U.S. Country Commercial Guides

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China

U.S. Department of Commerce | International Trade Administration

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Doing Business in China

Market Overview

China's economic and demographic scale make it a cannot miss market for many companies, but the country faces growing economic headwinds and American companies report increased pessimism about their prospects in the market.

In 2016, China experienced its lowest economic growth rate in more than a quarter century with real GDP growth decelerating to 6.7%. Although economic indicators in late 2016 [and the first half of 2017] suggest a short-term cyclical upturn may be underway, many economists remain concerned about China's medium-term prospects for economic growth due to the slow pace of economic reforms and a failure to bring corporate debt levels under control. China's 13th Five-Year Plan (2016-2020) calls for ambitious policy reforms in order to "comprehensively build a moderately prosperous society" by doubling 2010 GDP and per capita incomes by 2020. This will require China to maintain an average of 6.5% annual GDP growth over the plan's five-year period (2016-2020). Achieving this growth without further exacerbating the build-up in debt will be a major challenge for the Chinese leadership, requiring significant policy adjustments that could impede short-term growth and be opposed by powerful vested interests.

U.S. good exports to China in 2016 were $115.8 billion, down slightly from the previous year. U.S. exports of services to China were an estimated $45.4 billion in 2015 (the latest data available), which is over 400% higher than 2005 levels and approximately 800% higher than the year prior to China's WTO accession in 2001. The United States had a services trade surplus of approximately $37.4 billion in 2016, which is an increase of 25% from the previous year.

While China's leadership has, in response to increasing global concerns about Chinese economic policy, repeated long-standing commitments to gradually opening China's market to foreign participants, little tangible progress has been made in recent years. Indeed, foreign companies report growing concerns about the business climate in China. China continues to rely upon industrial policy tools – including subsidies, market access restrictions, pressures to transfer technology, and other support for domestic competitors – to drive the economy, calling into question the ability of foreign firms to operate on a level playing field in the market. Furthermore, Communist Party control over SOEs, non-government organizations, and think tanks has increased over the last year. The United States continues to vigorously engage Chinese counterparts to push for a more balanced and fair bilateral economic relationship. Nevertheless, significant market potential exists for foreign companies, particularly those operating in industries such as energy efficiency, clean technology, and healthcare, where critical Chinese needs provide an opportunity for mutual benefit.

Market Challenges

China is a challenging place to do business. According to the American Chamber of Commerce in China (AmCham), in 2016, American businesses in China faced headwinds arising from slowing economic growth, inconsistent and generally unfavorable interpretation of regulation, growing pressures from domestic industrial policy, and rising costs of doing business.

AmCham's most recent member survey reported that 81 percent of respondents felt foreign businesses are less welcome in China than before. Likewise, less than three-quarters of U.S. China Business Council member companies have an optimistic five-year outlook, the lowest total over the past decade.

Day to day business operations present a variety of obstacles. The World Bank in its Ease of Doing Business Report ranks China 78th out of 190 countries with respect to opening and running a business while complying with local regulations. For starting a business, the World Bank ranked China 127th, reporting that starting a business requires at least 11 procedures in Shanghai and Beijing that average more than 30 days to complete. Despite significant Chinese government efforts to streamline bureaucracy and reduce red tape, foreign companies continue to complain about administrative procedures, especially with respect to registration and licensing.

China also continues to pursue industrial policies that seek to limit market access for imported goods, foreign manufacturers, and foreign services providers, while offering substantial government guidance, resources, and regulatory support to Chinese industries. The principal beneficiaries of these policies are state-owned enterprises, as well as other favored domestic companies attempting to move up the economic value chain. Provincial and local governments often have an ownership stake in private companies, which can result in government support.

Foreign enterprises report that Chinese government officials may condition approvals on a foreign enterprise's agreement to transfer technology; conduct research and development in China; satisfy performance requirements relating to exportation or the use of local content; or make valuable, deal-specific commercial concessions.

