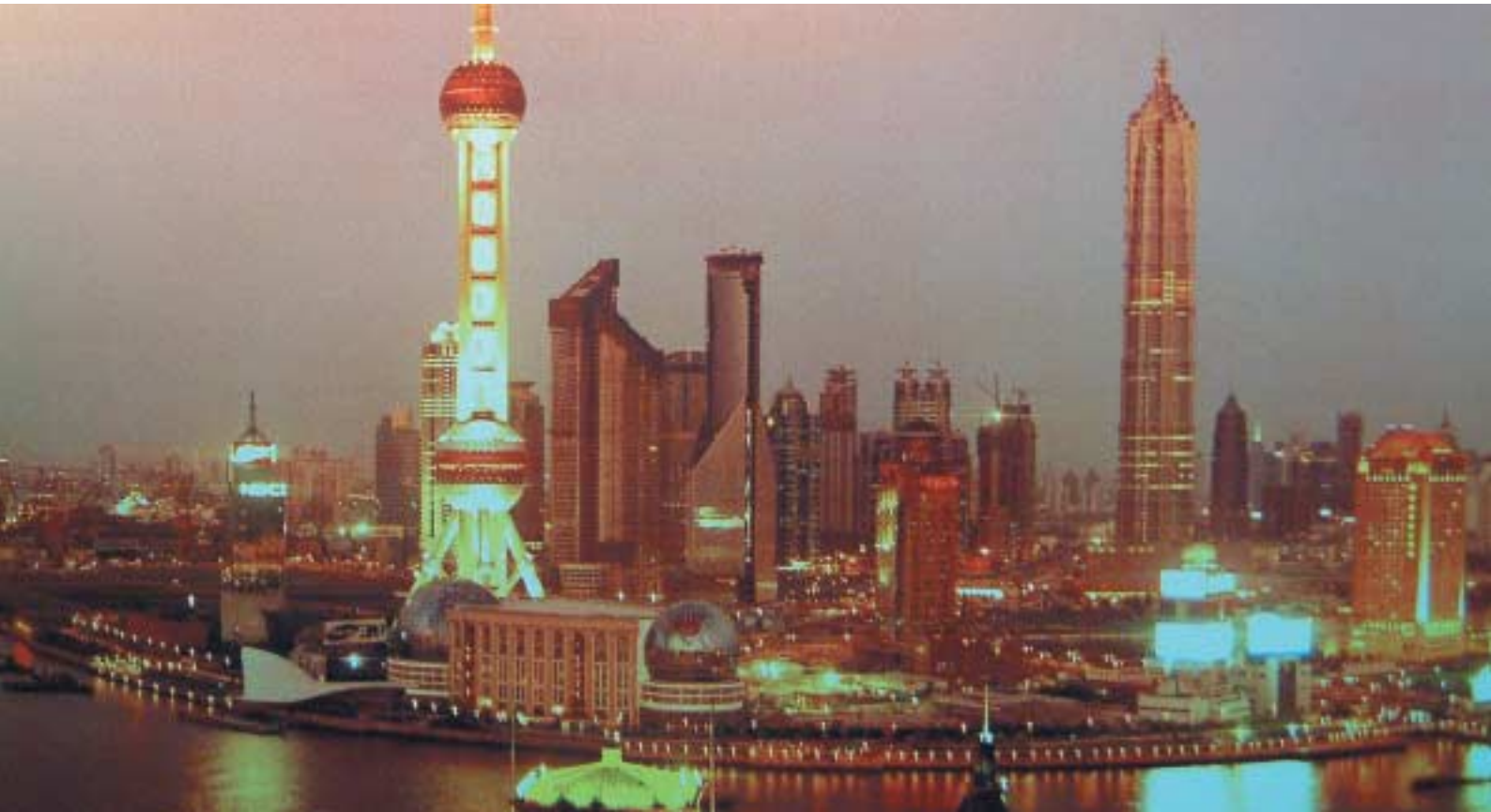
In 2000 China was the third largest market for mobile phones. The capacity was 135 million circuits, and the number of mobile telephone users had reached 65 million. The total amount of telephone users was in 1998 110 million, accounting for 10.6% of the nation's population, while the percentage in 1978 was 0.38 %.

China has four main mobile operators; these are China Mobile, China Netcom, China Telecom and China Unicom. China Mobile is both China's and the world largest mobile phone operator, with over 130 million customers as of 2003. In rural areas, 67 % of the administrative villages have telephones. China has 102 000 post offices spread all over the country, and the total length of postal routes and rural mail delivery routes reaches 6215 million km.

Internet

For China's middle class internet has become indispensable. Most cities have internet access and the price of computers is well within what the middle class can afford. Still the relatively high cost of computer hardware means that large parts of the populations don't have PCs in their homes making Internet cafés hugely popular.

The Communist Party of China has been skeptical to the internet use by common people, because there were predictions that the internet would bring collapse of the Communist party. Even though this did not happen, the Chinese government does block access to certain sites, not surprisingly this has been called the



Great Firewall of China. The government blocks news from certain foreign sites, information about Tibet independence, and some websites based in Taiwan etc. The State Council Information Office has the mandate to regulate the Internet, but other security agencies in China have a say as well. The internet has also created an extensive chat community. Internet content providers in China generally have company moderators who monitor newsgroups and chat rooms for sensitive information and delete it. In August 2004 Chinese authorities shut down 700 websites and arrested 224 people in a crackdown on net porn.

In the last months of 2004 the Chinese government closed down 12 576 internet cafes because they were operating illegally according to officials. China has long been worried that net cafes with their ultra-violent games are an unhealthy influence on young people. This is not the first time the Chinese government has moved against internet cafes not operating within its strict guidelines. All the 100 000 or so net cafes are require to use software that controls what websites users can see.

Media

The Chinese government is heavily involved in the media, a great number of the media organizations; CCTV, the People's Daily and Xinhua, are all agencies of the Chinese government. For instance there are certain taboos and red lines within the Chinese media, such as taboo against questioning the legitimacy of the Communist Party of China.
In spite of government information control, much information is gathered either at the local level or from foreign sources and passed on through personal conversations and short text messaging.

In 1978, China had less than one television receiver per 100 people, and fewer than ten million Chinese had access to a television set. Estimates from 2002 indicate there are 126 TV sets per 100 people, and that approx. a billion Chinese have access to television. Today there are roughly 700 conventional television stations, about 3000 cable channels and 1000 radio stations. Residents of the China mainland now receive more than 20 outside television channels by satellite, including Chinese-language services of CNN, Star TV, and United States Information Agency.

Broadcasting of television is controlled by Chinese Central Television, the country's only national network. CCTV employs about 2400 people, and is supervised by the Propaganda Department, which is responsible ultimately for media content, and the Ministry of Radio, Film and Television, which oversees operations. CCTV produces its own news, and broadcasts three times daily. CCTV also has monopoly on purchasing of programs overseas. An internal CCTV survey shows that nearly 500 million people watch CCTV's 7 p.m. main news.

The number of newspapers in China has increased from in 42, virtually all Communist Party papers in 1978, to more than 2200 today. Official estimates show that there are more than 7000 magazines and journals in the country. These figures underreport the actual circulation, because many publishers use their own distribution networks, and also deliberately understate figures to avoid taxes.

ENERGY SITUATION IN CHINA

China is the second largest energy consumer in the world and the third greatest energy producer. The annual total energy production is 9.5 % of the world's production, and the consumption is 10 % of the world's annual consumption. Because of the huge economic growth, China has seen an enormous growth in power-intensive industry, transportation and use of electrical appliances, increasing consumed energy by more than 50 % since 1990. Estimates show a 5.5 % annual growth in energy demand through the year 2020, and by 2030 it is predicted that China will account for one-fifth of the world's annual energy demand.

China has huge energy resources; coal is the most important one representing 70 % of the energy production and 65 % of the energy consumption. The others are oil, natural gas and hydropower. The renewable energy sources are huge in China, and will play an important role in meeting the energy demand in the years to come. Hydropower provides 10 % of the total energy and 20 % of the total electricity production.

China became a net energy importer in the late 1990s, the majority of the imports is oil and natural gas. Domestic transport of oil and natural gas is done by mainly pipelines. Because of the increase of the production and consumption there are several new

ongoing pipeline projects. Liquefied Natural Gas (LNG) is a new resource China has begun exploring, and they are planning to construct several LNG terminals.

RESEARCH AND DEVELOPMENT

Before the 1990s, the Chinese Academy of Sciences, modeled on the Soviet system, directed the scientific talent in a huge, under-funded institution largely isolated from industry. As a result of Chinese economic reforms, Chinese scientific institutions have been encouraged to commercialize their activities. In the past 15 years there has been an increased focus on science and technology in China. In 2003, the government spent 152 billion Yuan on scientific research and development, which was 18 percent higher than for 2002, accounting for 1.3 percent of the GDP. Since 1998 the national non-military science and technology policy has been determined by the Ministry of Science and Technology (MOST). The Chinese Academy of Science and the Natural Science Foundation play complementary roles.

China has identified a wide range of scientific priority areas, including automation, biotechnology, agriculture, computing, information science, energy, materials science, space, environmental science, and ocean science. Starting in the 1980s, China formulated a series of general programs for scientific and technological research and development, aiming to improve China's competitiveness in science and technology:
- The National High-Tech Research and Development Program (the '863' program) funds R&D in key high-tech areas.
- The Key Basic Research Program (the '973' program) provides funding for basic research.
- The "Torch" program focuses on building research links with industry.
- The "Spark" program aims to revitalize rural economy through science and technology.

In the last couple of years the number of students taking higher educations has grown dramatically. In 1999 the total enrollment of students in schools of higher learning was 1.6 million. Today there are more than 300 universities in China with a total of about 4 million students. Lately the universities have improved their research strength, making larger contributions to

the economic construction and social development of the country.
By the end of 2003, 43 scientific parks had been built around the country in places like Beijing-based Tsinghua University, East China's Fujian-based Xiamen University and Zhejiang-based Zhejiang University.

HIGH TECH INDUSTRY

In recent years, the business volume of the nation's technology market has increased at an annual rate of over 50 percent. State-level high-tech development zones now number 53. The average annual growth rates of major economic targets of China's high-technology development zones has maintained at 60 percent for 11 years in succession.

Information Industry

The information industry has become an important industry in China. In 2003, the size of the industry was the third in the world. The output value, sales volume and profit of the electronic and telecommunications equipment industries have all surpassed those of the traditional industries, making the greatest contribution to the growth of China's economy.

In China, the Internet has become an indispensable part of people's life. By the end of 2003, China had become the second in the world only to the United States in the number of Internet users. "Post and telecommunications" is an important component of the information industry and after decades of construction and development, a national postal network has taken shape. As for telecommunications, a large capacity, high speed transmission network is now in place. Optical cables with satellite and digital microwave systems as supplements cover the whole country. The 27,000-km Asia-Europe Land Optical Cable, from Shanghai in the east to Frankfurt in the west, passes through 20 countries and is the longest in the world.
Manufacturing and automobile industry

During the last decade the technological level of China's manufacturing industry has increased considerably. Today it can provide advanced equipment, including power generating equipment such as large gas turbines, large pump storage groups and nuclear power sets, ultra-high voltage direct-current transmission and transformation equipment, complete sets of large metallurgical, fertilizer and petro-chemical equipment, city track transport equipment, and new papermaking and textile machinery.

In the 1990s, the automobile industry developed into one of the country's key industries. In 2003, the production and sales volume of automobiles reached 4.44 million and 4.37 million, respectively. As a high-grade consumable durable with the lowest rate of possession in China, cars have become a commodity with the fastest growing retail rate.

Astronautics

The Chinese space program began in 1968. The outspoken goals for the program is to increase China's national prestige, offer a low cost satellite launcher and deny the use of space to other militaries, namely that of the United States, in case of conflict. On October 15, 2003, China made a successful launch of the "Shenzhou-5" manned spacecraft making China the third country in the world to independently develop and deploy the technology of a manned spaceship. China now prepares to launch a "Shenzhou-6" Spacecraft with several astronauts aboard. Chinese scientists expect that China will launch its own Mars probe by the year 2020. China possess technological knowledge and competence in many fields of astronautics; with capabilities of recovery of satellites, the carrying of several satellites by one rocket, rocket technology, and the launching, test and control of static-orbit satellites, remote-sensing satellites, and communications satellites.

Before the success of "Shenzhou-5," China launched four unmanned spacecrafts. From the launching of its first satellite "Dongfanghong No. 1" in April 1970 to the end of 2000, China successfully launched 75 satellites, including 48 developed by China itself and 27 commercial satellites for foreign customers. China also has developed 12 models of the "Long March" series of carrier rockets capable of low-earth orbit, geostationary orbit, sun-synchronous orbit for satellites and spacecraft. In the next step, China will develop a new carrier rocket series. The Jiuquan, Xichang and Taiyuan satellite launching centers are among China's internationally recognized launching sites.

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Part 2

- Business Culture and Negotiation Style
- Setting up Business in China
- Banking and Finance
- Otter Issues og Chinese Business

Business Culture and Negotiation Style

Doing business in China is complicated by the profound differences between Western and Chinese cultures. Success is often argued to require an understanding of China's unique business environment. Accordingly, this chapter will draw attention to Confucianism, which is an important part of the Chinese culture and history, and will be used to increase our understanding of the Chinese negotiation style.

CONFUCIANISM

Confucianism is a Chinese philosophical tradition shaped by East Asian mentality for 2500 years. Many contributions to the area of Chinese business negotiating style belong to the Confucian school, but few have, however, adopted a clear orientation to identify the key elements or values of Confucian traditions. According to Tony Fang (1999), Confucianism can be conceived as involving six core values: 1) moral cultivation, 2) importance of interpersonal relationships, 3) family orientation, 4) respect for age and hierarchy, 5) Avoidance of conflict and need for harmony, and 6) the concept of face. Each element will be presented below.

Moral Cultivation

Confucianism can be seen as a form of moral ethic. The term junzi ("gentleman") is referring to a morally superior person who has many virtues. A central concern of Confucianism is how people learn to become human through lifelong learning and moral cultivation. Confucianism advocates Wuchang ("Five constant Virtues"): ren (human-heartedness and benevolence), yi (righteousness and justice), li (propriety, rituals and rules of conduct), zhi (wisdom), and xin (trust) (Fung 1948/1966). Above all, Confucianism emphasizes sincerity (cheng).

Trust is an essential factor in Confucianism, and a gentleman is obliged to keep his word and be sincere to his friends. This moral thinking is not universal, but closely related to family or group. The Family or the group demarcates the borderline between trust toward insiders and distrust toward outsiders, not necessarily foreigners.

Next, the Chinese trust is more an interpersonal trust than organizational, which differs from the Western view that is based on professionalism (organizational trust). As Tony Fang argues, Chinese do business with you, not with your company. This implies, to do business successfully with Chinese, foreign firms must understand the importance of cultivating and developing a trusting relationship with the Chinese at the interpersonal level. Something to be aware of is that trust in Chinese culture takes time to cultivate, especially between people who do not know each other. Chinese businessmen on the contrary, find themselves in a perplex quandary; On the one hand, they only do business with people they trust (no trust, no business), while on the other hand, business partners can not always be relatives and ready friends but must extend to outsiders and strangers whose records of sincerity contain no ready-made answers (Fang, 1999).

Further, the Confucian moral notion of shame lays much of the philosophical foundation for the Chinese concept of face. Because of the deep Confucian aversion to law, legalism has never had a lasting influence in Chinese history. Law, in Chinese culture, has always been equated with lack of trust, trouble, and tyranny and thus treated as a less effective means of affecting behaviour.

The Confucian value of moral cultivation can be seen in Chinese business negotiation style. Chinese business is governed less by the legalistic concept of contract than by the moralistic notion of sincerity and trust (Fang, 1999). Chinese values reputation, credibility, personal character with their business partners. Honesty is a key word.

Importance of Interpersonal Relationships

Confucianism can be seen as a practical philosophy of relationships and behaviour. The Confucian view of relationships is highly reciprocal. The Chinese believe that reciprocity of actions (favour and hatred, reward and punishment) between people is a cause-and-effect relationship. If a Chinese acts, he expect a response. Favours done for others are a "social investment" and a return is expected. This applies to the concept of guanxi, one issue that is argued to most likely to undermine the efforts of foreign managers. Guanxi means "personal relationships" or "personal connections", and extends the Western view of personal relationships. Guanxi facilitates the exchange of favours between people. There are diffe-

rent ways of viewing guanxi. Tsang (1998) divides guanxi into blood bases and social bases. The former includes family members, distant relatives, etc., whereas the latter arises from social interactions at school, the workplace, or in the local environment.

According to Gold et al. (2002), connections are universally useful in social and business activities. Guanxi is in other words not a unique feature of the Chinese society, but exist in every society throughout the world. What makes the Chinese business culture special is the fact that guanxi has deep-rooted traditions (Jenkins 2000), as guanxi lies in the heart of China's social order, its economic structure, and it's changing institutional landscape. Accordingly, it is considered important in every realm of life, from politics to business, and from official- to street life (Gold et al. 2002).

To sum up, the Chinese are situation-centred, and have multiple moral standards. Once a Chinese has sensed that you are treating him disrespectfully, he will be morally justified to look down on you and treat you even worse. This reciprocal feature makes the impression from the initial contact very critical from the Chinese point of view. The "first impression" and the adjustments gradually made during later contacts will determine the potential degree of trust and will influence strategies toward the other side. Chinese are therefore extremely thorough in preparing and studying the first-round meeting as it will influence the future relationship, but this varies to a large extent.

Family Orientation

For Chinese, the family is the root of their society and their civilization, with Confucianism as the rational and theoretical justification. The emphasis on the role of the family in society is the fundamental source of the East Asian renaissance; the diminishing respect for family and the precedence of individual rights over the family and communal interests is considered the reason for the breakdown of Western civil society.

A Chinese is the "role" of the family rather than the "self" of the individuality. In Chinese, the terms individual and individualism have acquired almost only negative con-notations (e.g. selfish). In a practical setting, the family orientation is easy to see. Meeting for the first time, a Chinese is argued to engage in discussion of their families within three minutes! In the Western world, on the other hand, you can work beside someone for years without knowing his or her family background. This is why Chinese culture is often referred to as a typical "collectivistic culture".

Economically there is a clear craving for security given the long-lasting lack of powerful legal and social welfare system. For a Chinese, a sense of security can only be secured by the incessant accumulation of family wealth, which enables the family to take care of its own in case of difficulties, which also explain why Chinese in general save 1/4 of their income.

Respect for Age and Hierarchy

A major component of Confucianism is its teaching on respect for age and hierarchy. Instead of social equality and individual freedom, Chinese emphasises social hierarchy and order, and social order has the precedence over individual rights. Social stability and harmony, the essence of individual rights, can only be realized through everyone's commitment to their duties as defined by their role in the hierarchical society. Chinese society has certain contempt for young enthusiasm, when the younger are taught to listen while the elderly are speaking. Traditionally, young people are not considered dependable, experienced, or capable of doing good business. On the contrary, the Chinese society is gradually opening up for youngster and individually freedom, especially in the bigger cities, where the business is more costumed and influenced by the Western business environment.

Avoidance of Conflict and Need for Harmony

A basic principle for Confucian philosophy is harmony, reflecting a conflict-free, group-based system of social relations. It stresses the need to achieve harmony in society through moral conduct in all relationships, meaning adapting to the collectivism, controlling emotions, avoiding confusion, competition etc. As a consequence, pacifism is used as a characteristic for the Chinese people. They are argued to be self-contained, with a defensive way of acting and being (e.g. the Chinese wall).

Concept of Face

Face is particularly important in the Chinese culture. The concept of face has its origin in China, and derives from the phrase "tiu lien". Face can be described as "the positive social value a person effectively claims for himself by the line other assumes he has taken during a particular contact" (Fang, 1999). Losing face is an endangering situation.

By definition, face reflects a) the respect of the group for a person with a good moral reputation, and b) the person's prestige. Face is not only a private moral affair but also, more important, a concern for the family, social networks, and community. In Confucianism, this is embedded in notions of shame and social harmony. Harmony is found in the maintenance of an individual's face, and face is used as a regulating mechanism for social behaviour.

Reciprocity is also inherent in the Chinese face behaviour. It may not only be saved, but also "traded" – to give and be given. The person who has been given face is expected to give face in return.

You will meet face in all aspects of the Chinese life. A Chinese often avoid saying the word "No" to save face for both parties, and is a common source for misinterpretation from Western people. To deal with Chinese face in negotiations, it is advised to give face to the Chinese and avoid actions that will cause them to lose face.

NEGOTIATION STYLE

The Chinese negotiation style will be highlighted through the interaction between Confucianism, and the contemporary conditions of the social system where the negotiation takes place. In accordance, Tony Fang divides the Chinese negotiation behaviour into different patterns. The 1) political, 2) legal, 3) technical, 4) commercial, and 5) social behaviour will be discussed below.

1. **Political behaviour** concerns how the decision-making process is influenced by the Chinese politics in the current area. As Chinese companies must follow the government's plan for doing business, it is argued that the Chinese government is the actual negotiator, customer, and decision maker. The "political book" in general, governs business in China, where the Chinese bureaucracy protects the Chinese partners. Another important aspect is the negotiators limited mandate and their fear for criticism, which is argued to be a consequence of poor interorganisational communication. In addition, a large team often accompanies the Chinese negotiator, but this varies, often depending on the age of the negotiator. Young negotiators seem to adopt a more Western style with fewer representatives, in a less formal setting.