An area of growing concern for the foreign business community in China in 2016 are numerous draft and final measures that would impose severe restrictions on a wide range of foreign information communication technology (ICT) products and services, which have an apparent long-term goal of replacing foreign ICT products and services with domestic competitors. Concerns centered on the requirement that ICT products and services used or procured in many sectors be "secure and controllable."

Finally, while foreign firms overwhelmingly continue to report profitability in China, their margins are shrinking, reflecting increasing competition, rising costs, heightened regulatory impediments, a shrinking labor pool, and—in some sectors—overcapacity.

Market Opportunities

In general, U.S. companies continue to feel that China's growing middle class will lead to market opportunities across a number of industries. According to AmCham, companies in consumer-based industries and the services sector are the most likely to prioritize China in growth plans, while industrial and resources companies are the least likely. Consumer-based and services sector companies view e-commerce as an explosive area for growth. Companies in the services sector by a wide margin (71%) expect to benefit from the globalization of Chinese companies and increased outbound investment. Companies in the industrial and resources industries expect to benefit from China's urbanization push and continued support for infrastructure projects. Companies offering clean energy goods or services stand to benefit from stronger environmental regulation and more stringent emissions standards. Some top sectors we will explore in this report include:

- Aviation
- Education
- Energy & Environment
- Medical Devices
- Tourism

Market Entry Strategy

As always, companies should consider their own resources, previous export or business experience abroad, and long-term business strategy before entering the China market. Representation in China by a Chinese agent, distributors, or partners who can provide essential local knowledge and contacts will be critical for success. Intellectual property rights holders should understand how to protect their IP under Chinese law before entering the China market, and should conduct thorough due diligence on potential partners or buyers before entering into any transaction. Foreign companies have a wide range of options for corporate formation in China, including Wholly Foreign Owned Enterprises, Joint Ventures, Representative Offices, and other investment vehicles. Each option has its own advantages, disadvantages, and risks. All companies, IP rights holders, and others should consult closely with lawyers who have extensive experience with the China market, including lawyers based in the United States and China.

The U.S. Department of Commerce, United States Foreign Commercial Service (USFCS) offers customized solutions to help U.S. companies, including small- and medium-sized enterprises, succeed in the China market. USFCS stands ready to help U.S. companies develop comprehensive market entry or expansion plans, learn about export- and customs-related requirements, obtain export financing, and identify potential partners, agents, and distributors through business matchmaking programs, trade shows, and trade missions led by senior U.S. Government officials. For U.S. companies that purchase our Gold Key Service, USFCS can facilitate one-on-one meetings with: pre-screened buyers; potential customers or end-users; experienced professional services providers; and key government officials. Furthermore, by engaging USFCS, U.S. companies can learn how to leverage high-level bilateral policy discussions. With these tools, explained in greater detail in this Country Commercial Guide, U.S. companies will be better positioned to take advantage of opportunities in China's market.

In addition, the U.S. Department of Agriculture's Foreign Agricultural Service (FAS) provides equivalent-level trade services at no cost for U.S. companies interested in exporting agricultural, fishery, and forestry products through their Agricultural Trade Offices. FAS maintains offices in the cities of Beijing, Chengdu, Guangzhou, Shanghai, and Shenyang. FAS works with USDA agencies and other U.S. food safety-related agencies (in particular, the United States Food and Drug Administration) to coordinate the U.S. response to newly arising sanitary, phytosanitary, and technical barriers to trade, such as identifying and resolving challenges posed by new procedures introduced at port or acquiring, translating, and coordinating the U.S. response to draft regulations that could affect U.S. exports.

Political Environment

For background information on the political and economic environment, please see the Political and Security Environment section of the Investment Climate Statement.

Selling US Products & Services

Using an Agent to Sell US Products and Services

China's fast-growing economy attracts international participation, including exports from U.S. small and medium-sized enterprises (SMEs). Unlike large international or multinational companies that establish operations for branding, marketing and various business activities in China, SMEs with limited budgets when expanding their businesses usually start with fostering a sales network through regional agents or distributors. Sales agents and distributors can assist in keeping track of policy and regulation updates, both locally and nationally, collect market data, and quickly respond to changes. In addition, U.S. SMEs can take advantage of existing networks enjoyed by their agents and distributors and expand their businesses through such contacts. However, there are some drawbacks to this approach. Employing a third party results in an additional cost to your products and you may also lose some control and visibility over sales/marketing. It also has implications for intellectual property rights protection, increasing the risk of your product being copied or counterfeited.

Given the above considerations, companies need to select agents and distributors carefully. Companies should conduct due diligence, verify any information that's provided, and act on red flags. There is no specific standard for international due diligence; however, some of the frequently asked questions in the following checklist may be useful in a company's investigation of a potential business partner:

- Do they represent any competing companies/products?
- Can you communicate effectively with your counterpart?
- Are they legitimately registered?
- Who are the shareholders?
- Are they financially sound?
- Is it possible to arrange a site visit to their office/facility?

Establishing an Office

Foreign companies have a wide range of options for corporate formation in China, including Wholly Foreign Owned Enterprises (WFOE), Joint Ventures (JV), Representative Offices, and other investment vehicles. Each option has its own advantages, disadvantages, and risks. All companies, IP rights holders and otherwise, should consult closely with lawyers who have extensive experience with the China market, including lawyers based in the United States and China.

Representative Office

Establishing a representative office (RO) is the quickest and easiest way to enter China, as it has no registered capital requirements. However, an RO's scope is quite limited; ROs may not engage in any profit-making activities, and can only legally participate in market research, investigation, promotional activities of products or services, liaison for the purposes of selling products or services, domestic procurement, or domestic investment. Since an RO is a non-legal entity representing their parent company overseas, the parent company is responsible for signing any sales contracts and must have an established history of more than two years.

Applications for most industry ROs can be applied for directly at the Administration of Industry and Commerce (AIC) in the locality where the proposed RO is to be established. The registration of a RO is required in order to lawfully employ Chinese nationals, to open a bank account, or to use business cards that identify the company's presence in China. ROs may employ no more than four foreign representatives at a time. ROs are not considered legal entities, and therefore are limited in hiring ability, issuing invoices or receiving payments in RMB.

Wholly Foreign-Owned Enterprise

A wholly foreign-owned enterprise (WFOE) is a limited liability company with complete ownership under foreign investors. By some accounts, nearly 80 percent of new investments are WFOEs, as opposed to Representative Offices or JVs. As Chinese legal entities, WFOEs experience greater independence than ROs, and are allowed exclusive control over carrying out business activities while abiding by Chinese law, and are granted intellectual and technological rights. However, the process of establishing a WFOE can be quite long. The Chinese government drafted a new foreign investment law in the fall of 2016 and also announced new regulations concerning the procedure for registering WFOEs. The rules on registered capital have changed substantially in the past two years. WFOEs generally have to register capital, unless their scope of business relates to consulting, trading, retailing, or information technology. There is no longer a requirement on when the capital must be contributed and there is no fixed rule on the amount of each contribution of capital. However, as a general business rule, there must be enough capital to cover the operations of the WFOE.

Joint Venture/Licensing

A joint venture (JV) is a company whose ownership is split between foreign investors and Chinese investors. JVs are often established when companies enter industries that are required by law to have a local partner or are still heavily controlled by the government. The benefits of engaging in a JV for foreign investors can include low production and labor costs, taking advantage of local partner's access to capital, technology, distribution channels, and local expertise Chinese authorities' interest in JVs stem from the desire to observe new technologies and management practices. However, forming a Sino-Foreign JV entails some degree of risk, such as loss of control of investment, theft of intellectual property, differences in business culture, and conflicts of interest. A U.S. company contemplating a JV should clearly understand what their partner brings to the table and what benefits there might be to establishing a JV rather than a WFOE. There are two types of JVs:

Equity Joint Venture (EJV)

- The profits and losses of the EJV are distributed proportionately to each party and their respective interests and investments in the EJV.
- The foreign investors must hold at least 25 percent of the equity interest in the registered capital of the EJV.