2. **Legal behaviour** deals with the Chinese manners regarding contracting and other legal issues. China's immature legal system in addition to lack of awareness among Chinese firms, represent a huge challenge for Western companies. Whereas Chinese view a contract as an initial intention and an ongoing problem-solving framework, the Western firms tend to understand it as a legal agreement.

3. **Technical behaviour** concerns the Chinese attitude towards technology, technical specifications, quality and so on. Except for price, technology is of major interest for Chinese negotiators, and it can be an important reason why Chinese companies are eager to cooperate with large, technologically strong companies. It is however important to be aware of the challenges regarding copycats and limited respect for patents.

4. **Commercial behaviour** relates to how the Chinese bargain about price and other economic arrangements. Negotiation essentially about price and technology with the Chinese usually prefers to cooperate with large and financially strong companies. Chinese do also often insist on having the majority share of equity in Sino-foreign business joint ventures. This might lead to challenges that should be considered thoroughly.

5. **Social behaviour** relates to how the Chinese, during the negotiation process (especially during the pre-negotiation process), establish trust and confidence through information gathering, personal contacts and other forms of social interactions/activities. The negotiation style is people-oriented and has a great emphasis on sincerity and reputation, which pass through Confucian notions like guanxi, renqing (human feelings), face, family, age, hierarchy, harmony, and li (etiquette), as described above. A major barrier is the language. International Business experienced major challenges due to lack of language skills. Even if you have access to people with the necessary skills, they may understand you differently, either because of cultural differences, or due to incorrect translations. For these reasons, make sure that your question is understood correctly by asking and reconfirming until you are sure that the information is clear.

To sum up, when comparing the Chinese and Western negotiation style, there are great differences when it comes to the political and legal dimensions.
Implications for Norwegian Firms
A standardised recipe for how to negotiate with Chinese counterpart is not possible. But, some guidelines can be helpful when negotiating or preparing for negotiations:

1. **Send the right people:** Status may directly affect the attitude towards you. Make sure you send people that have the authority to make decisions, supported by necessary professionals like legal, financial and/or technical staff.

2. **Show political support:** Chinese might take it for granted that the government is involved in the business to the same degree as in China. It is therefore beneficial to show that you have governmental support.

3. **Identify the real negotiator:** The real negotiator is often absent during the negotiation. For this reason, try to identify who is in charge. You might get twice the result with half of the effort.

4. **Use a people-oriented approach:** Chinese believes in people, not in legal influence. For this reason, you should not expect that a legal agreement in itself would fulfil the deal. To bring in a lawyer to solve problems may be looked upon as a failure and destroy the relationship.

5. **Use locals:** By involving locals the negotiation process is often facilitated, as they know the culture etc. It is of great importance though to be perceived as fair and trustful, or you might experience that your "friend for life" becomes the opposite.

6. **Maintain a consistent team:** Chinese do business with you as a person and not as a company. Consequently, it is important to maintain the negotiation team throughout the process to billed trust. Regular rotation of managers is therefore a challenge that may in general harm the working relations.

7. **Set your price reasonable:** A reasonable price level that allows you to give away some margin is recommended. This will help the Chinese to gain face and satisfaction. Whereas bargaining is an important part of Chinese life, honesty wins their heart, so be strategic.

8. **Help your counterpart:** To achieve an effective negotiation, help the Chinese to design a bureaucratic language to satisfy the different interests in the organisation. It is also recommended to refer to previously written agreements with similar contractual provisions, as Chinese are notoriously afraid of doing mistakes.

9. **Invite the Chinese to negotiate abroad:** Assisting the Chinese to travel abroad will not be forgotten. The payment will be well worth the cost (see the importance of interpersonal relationships above).

10. **Design 8-numbered products:** Learning and respecting the Chinese socio-cultural traits can open up for market opportunities and vice versa. Using number 8 means luck, while number 4 means the opposite. Accordingly, it could be wise to explore the Chinese culture, their norms, rules, habits, symbols, and moral obligations, which is tremendously complex compared to Western societies.

11. **Be patient:** "Be patient" is a common advice. As a consequence of the great size of the country and poor infrastructure, negotiations often take time. But is also a consequence of China's family orientation. It takes time to build trust.

12. **Explode the myth of face:** It is argued that you will gain advantages by helping the Chinese to save face. On the contrary, it is unfavourable as the Chinese practice different strategies. It is therefore important to not be traumatized by the Chinese face. To be able to negotiate effectively and efficiently, you may have to use the word "No", but make sure that you use the word in a proper and honest way.

Summing up, it is important to note that each situation requires an understanding of the task requirement, situational constraints, and interpersonal processes. These will determine which course of action that is most likely to be successful. Firms should therefore continuously seek to read the situation and evaluate how to adapt their behaviour to the current situation. A skilled negotiator handles the balance between the different variables, as described above, but do not imitate the Chinese way blindly. The best advice is for these reasons; Respect the Chinese culture but be yourself.

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Setting up Business in China

After a long period of isolation, China's visibility within the international trading system has increased dramatically over the past two decades. Its share of world trade has risen from less than 1% in 1979 to 5,5% in 2003, (Prasad & Rumbaugh, Finance & Development, Dec 2003).

A range of trade reforms was introduced in the 1990's, including broad tariff reductions. After China's WTO accession in 2001 these have been further prevalent, and the environment for international businesses have been substantially improved in other areas as well. There have been established special economic development zones, open cities and favourable tax rules and regulations for foreign investors. The incentives seem to have worked: numbers from Shanghai, one of the most important areas in this respect, shows that the proportion of China's FDI (foreign direct investment) is growing.

FDI into China in general is also likely to stay on a high level: The Economist "FDI confidence index" of 2004 puts China on top, well above countries like the U.S and India.
Although the business environment in China seems to be more accessible and transparent than before, there are still many factors that are different from Norwegian conditions. One of the most important pieces of advice that Norwegian business people in China kept repeating was that newcomers should do their homework in advance and be well prepared.

This chapter will provide you with a thorough insight in the framework for doing business in China. The Chinese legal system is examined by Mr Erlend Holstrøm, who represents Wikborg Rein, whilst Mr Gjert Melsom who represents Ernst & Young has written an article on the taxation system. We will also go through important factors on the micro level: how to get contacts and how to operate the day-to-day business.

The first part of the chapter, however, examines the different support facilities that are available for potential newcomers to the Chinese market. These institutions are places you could seek advice and consultancy, financing and contacts.

SELLING TO CHINA

In order to obtain the right to sell to China one cannot, like in Norway, just send a fax to a potential buyer and then lean back comfortably in one's office chair. China demands personal engagement. You must meet up in person to be able to find a customer. Invest time and effort to build customer relations. The relation can sometimes become so close that one even has met the customer's parents and children.

BUYING FROM CHINA

Few years ago you could find big profit in out sourcing to China. This is now changing, but you can still make money if you shuffle your cards right. The reasons for this are:

- Earlier Chinese business men did not know what prices the European market operated with. The new generation Chinese business men are acutely aware of the existing market price, wages and production costs in Europe.
- Where Chinese businesses earlier used the mark-up-principle tied up to their own production cost, they now use the mark-down-principle tied up to the European market price. Which leads to that more of the profit remains within China's borders.

Caution rules:

- Rule # 1: One should be very cautious about making one's whole product at one factory. Otherwise you can be sure that this factory will be your next competitor – with your own product. The respect for patent rules and intellectual rights is somewhat limited (read: non existing). Make sure that your product is pieced up and produced at several different factories. Keep the product's blue print close to you at all times.
- To avoid being ripped off, your own purchasing manager should be a Chinese with an European mind set. This way you ensure that you always get the best price.
- Keep your business strategy a secret. The latest years a trend has been that Chinese business men buy 10-20 percent shares in western companies to get hold of intimate company details about the market and their customers. This knowledge is then used to set up their own company – cutting away all middle men who used to be their employers. Their goal is to steal market shares from their former business partners.

SETTING UP BUSINESS IN CHINA

As the profit from buying from China diminishes and the Chinese producer chooses to take a larger share of your profit, setting up business in China will be the preferable choice. By doing this you will benefit from

the same advantages as your Chinese competitors – with the exception of the cost of having ex. pats in China. By doing this you will maintain your competitiveness at home, even after your Chinese competitors have entered the Norwegian market. This way you can keep your customer portfolio protected from any Chinese supplier.

Even though China is very different from Norway, Norwegian "mountain rules" work exceptionally well in China. "Listen to experienced mountaineers", i.e. listen to people that are well experienced with doing business in China.

Advices:

- Do a thorough planning before setting up business in China.
- Different provinces have different specialities and advantages, for example tax benefits and financing programmes.
- During the initial phases you will need significantly more owners' equity compared to Norway. It is difficult to finance a loan with security in current assets, whereas the mortgage on fixed assets cannot exceed 50 percent.
  The situation is not the same as in Norway, where one can establish an enterprise on the basis of 10-15 percent owner's equity.
  - o If your capital is under 3.000.000 USD, your owner's equity must be at least 70 percent of your investment capital.
  - o If your capital is under 3.000.000-10.000.000 USD, your owner's equity must be at least 50 percent of your investment capital.
  - o If your capital is under 10.000.000-30.000.000 USD, your owner's equity must be at least 40 percent of your investment capital.
  - o If your capital is over 30.000.000 USD, your owner's equity must be at least 33 percent of your investment capital.

  Be aware of the difference between registered capital and payment capital. A company with 3.000.000+ USD in registered capital must provide 15 percent of the capital within three months after receiving it's business license. The last 85 percent can be postponed up to three years.
  Do not include interest-bearing intercompany loans in your financial plan. If one transfers money directly from the mother company to the daughter company without registrating the transaction as a loan, the Chinese authorities will not allow the daughter company to pay back the received amount. One must have a loan agreement between mother and daughter company. The loan shall then be registered in SAFE. Thereafter a separate loaning account shall be established. First then the daughter can receive money from the mother company. If mother decides to charge interest, one must pay between 20 and 30 percent tax on the interest amount. Conclusion: It is not common with interest-bearing intercompany loans in China.
- One must be aware of that worker's motivation means in China implies not only bonuses but also penalties.
- The language barrier is best overcome through following this procedure: a) Give an instruction. b) Ask the other person to repeat the instruction. c) Follow up the instruction.
- When applying for a business licence, make sure that you get efficient help to apply for the right licence. Altering your licence in retrospect can be very difficult. Have in mind that licences are very specific.
- Chinese business men are supreme negotiators. They are strategic and skilled at getting the customer's attention by only presenting half the price in the moment of negotiation. The rest of the price will pop up as "variation orders" after the deal has been done. In nine out of ten cases the customer accepts these extra costs, and ends up accepting the whole bill.

The good news:

- Failing in China is much cheaper than failing in Norway. One significant reason for this is the fact that a worker's salary in China is NOK 1200/month, vs. NOK 25 000/month in Norway.

WORK FORCE

Even though your staff members speak English well, there are cultural barriers to be overcome. It is advisable to have at least one English speaking Chinese in your top management that has a background from a Western company. He then understands the Western cultural codes and mind set.

Bilingual engineers

An advise is to have bilingual staff members and Chinese engineers that do not speak English very well. Experience show that English speaking Chinese engineers have prioritized their language studies on the expense of their engineering studies. The result is a well spoken engineer that does not know enough about engineering.

The middle management

Be careful with employing persons older than 34-35 years in the middle management. This generation is used to being told what to do. If you employ them, you will experience that they do not take the initiative, and are not so creative and active compared to the younger generation. This attitude has its roots from

the time when private initiative was punished. You were supposed to just follow command and do what you were told to do. It is better to hire younger persons in the middle management, as this attitude is incredibly hard to change.

Middle aged engineers

Be aware if you employ a 50 year old engineer, and your middle management is 26-33 years old. Even though organizational wise the young persons are the leaders, socially wise the old person is to be respected and is the natural leader. The result can be that the younger leader does not dare to intervene, and that "Pap" in stead orders his boss around. This unoffical hierarchy will be respected unless you as a Western leader intervene. "Pap" will also review your decisions and give out his own commands to the younger middle management. Also this will be accepted by the young staff if you do no intervene.

Network building

Your Chinese employees will use a lot of their time to build their own network within your enterprise. This is to position themselves for the next promotion. These unofficial networks can become so strong that they overshadow the official hierarchy. A junior can become stronger than a young leader. To avoid this problem, the top management must use time and effort to underline the official organization. Hit down on any discontempt of the official hierarchy.
Hiring relatives, friends and wives of your employees will only strengthen the unofficial organization.

Defending their own position

A common wage structure in an enterprise is as follows:

- Workers: 750-1.000 RMB/month
- Work shop leaders: 1.500-1.750 RMB/month
- Head of department: 3000-3500 RMB/month
- Skilled middle management: 6.000-10.000 RMB/month

In other words: The wage gap is enormous. The motivation for getting in position for promotion is extremely strong.

A side effect of this is that leaders work hard to hold on to their position. In some cases they fabricate stories about their hard working subordinates that threaten their position. They will come up with "good" arguments why you should fire their subordinate. Officially because this subordinate does not do his job, while in reality it's because the subordinate is a hard working, intelligent person who threatens his superior's position.

CONCLUSION

When planning to establish your enterprise in China, do not plan as if it was in Norway. Many Norwegian enterprises come to China with the attitude; "let's do it the Norwegian way, until proven otherwise". This is not a good approach. One should rather approach China with the attitude; "Everything here is different, until proven otherwise." This will make your stay in China much more enjoyable. Do not plan your new establishment in China according to Norwegian reality.

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Arithmetic Case

Profitt and loss in Norway

Sale	100 000 000
Raw materials	40 000 000
Wages	40 000 000
Running expenses*	7 500 000
EBITDA	12 500 000
Write off	8 000 000
EBIT	4 500 000
Financial cost	3 000 000
EBT	1 500 000
Tax	420 000
Net result	**1 080 000**

Balance Enterprise Norway

Assets		**Liabilities**	
Fixed assets	40 000 000	Owner's equity	12 000 000
Customer claims	12 500 000	Loan	24 000 000
Store house	3 500 000	Cash	14 500 000
Processing goods	3 500 000	Supplier debt	6 000 000
Cash	2 000 000	Other debt	5 000 000
Sum assets	**61 500 000**	**Sum liabilities**	**61 500 000**

Arithmetic example
This is an arithmetic example based on a Norwegian enterprise with 100 employees and a turnover of 100 million NOK. Every employee occupies 15 m^2 office/factory facilities plus 15 m^2 common area.

Profitt and loss in China

Sale	100 000 000
Raw materials	32 000 000
Wages	6 000 000
Running expenses**	3 500 000
EBITDA	58 500 000
Write off	4 000 000
EBIT	54 500 000
Financial cost	3 000 000
EBT	51 500 000
Tax	420 000
Net result	**51 080 000**

Balance Enterprise China

Assets		**Liabilities**	
Fixed assets	20 000 000	Owner's equity	22 000 000
Customer claims	12 500 000	Loan	8 000 000
Store house	1 750 000	Cash	-
Processing goods	1 750 000	Supplier debt	3 000 000
Cash	2 000 000	Other debt	5 000 000
Sum assets	**38 000 000**	**Sum liabilities**	**38 000 000**

Commentaries to the Chinese part of the arithmetic example:

- Raw materials: In nine out of ten cases, the raw material cost can be reduced up to 30 percent or more. In this example this means a cut in costs by 8.000.000 NOK.
- Wages: Two ex.pats will cost 1.500.000 NOK each – all inclusive – plus 100 Chinese workers to a cost of 1.500 NOK/month (18.000 NOK/year) _ total wage expenses/year = 4.800.000 NOK. You will need 50 more workers in China, due to increased turnover, increased training expenses plus that more operations will be operated manually. This will add 900.000 NOK, so that the total cost will be 5.700.000 NOK. Rounded upwards: 6.000.000 NOK.
- Running expenses: To build your own facilities will cost about 2.000 NOK/m_. If you choose to rent the facilities needed, the cost will be around ten percent of the construction cost: 200 NOK/m_. All other running expenses will also be reduced, with the exception of electricity. As a rule of thumb you are not likely to exceed 50 percent of running expenses in Norway. The reduction will be 4.000.000 NOK.
- Write off: Fixed assets produced in China are significantly cheaper than fixed assets produced in Norway. The fixed assets cost will also be reduced due to the fact that much of the machinery will be substituted by human labour. The savings will be 4.000.000 NOK.
- Financial cost: If your enterprise is well off, the interest rate will be lower in Norway – at the time being. But this is not the case for most S&M enterprises in Norway. The difference between Norway and China will be almost insignificant for these enterprises.

Conclusion:
The bottom line for this Norwegian enterprise is raised from 1.000.000 NOK to 51.000.000 NOK if the enterprise is moved to China.
It is expected that the European market prices will be reduced by 25-30 percent in the coming 5-10 years. Norwegian enterprises in China will still have a profit margin of 15-20 percent. If the market price is reduced by 30 percent, the enterprise in Norway (in our arithmetic example) will have red numbers, totalling 29.000.000 NOK.

The coming five-ten years Norwegian enterprises in China will obtain high margins. Thereafter they will still have very acceptable margins. Norwegian enterprises that have not moved their enterprises to China will not prevail.

You need substantial amounts of initial capital to set up a business in China. Therefore, you need to move your enterprise to China before your economy is desperately low.

Supporting facilities

EMBASSY AND CONSULATE

In 2004, Norway and China celebrated 50 years of diplomatic relations. The anniversary was celebrated with official visits, events and business seminars- increasing the attention to Sino- Norwegian relations.

This first paragraph can be deleted as it is mentioned in the politics part in the context of China's foreign relations. But perhaps it can be repeated here as well, please see for yourself in the politics part what you think.

In China's capital and political centre Beijing you will find the The Royal Norwegian Embassy. The Embassy maintains and nourishes the official contacts between the Norwegian and Chinese authorities, and keeps the home authorities informed on the political and economic situation in China. In addition to the political work, the Embassy promotes economic and cultural co-operation between the two countries and supports Norwegian and Chinese business communities in various ways. Innovation Norway (the commercial section, formerly known as the Norwegian Trade Council), which will be discussed later, has an office more or less integrated in the embassy.

There is also a Royal Norwegian Consulate General, which is situated "on the Bund" in Shanghai. In the same building, Innovation Norway has their office. Unlike many other countries, another city than the capital is considered the business centre, namely Shanghai, China's biggest city. This results in the Norwegian Consulate in Shanghai having a high degree of expertise with regard to business matters.

The Embassy takes an active part in promoting visits to and from China at the political level. In connection with such visits, close consultations are made with trade and industry. Bilateral agreements regarding economic co-operation and trade have been or will be concluded between Norway and China. The follow-up of these agreements will be done in co-operation with the business community. In addition, the Embassy aims at facilitating a company's search for new partners, customers, technology, and market opportunities by creating networks. The Embassy is also a proper arena for Norwegian companies to interact with Chinese officials and authorities.

NEWSPING
did you know that

Chinese Embassy in Norway/ The Economic and Commercial Counsellor's Office of the Embassy of the People's Republic of China in the Kingdom of Norway. The Embassy's mission is to promote and facilitate bilateral trade and economic cooperation between China and Norway. They will assist in establishing business contacts between companies of two countries; they promote bilateral trade by providing necessary information on import and export products, and they will encourage and assist with two-way investment by providing information on related policies. Finally, they provide assistance to visiting business groups.

NATIONAL RESOURCE CENTRES

Innovation Norway

Innovation Norway was established on Jan. 1, 2004, as a merger between The Norwegian Trade Council, The Norwegian Tourist Board, The Norwegian Industrial and Regional Development Fund (SND) and the Government Consultative Office for Inventors (SVO). They have offices in Norway and China, and their focus is especially on the small- and medium sized enterprises (SME). The SME program is directed towards knowledge-intensive, high-tech firms with export potential. Innovation Norway offers four days work of research, partner-scanning, help to set up Sales Representative Office etc. for free, and subsequently 50% of the costs after those four days. Read more about the criteria and application on www.invanor.no. General services include:

- Market size, trend and competitor analysis
- Market evaluation, market surveillance and monitoring
- Market plan development
- Distributor and partner search
- Establishment of subsidiaries
- Office rent
- Recruitment
- Legal and economic assistance
- Seminars, conferences and presentations
- Long-term follow up
- General market information; customs, terms of delivery and payment, and trade statistics
- Guidance of experienced exporters

NHO, the Confederation of Norwegian Business and Industry

NHO gives advice to their member companies on a wide range of issues. Long-term goals include promoting the competitiveness, profitability and increased internationalization of Norwegian companies. A main task for NHO is thus to promote the interests of

Norwegian companies as regards to exports and internationalization.