Cooperative or Contractual Joint Venture (CJV)

- The profits and losses of the CJV are distributed to parties according to the provisions that were outlined in the CJV contract.
- A CJV can operate as either a limited liability or a non-legal company.
- The foreign investors are not required to provide a minimum foreign contribution, therefore allowing them to take part in a JV without owning a major share.

Regulations in China change frequently for all three structures listed above, so we recommend that companies seek assistance from professional service providers during the process of establishing a business in China.

Franchising

Exporting franchises from the U.S. to China works in much the same way as franchising domestically; the Chinese franchisee pays a percentage of revenue to the American franchisor as a royalty fee for using the brand, while the franchisor provides support and expertise.

The regulations affecting franchisors and their operations may be found in the Regulations on the Administration of Commercial Franchises (Franchise Regulations), the Administrative Measures for the Information Disclosure of Commercial Franchises (Information Disclosure Measures) and the Administrative Measures for Archival Filing of Commercial Franchises (Archival Filing Measures). These have all been issued by China's Ministry of Commerce (MOFCOM) and, taken together, cover all regulatory aspects of franchising. One key aspect of China's regulations governing franchising is the two-plus-one requirement. This requirement stipulates that franchisors own at least two directly operated outlets anywhere in the world before being allowed to operate a franchise model in China.

Foreign franchise brands are receiving greater interest from second and third-tier city market developers as markets in Beijing and Shanghai become more saturated. It is noteworthy that many of the major locations abandoned by foreign multinationals over the past few years were almost all in first-tier cities where their Chinese story began; a phenomenon largely attributed to growing real estate cost. High rent is expected to continue to negatively impacting more foreign franchises in Beijing and Shanghai. However, there is room for growth in China's west and inland regions that boasts advantages such as lower labor costs, reasonably-priced real estate facilities, a rising middle class and its associated untapped consumer spending.

Additionally, there is an increasing trend of food and beverage companies entering the market as wholly owned enterprises to manage their brand, demonstrate proof-of-concept and create a strong foothold prior to expanding into the franchise model. It is important for entities considering a franchise model to consider steps to protect the brand and image. Prior to making substantive moves into the market, including negotiations with potential partners or franchisees, companies should consult with appropriate counsel regarding trademark registration and other concerns relating to intellectual property rights protection. For more information on how to better protect your IPR overseas, please refer to this link: Stop Fakes website

Also, companies should evaluate after sale service and other related considerations that may affect the brand image.

In addition, foreign franchisors often find that brand logos and associated images, as well as the products themselves, need to be tailored to the unique tastes of Chinese consumers in a way that still preserves the core product and brand.

One of the most difficult aspects of franchising in China is finding qualified franchisees. This is due to the fact that franchising is still a relatively new concept in China, with many Chinese still unfamiliar with this model. Moreover, collecting royalty payments and ensuring that the franchisee maintains the integrity of the brand are formidable challenges. Industry experts recommend that companies first open their own stores in China to show the market that the business concept works and to solidify its brand positioning before attempting a franchise model. While such an approach generally results in higher costs and slower expansion in the short term for US franchisors, it allows them to directly control their brands and products while learning about the local business culture and customer preferences, thereby protecting their brands' reputation before expanding throughout the rest of the country.

Direct Marketing

Direct selling is defined by Chinese regulators as a type of business model involving the recruitment of direct marketing sales agents or promoters and the selling of products to end-consumers outside fixed business locations or outlets.

As part of China's WTO commitment, the Chinese Government agreed to allow market access for wholesale or retail trade services away from a fixed location. However, these new regulations are quite restrictive, especially in regards to multi-level marketing (MLM) organizations, which are characterized as illegal pyramids under these regulations. Sales promoters earn commission only according to their sales performance and the proportion of payment to sales promoters should not exceed 30 per cent of the income generated from sales. Furthermore, commission paid to a salesman is not allowed to be calculated based on the MLM structure, and language exists requiring the construction of fixed location service centers in each area where sales occur for the purpose of after-sales service and consultation. To obtain a direct sales license from the government, further barriers exist as evidenced by a three-year foreign experience rule, a required RMB 20-100 million (USD 2.9-14.5 million) bond deposit and a RMB 80 million (USD 11.6 million) registered capital threshold, among other requirements. Nonetheless, several major international companies have had success in overcoming these barriers. Having said this, the Chinese Government has remained slow to approve direct-sales license applications for new entrants over the past few years. In general, the Chinese central government and the relevant authorities at central and local levels tend to heavily regulate and supervise this industry.