EXPORT FINANCING AND INSURANCE

The Norwegian Guarantee Institute for Export Credits (GIEK)
GIEK is the central governmental agency responsible for furnishing guarantees and insurance of export credits. The primary function of the Institute is to promote export of Norwegian goods and services and Norwegian investment abroad. GIEK offers long term guarantees for export of capital goods to most countries, including emerging markets. GIEK's guarantees also cover export of ships.
www.giek.no

Eksportfinans ASA

Eksportfinans is the Norwegian Export Credit Agency-the joint institution of the banks and the Norwegian Government - whose purpose is to develop and offer competitive, long-term financial services to the export industries and the local government sector. Offers government supported loans and commercial loans to the Norwegian export industry, and provides long-term financing of Norwegian export contracts and to the Norwegian export industry.
www.eksportfinans.no

Nordic Investment Bank

NIB finances investment projects and project exports, both in and outside the member countries. NIB's provision of credits is highly suited to investments that secure energy supplies, improve infrastructure or support research and development. A newly signed agreement with Chinese authorities enables NIB to offer loans to new environmental projects for approximately USD 160 mill. The first sector specific loan programme for China was signed in November 2001 and was on financing of projects in the health sector. The amounts are usually between USD 2 mill and 10 mill per project, with a repayment period of 10 to 15 years. NIB also offers general financing programs for investments in China. Examples include financing of projects in food production, energy, telecom and paper.
www.nib.int

ECONOMIC SUPPORT THROUGH FUNDS

The Research Council of Norway

This government institution supports independent research programmes and projects, strategic programmes at research institutes, and Norwegian participation in international research programmes. The research council is also a co-ordinator, initiating networks and promoting co-operation between research and development (R&D) institutions, ministries, business and industry, public agencies and enterprises, other sources of funding, and users of research. www.forskningsradet.no

Nordic Project Fund (NOPEF)

NOPEF grants favourable loans to Nordic companies for making feasibility studies in project export deals or when establishing in new markets. The project must be located outside the European Union (EU) and European Free Trade Association (EFTA) countries. A loan can cover up to 50 % of the budgeted expenses of a feasibility study. NOPEF's loans are interest free and can be converted into a grant if the project fails. www.nopef.com

Nordic Industrial Fund (Nordisk Industrifond)

The Nordic Industrial Fund is the collaborative body for the Nordic countries in industrial R&D. The purpose is to stimulate, initiate and finance R&D in Nordic industry, thereby promoting innovation, strengthen competitiveness and encourage internationalization. The Nordic Industrial Fund is an official Nordic institution under the Nordic Council of Ministers. www.bedin.no

SINO- NORWEGIAN FORUMS

Norwegian Business Association Shanghai (NBASH)

The purpose of NBA is to be an active forum for Norwegian companies and business people where they can exchange experience and draw knowledge about business-related issues, both in China in general and more specifically in the Shanghai region. The association holds approximately 8 – 10 meetings every year, including member meetings, workshops/seminars and social gatherings. Each meeting addresses a specific topic, recommended by the members. Expert speakers are invited to introduce the topic, and they are followed by discussions in the forum. The Board and the Executive Officer conducts other services and activities as required. www.nbash.com

Norwegian Maritime Exporters (NME)

The Association of Norwegian Maritime Exporters NME was founded in 1995 to promote co-operation between companies and organizations of the maritime sector and to further develop Norway's leading position within the international maritime community. NME provides its members with a joint forum for expanding the markets of the Norwegian maritime equipment sector internationally. Many of Norway's exporting manufacturers of products and services have joined this association. www.maritime-exporters.no

China Council for the Promotion of International Trade (CCPIT)

The aims of the CCPIT are to operate and promote foreign trade, to use foreign investment, to introduce advanced foreign technologies, to conduct activities of Sino-foreign economic and technological cooperation in various forms, to promote the development of economic- and trade relations between China and other countries and regions around the world. www.ccpit.org

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Doing Business in China – Legal Issues

Foreign direct investment in the People's Republic of China ("China" or the "PRC") typically takes the form of foreign investment enterprises ("FIE") structured as Sino-foreign Equity Joint Ventures ("EJV"), Sino-foreign Contractual/Cooperative Joint Ventures ("CJV") or Wholly Foreign Owned Enterprises ("WFOE"). Although it is not considered a legal entity under Chinese law, Representative Office ("Rep Office") can also function as a foreign investment vehicle to some extent.

By Erlend Holstrøm,
Wikborg Rein Shanghai, February 2005

INVESTMENT RESTRICTIONS

All foreign investments in the PRC are subject to restrictions imposed by the Provisions on Guiding the Orientation of Foreign Investment as last amended on 11 February 2002 (the "Investment Regulations") and Catalogue for the Foreign Investment Industrial Guidance 1997 (the "Investment Catalogue") which was revised in December 2004. Article 4 of the Investment Regulations provides four categories of investments: (i) "permitted", (ii) "encouraged", (iii) "restricted", and (iv) "prohibited". The latter three categories are listed in the Investment Catalogue according to industry sectors. If an industry sector is not specifically listed in these categories, it is considered to fall within the "permitted" category. All proposed foreign business activities, however, are subject to the discretional classification and approval of the relevant authorities even if the activity falls within the permitted or the encouraged activities. Furthermore, policy guidelines for certain industries may limit foreign participation to 50% or less of the registered capital, may specifically forbid the WFOE form or may require investment in the form of EJV or CJV. For instance, until December 2004 an FIE with full import rights and domestic distribution rights in China, could not be established as a WFOE but could only take the form of EJV or CJV. Now it is permitted to establish WFOEs in accordance with regulations concerning the Commercial Enterprises with foreign investment.

APPROVAL AUTHORITIES

Foreign investment in China is in general regulated by the Ministry of Commerce ("MOFCOM"). Generally, the MOFCOM or its various subordinate local counterparts respectively exercise the approval authority with respect to the establishment of FIEs depending on the scale of total investment of the FIEs, except investment project with total investment exceeding US$ 100 millions (in which case approval of the State Council is required). However, certain activities require the approval of the MOFCOM without regards to the value of the total investment, which is currently the case for Foreign Invested Commercial Enterprises. Certain activities also require the additional approval of special departments under the State Council, such as shipping FIEs, which require approval of the Ministry of Communications or its local commissions.

DOCUMENTATION

The documents required for establishment of EJV, CJV and WFOE generally include (i) a feasibility study report, (ii) a joint venture agreement (not required for WFOE), and (iii) articles of association. In our experience, the articles of association set out the most important provisions for corporate governance. Also corporate documentation and proof of creditworthiness of foreign investors are generally required, as well as documentation of identity and qualifications of local resident representatives.

APPROVAL TIME

The normal approval procedure takes up to 3 months for EJV, 45 days for CJV and 30 days for WFOE. It should be noted, however, that the time required to establish an FIE is not statutorily fixed and subject to a number of variables.

BUSINESS NAME

In general, the Chinese business name of an enterprise in the PRC should be pre-approved and consist of "Administrative Region + Trade name + Industry + Organization Type". No foreign language name will be registered for newly established enterprises.

BUSINESS SCOPE AND TOTAL INVESTMENT

An FIE's permitted activities shall comply with the approved business scope and total investment amount. The latter refers to an estimated need of funds for the intended operations, and includes an equity percentage (registered capital) that varies with the amount of total investment. Generally there is no formal minimum capital requirement in the PRC for an FIE but in practice the approval authority will require a certain minimum, and in some industries or for establishing some special business vehicles, such as Foreign Investment Holding Company, the law provides for a minimum.

GOVERNMENT INCENTIVES

Central and local authorities are in general positive towards foreign investment. Presently, there are six types of special investment zones and areas in China: (i) Special Economic Zones, (ii) Shanghai Pudong New Area, (iii) Economic & Technological Development Zones, (iv) Coastal Open Area, (v) Provincial Capitals and (vi) High & New Technology Industry Developments Zones. These areas have created comparably more sophisticated investment approval offices offering relatively efficient and transparent approval procedures, in addition to "one stop shopping" for government approvals. These zones often take advantage of their "experimental" status, and permit foreign invested enterprises to conduct a broader range of business than other places in China.

TAX

A number of taxes and duties apply to FIEs. Most will at least encounter the Enterprise Income Tax (33%), Value Added Tax (13-17%) and Business Tax (5-7%). FIEs can for the time being enjoy favorable tax treatment in the special investment zones or based on their nature. For instance the tax rate can be reduced by 9% or even 18% from the general FIE Income Tax rate of 33%. Tax holidays in the initial years of operations may be granted to FIEs engaging in certain business activities, for instance, manufacturing FIEs and FIEs engaging in agriculture and/or port and wharf construction. Or the FIEs can enjoy exemption of import duties and VAT. However, it is expected that

the favorable tax treatment may cease upon China's implementation of new tax rules (estimated to become effective in 2007). A notable aspect of Chinese tax laws (which is expected to continue after the tax reform) is the exemption of dividends payable from FIEs to foreign investors from the normal 10% Withholding Income Tax.

FOREIGN EXCHANGE CONTROL

China operates a foreign exchange control system administered by the State Administration of Foreign Exchange and designated Chinese banks. One effect is that foreign exchange holdings of FIEs are limited and payment of foreign exchange funds or remittance of profits out of China is controlled and subject to the approval of the State Administration of Foreign Exchange and/or provision of proper documentation to the designated Chinese banks depending on whether the payment is a current account item or a capital account item.

LABOR

Chinese citizens have the right to a written labor contract in compliance with Chinese labor laws. FIEs will also have to pay contributions to pension funds, medical insurance, housing fund and unemployment insurance as well as set aside funds for and permit local labor unions.

REAL ESTATE

FIEs may lease land or own or lease buildings and premises for business purposes. Land use rights for industrial use are in general limited to 50 years and restricted to areas approved by the Land Administration Authorities. In general, the rights to ownership of buildings and use rights for land may be transferred and mortgaged in accordance with PRC laws and regulations.

WHOLLY FOREIGN OWNED ENTERPRISES

A WFOE is an enterprise established within the territory of the PRC whose entire capital is invested by foreign investors. A WFOE is a Chinese legal entity and is usually established as a limited liability company, with the liability of the foreign investors limited to the amount of subscribed capital. WFOEs now account for the majority of foreign direct investment in China both in terms of number of investments and invested capital. Even though there are still restrictions on the use of WFOEs within certain specific sectors, such as the maritime transportation sector and the automobile production sector, WFOE may now be established in a broad range of business sectors in the PRC. One advantage of the WFOE form is that, without a Chinese partner, the sometimes difficult negotiation of a joint venture contract is avoided. Thus, the establishment of a WFOE may be less expensive and faster than the establishment of an EJV or CJV. In addition, management decisions may be made, and day-to-day operations be conducted, unilaterally without a Chinese partner's interference and without the risk of internal conflicting interest. This may serve to streamline and control management and operational issues, as well as better protection of trade secrets and intellectual property rights. The latter has proven to be a challenge for many companies in China, FIEs as well as domestic enterprises, as patent and trademark infringements and counterfeiting are widespread problems. On the other hand, the challenge of "going it alone" in China without a local Chinese partner must also be considered. Establishment of a WFOE can sometimes be difficult for parties without experience in China. Lack of relationships may affect the approval and establishment of the WFOE, as well as cause problems relating to the access to land, market sectors, raw materials and distribution networks.

EQUITY JOINT VENTURES

An EJV is a limited liability Chinese legal entity created by one or more Chinese parties and one or more foreign investors. Investors in an EJV share profits and losses strictly in proportion to their respective contributions to the registered capital of the EJV. This is the main difference to a Contractual Joint Venture described in 2.3 below. EJVs resemble western style corporations in many respects but differ in certain fundamental areas, including (i) that investors hold no stock, but instead hold equity interests, (ii) that voting authority is vested in the board of directors rather than shareholders, (iii) that EJVs generally have limited duration, and (iv) that any transfer of a party's equity interest requires prior government approval. One of the advantages of the use of EJVs compared with the use of CJVs is that EJV laws and regulations are considered to be more complete and predictable. The major disadvantage is the lack of flexibility in respect of profit distribution and a potential for less control of certain business decisions.

CONTRACTUAL JOINT VENTURES

A CJV may be structured as a limited liability company with a legal personality or as a contractual joint venture between distinct foreign and Chinese co-venturers (similar to a common law partnership except that the CJV does not itself become a separate legal person). Some foreign investors seek this form for the purpose of tax benefits. The CJV is the only investment vehicle that allows a foreign investor preferential options to recover its investment before the expiration of the CJV term. This is, however, allowed only if the CJV's assets will be transferred without compensation to the Chinese partner after expiration of the joint venture's term and is also subject to other rather onerous requirements. A major advantage of CJVs is flexibility. Unlike EJVs, in which sharing of profits and losses must be correlated to a party's percentage of equity interest, the parties to a CJV may agree on an arrangement for sharing of profits and losses that does not correspond to the ratio of the parties' respective contributions to the registered capital. Thus, with creative structuring, it is possible to arrange for foreign investors in a CJV to have a higher proportion of profits than their Chinese partners, even though the foreign investors may not have a controlling stake. This is especially useful in certain strategic industry sectors where foreign participation is limited to 50% or less of the registered capital.

REPRESENTATIVE OFFICES

A Rep Office is a common method of commencing operations in China since the establishment of a Rep Office enables a foreign enterprise to legally appoint its own representatives to reside in China, take an office in China and hold itself out as having a representative office in the Chinese markets, without having to contribute significant cash investment. A major advantage of a Rep Office is that the approval process is comparatively simple and quick. Rep Offices may engage in indirect business activities within the PRC and are supposed to confine themselves to liaison or representation activities only, and not carry on business. This implies the inability to issue official tax invoices and enter into business contracts in it own name. Further, Rep Offices cannot directly employ their own domestic staff but must appoint staff through a government employment service agent. This requirement, however, does not apply to expatriate employees. One should also be aware that Rep Offices of foreign companies are not independent legal persons under PRC law. Accordingly, any liability or obligations incurred by a Rep Office are incurred in the name of the Rep Office's foreign headquarter and therefore the foreign headquarter bears legal responsibility for all activities and actions of its Rep Office in China. Certain rights are granted to Rep Offices pursuant to various regulations, including the right to (i) lease office space and residential premises, (ii) obtain multi-entry visas for registered representatives and other expatriate personnel, (iii) import office equipment and personal effects, (iv) open bank accounts and (iv) hold themselves out as having a presence in China by displaying signs and distributing business cards which identify the PRC registered Rep Office.

CONTRACTS

Deals should be clearly and comprehensively documented in China. A special aspect is the requirement for translation into Chinese and the mandatory application of Chinese law of certain contracts, including the EJV and CJV contracts.

DISPUTE RESOLUTION

Contracts with Chinese parties should in general include clear provisions for resolution of disputes. Disputes may be resolved by the ordinary courts or by domestic or foreign arbitration tribunals. In our experience the latter is preferable in most cases involving significant investments.

INTELLECTUAL PROPERTY RIGHTS

Copyright, patents and trademarks are protected by a modern set of laws and regulations in China. A prerequisite for protection of patents or trademarks is the registration with competent authorities. The major challenge to foreign investors in China today is to enforce their rights and avoid infringements. Currently the Chinese legal system is deemed by most foreign observers and legal practitioners to provide ineffective protection of the intellectual property of foreign and domestic enterprises. Chinese authorities are fighting a difficult battle against counterfeiting and other economic crimes.

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The above may not be relied upon as legal advice. For further information about the issues discussed above, please contact:

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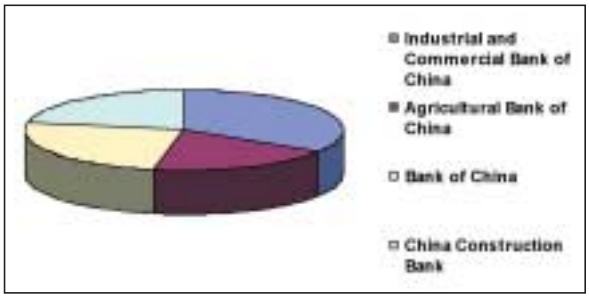
Banking and Finance

China's entrance to the World Trade Organization (WTO) marked a new era in the global economy. For the first time after more than forty years in a controlled market, China took the step towards fully opening its doors to foreign trade partners. For the already existing Chinese banks this is both good and bad news. First of all, this market stimulus will intensify economic growth, opening more opportunities for them. But it is important to remember that the Chinese banking industry has limited internal capabilities and is still burdened by non-performing loans and lack of competitiveness compared to the big international banks.

China today is one of the largest banking markets in the world. The level of bank assets relative to gross domestic product (GDP), at over 160%, is also among the highest in the world. Sustained growth and the long-term potential of the Chinese market, set against a stagnant global economy, are attracting many foreign banks.

TOP FOUR

In terms of market share, the four state banks dominate, collectively controlling more than 85% of bank assets. Over 90% of the four major banks' revenue is derived from interest-related income, which generally yields lower risk-adjusted returns than fee-based products. Fee-based services account for less than 5% of revenue. This ratio is considerably lower than in developed markets such as the U.S. and Japan, where fee- or commission based services make up a much higher percentage of revenue.



The remaining market is highly fragmented with regional joint stock and foreign banks making up some 15% of the market. The industry has three major groups of commercial banks with different characteristics:

Major state banks

These institutions, with their extensive branch and distribution networks, represent a major force in mass-market retail banking. Their geographic dispersion has created significant decentralization. Head offices often have limited knowledge and low operational control over activities of provincial branches.

Regional joint-stock banks

These banks focus on large urban centres and coastal regions, with an emphasis on corporate banking. They generally practice stricter controls over risk and are more cautious in extending their balance sheets. Strong local networks and organizational flexibility are their key advantages.

Foreign banks

Foreign banking institutions are currently restricted in terms of product offerings and geographical scope in China. However, under its commitment to the WTO, China has agreed to phase in liberalization. This approach will give foreign banks limited access to the Chinese domestic market now and in the near-term and complete access in the longer term. In anticipation of this, foreign banks have already begun to aggressively establish representative offices and branches in China. Moreover, valuable multinational clients are widely expected to defect to banks that are better able to serve them, which will almost invariably be the foreign banks.

Maybe the most dramatic effect of WTO entry on the banking sector are the ability of foreign banks to conduct RMB transactions and services for domestic enterprises by December 2003, and to provide retail banking services to individuals by December 2006. Accordingly, by 2007, foreign banks will have the same rights as local Chinese banks with respect to providing services to retail and commercial customers. Chinese banks are understandably anxious about the prospect of competing with global banking giants. But it is important to remember that The Chinese banking regulation also states that foreign banks have become an important part of the nation's banking industry, pledging to further open up the local market to facilitate their growth. The China Banking Regulatory Commission (CBRC) is fully aware of the importance of introducing foreign invested financial institutions. Many thinks that introducing foreign banks will help improve the service quality and efficiency of the banking sector, help importing advanced managerial technology and experience, enhance the management of Chinese funded banking institutions and sharpen the competitiveness of the banking sector. By the end of January 2005, foreign banks had set up 200 operational entities in China, and had launched more than 100

banking products. Thirteen foreign banks have won regulatory approval to provide online banking services.

For foreign banks considering establishing or have already done so, it is important to remember that China contains many regional markets. Economic development has run at different rates, and the high variance in incomes across cities reflects this uneven growth. Income in the coastal regions, for example, is markedly higher than in inland areas. Further, the nature of industry also tends to differ by region. Banks, particularly foreign entrants, need to be aware of differing customer needs and different banking economics in each area, and adapt their business models appropriately.

STOCK MARKET

The Chinese stock market has developed rapidly since early 1990s, when the two stock exchanges, the Shanghai Securities Exchange and the Shenzhen Securities Exchange, were established. The Shanghai Stock Exchange (SSE) is directly governed by the China Securities Regulatory Commission (CSRC). The SSE has become the most pre-eminent stock market in Mainland China in terms of number of listed companies, number of shares listed, total market value, tradable market value, securities turnover in value, stock turnover in value and the T-bond turnover in value.

The Shanghai Stock Market is the most modern in China and the proud owner of the largest trading floor in the world. No foreign companies are allowed to list on it and there are no foreign stock broking companies allowed to buy seats on the exchange. There are two kinds of shares in China, 'A' and 'B', and this too illustrates the split personality of how the stock market works in Shanghai. 'A' listed companies can only sell shares to Chinese citizens and 'B' shares can only be sold to foreigners. To further complicate things Chinese nationals often buy 'foreigner-only' 'B' shares by circumnavigating regulations and buying the shares through offshore representatives. The Chinese authorities do not know what to make of their unruly capitalistic creation and last year reined in market growth by tightening restrictions on transferring shares. With the economy showing signs of weakness, however, they are now encouraging market speculation. Seemingly impressed by real growth in the once languishing 'B' share market, authorities have adopted a 'hands off' approach the market. For now, however foreign companies are not allowed to list on the Shanghai Stock Market.

According to the regulations of the "Securities Law of the People's Republic of China" and "Company Law of the People's Republic of China", limited companies applying for the listing of shares must meet the following conditions:

- The shares must have been publicly issued following approval of the State Council Securities Management Department.
- The company's total share capital must not be less than RMB 50 million.
- The company must have been in business for more than 3 years and have main profits over the last three consecutive years. In the case of former state-owned enterprises re-established according to the law or founded after implementation of the law and if their issuers are large and medium state owned enterprises, it can be calculated consecutively. The number of shareholders with holdings of values reaching in excess of RMB 1,000 must not be less than 1,000 persons. Publicly offered shares must be more than 25% of the company's total share capital. For company's whose total share capital exceeds RMB 400 million, the ratio of publicly offered shares must be more than 15%.
- The company must not have been guilty of any major illegal activities or false accounting records in the last three years.

Tax issues related to Norwegian investments in China

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A. CHINESE CORPORATE TAXES - OVERVIEW

The following is a table showing the corporate taxes in China:

National Corporate Income Tax Rate (%)	30 (a)
Local Corporate Income Tax Rate (%)	3 (a)
Capital Gains Tax Rate (%)	33 (b)
Branch Tax Rate (%)	33
Withholding Tax (%)	
Dividends	10 (c)
Interest	10
Royalties from Patents, Know-how, etc.	10 (d)
Branch Remittance Tax	0
Net Operating Losses (Years)	-
Carryback	0
Carryforward	5

(a) Lower rates may apply to establishments operating in specified locations in China (See Section B)
(b) Capital gains derived by foreign investors from disposals of interests in foreign investment enterprises are subject to a 10% withholding tax.
(c) Dividends remitted abroad by foreign investment enterprises and foreign enterprises are exempt from withholding tax.
(d) A reduction rate may apply to certain qualifying royalties that have preferential transfer terms.

B. CHINESE TAX ON CORPORATE INCOME AND GAINS

Corporate Income Tax.

The People's Republic of China (PRC) income tax system discussed below refers to rules specially applicable to business operations with foreign investments, including Sino-foreign equity joint ventures, cooperative ventures, and wholly foreign-owned subsidiaries and other forms of business activities and operations conducted by foreign companies. Domestic state-owned enterprises are subject to tax rate of 33%. A different set of tax computation rules, which are not discussed in this chapter, applies to these enterprises.

China has announced that it may lower the company tax rate from 33 % to around 25 %, probably from 2007.

All foreign investment enterprises (FIEs) and foreign enterprises are subject to the Income Tax Law of the Peoples Republic of China on Enterprises with Foreign Investment and Foreign Enterprises, which is levied by the central government. Local authorities are entitled to levy a surcharge and collect certain registration and license fees.

FIEs include equity joint ventures, cooperative joint ventures and entities wholly owned by foreigners. An FIE is subject to tax on its worldwide income. However, a foreign tax credit is allowed for income taxes paid to other countries by the FIE, limited to the PRC income tax payable on the same income.

The term "foreign enterprises" refer to foreign companies, enterprises and other economic organizations such as representative offices, contracted projects and royalty arrangements. Foreign enterprises are subject to tax only on their income from PRC sources. The taxation of foreign enterprises depends on whether the enterprise has an establishment in China. Foreign enterprises with establishments in China are subject to tax on all income derived from the PRC; however, those without establishments in the PRC are subject only to withholding tax on income from PRC sources.

The term "establishment" is broadly defined to include the following: a place of management; a branch; an office; a factory; a workshop; a mine or an oil and gas well or any other place of extraction of natural resources; a building site; a construction, assembly, installation or exploration project; a place for the provision of labor services; and business agents.

Rates of Corporate Tax – Incentive Programs

In general, FIEs and foreign enterprises with establishments in China are taxed at an effective rate of 33% (30% national tax plus 3%local tax) on net income.

Taxable net income is defined as revenues less deductible expenses based on accounts prepared in accordance with the Accounting Regulations of the PRC for Enterprises with Foreign Investment (also

applicable to foreign enterprises by reference). No differences exist between tax and accounting methods for income computation. Included in taxable income are dividends, bonuses, interest, royalties, rent and other income. However, dividends received by FIEs from other FIEs in the PRC are exempt from taxes.

A reduced tax rate of 15% applies to FIEs and foreign enterprises with establishments in China located in Special Economic Zones (SEZs), which are Shenzhen (including Shekou), Zhuhai, Shantou in Guangdong Province, Xiamen in Fujian Province and Hainan Province. The reduced rate of 15% also applies to FIEs engaged in production or manufacturing activities located within the Pudong Development Zone in Shanghai and within the Economic and Technology Development Zones of the 14 Open Cities, which are Beihai, Dalian, Fuzhou, Guangzhou, Lianyungang, Nantong, Ningbo, Qingdao, Qinhuangdao, Shanghai, Tianjin, Wenzhou, Yatai and Zhanjiang. FIEs engaged in infrastructure projects, including energy, transportation and port development, are also taxed at the reduced rate of 15%.

FIEs engaged in production and manufacturing activities located within the Costal Open Economic Regions (Liaodong Peninsula, Shadong Peninsula, Changjiang and Pearl River Deltas, and Southern Fujian, including Zhangzhou and Quanzhou Delta Areas) and the 14 Open Cities, Provincial Capitals and Changjiang Cities are taxed at a reduced rate of 24%. FIEs engaged in production and manufacturing activities in Beijing and Chongqing are also taxed at a reduced rate of 24%.

Tax holidays and significant reductions in the tax rate are available to the following:

- FIEs engaged in production and manufacturing activities with an operating period of 10 years or more;
- FIEs engaged in production and manufacturing activities in SEZs, the Pudong Development Zone, and Economic and Technology Development Zones;
- Export-oriented and technologically advanced FIEs; and
- Infrastructure projects in SEZs and in the Pudong Development Zone scheduled to operate 15 years or more.

Capital Gains and Losses

Capital gains and losses are treated the same as other taxable income. However, when foreign investor disposes of an interest in an FIE, any resulting capital gain is subject to a 10% withholding tax, even if the gain is realized outside the PRC.

In addition to income tax, real property gains tax is imposed on gains derived from transfers of real property.

Dividends

Profits of FIEs distributed as dividends are not subject to any withholding tax when remitted outside the PRC. China has announced that it might introduce a 10 % withholding tax on dividends remitted to foreign owners, probably from 2007. Thus, the effective tax rate will then be 10 %.

Transfer of technology and delivery of services

As a main rule, China will levy 10 % withholding tax on royalty payments. This means that a 10 % tax is deducted from the gross amount of the payment made to i.e. a Norwegian company delivering the technology/services. To reduce the withholding tax in China, it might be possible to split the contract in tow parts. Thus, withholding tax will as a main rule only be levied on the transfer of technology, and not delivery of services.

Equity capital and Financing

China has debt-to-equity requirements. The capital contribution must exceed 33,3 – 70 % of the total investment depending on the invested amount. It is normally favourable to have the total registered capital is as high as possible.

Foreign Tax Relief

A tax credit is allowed for foreign taxes paid by FIEs in other countries, not exceeding the relevant PRC tax payable on such income. Excess foreign tax credits may be carried forward for a period of five years.

Foreign-Exchange Controls

There are detailed foreign-exchange rules on most payments to foreign residents. Remittances of after-tax profits or dividends to foreign investors in FIEs must be supported by written resolutions of the board of directors and may not be made until after applicable corporate income taxes are paid. They must be made from foreign-exchange accounts. Otherwise, conversion and payment must take place at designated foreign-exchange banks.

Administration

The tax year in China is the calendar year. An annual return, together with an audited financial statement issued by a certified public accountant registered in the PRC, is due within four months after the close of the tax year of all FIEs and foreign enterprises with establishments in the PRC.

C. OTHER SIGNIFICANT CHINESE TAXES

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT) - standard rate	17
VAT-rate on specified products (primarily basic necessities), agricultural products and utility services	13
Exports are generally zero-rated. Any VAT previously paid on the purchase of raw materials, parts and taxable services that have been used in the production of export goods is refunded. (The refund may be reduced to 5%, 13% or 15% depending on the type of goods exported)	0
Consumption tax, on the production and importation of certain luxury items	Various
Business tax, on various types of services and income not derived from production, including construction, finance, insurance, telecommunications, rentals, advertising, tourism and the transfer of intangible and immovable properties, general rates	3 to 5
Real property gains tax, on real property transfers	30 to 60

D. INVESTMENT IN CHINA FROM A NORWEGIAN TAX PERSPECTIVE

There are several points to consider when investing in China from Norway. We will address some important points in the following.

Dividends paid to a Norwegian company from a Chinese FIE

A Norwegian company investing in a Chinese FIE, i.e. in a joint venture or a wholly owned enterprise, will receive dividend income. The Norwegian taxation of

the dividends depends on the tax treatment of the FIE in China.

Dividend income to a Norwegian company investor will be tax free in Norway provided the Chinese company is taxed according to ordinary Chinese rules, e.g. is levied a company tax on 33 %, provided that the Norwegian investor has had the investment for more than two years.
However, many Norwegian owned Chinese FIE enjoy tax incentives in China, either:

- a 15 % permanent tax rate, or
- a zero tax rate for some years, followed by 15 % tax rate for some additional years, before the ordinary taxation at a rate of 33 % takes place.

If the Chinese FIE enjoys such tax incentives, the dividends will as a main rule be taxable in Norway with 28 % tax. Thus, the tax incentives given in China will be illusive, and thus have no effect for a Norwegian investor.

Many Norwegian investors may choose alternative structures to reduce this negative Norwegian tax effect. One option might be to invest in China via a Singapore company. Many Norwegian companies have subsidiaries in Singapore which from a business point of view may do the investment in China rather than the Norwegian company. Under current Singapore rules, dividend income from China to Singapore is tax free in Singapore. Further, dividend income from the Singapore company to its Norwegian parent company will as a main rule be tax free in both Singapore and Norway. Thus, the effective tax rate on dividends to a Norwegian company investor when the Chinese FIE enjoy tax incentive will be reduced from 28 % to 0 % when investing via Singapore.

Capital gains on the sale of shares in the Chinese FIE

As mentioned, China levies a 10 % tax on capital gains on the sale of shares in Chinese FIE, even if the seller is a foreign company. China also has the right to levy this tax according to most tax treaties it has entered into, including the treaty with Norway from 25 February 1986.

However, if the shares are sold between related companies (qualified share transactions), no capital gains tax will be levied in China. Further, if a Norwegian investor sells more than 25 % of the shares in the Chinese FIE, no capital gains tax will be levied in Norway due to the tax treaty. The same tax exemption applies in Norway on the sale of shares if the property of the Chinese FIE consist directly of indirectly mainly of immovable property situated in China. These rules makes it possible to structure current Chinese investments in a more tax efficient way.

Logistic and Transportation

Logistics in China is considered problematic. The government has however had modernization of logistics and transportation as one the top three priorities in their10th Five-Year Plan (2001 – 2005). The infrastructure has therefore been improved a lot in recent years, but there still are many shortcomings especially in western parts. Transportation has traditionally been a state protected industry and it was not until December 2004 that foreign companies were allowed operating in this industry. The current situation is therefore changing and it is expected that there will be big improvements and developments in the near future.

THE CURRENT SITUATION

Logistics has traditionally been taken care of by every company separately, resulting in a much undeveloped industry. There are approximately 18.000 registered companies claiming to offer logistics services none of them commanding more than 2% of the market. Their knowledge of tracking and electronic services are often limited and added with shortcomings in the infrastructure, logistics therefore could be a problem for doing business. During the last three years, after entering the WTO, the local logistics companies have however developed in order to compete with the foreign companies entering now. The situation is therefore changing and especially in the most central areas on the east coast and around Yangtze River and Pearl River Delta there are possible to find good logistic opportunities and providers. In general there are few problems getting the goods from one place to another, however widespread distribution is more complicated. The local companies have knowledge of the local operation environment, culture and customer needs in which helps them keeping low prices and create and maintain competitive advantage above international companies.

One of the main challenges facing the logistic companies in China today is the lack of logistic skills. The emphasis on educating and training people with the right skills and attitude are therefore highly prioritized also among large international companies. The results of this will however not be visible in another few years.

Traditionally most Chinese companies handled the logistics them selves. This is still the case, but is gradually changing. There are examples of international companies being able to build up a large and efficient supply chain them selves, but this requires good knowledge and contacts in China and is considered an exception. According to a December 2001 Economist Intelligence Unit report, 90% of an average Chinese manufacturer's time is spent on logistics while10% is spent on manufacturing. Even though these numbers are a few years old and the situation has improved, it indicates that one ought to place considerable consideration to logistic opportunities prior to entering the Chinese market.

Currently the most common travel method is road, followed by rail, air and oceans or waterways.

ROADS

Although costs generally are higher than rail and water, road transport is the preferred option for moving packaged finished goods in China. In general, road transport offers foreign companies the most flexibility and control over delivery times and the delivered conditions of goods.

The government spends large sums on upgrading the system, aiming to connect China's main economic zones with four leading state and trunk roads: along the coast, along the Yangtze River, from Lanzhou to Lianyungang, and from Beijing to Guangzhou. However these initiatives are not quite keeping up with the increased demand for freight traffic.

Tolls are often quite high. Up to 20% of China's trucking costs are consumed by tolls. The different local governments have different rules and one often need separate procedures in the different areas.

RAIL

Rail is the cheapest method of distribution in China for commodities such as grain, coal and bulk materials. However there has always been large capacity shortages and low service mentality. It is estimated that between 25- 30% of the country's demand for cargo

China's WTO commitments Due on December 11, 2004

	Status and Relevant Laws
Distribution	
1. Allow wholly foreign-owned enterprises (WFOEs) in wholesale, retail, and commission agents' service	1. Regulations issued, but full implementation delayed pending clarification from the PRC Ministry of Commerce (MOFCOM). (Regulations on Management of Foreign Investment in the Commercial Sector)
2. Allow franchising	2. Done. FIEs can expand their scope to include franchising. (Administrative Rules on Commercial Franchising)
3. Allow direct sales	3. Late. Direct sales draft regulation under consideration.
4. Allow retailing and wholesaling of pharmaceuticals	4. Late. Rules for domestic firms exist, but MOFCON is drafting separate rules for foreign participation
5. Allow retailing of refined fuel	5. Late. Rules for domestic firms exist, but separate rules for foreign participation are forthcoming.
6. Allow wholesaling of printed matter	6. Done, early (2003). (Rule on Management of Foreign-Invested Book, Magazine, and Newspaper Distribution Enterprises)
Freight Transport services	
1. Allow foreign majority rail JVs	1. Done. (Revised Catalogue Guiding Foreign Investment in Industry)
2. Allow wholly foreign-owned road enterprises	2. Done. (Second Revision to Administrative Regulations on Foreign Investment in Road Transportation Industry)
3. Allow wholly foreign-owned storage and warehousing enterprises	3. Done. (Second Revision to Administrative Regulations on Foreign Investment in Road Transportation Industry)

Source: The US-China Business Council, 2005

China's Transportation Infrastructure

Length of Transportation Routes (10 000km)	2000	2001	2002
Railways in operation	6,87	7,01	7,19
National Electrified Railways	1,49	1,69	1,74
Highways	140,27	169,80	176,52
Expressways	1,63	1,94	2,51
Navigable Inland Waterways	11,93	12,15	12,16
Total Civil Routes	150,29	155,36	163,77
Total Freight Traffic			
Rail	1,78 billion tons	1,93 billion tons	2,04 billion tons
Highways	10,39 billion tons	10,56 billion tons	11,16 billion tons
Waterways	1,22 billion tons	1,33 billion tons	1,42 billion tons
Civil Aviation	1,97 million tons	1,71 million tons	2,02 million tons
Vol. of Freight Handled in Major Coastal Ports	1,26 billion tons	1,43 billion tons	1,67 billion tons

Source: China Statistical Yearbook, 2004

space on railroads cannot be met and that approximately 2000 towns are inaccessible by rail. The damage rate is considered to be three times higher than with road transportation due to bad loading and unloading facilities. The lack in information system and efficiency creates quite long delivery times (averaging between 15 to 60 days depending on distance and location). However the Ministry of Railways has in the latest years initiated several projects in order to upgrade China's rail infrastructure to increase capacity and travel speed. This is improving the situation, but the increasing need for transportation prevents this initiative from changing the situations too much.

AIR

Airfreight in China is predicted to grow considerably over the long term, but current air cargo activities are still problematic. This is due to a shortage of routes and a large focus on passenger traffic. Over the next 10 years, China plans to spend billions of Euros on airport construction. China's 10th Five Year Plan (2001- 2005) states that China plans to have 179 airports at the end of 2005, which is an increase of 50 from the number in 2000. Excluding Hong Kong, 3 of these are considered national (Beijing, Shanghai and Guangzhou). The new airports are mainly located in the western parts. The airfreight method also suffers from short office hours, bureaucratic procedures and high taxes. This will however change and airfreight will be more important in the cargo handling industry.

OCEAN AND INLAND WATER TRANSPORT

Shipping is China's most developed distribution sector with more than 1,200 ocean river ports offering berths for 33.000 ships – including more than 788 deep-water berths capable of handling 10 000-tonne vessels. This is however often underutilized due to a variety of different reasons. The main ports currently are in addition to Hong Kong; Shanghai, Shenzhen, Qingdao, Tianjin, Guangzhou, Xiamen, Dalian, Ningbo, Zhongshan and Fuzhou. Over the next 10 years container ports will be developed and expanded at Dalian, Ningbo, Quingdao, Shanghai, Shenzen and Tianjian. It is also plans for networks at Yangtze and Pearl rivers, including the Three Georges Dam that will become the world largest build dam.

INTERNATIONAL EXPORT/IMPORT HANDLING

International transportation is however more reliable. You still have the custom clearance that might be problematic but the international players that operate this market are more in accordance with international standards that one are used to. Transport between Norway and China is mostly done either by sea cargo, by airfreight or a combination of these two depending on the cost and time sensitiveness. The combined solutions often include shipping to nearby countries like Korea or India and airfreight from there. Airfreight normally takes 2-4 days and sea cargo approximately 30 days. Transporting goods from Norway to China is cheaper than the other way around due to the large differences in demand.

Prior to December 2004 there were export limits on different items like textiles, shoes and porcelain. The loss of these restrictions could resolve in an increased export in which again could lead to other international

restrictions. It is therefore estimated that there will be introduced some sort of toll or fee on these goods in order to control the export flow. This is however still very uncertain.

FUTURE IMPLICATIONS

The logistic industry is growing, and due to the newly opening in restrictions the sector is estimated to grow up to 30% annually for the next few years. The change moving towards third-party logistics providers and a larger emphasis on whole distribution chains by local as well as international players, makes the development looking prosperous. The government's current and future focus on improvement of the infrastructure in the cities Beijing and Shanghai due to the Olympics 2008 and the Expo 2010 and the general development in the western parts will also make large differences. The speed of the development, the total changes and the scope of the implications are however difficult to estimate. The only thing one can say is that China is changing, the environment is challenging, the risks are great, but the opportunities are large.

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Advertisment

LAW

What a company can say in its advertising is regulated by the Country's Advertising Law, developed by the State Administration of Industry and Commerce (SAIC) and introduced in February 1995. The Law does not include any requirements for central censorship.

The Law is in many instances hard to interpret. The China Advertising Association, a body directly beneath SAIC, is responsible for the control of ads and commercials. This is again delegated to different "consultants" that for a fee paid by the advertisers, issue a certificate stating that the ads are concurrent with the law. TV and print media may ask for this certificate prior to screening or printing an advertisement. Examples of problem areas are situations where public safety is violated, nudity is included, children are disobeying adults or superstitious practices are shown.

CHANNELS

Despite the large number of media nationwide the demand has outrun the supply, making it a sellers marked.

Newspapers

The newspapers have traditionally been the least flexible media to advertise in. The attitude towards service is however changing throughout the entire China. Most newspapers are local and their market share varies. It is therefore important to find the most relevant newspapers for your target group. The largest newspaper in Shanghai is Xinmin Wanbao (Evening News) with market coverage of 70%.

Outdoor advertising

Outdoor advertising has been the fastest developing advertising medium in latest year. It has previously been very fragmented but starts to get more rationalized. The quality is good especially in the largest cities like Beijing and Shanghai.

Television

There are more than 1100 nation wide TV stations all offering advertisement spots. In 2001 the central government initiated the creation of local powerhouses in order to decrease the competition among TV stations. It is estimated for the future that there will be several regional broadcasting powerhouses, including some in Beijing, Shanghai and Guangdong Province.

Some examples: Shanghai Media and Entertainment Group, China Radio, Film and Television Group.

Radio

There are nearly 300 radio stations, most of them hosting more than one channel. Radio has been the most flexible ad medium because it usually makes up a smaller fraction of advertising spending, and therefore has less bargaining power. It has however experienced tough competition from TV and the industry is therefore expected to undergo changes in the near future in order to meet this competition.

Magazines

China has more than 8000 titles. This is relatively little compared to the size, and the quality is varying. High end magazines have good quality, but the majority has only newsprint inside.

Cinema

This is not yet as vide spread as other advertising methods. The advertisers have little control over when their ad will appear. The only reliable method to monitor ad placement is to visit the cinemas for oneself.

The Internet

The Internet coverage in China is limited. Even though the big cities all have internet access, only 15 – 20 percent of the comparatively affluent, well educated users living in Beijing, Shanghai and Guangzhou have Internet access. Internet does however have great influential potential. Currently it is mostly IT and Telecom companies that advertise online.

General Guidelines:

1) Focus on advertisement quality, not just quantity
2) Advertising does not drive distribution. (Set up your distribution network first.)
3) Adopt the Chinese way and develop special ads for the Chinese market.

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HOW TO DEAL WITH THE MEDIA – A SUCCESSFUL STORY

When promoting a foreign product in China one has to develop a separate marketing strategy. You cannot rely on using the same materials as those used in your home market, nor can you develop an "Asian" concept as Asia as a whole can not be considered one market in this respect; you have to develop something in line with Chinese way of thinking.

Jan Fossberg, a Norwegian working in Beijing for the Norwegian Seafood Council, has valuable experience in these regards. For the last years he has been working with the promotion of Norwegian salmon in the Chinese market. Salmon export from Norway to China has increased considerably the recent years (Value of Salmon and Trout Export to China and Hong Kong reached 276 million NOK in 2004), and the market for salmon is still growing.

Mr. Fossberg could certainly underline the importance of meeting the right people. By chance he met some TV producers that he established relations with. After practicing good quality guanxi (dinner + karaoke), he managed to sell in his idea with TV cooking shows focused on salmon recipes. He has thus managed to reach thousands of Chinese in their homes, showing them how to use Norwegian salmon in cooking. Furthermore has he worked a lot with the product story in order to adjust it to the Chinese market. Not only has he dug in the Chinese history to relate the product to traditions of the popular Tang dynasty, but he has also managed to make traditional Chinese light meals such as "dim sum" using Norwegian salmon as a main ingredient.