Selling to the Government

China's current government procurement regime is governed by two primary laws. The Government Procurement Law, which is administered by the Ministry of Finance, governs purchasing activities conducted with fiscal funds by state organizations and other organizations at all levels of government in China. The Tendering and Bidding Law falls under the jurisdiction of the National Development and Reform Commission and imposes uniform tendering and bidding procedures for certain classes of procurement projects in China, notably construction and public works projects, without regard for the type of entity that conducts the procurement. Both laws cover important procurements that WTO Government Procurement Agreement (GPA) Parties would consider to be government procurement eligible for coverage under the GPA, which China has yet to join. The United States continues to work with the Chinese government to ensure that China's future GPA offers include coverage of government procurement regardless of which law it falls under, including procurement conducted by both government entities and other entities, such as state-owned enterprises.

The U.S. Government imposes restrictions on the sale of many items to the Chinese military. Restrictions on this type of business exist both in the United States and China. For example, the United States restricts the export of munitions items to China. U.S. manufacturers should contact the Department of Commerce's Bureau of Industry and Security (202-482-4811) and the U.S. State Department's Directorate of Defense Trade Controls (202-663-2980) for guidance before selling items to the Chinese military.

The U.S. Department of Commerce's Advocacy Center coordinates U.S. government interagency advocacy efforts on behalf of U.S. exporters bidding on public-sector contracts with overseas governments and government agencies. The Advocacy Center helps to ensure that sales of U.S. products and services have the best possible chance competing abroad. Advocacy assistance is wide and varied but often involves companies that want the U.S. Government to communicate a message to foreign governments or government-owned corporations on behalf of their commercial interest, typically in a competitive bid contest.

Many governments finance public works projects through borrowing from the Multilateral Development Banks. Please refer to "Project Financing" Section in "Trade and Project Financing" for more information.

Distribution & Sales Channels

In recent years, China has liberalized its distribution system to provide full trading and distribution rights for foreign firms in most industry sectors. New laws removed earlier restrictions on size requirements for trading and distribution firms, thus paving the way for competition from small businesses.

While the outright prohibition of foreign-invested firms to import, export, and distribute goods in China has improved, the licensing and approval process remains difficult, time consuming, and highly opaque. A standard business license is typically issued by municipal Administrations of Industry and Commerce. Distribution rights for these industries are often approved by a higher-level authority, such as a municipal or provincial Commission of Commerce. This effectively adds another layer of bureaucratic hurdles that U.S. companies are required to navigate.

Special trading zones like the China Pilot Shanghai Free Trade Zone (FTZ) launched in 2013, and the FTZs in Tianjin, Fujian, and Guangdong, are experimenting with regulatory reform and sectorial pilot projects that can involve increased distribution and sales channel opportunities for international firms. In principle, all the FTZs are supposed to have the same rules with each one having their own specialty (Guangdong, support trade with HK and Macau; Fujian, promote trade with Taiwan; Tianjin, increase economic integration in the north between Tianjin/Beijing/Hebei, and Shanghai – renewed focus on innovation). While international businesses have expressed disappointment in the speed and breadth of regulatory reforms, they have praised the FTZ administrators for increased responsiveness and communication in some industry sectors, particularly with respect to customs clearance.

Sales channels available to foreign companies selling in China include trading companies, distributors, and local agents. Trading companies with import/export rights help facilitate customs formalities; distributors build sales channels and handle stock and inventory; and local agents retail products to consumers.