And perhaps most important is his ability to always come up with something new and fun. He himself has been a front figure in several TV shows, and he appears to have gotten the image of the big, crazy Norwegian and the funny salmon guy. One of their latest events who caught media attention was an adventurer jumping off the Jin Mao (the tallest building in Shanghai) with a Norwegian Salmon in his arms.

In order to get the TV station interested, it has been important not to focus on promoting the product in itself, but rather putting it in the context of healthy food. The Norwegian salmon just happened to be a healthy alternative.

Fossberg do however state that he has been lucky. One cannot usually expect to find deals like this, nor does he believe that he will be able to pull this off in the future. He reckons that the government will introduce new and stricter regulations in regards to "free" advertisements.

Normally advertising in China is very complex and expensive due to the vide variety of different medias and the range of customers. The use of media for advertisements is very expensive and one has to be very specific and focused in order to reach the target group. The failure to do so could turn out to become costly even without getting the wanted results.

Believing that one can have national advertisement campaigns in China would be unrealistic. This is due to large differences in both purchasing power and way of living throughout the country. Normally international products and brands will only be interesting for a limited group of persons or a limited range of companies. It is hence useless to undertake a national campaign. One should therefore, like in every other market, do properly research and engage in more specific advertisement initiatives, but towards limited areas in the country. China is not like Norway where you can reach everyone by TV or through a couple of national newspapers.

An important point of learning from this story is that one should address the product in addition to the actual advertisement in the Chinese market. Salmon served in the way we do in Norway would never have been successful in China. The Chinese people have their preferences and one should try to develop the product accordingly. If the product is not ready for the Chinese market, no advertisement can change this.

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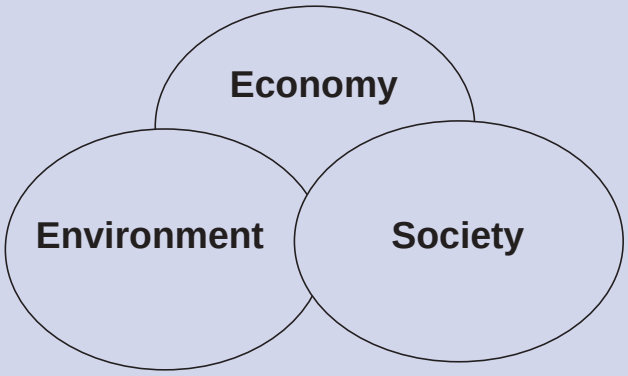
Corporate Social Responsibility

"Corporate Social Responsibility (CSR) is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the work force and their families as well as the local community and society at large." CSR means the company's responsibility and commitment towards triple bottom line as illustrated below.

Triple Bottom Line



Some of the important aspects in the CSR-concept are illustrated by the following chart.

– Employees (now to attact the best people);
– Shareholders/owners' expectations

The international CSR-approaches are so far voluntarily based, though it's wished from the workers/trade unions' side a binding mechanism through a link between social standards and international trade agreements or through collective agreements.

Some of the most international oriented companies in Norway, such as Norske Skog, Statoil and Hydro, have already signed agreements with regard to CSR with their respective international trade union federations. These agreements apply all these companies' activities around the world.

SA8000 is the social certificate issued to enterprises after successful social auditing. SA8000 contains social standards which are mainly based on ILO core conventions. Norske Veritas is working with SA8000 in China. Unfortunately, the Chinese authority has recently issued an order to stop all SA8000 certification except for those Chinese enterprises who have received requirement for SA8000 certificate abroad. The main reason for this order is that the Chinese authority still has difficulties in acceptance of the substance of SA8000. There are 8 so-called ILO core conventions on child labour, forced labour, freedom of organization and collective bargaining and anti-discrimination of employment, upon which SA8000 is based. China has only ratified 3 of them (2 on child labour and 1 on anti-discrimination). The biggest problem lies on the limitation in the political system in China which doesn't allow freedom of association.

More and more companies recognize their social responsibility. They establish their own Codes of Conduct where they claim that they shall take responsibility for environment, workers rights and human rights in general, and they shall require their subcontractors to respect the Codes of Conduct as well.

"The Stormberg Case" which will be presented later on in the chapter, is a good example of awareness of social responsibility at company level.

CHINA AND CRS

Before the economic reform in China started for more than two decades ago, a lot of social tasks and functions had been put on enterprises, almost all of them were state owned or collective owned. The large enterprises are small societies in themselves, and they had their own kindergartens, schools, hospitals and cinemas. The enterprises had actually huge responsibility for communities and local societies.

Almost all of those kinds of social function have been "cleared off" the enterprises. Apparently the enterprises shall solely concern their business, according to the reformers.

Globalization and especially the Chinese entry into WTO make China to face CSR – a renewed concept of social responsibility for enterprises. You want market access, so you are also supposed to deliver when it comes to labour relations, environment, health and safety, etc.

CSR becomes a big challenge for the Chinese business society and authorities in a globalised economy. Some of the main challenges of CSR for China lie in:

– Enormous environmental problems. As an example, over 90 per cent of the Chinese energy supply is coal-based, which demonstrates the large negative environmental impact of the Chinese economy.

– Violation on human rights. In the working life, there are still many incidents of violation on workers rights happened daily.

– Corruption, which remains as one of the biggest problems concerned by the political regime and the people.

– Underdeveloped civil society, where NGOs are still small and few in China.

THE WORKING LIFE AND WORKERS IN CHINA

Share of private and foreign ownership in the Chinese economy has strongly increased during the past two decades, and accordingly the public ownership has diminished. There have occurred fundamental changes in the Chinese working life and the labour relations.

Workers rights

The fundamental workers rights such as right to organize, right to strike and right to conduct real collective bargaining, are still missing in China. However most of other regular workers rights are covered by the Chinese labour legislation.

Labour legislation

The Chinese working life is mainly regulated by legislation. The labour legislation has been notably improved by establishing two important laws, namely the Labour Law (1995) and the Trade Union Law (2002). The Chinese Labour Law is quite similar to the Norwegian Working Environmental Law and covers the most significant questions with regard to the working life. In addition to the national legislation, regional/local authorities can issue regional/local laws

which are relevant to the working life. As an example, the statutory minimum wage in China is not established in the national legislation, but specified in the provincial/city legislation.

Although the workers rights are covered by the labour legislation, implementation of law is another question. There is big difference between what the labour law says and what the reality is. Violation on workers rights happens everyday, though it is clearly prohibited by the labour law.

Social Partners

All-China Federation of Trade Unions (ACFTU) is the only legal workers' organisation approved by the Chinese authority. ACFTU has over 100 million members and is the largest national trade union in the world. ACFTU is vertically organised with organisations at province, city and district levels. ACFTU is not member of International Confederation of Free Trade Unions because ACFTU is not considered as an independent trade union organisation. ACFTU represents the Chinese workers at the International Labour Organisation (ILO).

Chinese Enterprise Confederation (CEC) represents Chinese employers at ILO. The majority of the members of CEC are SOEs (State owned enterprises).

CHALLENGES AND DEVELOPMENTS IN THE CHINESE WORKING LIFE

Labour legislation will continue to be the most useful tool to protect workers rights. ILO Conventions form international labour standards. However, the tempo of ratification of ILO Conventions in China is still quite low.

The social security scheme in China should be developed further. Today, a large portion of the labour force is not covered by the social security, for example those so-called migrant workers[1]. Violation on their rights has been a big problem which attracts the attention of the whole society.
The Chinese working life and the labour market has become much tougher than before. Chinese workers are facing restructuring pressure, lay-off threat, high unemployment, low social security coverage, lack of protection on their rights, and so on. On the other side, there are some positive aspects in development that should be mentioned:

– The labour legislation is under constant development;
– China has completed several demanding social reforms, such as reforms on pension scheme, unemployment benefits, housing and health care insurance;
– System of collective consultation and collective agreements is under development at the enterprise level. Works councils have been established in many enterprises;
– The tripartite council which consists of representatives from the government and the social partners has been established both at national level and at provincial level (except for Tibet). The tripartite council, as a permanent setup, should deal issues which are important for the working life.
For foreign investors, it is favourable to work out their own CSR-strategies, for instance in form of Codes of Conduct. The lowest requirement to the foreign investors in China should be abidance of the Chinese laws. For more information of Chinese working life and labour market, it's recommended to contact local labour offices or local trade unions (ACFTU's local organisations).

THE STORMBERG CASE

I. Background

Stormberg is a Norwegian Company in the garment and sportswear sector. The company has been trading with suppliers in China since 1998 and they seek to form long-term business partnerships with companies and factories who share its commitment to quality and values. This also includes requirement that suppliers are compliant with labour and environmental laws.

Stormberg set up a Code of Conduct covering labour rights and environmental issues in December 2003. The Code of Conduct was translated into Chinese in March 2004. Through Ethical Trading Initiative Norway where Stormberg is a corporate member, one of IB China-group members, Ms. Ding Ling, in team with Mr. Chen Wei, senior adviser at the Norwegian

1 The migrant workers (often called as the floating population in China) are those from other parts of the country, mainly from the rural areas, but working in the cities. The number of migrant workers is estimated to around 100 millions currently in China. Since this group of workers are not registered in the citizen register of the cities, they are therefore excluded from the social security scheme which covers mainly the urbane population.

Confederation of Trade Unions (LO-Norway), on behalf of Stormberg, carried out a labour inspection in summer 2004 on two Stormberg's suppliers in Ningbo, Zhejiang province, China.

II. General Information

Both inspected factories are located in the city of Ningbo of Zhejiang-province. Ningbo, with an area of 9 365 square kilometres and a population of 5.3 million people, is located in the middle of China's coastline and is one of China's coastal cities to be opened to the outside world. It is divided from Shanghai by the Hangzhou Bay. There are hundreds of small and large garment factories across this region, probably due to tradition and a cluster effect. Most of those garment factories are small and private owned, and a lot of them are family workshops.

The garment branch is quite important for China, especially for its export. China is a major trading partner for Norway on clothes and accessories. From January to July 2004 Norway imported clothes and accessories for about 6 billion NOK, whereas 1/3 from China.

The branch is dominating with private ownership. The working force in this sector is quite mobile, since a lot of so-called migrant workers working in this branch. Employment conditions for this group of workers are mainly determined by the market – namely demand and supply. They often get lower pay and worse employment conditions. However in the recent years, the demand for skilled workers in the clothing branch has exceeded the supply, especially in the area of Ningbo with numbers of garment factories in a cluster. Employment conditions for the skilled migrant workers are therefore improved in this branch and this area.

There is no special legislation on worker's rights and occupational health and safety for this branch other than those stipulated in the general legal framework on working life which is mainly consisting of the Chinese Constitution, the Chinese Labour Law (1995), the Chinese Trade Union Law (2002) and a number of special regulations at national level. The regional regulation on minimum wage[2] applies also for this branch.

Both inspected factories are private owned and family run.

Factory A has a staff of 70 people and factory B has a staff of 160 people. Both factories are considered to be small enterprises according to the Chinese scale. 60-80 percent of workers in those two factories are so-called migrant workers. Stormberg is a major customer of both factories.

III. Main findings

– Both factories had no knowledge of Stormberg's Code of Conduct. There exists an intermediate part, a Chinese trading company between Stormberg and those suppliers/factories. This trading company receives orders from Stormberg and places them further at factories. The fact is that the trading company hasn't passed on Stormberg's Code of Conduct to the factories along with the orders.

– There was no indication of forced labour found at both factories. Employment was confirmed by standard employment contract issued by the labour authority. No labour child was found at the factories.

– Neither the employers nor the employees are organised in those two factories. Consequently there is no collective bargaining and agreement at the factories. The local trade union organisation hasn't paid much attention to organising those factories, probably because there are many small enterprises of this kind. According to the workers in interview, they haven't asked for organising either, nor have they encouraged by the employers to organise. The most common communication channel between the workers and the management is through individual contact. There is no collective consultation or negotiation, nor systematic co-operation between the workers and the management.

– No case of physical abuse or other kinds of harsh treatment of workers was discovered during the inspection and interview. A sum of fine is the most common way of disciplinary sanction. However, disciplinary actions are seldom in use, emphasised by the management in interview and supported by the workers in interview. There is on the other side a bonus system, explained by the management in interview. For example there is a monthly bonus of a certain amount paid to the workers for their full attendance. The common "punishment" a worker can get will often be loosing/reducing bonus payment if he/she for example stays away from work without notice or good reason.

– The working environment seemed satisfactory at both factories.

– The wage system is based on piecework. The piece rate is calculated by the technical department. Workers get only 1 day off at 1 – 2 week's work. Even

2 The statutory minimum wage in Ningbo is 352 yuan per month (around 300 NOK).

without overtime, the actual working time (48 – 56 hours per week) is longer than the legislative normal working time (40 hours per week) according the Chinese Labour Law. Overtime is regularly used in production. The workers get 1 yuan (equivalently about 1 krone) extra per hour overtime and some free food, which is below the legislative overtime pay[3].

According to interview with the management, workers have the liberty to refuse overtime. The workers who were interviewed claimed the same. However, the wage income a worker gets per month is closely linked with how many extra hours he/she works. A calculation as following shows that working overtime becomes a necessary way for workers to acquire a normal average income level.

ATTACHMENT

Code of Conduct – December 2003

Introduction

Stormberg A/S strongly believes in social responsible business. It is therefore important for us to take responsibility for all our actions, including the working and environmental situation for those workers taking part in the production of our products.

In order to make our position clear to our suppliers, our own staff, as well as any other parties, we have set up a Code of Conduct.

Principles:

The suppliers of Stormberg A/S must continuously work for the production of goods and services to take place in compliance with the below mentioned internationally recognised and defined standards.

As a general rule, the suppliers must ensure that their sub-contractors comply with the standards. Contract workers, day labourers and casual workers of the suppliers and subcontractors must also be included in the work.

In some cases, political or cultural circumstances may make it difficult to comply with certain standards or to obtain the identities of or contact with, all subcontractors. In such cases, one must choose an alternative approach.

Our supplier must allow Stormberg A/S, ore those authorized by Stormberg A/S, unrestricted access to its facilities and to all relevant records at all times, whether or not notice is provided in advance.

Suppliers are required to reach the primary goals within a reasonable timeframe and this will, as a rule, be a prerequisite for further trading with Stormberg A/S. Failure to improve conditions and gain noticeable headway will lead to considerations from Stormberg A/S as whether to end their business relationship with the supplier. This will only happen if repeated requests from Stormberg A/S are not followed and/or fail to show the promised improvements.

PRIMARY GOALS FOR PRODUCTION CONDITIONS

A. Workplace conditions:

Employment is freely chosen

There shall be no form of forced labour. Workers are not required to lodge "deposits" or their identity papers with their employer and are free to leave their employer after reasonable notice.

The right to organise and to bargain collectively Workers, without distinction, have the right to join or form trade unions of their own choosing and to bargain collectively. If these rights are limited by law, the

Statutory Minimum Wage	352 yuan/month
Average wage income for industrial workers in this area	Approx. 1 100 yuan/month
For an average skilled garment worker in those two factories:	
Wage income at legislative normal working time (40 hours per week)	Approx. 600 yuan/month
Wage income, 1 day off per week, no extra overtime (48 hours per week)	Approx. 720 yuan/month
Wage income, 1 day off per week, 3 hours overtime per day (66 hours per week)	Approx. 1 100 yuan/month
Wage income employer should pay according to the legislative overtime pay8, 1 day off per week, 3 hours overtime per day (66 hours per week)	Approx. 1 300 yuan/month

3 The legislative overtime pay should be, according to the Chinese Labour Law:
- 150% of the pay for ordinary overtime
- 200% of the pay for ordinary time for work on rest days
- 300% of the pay for ordinary time for work on statutory holidays.

employer shall facilitate and under no circumstances hinder parallel means for independent and free association and bargaining. Workers representatives must not be discriminated against and shall have access to carry out their representative functions.

Child labour

According to the UN Convention of The Rights of Children and ILO Conventions 138 and 182, children under the age of 18 shall not be employed in work that may put their health ore safety in danger, including night work. Children under 15 years shall not be employed in work that may harm their health and/or education.
New recruitment of child labour that does not conform to the above conventions will not be accepted. If such child labour is already taking place, work for immediate phasing-out should be initiated. Work will also be put down in order to ensure arrangements for providing subsistence and education for children until no longer of compulsory school age.

No discrimination

There shall no be discrimination based on race, caste, national origin, religion, age, disability, gender, marital status, sexual orientation, union membership or political affiliation.

Systems for protection against sexually intrusive, threatening, insulting or exploitive behaviour and against discrimination or unjust dismissal, e.g. marriage, pregnancy, parenthood, HIV-positive status should be established.

No harsh or inhumane treatment

Physical abuse or discipline and the threat of physical abuse shall be prohibited. The same applies to sexual or other harassment as well as other forms of intimi dations.

Safe and hygienic working conditions

A safe and hygienic working environment shall be provided. Workers shall receive regular health and safety training, and have access to necessary facilities.

Living wage

Wages and benefits paid must meet, at a minimum, national legal standards or industrial benchmark standards, and always be enough to meet basic needs. Conditions in respect to wages shall be agreed upon before entering employment. Deductions from wages as a disciplinary measure shall not be permitted.

Working hours

Working hours shall comply with national laws and benchmark industry standards, and not exceed working hours and spare time in accordance with current international conventions. Imposed overtime shall be limited.

Regular employment

To every extent possible, work performed shall be on the basis of recognised employment relationships that protect the employees' rights and social security as established through national law and practice. Obligations to employees shall not be avoided through the use of labour-only contracting, sub-contracting, or other labour relations. If these type of contracting ore labour relations are to be used, they are entitled the same rights' as ordinary workers.

B Conditions outside the workplace

Property rights and traditional use of resources
In cases of conflicts with local societies about the use of land or other natural resources, the parties, must through negotiations secure respect for individual and collective rights to areas and resources based on custom/practice. This also applies to cases where the rights are not formalised.

Marginalized groups

The production and sourcing of raw materials for production must not contribute to harm the livelihood of marginalized groups, e.g. by occupying large land areas or other natural resources the groups in question are dependent on.

Environment

Production and sourcing of raw materials must not, in the short or long term, harm the environment in any way that directly threatens peoples' health, environment or safety.

Implementation

In cases where the minimum standards cannot be met immediately, or in cases where these are already met, the supplier must work to continuously improve production conditions. This work will be directed towards direct, cost effective measures in fields that there is reason to believe have genuine potential for improvement.

As regards subcontractors, the supplier shall, through agreement strive to secure that the supplier first communicates the primary goals to all subcontractors,

then reports on relevant social aspects concerning the subcontractors' businesses, and demands that the primary goals are met by subcontractors within a realistic time frame.

Concerning the achievement of primary goals in relation to conditions outside the workplace, it may be difficult to get a full overview and to have any possibility to influence the conditions. Conditions outside the workplace often involve more parties than the producer, and suppliers to Stormberg A/S may have a limited influence.

Reporting and independent verification of social responsibility

Suppliers to Stormberg A/S must report annually on their progress and discrepancy in the work to implement the primary goals and improvement of social conditions. Stormberg A/S will give further guidance concerning the report format.

Stormberg A/S will implement a system for external independent monitoring, verification/certification to reassure Norwegian customers that suppliers and subcontractors achieve the primary goals, and of the continuous improvement in social aspects related to production.

Part 3

- Energy
- Shipping
- Agriculture
- Hong Kong

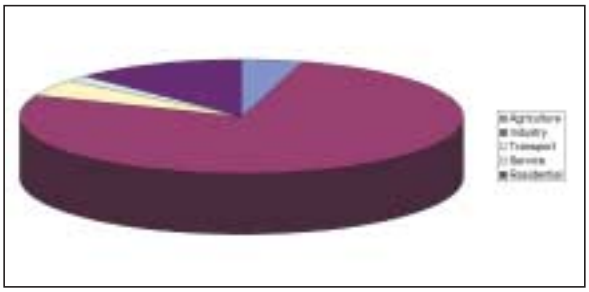
Energy

China is the second largest energy consumer and third largest energy producer in the world. The last 15 years of rapid economic growth have induced a steep increase in energy demand and the government is struggling to provide the energy required. In this part we will give a picture of the energy sector in China.

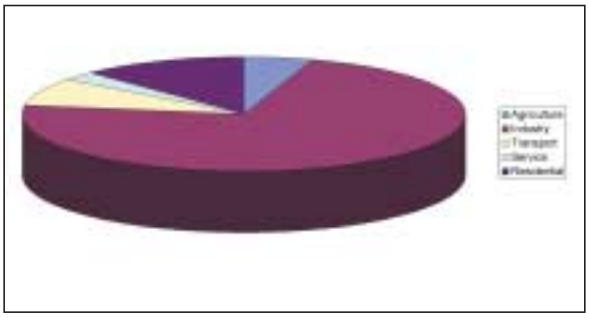
STATUS AND STATISTICS

China produces 9.5 % of the world's annual total energy production and consumes 10 % of the world's annual energy consumption, making China the third greatest energy producer and second largest energy consumer in the world. Graphs showing produced and consumed energy and its composition are given in the figures below.

Energy use by sector in 1995



Energy use by sector in 2000



Throughout the 15 years China has experienced a huge economic growth and in 2004 China recorded 9.4 percent increase in GDP. China has seen a dramatic growth in power-intensive industry, transportation and use of electrical appliances (air-conditioning etc.), increasing consumed energy by more than 50 % since 1990. It is expected that energy demand will grow at about 5.5 % per year through the year 2020. By 2030, the International Energy Agency predicts China will account for one-fifth of the world's total annual energy demand.