Selling Factors & Techniques

Personal relationships (guanxi in Chinese) in business are critical in China. Guanxi is deeply rooted in Chinese culture and a necessary tool for getting things done. In any business transaction, counterparts will want to know with whom they are dealing before getting involved too deeply. Chinese colleagues and partners are often looking for common ground to build a team that can be trusted. Relationships can sometimes take many months to develop. In order to be successful, American businesses should understand this aspect of the business culture and embrace a patient approach. Thus, it is important for exporters, importers, and investors to establish and maintain close relationships with their Chinese counterparts and relevant government agencies. It is also important that American exporters encourage strong personal relationships between their Chinese agents or distributors and the buyers and end-users. A web of strong personal relationships can often help ensure expedited governmental procedures and smoother business development in China. This is a cultural difference that American companies should be aware of; personal relationships can be just as important if not more so than legal contracts.

Localization

Though Chinese customers welcome U.S.-made products in general, they still prefer to have localized customer support from a manufacturer, such as on-site training, service centers in China, local representatives, and catalogues and manuals in Chinese. While a rapidly growing percentage of the management work-force in first-tier cities speak English, U.S. exporters should understand the limits of English language proficiency in China and do their utmost to see that all materials are user friendly in the Chinese language. Important documents (labels, packaging information, contracts, blue prints, testing protocols, user-guides, etc.) should be printed in Chinese. Being able to communicate in the native language will enhance the relationship between the parties and helps to clarify technical issues, planning issues, logistical issues, and contractual issues. On a similar note, certain modifications must be made to accommodate local tastes, customs, and systems.

Logistics

U.S. exporters should keep in mind that timely delivery and adequate inventory are crucial to success in the Chinese market. Thus, it is important to consider the capabilities of agents and distributors. Logistics in China have become less arduous in recent years with increased transportation options and continued improvement to highway, air, railway, and port infrastructure. The majority of major international logistics companies are now operating in China, although they face regulatory barriers that limit their ability to provide domestic services.

eCommerce

Overview and Current Market Trends

China is the world's largest eCommerce market and is projected to reach $1.6 trillion in two years. Over 40 percent of total global eCommerce spending comes from China. In 2015, China's online retail transactions reached $622.5 billion. In 2016, the number of digital buyers in China reached over 460 million and continues to increase, with the total number projected to surpass 650 million by 2018. By 2020, China's eCommerce market is predicted to be larger than those of the U.S., the UK, Japan, Germany, and France combined, according to Dezan Shira & Associates. Research firm iResearch China forecasts that China's eCommerce market will grow 27 percent annually over the next four years.

Domestic eCommerce (B2C), Cross-Border eCommerce, and B2B eCommerce

The eCommerce space in China is dominated by domestic platforms, namely Alibaba's Taobao and Tmall and JD.com, which hold 57% and 25% of the market share, respectively, according to Dezan Shira & Associates. Other platforms such as Suning, Vipshop, Gome, Yihaodian, Dangdang, Amazon.cn, and JMei make up for the majority of the remaining market share. Cross-border eCommerce is experiencing significant growth. China's Ministry of Commerce (MOFCOM) projected that cross-border eCommerce transactions would increase to RMB 6.5 trillion by 2016.

U.S. companies targeting to sell products on China's eCommerce platforms can choose either to establish a firm presence in China or use cross-border eCommerce to sell products directly from abroad. A presence in China can be a subsidiary company, a JV, a wholly-owned entity or a local distributor/agent. However, within the massive growth of eCommerce, American firms can take advantage of China's cross-border eCommerce bonded warehouses. These special bonded zones create a streamlined pathway which makes it easier for China Customs to manage and potentially easier for buyers and sellers to conduct cross border eCommerce transactions. There are more than a dozen cross-border eCommerce bonded zones in China and growing. Through this channel, Chinese consumers can purchase no more than 2,000 RMB per sales transaction and no more than 20,000 RMB per year. American companies seeking to sell through one of these special zones will need to partner with local authorized partners who have integrated systems to record transactions with China Customs. The eCommerce landscape is rapidly changing hence it is of the utmost importance for companies to stay current with the newest rules and regulations.

Mobile eCommerce, Popular Mobile Platforms, and Social Media

Online wallets are the top payment method of choice, with 33 percent of Chinese shoppers utilizing the technology to complete transactions. Roughly half of all China's eCommerce sales are made on mobile devices, nearly 16 percent more than the global average, according to the U.S.-China Business Council.