China has great reserves of coal and the nation is heavily dependant upon coal, representing approximately 70 % of the energy produced and 65 % of the total energy consumed. Oil, natural gas and hydropower provide the rest. Coal power plants have been built to meet the rapid increase in electricity demand resulting in severe environmental pollution. It is expected that 50 GWe of new power plants will be installed during 2005 of which 90 % will be coal-fired. Even with and energy-saving programs in industry, transportation and construction industries, as well as commercial and civil power use, the country has been suffering from blackouts the last couple of years.

China has huge renewable energy resources ready to be exploited and there is a growing awareness that renewable energy can play an important role in meeting energy demand, enhancing energy security, reducing greenhouse gas emissions and contribute to sustainable development. Today hydroelectric power provides 10 % of the total energy and 20% of the total electricity production. Energy from other renewable sources represents less than 1 % of electricity production. The upcoming 11th five-year plan (2006-2010) will include measures for renewable energy to play an increasingly important role in the future.

Since the late 1990s China has been a net energy importer; importing big quantities of oil and natural gas. China has several huge pipeline projects, both oil and gas, in construction or planning phase. China is also making effort to make LNG an option as they are planning to construct several LNG terminals.

COMMENT ON ENERGY STATISTIC FROM CHINA

The numbers referred in this chapter come from Chinese, International and American sources. When interpreting statistics it is advisable to use caution and this is especially true when evaluating figures on energy production and consumption from China. History shows that officially reported numbers have taken surprising turns, later to be "corrected" with other surprising turns. The statistics and numbers presented here are the most recent numbers we were able to find.

NON- RENEWABLES

China's petroleum industry overview

Major changes have been made to the petroleum industry in China over the last decade. In 1998 the Chinese government reorganized most state owned oil and gas assets into two vertically integrated firms,

namely the China National Petroleum Corporation (CNPC) and the Corporation (Sinopec). Prior to the restructuring, CNPC had been focusing on exploration and production of oil and gas, while Sinopec had been engaged in refining and distribution. The result of restructuring was two regionally focused firms; CNPC in the north and west and Sinopec in the south. Other major state sector firms in China includes the China National Offshore Oil Corporation(CNOOC), its area of expertise is offshore exploration and production and accounts for more than 10% of China's domestic crude production. The State Energy Administration (SEA), created 2003, has the regulatory oversight of the industry.

The reason for restructuring was to make the state firms more like similar vertically integrated corporate entities elsewhere. The firms' core operations now concern only the petroleum market. There has also been massive lay offs, because the firms where severely overstaffed prior to the restructuring.

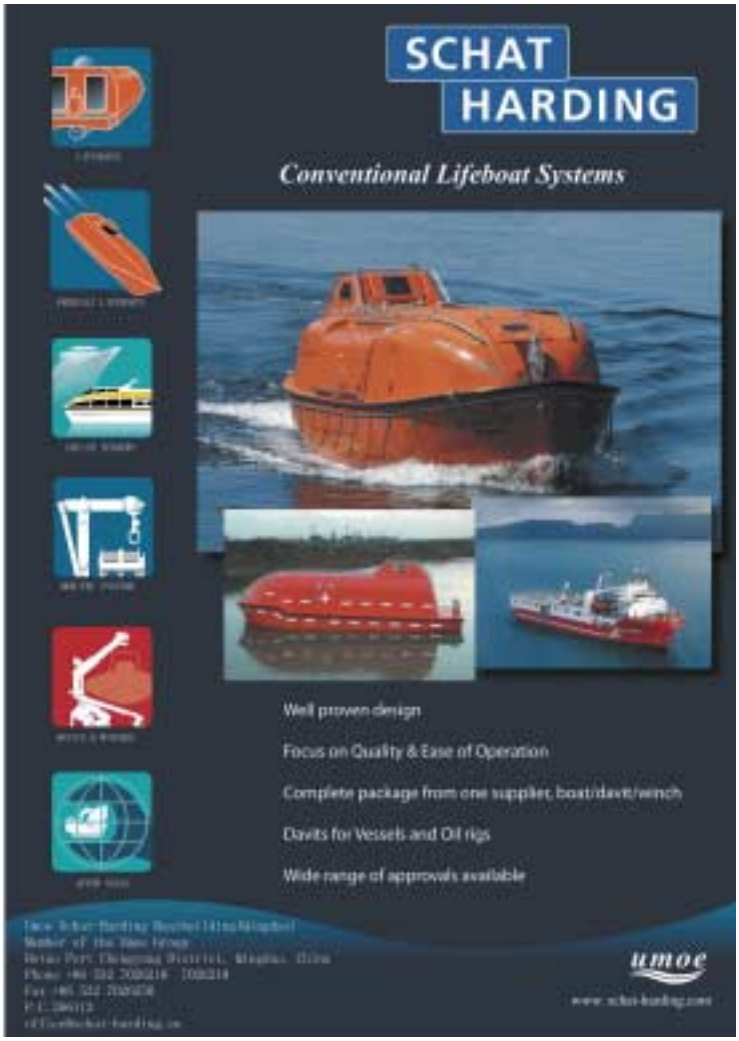
Sinopec, CNPC and CNOOC, which are the largest oil a gas firms in China, all have carried out initial public offerings (IPOs) of stock between 2000 and 2002, bringing in billions of dollars in foreign capital. CNPC separated out most of its high quality assets into a subsidiary called PetroChina in early 2000, and carried out its IPO of a minority in April 2000. The IPO raised over $3 billion, with BP the largest purchaser at 20% of the shares offered. Sinopec carried out its IPO in October 2000, raising about $3.5 billion. Like the PetroChina IPO, only a minority stake of 15% was offered. About $2 billion of the IPO was purchased by the three global super majors; ExxonMobil, BP, and Shell. CNOOC held its IPO of a 27.5% stake in February 2001. Shell bought a large block of shares valued at around $200 million. In 2002, Chinese oil companies began to look at separating out some of their business units into subsidiaries. CNPC has set up subsidiaries for drilling services and geological survey work, and plans to eventually spin them off through international IPOs. CNOOC also has created an oilfield services unit China Oilfield Service, Ltd. (COSL) which was listed on the Hong Kong stock exchange in November 2002.

Some aspects of these stock offerings were atypical. First, they all involved only minority stakes. Second, they have not given the foreign investors a major voice in corporate governance. The Chinese government still holds the majority, and the foreigners have not received seats on their boards of directors. Analysts have generally seen these investments as attempts by the super majors to foothold in China, which will necessarily involve partnership with the Chinese majors. Even with the opening to foreign investment envisioned in China's commitments for membership in the WTO, it is still likely that almost all major oil and gas projects in China will involve one of the Chinese majors. The Chinese government stipulated in July 2001 that only CNPC and Sinopec will be allowed to open retail filling stations prior to fulfilment of China's market-opening commitment in 2004. This is seen as an attempt to strengthen their control of retail sales of petroleum products and forcing foreign firms to partner up with one of the Chinese majors to enter the retail market, even after 2004. BP, ExxonMobil and Shell all have plans to partner up with CNPC or Sinopec.

OIL

Exploration and reserves

The largest oil filed, Daqing in north-eastern China, accounts for about 1.0 million bbl/d of China's production, out of a total oil production of approximately 3.4 million bbl/d. At China's second largest producing field, Liaohe in north-eastern China, CNPC has co-worked with several foreign firms to enhance oil recovery and extended the life time of the field.



The offshore exploration interest has centred on the Bohai Sea area, east of Tianjin, estimates show that the area holds more than 1.5 million barrels in reserves

ConocoPhilips announced in March 2000 findings from the appraisal drilling of the Peng Lai, and would proceed with development of this field. Commercial production began in December 2002, and is around 32.000 bbl/d as of mid-2004. CNOCC and Husky Oil have a partnership developing two offshore fileds, situated in the Pearl River Mouth. Another large offshore oilfield has been developed in the Pearl River Mouth area by a consortium consisting of Chevron Texaco, ENI and CNOOC. The field began production in 1999, ChevronTexaco also have an agreement with CNOOC dated from 2002 for the development of the Bozhong filed in the Bohai Sea, reserves is estimated to 1.3 billion barrels. Sino-Vietnamese relations has opened the way for oil and gas exploration in the Beibu Gulf. In December 2000 China and Vietnam signed an agreement which settled their outstanding disputes over sovereignty and economics rights in offshore areas near their border. CNOOC opened a tender for 10 new exploration blocks in May 2004.
Production and consumption

China's oil demand is projected by EIA(Energy Information Administration) to reach 12.8 million bbl/d by 2025, with net imports of 9.4 million bbl/d. As the source of approximately 40% of the world oil demand growth over the past four years, the demand has made China a significant factor in the world oil market.

The total production of oil in China today is approximately 3.4 million bbl/d. A major part of the Chinese oil production capacity, close to 90% is located onshore.

China has been a net importer of oil since the early nineties, the main focus for China's petroleum industry has been on meeting domestic demand, even though a modest quantity of light crude oil has been sold to Japan, the exports to Japan were stopped in January 2004.

With China's expectation of growing dependence on oil imports, China has been acquiring interests in exploration and production abroad. CNPC has acquired oil concessions in Kazakhstan, Venezuela, Sudan, Iraq, Iran, Peru, and Azerbaijan. Sinopec also has begun seeking to purchase overseas upstream assets. Despite efforts to diversify its sources of supply, roughly half of China's imported oil comes from the Middle East, with Saudi Arabia alone accounting for 17% in 2003. Another potential source for Chinese crude oil imports is Russia's Far East. The Chinese- and the Russian government have been discussing the feasibility of pipelines to make these exports possible. One of the solutions discussed have been a pipeline from Anagarsk in Russia to Daqing in China, the pipeline would have a capacity of 1 million bbl/d of crude oil. Yuokos Oil (which no longer exists) and CNPC signed a memorandum of understanding in June 2003 for sales of oil via the pipeline, contingent on the pipeline being built.

Refineries and Downstream Processing

Sinopec controls over half of China's total refining capacity. There are approximately a 100 refineries in China and the downstream infrastructure development in China centres primarily on upgrading existing refineries rather than building new ones, due to overcapacity. In the late 1990s the Chinese government shut down 110 small refineries, which generally made inferior quality petroleum products. Many refineries have been merged into CNPC and Sinopec. Chinese downstream sector lacks adequate refineries for the heavy Middle East crude oil, which is crucial because of the Chinese necessity for import crude oil.

Future

In the early 1990s China became net oil importer, by the year 2030 China estimates that it has to import more than 80% of the oil it annually consumes. China will displace Japan as the greatest oil consumer in the year 2030, when the daily use will be approximately 10.5 million barrels per day.

A major new field, in the area of the existing Shengli field, was announced discovered in April 2004, but it is still under assessment. The Chinese government currently is prioritizing a stabile production in the eastern regions, increasing production in new fields in the West, and developing the infrastructure required to deliver western oil and gas to consumers in the East. Another high priority project is the development of the offshore sector. Chinese officials have said that they expect production in Xinjiang to reach 1 million bbl/d by 2008, but that seems ambitious, given that transportation of that oil to the consumers in the East remains a major obstacle.

Chinese officials have spoken of their intention to build a national strategic petroleum reserve, and Chinese officials announced a policy decision in February 2003 to support the creation of a strategic petroleum reserve. In the meantime, anecdotal evidence has suggested that China may have built up its petroleum stocks substantially in 2003 and 2004. According to press reports, works has already begun preliminary work in early 2004 on four initial storage facilities, which would provide 30 days of import cover by 2008.

NATURAL GAS

Exploration and reserves

The largest reserves of natural gas are located in western and north-central China, necessitating a significant further investment in pipeline infrastructure to carry it to eastern cities. A pipeline owned by CNPC is under construction, the West-to-East Pipeline, from natural gas deposits in the western Xinjiang province to Shanghai, with an extension picking up gas in the Ordos Basin along the way. The pipeline construction began July 2002, and a section of the pipeline began operation in early 2004. The completion of the pipeline is expected to be 2005. This pipeline has not been subject to investment from foreign countries, even though that might have been expected.

In 2001 it was announced a discovery of a major gas field at Sulige in the Ordos Basin in the inner Mongolia Autonomous Region. Unofficial reserve estimates cited in the trade press put reserves in the range of 7.25 – 9.51 trillion cubic meters. Some natural gas from the Ordos Basin is likely to be put into the West-to-East Pipeline, which was to run through the area in any case, to help make it economically viable. A pipeline was completed in 1997 between the Ordos Basin and Beijing, Tianjin, and nearby province already is outstripping the capacity of the original pipeline. If reserves prove adequate, the pipeline to Beijing may eventually be extended to other cities to the northeast.

Another proposed pipeline project would link the Russian natural gas grid in Siberia to China and possibly South Korea via a pipeline from the Kovykta gas fields near Irktusk, which holds reserves of more than 1.42 trillion cubic meters.

There are smaller pipeline projects also being developed. A pipeline was completed early in 2002, linking Sebei natural gas field in the Qaidam basin with consumers in the city of Lanzhou. Another planned project would link gas deposits in Sichuan province in the southwest to consumers in Hubei and Human provinces in central China at an estimated cost of $600 million.

One major hurdle for natural gas projects in China is the lack of unified regulatory system. Natural gas prices are governed by a patchwork of local regulations. The Chinese government is in the process of making a new legal framework for the natural gas sector, but the process has been slow, and there are still considerable uncertainties regarding price regulations and taxation issues dealing with natural gas sales.

Natural gas projects offshore are also becoming important to China's supply of gas. One of the first fields, Yacheng 13-1, has been producing since mid-1990s. The Chunxiao gas field in the East China Sea, developed by China National Star Petroleum, is also expected to become a significant producer within the next decade. The company puts the field's reserves at more than 0.045 trillion cubic meters. Exploratory drilling is also planned in the Xihu Trough area, in the East China Sea about 268 metric miles east of Shanghai. Shell concluded an agreement with CNOOC and Sinopec for development of the Xihu Trough reserves in January 2004.

Production and consumption

Natural gas has not been a large energy resource in China, but given China's domestic reserves of natural gas, which was estimated at approximately 1.51 trillion cubic meters at the beginning of 2004, and the environmental benefits of using natural gas, China has embarked on a major expansion of its gas infrastructure. Until the 1990s, natural gas was not used as an energy resource for generating electricity. Currently natural gas account for 3% of total energy consumption in China, but it's expected to almost double by 2010. This will involve increase in domestic production, and imports, by pipeline and, in the form of liquefied natural gas (LNG).

Liquid Natural Gas (LNG)

The primary use of imported LNG will be China's south-eastern coastal region, with possible later expansion in the north, particularly if Russian supplies fail to materialize. Guangdong province already has launched a project to build six, 320 MW gas-fired power plants, and to convert existing oil fired plants with a capacity of 1.8 GW to LNG. In March 2001, it was announced that BP had been selected to build China's first LNG import terminal, to be located near the city of Gangdong. BP's equity will be 30% in the project, with CNOOC holding 31%, and the rest held by local firms from Guangdong and Hong Kong. A supply contract has been signed for LNG from Australia's North West Shelf LNG terminal. Earlier delays have been resolved, and the terminal is expected to begin operation before the end of 2005.

A second LNG terminal is planned for Zhangzhou, in Fujian province farther up the coast. The supply agre-

ement has been concluded with BP for LNG from Tangguh project in Indonesia. A third LNG import project in Zhejing in under consideration for a start up date around 2010, but it is in the preliminary stages, and has secured governmental approval. China has been increasingly interested in LNG suppliers in the Persian Gulf, and has held talks with Iran, which resulted in a preliminary "framework agreement" for LNG sales, which was signed in March 2004.

COAL

Reserves and mining

China has proven recoverable reserves of about 113.6 billion metric tons, and the potential reserves estimate another 3.6 billion metric tons. The major part of the coal reserves is located in the northern part of China. Most of the mines are located far from the cities where the main consumption of coal is situated.

A major problem for China's coal industry has been oversupply in recent years, particularly in the late 1990s, the government has begun implementing major reforms aimed at reducing the oversupply, returning large state-owned mines to profitability as a prelude to possible future privatization, and reducing mine accidents. In 1998, the government launched a large-scale effort to close down the small mains. Many small coal mines were ordered closed. It has become clear, however, through much anecdotal evidence, that not all of the "closed" mines have actually ceased operation, and the upward revision to the Chinese Stat Statistical Bureau's production and consumption figures appear to reflect this. A way of dealing with China's surplus production is to seek export markets for coal, which is currently being done. The primary markets are Japan and South Korea, and China is now competing with Australia in exporting coal to Japan. Due to an increase in domestic demand for thermal coal in 2004, has led to a sharp drop off in coal exports, reversing the price decline in the Asian coal market which had taken place in response to expansion of Chinese exports.

Production and consumption

China is both the largest consumer and producer of coal in the world. When compared with the rest of the world China accounts for about 28% of the world's annual production of coal, and about 26% of the world's annual coal consumption. Coal makes up 65% of China's primary energy consumption. In 2002 China's consumption of coal was 1.42 billion short tons, which is 1.28 billion metric tons, or 27% of the world total.

The Chinese government has made major upward revisions to coal production and consumption figures covering the last several years. The new figures show coal consumption rising sharply in 2001-2002, reversing the decline seen from 1997 to 2000. The decline during that period also is much less than the previously reported data.

Future

Over the longer term, China's coal demand is projected to rise scientifically. While coal's share of overall Chinese energy consumption is projected to fall, coal consumption will still be increasing in absolute terms. Several projects exist for the development of coal-fired power plants co-located with large mines, so called "coal by wire" projects. Other technological improvements also are being undertaken, including the first small-scale projects for coal gasification, and a coal slurry pipeline to transport coal to the port of Qingdao. Coal bed methane production is also being developed, with American investors in this effort including BP, ChevronTexaco, and Virgin Oil, which was awarded a concession for exploration in Ningxia province in January 2001. ChevronTexaco is the largest foreign investors in coal bed methane, with activities in several provinces. Far East Energy of the US received approval from Chinese authorities in April 2004 for a farm out agreement with ConocoPhilips, under which it would undertake exploratory drilling for coal bed methane in Shaanxi province, in location near the West-to-East Pipeline route.

China has become more open to foreign investment in the coal sector, particularly in modernization of existing large-scale mines and development of new ones. The China National Coal Import and Export Corporation is the primary Chinese partner for foreign investors in the coal sector. The areas of interest in foreign investment concentrate on new technologies only recently introduced in China or with environmental benefit, including coal liquefaction, coal bed methane production, and slurry pipeline transportation projects. China plans to aggregate the large state coal mines into seven corporations by the end of 2005, in a process similar to the creation of CNPC and Sinopec out of state assets. These firms might then seek foreign capital through international stock offerings.

China has a strong interest in coal liquefaction technology, and would like to see liquid fuels based on coal substitute for some of its petroleum demand for transportation. Despite the high costs, Chinese officials have shown increasing interests in further research into improving coal liquefaction, in the hope that it may eventually provide an economically viable domestic source of liquid fuels.

NUCLEAR POWER

China has currently nine nuclear reactors in operation at three facilities, with a total installed capacity of more than 6900 MWe. Many of the major developments taking place in the Chinese electricity sector recently involve nuclear power. China's total installed capacity for nuclear power generation increased from 2.1 GW at the beginning of 2002 to 8.7 GW as of June 2004. The first generation unit of the Lingao nuclear power plant in Guangdong province began commercial operation in May 2002, with a capacity of 1 GW. The second 1 GW generating unit began operating in January 2003. An additional 600 MW generating unit at the Qinshan nuclear power plant in Zhejiang province began operating in February 2002, and another 600 MW unit at the same site came online in December 2002. In Guangdong at Yangjiang a new 6 GW nuclear complex is planned for construction, commercial operation is estimated too 2010.

ELECTRICITY

Industry overview

The electric power sector in China is in the early stages of a fundamental long-term restructuring, embodies in the National Power Industry Framework Reform Plan announced by the State Council in April 2002. As with many other countries reform programs, generating assets are being largely separated from transmission and distribution. The State Power Corporation (SPC) divested most of its generating assets and was split into 11 regional transmission and distribution companies in December 2002. Electricity prices will still be regulated, but there are likely to be major changes in tariffs and the overall regulatory structure for electricity pricing. The process is at an early stage, and many of the details remain to be worked out. A new electricity law, superseding the one established in1995, is expected to be put into force during 2005.

China began opening up its electricity generating infrastructure to foreign investments during the 1980s and it continued in the 1990s with reforms that encouraged the formation of power generating companies. Because of the need to expand capacity to meet the strong growth in electricity demand, China begun the process of restructuring to allow private investment in its electric power sector. In December 2002 the State Power Corporation was divided into five generating units and two transmission companies, with regulatory functions assigned to the China Electricity Regulatory Commission. There have been efforts to privatize parts of the electric power sector but China's two largest privatized electric power generators, Huaneng Power and Beijing Datang Power, are still majority-owned by the government.

Generation and consumption

Today, China is the second largest electricity generating country and accounts for nearly 10% of the world's total annual electricity generation, in addition to this, China is also ranked as the world's second largest consumer of electricity, with an annual consumption of 9.4%. In 2004 the installed electrical generating capacity reached 400,000 MWe, producing 2,100 TWhe (estimated by The National Development and Reform Commission - NDRC).