There are dozens of mobile eCommerce platforms, but in 2016 Taobao had the most monthly active users at 253.2 million, according to Walkthechat.com. Other platforms like Meituan, JingDong, WeiPin, Tmall, eLeMe, Baidu NuoMi, and DianPing all play an active role in the market, but none are nearly as popular as Taobao in terms of active monthly users.

Understanding how to utilize the advantages of social media can raise your company or product's profile and accelerate your company's ability to sell online. The three biggest social media players are WeChat, micro blog Weibo, and social network QQ Zone. WeChat allows retailers to feature online stores and has a convenient third party payment function. It also features push messages to introduce new product lines or deliver promotions. U.S. companies interested in exploring social media avenues and working with these sorts of social media players should seek working with a local marketing partner to develop a strategy and support execution.

Major Buying Holidays

"Singles Day", November 11, is the busiest online shopping day of the year when huge discounts are offered. For some brands, up to 80% of revenue is generated on that day. In 2015, Alibaba recorded sales of about $9 billion on Singles Day, with shipments of 278 million orders, 43% of which were placed on mobile devices. In 2016, approximately $14.3 billion was spent on Alibaba as the company beat its own record by selling 36 billion RMB in one hour. Other holidays such as Valentine's Day and Chinese New Year are also aggressive online shopping periods.

eCommerce Intellectual Property Rights

Intellectual property rights infringement across eCommerce platforms is common in China. Registering your intellectual property is essential. The registration process for a trademark can take up to 18 months, and can only be protected once the application process has been completed. U.S. companies should conduct due diligence to see if similar trademarks have already been registered. Current trademarks can be found in the China Trademark Office's official database. U.S. companies experiencing serious eCommerce IPR concerns should consult with the U.S. Department of Commerce's Patent & Trademark Office who has offices in Beijing, Shanghai, and Guangzhou.

Trade Promotion & Advertising

China is the world's second-largest advertising market with consistent double-digit growth in which its market value reached more than $80 billion in 2016. Internet ad spending is now rapidly outpacing TV ad spending. By 2018, Internet advertising that will have been spent in China will be over three times the size of TV adverting spent. This trend puts China ahead of the global trend as advertising migrates online.

Over 200,000 advertising firms exist in China; with over 30 American firms, 90 U.S. based subsidiaries and 400 U.S. branches. Many major international advertising firms have established a presence in China. Companies new to the market can gain valuable advice from top-notch advertising firms on how to craft an effective advertising strategy that is responsive to Chinese consumer preferences and cultural differences.

The advertising industry in China remains heavily regulated, and the national and provincial levels of government still exercise ultimate control over content. Advertising in China is regulated by the Advertising Law of the People's Republic of China (Advertising Law), which was updated on April 24, 2015 and shall take effective on September 1, 2015 - a major change for the first time since its publication. The updates to the Advertising Law introduced several major changes impacting online advertising, health claims, celebrity endorsers, and false advertising.

Major changes include:

- The law expanded to online advertising;
- Telecommunication, internet service providers, and websites are obliged to remove illegal/misleading advertisements;
- Dietary supplemental must not imply that they are "necessary" for good health;
- Prohibits use of spokesperson in many types of health-related advertising;
- Broadens definition of "advertising" and "false advertising";
- Restrictions on children's advertising;
- Restrictions on tobacco advertising.

Notably, foreign businesses without a Chinese business license gained through establishing an office in China are not permitted to advertise in China.

The State Administration for Industry and Commerce (SAIC) is the primary regulatory organization for the advertising sector, but many other organizations such as the Ministry of Culture and the State Administration of Radio, Film and Television, play an active role in controlling print or television content. Under the enforcement of the new Advertising Laws, AIC is tasked to supervise the advertising industry. Specifically, SAIC will be responsible to:

- Inspect the premises of a company suspected of violating the law;
- Investigate suspicious behavior;
- Demand that a company suspected of misbehavior surrenders documents before a certain time;
- View and confiscate copies of contracts, receipts, advertisements, records and other documentation;
- Close down suspect operations.