In the late 1990s the country experienced a serious oversupply in electric power. The Government responded by closing down small low-efficient thermal power plants and did not give approvals, with a few exceptions, to new power plant constructions until 2002. In 2003, the Chinese government approved 30 major new electric power projects, with a total of 22,000 MWe of capacity. With the surge in economic growth in 2003 came a surge in electric power demand, which has outpaced previous demand forecasts, leading to a shortage of generating capacity and even power-shortages in some areas. The Three Gorges Dam, which by far is the largest project under construction now, will when finished in 2009 include 26 separate 700 MW generators at a total of 18.2 GW.

Future

Average growth of electricity consumption is projected to 4.3% per year through 2025. The largest future growth in terms of fuel share in the future is expected to be natural gas, due largely to environmental concerns in China's rapidly industrializing costal provinces, though the largest increase in absolute terms is likely to be coal. If a truly competitive market for electric power develops as planned, the Chinese market may once again become attractive to foreign investment. At present, foreign direct investment is allowed only in power generation, but loan financing has been obtained for some power transmission projects.

RENEWABLE ENERGY

The Chinese government's efforts to promote renewable energy started over 20 years ago, but have had little effect in establishing commercial markets for renewable energy technologies. China has huge renewable energy resources ready to be exploited and there is a growing awareness that renewable energy can play an important role in meeting energy demand, enhancing energy security, reducing greenhouse gas emissions and contribute to sustainable development. A new policy, called the Renewable Energy Development and Utilization Promotion Law, is currently under development and the intention is that it will provide the necessary mechanisms for increased investments and to develop commercial market in all the different segments of the renewable energy market.

New companies have the opportunity to get into the renewable energy-markets as the need for new products, technology and knowledge is expanding. The draft for the new Renewable Energy Law calls for 10 percent (not including large-scale hydropower) of total primary electricity to come from renewable energy by 2010, increasing to 12 percent by 2020. The plans for the renewable energy in China include increased production of solar power, wind energy, hydroelectric power and increased use of biomass in power-, heating- and transport-applications.

Brief overview: Current status of Renewable Energy

Today the power generation from renewable energy, hydropower not included, is less that 1 percent of the total electricity production. At the start of 2004 the total installed capacities were:
- Grid-connected wind power: 568 MWe
- Solar photovoltaic (PV) systems: 50 MWe
- Solar water-heating systems: 50 million m2.
- Hydropower: 100 GWe, of which 30 GWe is small-scale.

In 2003 the annual output of high-efficient bio-energy was:
- Syngas from gasification; 5 million m3
- Biogas; 5 billion m3
- Bio-oils: 500 000 tons
- 2 GWe from bagasse-based CHP (Combined heat and power)

During 2004, China's gross installed hydropower generating capacity surpassed 100 GWe, making up 25 percent of total installed electric power capacity, providing 20 percent of the total electric power. Regarding only small-scale hydropower, the installed capacity is 30 GWe, providing 5 percent of the nation's total electricity output. An overview of installed capacity target for renewable energy is given in the figure below.

Installed power generation capacity targets in GW

Power source	2003	2010	2020
Small-scale hydropower	30	50	80
Wind power	0,568	4	20
Biomass power generation	2	6	25
Solar power	0,05	0,45	1,5-2
Total	32,6	60,45	120,5

China's renewable energy policy and future development strategies

Since the 1980s the promotion of renewable energy development and utilization has been an outspoken goal for China. The opinions on China's effort and success in this work are divided, while official government sources are all positive, the experts on renewable energy see little effect on the renewable energy situation. The Tenth Five-Year Plan (2001-2005) states: "The production capacity of solar energy, wind energy, and geothermal energy should be increased." Even if the plan does not set forth specific objectives, the focus on renewable energy and sustainable development is clear. China's Eleventh Five-Year Plan (2006-2010) is still under development, but the focus will remain on renewable energy as the New Renewable Energy Promotion Law (see information box to know more about the new law) will give new mechanisms for the RE market. The plan is likely to include the following specific targets for energy from renewable sources:

– China aims at power generation from RE of 60GWe in 2010 and 121 GWe in 2020; which will respectively represent 10 and 12 percent of China's total installed power generation capacity.
– The nation will increase the development of renewable energy heat sources and liquid bio fuels.
– China's use of renewable energy (not including large-scale hydroelectric power) is expected to increase to 20,000PJ/year by 2020, 17 percent of the country's projected total energy consumption.

Renewable Energy Policy in China: Financial incentives

China does not yet have in place a fully developed financial incentive system for renewable energy (supposed to change with the implementation of the new Renewable Energy Promotion Law). The primary financial incentives to support renewable energy are subsidies and tax & customs duty reduction. In China, subsidies are used to fund the operations of relevant government agencies, research & development of renewable energy technologies, and demonstration projects. Subsidies for renewable energy in China are designed to support domestic stakeholders. The central government offers reductions to small hydro, biogas and wind based renewable energy production. The actual taxation for the different renewable energies is given in the following figure.
figure6.xls

Institutional framework

There are many government agencies involved in the RE planning and development. Below is a description of the important ones at the central governmental level.

National People Congress (NPC):
The NPC is the superior body engaged in the development of RE in China. Functions:
– Approve new legislation before introduction to national level policy
– Approve government planning and budgets for the entire economic development, including renewable energy.

State Council (SC):
The SC has the responsibility of making policies for setting standards, pricing, customs duty, taxation, etc. Main functions:
– VAT and customs duty reduction has be approved by the SC
– Responsible for the entire national development planning and budgeting.
– Makes annual, five-year and long-term (10 years or more) national social and economic development plan and submit to the NPC for approval.
– The SC can lay down regulations by itself to promote RE or it can authorise its ministry or commission.

The National Development and Reform Commission (NDRC):
The NDRC is a powerful government agency under the leadership of SC. The responsibilities of NDRC are as follows:
– Develop annual, five-year and long-term (10 years or more) national social and economic development plan on behalf of SC.
– Approve project of over 30 million US$
– Manage foreign investment in China, including World Bank, Asian Development Bank (ADB) and bilateral government investment activities
– Set energy prices.

The NDRC is involved in national renewable energy planning, and budgeting, pricing and approving large-scale projects. If authorised by the SC, it can also issue renewable energy policy. Within the NDRC there is a division responsible for energy efficiency and RE development in NDRC. It has launched several RE programmes such as; "Ride the Wind Program", "Brightness Program" and "Rural Towns Electricity Program".

The Ministry of Science and Technology (MoST):
The MoST is a government agency responsible for technology R&D in all the sectors, including RE. Every year, MoST provides both short-term and long-term supports to R&D of RE technologies.

In addition there are several government agencies involved in RE development:

In addition there are several government agencies involved in RE development:
- MoA is responsible for rural energy development such as household biogas, biomass gasification, improved stoves and so on;
- MWR is responsible for small hydro power development;
- National Administration of Forestry is responsible for fuel wood and other wood energy resources.

At the local level same institutional arrangement exists as at the central level.

Classification of taxation of renewables in China
(Overview of renewable energy development in China: recent progress and future prospects)

Items	VAT	VAAT	Income Tax
General	17 %	8% of VAT	33 %
Biogas	13 %	8% of VAT	15 %
Wind	8,50 %	8% of VAT	15 %
Landfill Gas	0 %	0 %	

New Renewable Energy Development and Utilization Promotion Law

Included in The Eleventh Five-Year Plan is the new Renewable Energy Promotion Law, currently in the process of being written. The law is likely to have significant impact on the future of the Renewable Energy industry in China. It is supposed to give a unified strategy to increase renewable energy in the energy mix by implementing a supportive policy framework for attracting investments. Business opportunities will include project developers and equipment manufacturers in small hydro, wind, solar PV and bio-energy markets. [Status of China's Renewable Energy Development and Promotion Law – Summer 2004, Azure International Technology Development (Beijing) Limited]. The new law will provide a general description of a national renewable energy development plan that will created by the State Council. This plan will be incorporated into the upcoming Eleventh Five-Year Plan for 2006-2010, and will likely include the following specific targets for energy from renewable sources:

– China aims at power generation from RE of 60GWe in 2010 and 121 GWe in 2020; which will respectively represent 10 and 12 percent of China's total installed power generation capacity.
– The nation will increase the development of renewable energy heat sources and liquid bio fuels.
– China's use of renewable energy (not including large-scale hydroelectric power) is expected to increase to 20,000PJ/year by 2020, 17 percent of the country's projected total energy consumption.

If the drafting and review process is completed according to the government's timeframe, the Renewable Energy Promotion Law could be adopted and made effective by the end of 2005. However there are concerns that the law will not be put into force until sometime in 2006.

Hydroelectric

Bildet settes inn under dette avsnittet
Picture1 - Three Gorges Dam, ship locks for river traffic to bypass the dam, May 2004.tif

China has tremendous hydroelectric resources, the largest in the world. Estimates for the total exploitable hydroelectric potential are between 300 GWe (DOE, 2004) and 400 GWe (2004, SDRC – State Development and Reform Commission). About 2/3 of the resources is located in the remote south-western quadrant of the country. During 2004, China's gross installed hydropower generating capacity surpassed 100 GWe, making up 25 percent of total installed electric power capacity, providing 20 percent of the total electric power. There are many players in the hydroelectric generation market, though overall the government still has the largest ownership. There are many huge hydroelectric power projects currently under progress in China. In the late 1990s the country experienced a serious oversupply in the electric power and the Government did not give approvals, with a few exceptions, to new power plant constructions until 2002. In 2003, the Chinese government approved 30 major new electric power projects, with a total of 22,000 MWe of capacity.

In construction stages are more than ten hydropower projects of at least 500 MWe each, including the 5400 MWe Longtan project in southern China and the 18200 MWe Three Gorges project on the Yangtze in Hubei sheng; both scheduled to be finished in 2009. One of the large hydropower projects involves a series of dams on the upper portion of the Yellow River. China's Hydro Electric Corporation is presently developing 25 generating stations, over a 570-mile portion of the Yellow River, with a combined installed capacity of 15,800 MWe.

In planning stages is another gigantic hydroelectric project, on the Jinshajiang tributary of the Yangtze River; a cascade of four huge hydroelectric facilities that will have a total generating capacity of twice the Three-Gorges. Plans have also been proposed for a 14,000 MWe hydroelectric facility at Xiluodo and a 6,000-megawatt facility at Xiangjiaba.

Small scale hydropower

According to the results of China's latest hydropower resource survey, the potential total capacity of small-scale hydropower resource is 125 GWe. The Chinese government has implemented policies that support small-scale hydropower and has included it in its rural electrification plans. At present, existing small-scale hydropower capacity is 30 GWe. It is expected that this number will increase to 50 GW by 2010 and 80 GW by 2020.

Wind

According to China's Academy of Meteorological Sciences, Chinese mainland has a wind energy resource of more than 253 GWe (10m above the ground). Additionally, China has a large area of shallow sea along its eastern coastline, and estimates show that the offshore wind energy potential may of about 750 GWe, bringing the total potential up to 1000 GWe. Areas rich in wind resources are located mainly along the southeast coast and nearby islands and in Inner Mongolia, Xinjiang, Gansu Province's Hexi

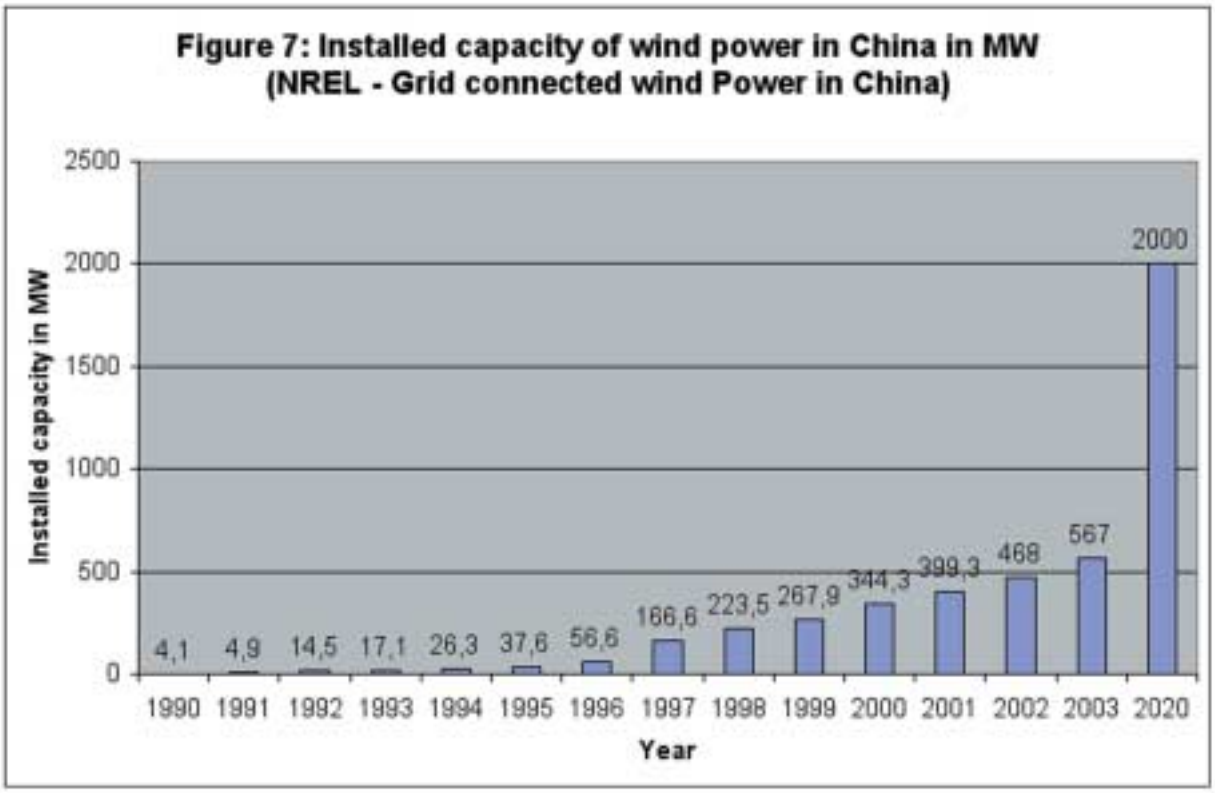
Corridor, and in some parts of Northeast China, Northwest China, North China, and the Qinghai-Tibetan Plateau.

China's installed grid-installed wind capacity grew from four MW in 1990 to 568 MW by the end of 2003 as a result of policy reforms, R&D initiatives, new financing mechanism, and clear goals in the Five-Year Plans. China also has about 200,000 stand-alone small-scale wind turbines (with installed capacity of 25 MW) that provide electricity to rural households located in remote areas without grid-connection.

Over the last years, China has mastered the manufacturing of large-scale wind turbines of 750 kW or less and is in the process of developing megawatt-scale turbines, which are expected to be available in 2005. The country possesses qualified technical personnel in the areas of wind power design and construction, which has the potential to developing large-scale wind power in China.

The Renewable Promotion Law will likely include a target of 4 GWe installed wind power in 2010 and GWe in 2020. In the figure, the installed capacity of wind power is shown for the years from 1990 to 2003. At the moderate pace of windpower development these goals might be unachievable and experts from Azure International Technology & Development Limited estimate that the grid-connected capacity will

Figure 7: Installed capacity of wind power in China in MW (NREL - Grid connected wind Power in China)



reach 1 GWe in 2012. Construction of the 150 MWe Huitengxile wind power project in Inner Mongolia began August 2004. Currently, wind farms are planned for Xinjiang, Inner Mongolia, Hebei, Jilin, Liaoning, Hubei, and Guangdong provinces with a combined capacity of 500 MWe. In addition three more wind concession programs are being planned, each with a capacity of 100 MW; foreign wind power developers are invited to bid on these. More than 30 candidate locations are being explored as potential wind concessions sites.

Geothermal power

The geothermal energy potential in China is significant, but estimates of exploitable power generation potential range from 500MWe to 10000MWe. Most of the high temperature resources suitable for power generation are in the Tibetan Himalayan highlands and the western parts of Yunnan and Sichuan sheng. China's geothermal energy is mainly used for space heating, agriculture, aquaculture, bathing and healing purposes, and cloth dyeing.

Solar Power

China has rich solar energy resources. China has more than 25000 photovoltaic (PV) solar power systems throughout the country. At present, China's installed capacity of PV systems is about 50 MWe, of which 50% is used to supply electricity to the residents of remote rural areas where there is no direct electricity grid access, a market that is growing 20% annually. In China, solar energy is mostly used for passive solar heating of houses, greenhouses, and water. The cumulative installed capacity of solar water heaters now surpasses 50 million square meters (m2) of collector area.

Brightness Program

China's Brightness Project Program is a national program funded by the central government that develops financing options, solar applications, and wind generation; in order to provide electricity in remote areas. The target of the program is to provide electricity of 100W of capacity per person for 23 million people in remote areas by 2010 using renewable energy technologies.

Biomass

China's main biomass resources are agricultural wastes, scraps from the forestry and forest product industries, and municipal waste. Biomass energy resources in China are presently used mainly through conventio-

nal combustion technologies. Biomass gasification, biomass liquefaction, and biomass power generation technologies are gradually being developed. China currently has a total of over 12 million household biogas digesters and over 1,500 industrial-scale biogas plants, which together produce over five billion cubic meters of biogas annually. In terms of biomass liquefaction technology, China is in an investigative and experimental phase. Currently the main technologies developed and in use are ethanol fuel technology and bio-oil technology. China has already established two large ethanol fuel production bases, one in the north and one in the south, with a total annual production capacity of over one million tons. Production of bio-oils in China has reached about 500,000 tons annually. Biomass power generation in China, with an installed capacity of almost 2,000 megawatts (MW), consists mainly of combined heat and power (CHP) in sugar mills and power generation using rice husks. Other types of biomass power generation, such as that achieved through biomass gasification or hybrid fuel technologies, have not yet reached significant scale in China. Whether burned directly, used to produce electricity, or used as a substitute liquid fuel, biomass energy resources have the potential for playing a decisive role in China's energy supply.

THE ROAD AHEAD

Renewables:

– China will increase its dependency on hydroelectric power in the future and both large- and small-scale hydropower stations will be built.
– Several large wind power farms are being planned, and foreign developers are invited to join.
– "The brightness program" makes way for household and village solar power systems.

Non-Renewabels:

– in order to exploit the natural gas resources the Chinese petroleum companies need technology for processing, transporting and refining
– because of the rapidly increasing number of low-efficiency coal-fired power plants there will be a need for improving the efficiency of these power-plants
– foreign capital will also be needed in exploration of new reserves
– the Chinese natural gas market will need guidance in how to develop a feasible market mechanism

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Shipping

Shipbuilding is a global industry, with China as the third largest shipbuilding nation in the world, after Japan and South Korea. The Chinese goal is to be the number one shipbuilding nation within 2015, according to Li Zhushi, vice-president of China State Shipbuilding Corporation (CSSC). The aim is to host one third of the total capacity in the world by that time. One of the processes set in action to manage this is the building of the port and yards at the Changxing Island in the estuary of the Yangtze River and, thereby relocate the shipbuilding industry to this island from the Huangpu River that runs through the centre of Shanghai.

The building of ships, especially large vessels over 70.000 dwt, is a human intensive industry, so the labour costs are crucial. These costs are low in China, approximately 10-15% cheaper than in Japan and at about the same level as those in South Korea. The lower productivity and poorer technology are however drawbacks for the Chinese shipyard industry, but these levels are continuously rising. As the performance quality and delivery are improving, the competitiveness of the Chinese shipbuilding will grow. The competitiveness for sophisticated vessels will also rise because of more diversified effects being used in the production.

CHINESE PLAYERS

China Shipping Group (China Shipping) was founded in 1997. It is one of the 44 key state-owned enterprises under the direct administration of the Central Government and is a large shipping conglomerate that operates across different regions, different sectors and different countries. China Shipping has total assets of RMB 40 billion. Under its umbrella, there are five specialized shipping fleets of oil tankers, tramps, passenger ships, container vessels and special cargo ships, respectively, comprising 400 vessels with an aggregate deadweight of 11.5 million tonnes. It also operates in different diversified businesses, like integrated logistics, terminal management, finance and investment, engineering and labour service. It has established more than 30 overseas subsidiaries. Its container fleet is currently composed of over 100 vessels, with a total shipping capacity of nearly 200,000 TEUs. More than 50 shipping routes are being operated, including main-haul and feeder services, to cater for the needs of both domestic and international trade. China Shipping Container Lines is ranked among the world's 20 largest container carriers.

China Ocean Shipping Company (COSCO) was founded in 1961 as the pioneer of international shipping carrier in China. COSCO has grown into a $17 billion corporation. It is an international player, specializing in shipping and modern logistics, serving as a shipping agency and providing with services in freight forwarding, shipbuilding, ship-repairing, terminal operation, trade, financing and real estate. They have a merchant fleet of some 600 vessels with total carrying capacity of up to 35 million DWT. Their core business is shipping and modern logistics. In China their wholly-owned subsidiaries are located in Guangzhou, Shanghai, Tianjin, Qingdao, Dalian, Xiamen and Hong Kong. COSCO own and operate various types of vessels, like containership, bulk carrier, oil tanker as well as specialized carrier. Ships and containers with the COSCO logo are shuttling among 1,300 ports in more than 160 countries and regions around the world.
Sinotrans Limited (Sinotrans) is a joint stock limited company incorporated in the People's Republic of China. The Company was listed successfully on The Stock Exchange of Hong Kong Limited in February 2003. Sinotrans and its subsidiaries is a leading provider of logistics services in China. The Group's core services are freight forwarding, express services and shipping agency services and its support services include storage and terminal services, trucking and marine transportation. The Group's services operations cover the fast-growing coastal regions of China including: Guangdong, Fujian, Shanghai, Zhejiang, Jiangsu, Hubei, Lianyungang, Shandong, Tianjin, Liaoning and other strategic regions. Also, the Group has an extensive and well established domestic service network and an overseas agency network.
China Merchants was founded in 1872. Being the forerunner of China's national industry and commerce, China Merchants has played an important role in the modernization of China.
China Merchants has now grown into a diversified conglomerate with great strength. The company has market expertise in several business sectors covering transportation, infrastructure, finance, real estate, energy, shipping & logistics. China Merchants' total assets value amounts to over $50 billion and the total assets value under her management amounts to nearly $120 billion. With her headquarters based in Hong Kong and her business operations in emerging markets with dynamics and great potential including Hong Kong, mainland China and Southeast Asia.

Rules for foreign shipping companies to set up their solely owned companies in China:

To regulate investment and operation of foreign shipping companies in China and protect the legitimate

rights and interests of investors, the Chinese Ministry of Communications and the Ministry of Foreign Trade and Economic Cooperation have promulgated the Provisional Regulations on the Examination and Approval of Wholly Foreign-funded Shipping Companies, permitting foreign shipping companies to set up wholly owned shipping companies in China. Below are some major stipulations:

1) An applicant for the establishment of a wholly owned shipping company must meet the following requirements:
a. It should have experience of no less than 15 years in shipping business;
b. It should have had a permanent representative office approved by the Ministry of Communications for no less than three years in the port city where the solely owned shipping company is to be located;
c. Its regular passenger or cargo ship should call no less than once a month at a harbour in the city where the solely owned shipping company is to be located.
d. Its operations in China are free for two successive years from any violation of the Chinese laws, administrative statutes and relevant regulations.

2) Business Scope and Registered Capital:
a. The approved wholly foreign-funded shipping company or its branch is allowed to conduct the following business activities for its parent company: cargo solicitation, signing the bill of lading, freight clearance, and signing service contracts.
b. The registered capital of a wholly foreign-funded shipping company should be no less than US$1 million.

3) A wholly foreign-funded shipping company is allowed to establish branches in other port cities, as long as the following requirements are met:
a. The registered capital of the wholly foreign-funded shipping company has been paid off and the company has been in operation for a full year;
b. The parent company has liners (including joint consignment, shipping space swap and joint operation) that call the port city where the branch is to be located;
c. The parent company has had a permanent rep. office approved by the Ministry of Communications for no less than a year in the port city where the branch is to be located;
d. The operations in China of the wholly foreign-funded shipping company and the parent company are free for one year from any violation of the Chinese laws, administrative statutes and relevant regulations
e. The wholly foreign-funded shipping company should add US$120,000 to its registered capital for each branch it establishes.

ORGANISATIONS

Shipbuilding is controlled by the state and is organised in form of these different organisations.

China Shipbuilding Trading Co., Ltd (CSTC):

This organisation is an industrial trading company, witch is incorporated in the shipbuilding system of China. It is particularly engaged in export and import business of the Chinese shipbuilding industry, and has offered its services since 1982. The CSTC has contri

buted with boosting exports of the industry by deepening reforms of the foreign trade system, sharpening its own competitive edge and achieving remarkable success with making driving force for the Chinese shipbuilders to get into the world market.

China Shipbuilding Industry Corporation (CSIC):

The shipyards that operate under the guidance of the CSIC are situated in the northern cities. There are in total 96 enterprises with 170.000 employees and. CSIC has a goal to expand its annual capacity in 2005 to build 4 million DWT and, increase this capacity with another 5 million DWT within 2016.

China State Shipbuilding Corporation (CSSC):

This state owned organisation was established in 1982and, its work is being supervised by the State Council. It consists of 58 enterprises with 95.000 employees in the eastern and southern parts of China as well as in the Jiangxi province. CSSC incorporates shipyards, works manufacturing machinery and equipment, scientific research institutes and design offices, and a system of training the personnel.

YARDS

Dalian New Shipyard Heavy Industry Co., Ltd (DNS)

This ship yard was established in August 1990 as Dalian New Shipyard and changed its name to Dalian New Shipyard Heavy Indutry Co., Ltd in August 2000. It is situated in Dalian on the southern tip of the peninsula in the Liaoning province. There are 4300 workers at the yard, which stretches out over more than 1,1 million square meters. DNS lies under CSIC and is the largest modern shipbuilding enterprise under this organisation. The yard has received certificates of quality approvals from Det Norske Veritas and China Xinshidai Quality System Certification Body using the ISO9001 standard. The nation's major focus in reaching the goal of becoming the largest shipbuider in the world by 2015, lies on DNS.

DNS does both designing and new building as well as repairing and, on its repertory are ships, offshore projects and marine equipment. The yard is the first in China to build vessels up to 300.000dwt and, it possesses technical power to build all types of tankers and bulk carriers in this class.

Hudong-Zhonghua Shipbuilding Group

The Hudong-Zhoughua Shipyard is established through a merge between the two large Shanghainese Shipyards Hudong Shipbuilding Group and Zhonghua shipyard April 8. 2001. The Hudong-Zhonghua shipyard is subordinate to the China State Shipbuilding Corporation (CSSC), and is the biggest shipyard in the Shanghai area. It head office is situated at Pudong New Area, and there is major production areas at the east part of shanghai, along both sides of Huangpu River. It covers an area of 1.32 square meters, and has 2000 meters of wharf line. The employee number is 14000, and the Group possesses the total assets of 7 billion RMB, among these a VlCC class dry dock, a 120,000DWT class floating dock, and five shipbuilding berths for ships up to 20,000DWT and 120,000DWT respectively

The Group also comprises Hudong Heavy Machinery Co., Ltd, a listed company, Edward Shipbuilding Co., Ltd., a Sino-German joint venture, Dong Ding steel Structure Co., Ltd., and up to 100 other marine equipment manufactures and sub- companies.

The products of the Group are varieties of advanced ships ranging from 147210m3 LNG carrier and 2,700 TEU container ship of high-tech to super-large 8,530 TEU one. LPC carriers, Large and medium- sized container ships, crude oil tankers, Ro/Ro ships, floating production storage units, products carries, bulk-cargo carriers, ships for naval use and passenger ships.

Jingnan Shipyard Group

Jiangnan shipyard was established in 1865, and is one of the first yards in Chinese industry history. In 1996 the yard was transformed into a state-owned solely funded Company. It is located west of Zhangjiangang, neighbouring Shanghai to the east and Suzhou, Wuxi and Changzhou to the southwest. There is about 10,500 employees, and among these around 450 senior engineers.

Jingnan shipping Group produces highly sophisticated vessels such as liquefied gas carriers, car carriers, crude oil tankers, Panamax bulk carriers, Handymax bulk carriers, Lake suitable bulk carriers, multi- pur-

pose cargo ships, fast feeder container ships etc, but gas carriers is recently the major product.

The Group possesses a new building section, specific divisions witch are specializing in manufacturing pressurized tanks liquefied gas carriers, large steel structures for civil architect engineering, different types of mechanical and electrical equipment, non-standard equipment, pressure containers, port machinery etc. The Jingnan Shipyard Group has also been approved for qualification of ISO 9001.

PORTS IN CHINA

China with her over 18.000 kilometres coastline, Yangtse River, Zhujiang, Helongjiang River and Jinghang Great Canal provide exceptionally advantageous natural harbour conditions. She has now more then 2000 harbours, each with over 10.000 tons annual throughput. Among them are 591 deepwater berths each with over 10.000 tonnage capacity. 120 of the ports are open to the outside world.

Inland water navigation extends up to 110.000 kilometres forming an inland water transport network that consists of Yangtse River main stream, Xijiang River main stream, Jinghang Great Canal main water passage, Yangtse River Deltaic navigational network and Zhujiang Deltaic navigational network. The "T" shape water transport system formed by northern and southern coast and Yangtse River waterway is the integral part of China's national comprehensive transportation system.

2004 was one of the most successfully years on record for the shipping industry, keeping ports around the world very busy as many struggle to keep up with demand, quell congestion and move forward with expansion plans. China continues to be at the forefront, as they now account for 20-25% of the global TEU (twenty-foot equivalent units).

Port of Dalian

The Port of Dalian is situated at the south end of Liaodong Peninsula and is one of the coastal hub ports in China and also the largest multi-purpose port in Northeast China. The port of Dalian was founded in 1899 and located in a deep-water, ice-free harbour.

Today the port is the main commercial port for industrialized north-eastern China, and the largest transient terminal for grains and petroleum of China. It can accommodate supertankers and has large shipyards. Manufactures include refined petroleum, chemicals, fertilizer, machinery, iron and steel, and transportation equipment.

The port of Dalian is composed of Daliangang, Dalianwan, Xianglujiao, Nianyuwan, Ganjinzi, Heizuizi, Si'ergou and Dayaowan port areas. It has more than 70 berths, including 40 with above 10,000 tons berthing capacity, connecting with over 300 ports in 160 or more countries.

The annual throughout was 64.17 million tons in 1995. In 2002 it handled 11 million tons of cargos.

Port of Tianjin

The Port of Tianjin is situated at the estuary of the Haihe River in the west of Bohai Gulf. It is the largest man-made port in China, and one of the hub ports and an important international trading port in China. The Port of Tianjin is the largest comprehensive trading port in northern China, with a total area of 200 sq km and more than 140 berths of various types (deep water berths, petrochemical product berths, passenger and cargo berths and so on).

As Beijing's gateway to the sea and the third largest city in China, Tianjin is the key industrial and commercial area in north China. The port of Tianjin began to grow in importance after the Ming dynasty (1368-1644). The port is frozen over for about 80 days during the winter months.
In 1988 the Port only handled a total of 2,25 million tons of coal, but in 1998 it up to 34 million tons in 1998, thus made the port the second largest energy

exporting port in the country. Vessels of 70,000-80,000 dwt can sail in on tide.

The throughput of the Port was 57.87 million tons in 1995. It is expected that the port will rank among those with over 100 million tons in overall throughput by the year of 2010.

Port of Qingdao

The Port of Qingdao is situated at the Jiaozhou Bay of Shandong Peninsula, bordering on the Yellow Sea and facing Japan and Korea Peninsula across the sea. is the second largest foreign trading port in China, a natural deep and wide port with no freezing all the year round. The Port of Qingdao has an advantageous geological location and favourable natural conditions. It is an important transit port in the Yellow River valley and on the west coast of the Pacific Ocean, and is also a hub port for international trade and north-south sea borne transportation.

The Port of Qingdao is located at the starting point of Qingdao-Jinan Expressway and Jiaozhou-Jinan Railway convenient for cargo gathering and transporting. Besides its business coverage in the whole Shandong Province, the Port, with its vast economic hinterland, has extended its business to such provinces and regions as Henan, Hebei, Shanxi, Shaanxi, Gansu, Inner Mongolia, Xinjiang and Sichuan. The Port has established trade contacts with more than 450 ports in more than 130 countries and regions. Presently, the Port has 70 productive berths, among which 24 berths are deep sea water berths for vessels of over 10,000 dwt. In 1995, the throughput capacity of the Port reached 73 million tons, out of which, containers handled were 600,00 TEUs. In 2003 the throughput for world trade at Qingdao port exceeded 100 million tons, most of which was handled in the Qianwan New Port Area.

Port of Shanghai

The Port of Shanghai is the largest port open to international navigation in China and, the third largest container port in the world. It is situated in the east of China and at the midway of China's coast line, where east-west water borne transportation converge. The port has 140 public productive berths, in which 68 are for vessels of over 10.000 dwt.

Since 1984, the Port of Shanghai has been one of the largest ports of the world. So far, the port of Shanghai has had trade relations with more than 400 other ports and more than 600 shipping companies from more than 160 countries and regions.
Throughput in 2002: 263,84 million tonnes, 8,61 million TEUs.

Demands for Chinese exports have lead to volume at the Port of Shanghai increasing 29% in 2004, reaching a throughput of 14.55 million TEU and solidifying its place as the third largest container port in the world. Shanghai's offshore Yangshian deepwater terminal is slated to open in 2006, with an eventual capacity able to handle 25m TEU a year.

Port of Ningbo

The port of Ningbo is situated in the middle of the coastal area of China and on the south side of Hangzhou Bay. The Port is the deepest in China, and is composed of Ningbo, Zhenhai and Beilum port areas. There are 59 productive berths for vessels of more than 500 dwt, among which there are 22 deep-water berths for vessels of over 10,000 dwt. The annual throughput of the port was 68.52 million tons in 1995.
Ningbo Port is rapidly developing.

A port industry based on the key products such as petroleum, chemistry, papermaking, power supply and steel works is being actively developed in Ningbo.
Throughput in 2002: 153,89 million tonnes

Port of Guangzhou

The Port of Guangzhou is situated in the estuary of the Pearl River, adjacent to Hongkong and Macao.

The Port is the combination of former Huangpu Port and Guangzhou Port and is the biggest foreign trade port in South China and one of the coastal hub ports in China. There are 797 berths in all at the port, among them 32 are deepwater berths for vessels of 10,000 dwt. There are various specialized terminals for handling containers, coal, grain, chemical fertilizer, petroleum and passenger traffic. The throughput of the port was 73 million tons in 1995. Throughput in 2002: 167,72 million tonnes. 2002: 2,17 million TEUs.

Port of Shenzhen

The Port of Shenzhen it situated between Hong Kong and Guangzhou in the southern part of China. Figures released by the Shenzhen Port Authority show that 6.1 million TEU passed through the port in the first half of 2004, an increase of 32.12 per cent over the same period in 2003. From March to July 2004, the port handled a record one million TEU each month. And in June 2004 another record was set with a throughput of 1.14 million TEU.

The port authority also reported that Shenzhen handled a total of 63.321 million tons of cargo in the first half of 2004, up 24.32 per cent year-on-year.
The authority says that a growing number of container lines have increased their capacities and have decided to launch new services from Shenzhen.
Maersk, Cosco, APL, Zim and member lines of the New World Alliance have launched ten new services from Shenzhen, boosting the number of international container services from the port to 116.

Shenzhen handled a total of 13 million TEU and 130 million tons of cargo in 2004, making it the fourth largest container port in the world.
Throughput in 2002: 87,67 million tonnes
2002: 7,44 million TEUs

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Agriculture

After reforms in the late 1970s and 1980s, the market mechanisms started to regulate the supply and demand of agricultural products. This aroused the peasants' creativity and enthusiasm for production, contrary to what it had been like until then.

Commodity production and circulation in rural areas developed at an unprecedented scale and rate. Now the agricultural sector in China has become more modern, and trends that the western world experienced many years ago, are now also seen in China: the service/ tertiary sector is outgrowing the primary and secondary sectors, and within the primary sector agriculture is losing ground to animal husbandry. According to government estimates, at least 150 million farmers can be transferred into other sectors without adversely effecting Chinese agricultural production. Decreasing the number of workers in the agricultural sector will help improve China's production efficiency, but it will be a challenge to find work for all of these people. The real challenge is the lack of opportunities (other than in farming) in the rural areas.

By the mid-1990s, China's corn, wheat, indicia rice, rapeseed and other agricultural commodities no longer enjoyed a comparative advantage against the rest of the world. The costs of production for such products in China exceed the world average, implying a lost comparative advantage. After joining the WTO, such products were the hardest hit, because they were also land intensive. Since the early 1990s, China's production costs have increased an average of 1 percentage point, per year. This trend is directly linked to the growth and success of the rest of the economy (the prices of labour, seeds, and other inputs have increased as the rest of the economy has grown). It is also linked to the limited scale of production seen on most Chinese farms (the average acreage per family farm is only 0.4 hectare, less than in Taiwan and Japan). Meanwhile, the labour cost per unit of agricultural production in China is much higher than in the EU and the US, where considerable economy of scale has been achieved. The potential for mechanization of the Chinese agricultural production is prevalent in some areas of the country, although some areas like the North East has almost reached the mechanization levels of developed countries. It is also a double- edged sword in two regards: First, the peasants would be made redundant and have difficulties finding new jobs. Second, given the low wages of Chinese peasants (2210 RMB pr year (1999)) the profit potential from mechanization is not comparable to European circumstances.

Production (million tons)

Rice, paddy:	185,110,000
Maize:	131,700,000
Sweet potatoes:	106,000,000
Sugar cane:	92,000,000
Wheat:	91,330,000
Potatoes:	75,000,000

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Hong Kong

After more than 150 years of being under British colonial rule, Hong Kong became a special administrative region of Peoples Republic of China on July 1, 1997. Hong Kong is now operating under the "one country, two system" plan. This means minimal government intervention in the economy, self control of financial affairs and an own monetary system.

Hong Kong has since the takeover in 1997 experienced some turbulent times. This is mostly due to the Asian financial crisis in 1997, the general economic decline in 2001 - 2002 and SARS in 2003. Since then the city's economy has recovered and Hong Kong has experienced growth in the latest years.

Under British rule Hong Kong was a producing region with manufacturing being the backbone of the economy. After the opening up of the Chinese economy starting in 1978 the manufacturing gradually has moved to Pearl River Delta, a large area in the Chinese mainland close to Hong Kong. This has left Hong Kong as a world-class service economy in which the service industry accounts for approximately 85% of the GDP. Hong Kong is now mostly focusing on financial and professional services as well as logistics and tourism. Hong Kong hosts nearly 200 foreign banks and almost 800 international regional headquarters. The city's position is however challenged by the emerging and fast growing financial service complex being set up in Shanghai.

HONG KONG AND CHINA

Most of Hong Kong's export and import are related to China. Hong Kong interest in China makes up 45% of Chinas Foreign Direct Investment and 40% of Hong Kong's total trade.

Before China entering WTO Hong Kong enjoyed some advantages over other international players in the Chinese market, and this established Hong Kong's role as the port for foreign companies into China. From an international perspective Hong Kong was and is still considered a less risky place to start from as it holds many of the aspects that China lacks; a transparent legal and regulatory system, international mentality, English skills, possibility to redeem and convert money and a developed infrastructure. Many companies therefore signs contracts in Hong Kong prior to performing them in mainland China. Hong Kong has in addition a good knowledge of China and the Chinese business culture which makes it an easy place to operate from. Hong Kong has the world's most busy container port and an airport serving 100 international and 40 national (Chinese) destinations.

Traditionally there has been a lot of smuggling between the two countries, especially with money going out of China and into Hong Kong. The money could then be re-invested in China but be considered as a foreign investment. The players would profit by this due to the financial incentives set on foreign investments by the Chinese government. It is estimated that a minimum of 25% of the businesses in Hong Kong are controlled by inland China. This aspect underlines the interdependence between the two parties.

China's entry to the WTO

China entering WTO in December 2001 have had, and will continue to have a great impact on the Chinese economy and hence also on the Hong Kong economy. From one perspective China's development will make Hong Kong less advantageous as an entrance port to China. On the other hand the growth in the Chinese market will also have a positive rub-off effect for Hong Kong industries. Pearl River Delta which often is called "the factory of the world" is only a few hours outside Hong Kong and many companies operate in these areas whilst still being settled in Hong Kong.

CEPA

The possible negative impact from the WTO deal for the cooperation China – Hong Kong is partly compensated by the Closer Economic Partnership Agreement (CEPA) between the two parties. This came into effect

January 1, 2004 and eliminates tariffs on 90% of the exports between China and Hong Kong. It also gives Hong Kong registered companies a first-mover advantage in the Chinese market. Companies that are not already registered in Hong Kong will however be too late to utilize this advantage. January 1, 2005 CEPA II came into effect opening for even more services and goods coming under the agreement.

HONG KONG AS A MARKED

Hong Kong in it self is an interesting market being a truly cosmopolitan city with a high purchasing power. It is the only market in the world where Porsche has a measurable market share. Norwegian salmon is one example of a goods being exported to Hong Kong with success.

FUTURE PROSPECTS

There are several different opinions on the future prospects of Hong Kong's future, one stating that Hong Kong's glory days are gone as the full implications of China in the WTO will be acted out. Hong Kong will get the greatest competition from Shanghai taking the role as China's new financial centre. Shanghai has the advantage of a more central location in China and lower cost. The time perspective of this projected development is however unsure.

An opposing view expresses that Hong Kong still will be a preferred business centre, particularly when operating in the Pearl River Delta region, but also with the rest of China. This is mainly because Hong Kong has a long-term, essential experience in acting both with Western and with Chinese players and besides, China will not turn into a modern, developed country overnight. With their colonial history Hong Kong provide a unique cultural understanding of both worlds. Furthermore the government in Hong Kong does have a great emphasis on organizing the facilities for companies. Their newest project is building a bridge between Hong Kong, Zhuhai and Macao. This will decrease the travel and transportation time to several important cities in the Pearl River Delta area. They also have several agencies helping national and international companies wanting to invest or doing business in Hong Kong.

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HONG KONG FACTS (2003):
Population: 6, 81 million
GDP per capita: US$ 23,300
EXTERNAL TRADE:
Total exports: US$ 223 billion – clothing, electronics, textiles, watches and clocks, office machinery
Imports: US$ 232 billion – consumer goods, raw materials and semi-, capital goods, foodstuffs, fuels
Air Cargo: – 2, 64 million tones of cargo (world's busiest int. cargo airport, 2002)
Container port: – 20, 4 million TEUs (world's busiest, 2002)
Size of economy: Worlds 11th largest economy and 3rd in Asia, after Japan and China.
Legal system: Transparent and international (IPR protection)
Tax rates: 16% salaries, 17, 5% profits tax
Stock Market: 9 th largest in the world, 2 nd largest in Asia

Source: Hong Kong Trade Development Council, 2004

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