China's retail boom and increasing competition among retailers is causing China's advertising industry to grow even faster than the economy as a whole. Most of the major international advertising firms are present in China.

Now that China is in the midst of a consumer revolution, foreign products that make use of advanced marketing, advertising and research techniques are leading the way. Brand awareness is increasingly important and sophisticated advertising is beginning to play a key role in attracting the Chinese consumer. Another important trend that U.S. companies need to be aware of is China's increasing use of social media to promote brands and introduce products. With over half a billion new social media users in 2016, social media has seen a 21% year-on-year growth rate. China is among the five countries that accounted for more than half of that growth with over 130 million new social media users in 2016.

Average Time Spent Per Day with Major Media by Chinese Adults

The total value of the global ad market is predicted to reach $547 billion in 2017 with digital advertising as a key driver to ad spending. China over contributes to growth in global ad expenditure with digital content an increasing significant driver. By 2021 digital ads are expected to represent 59% of total advertising sales in China, with mobile-based impressions and sales as the primary source of growth. China's platform innovation is led by WeChat, a clear example of how global social media platforms are evolving beyond apps and into ecosystems.

In China, WeChat is the most popular mobile social network application with over 846 million active monthly users in Q3 2016 94% of WeChat users access their account daily. With WeChat, brands can access potential consumers through creative marketing to capture a new and a more diverse market share in China. With the rapid development and adoption of mobile internet and smartphones, users' spending habits tend towards the use of mobile devices. Companies can utilize WeChat official accounts to promote products and brands. Most companies hope to reach potential consumers through a WeChat official account according to WEMCB research. There are various options for building your brand on WeChat, a subscription account where brands can push out consistent messaging and a service account to create a platform to manage ecommerce and customer service.

Trade Promotion

In 2016, China hosted more than 3,000 exhibitions, and the number continues to grow between 15 percent and 20 percent annually, particularly in second tier cities. In general, exhibitions can be an excellent venue to gauge market interest, develop leads, and make sales. Most are sponsored or co-sponsored by government agencies, professional societies, or the China Council for the Promotion of International Trade (CCPIT). Some shows are organized by the U.S., Hong Kong, and other countries. Show participation costs are sometimes high since pricing options for available booth space for foreign companies at shows is often limited to certain areas within events. Some shows may reach only a local audience or cater primarily to Chinese exporters despite being described as Import/Export Fairs. Therefore, companies are advised to scrutinize shows carefully before confirming participation.

The Departments of Commerce and Agriculture's Foreign Agricultural Service (FAS) support U.S. Pavilions at trade shows around China to promote American goods and services in primary, secondary, and tertiary markets. China is home to over 100 cities with individual populations in excess of one million inhabitants. To meet the demand and to bolster consumption, China is opening new airports, railway stations, subways systems, and superhighways on a daily basis. Trade shows play an important role in introducing U.S. companies to newly emerging regional and national firms and logistics companies.

FAS partners with more than 70 non-profit trade associations, called "cooperators," who represent producers of a vast amount of food and agricultural products, ranging from hardwood lumber to fresh-chilled pork. As part of their mission to promote U.S. agricultural products around the world, many cooperators offer exporter assistance, sponsor trade missions, and help farmers and ranchers identify international market opportunities. Similarly, the five FAS Agricultural Trade Offices in China sponsor reverse trade missions to the United States to introduce U.S. quality brands and companies, facilitate technical exchanges on industry standards, and further the acceptance of U.S. food safety systems.

FAS also supports four non-profit State Regional Trade Groups (SRTG), which in turn assist U.S. food and agricultural businesses with the entire exporting process. Your SRTG can help you with everything from learning the fundamentals of exporting to identifying overseas opportunities to marketing your products through trade shows and trade missions. With FAS support, SRTGs also help fund international marketing campaigns and promote U.S. farm and food production overseas. FAS and SRTGs work closely together with the ultimate goal of helping U.S. agriculture build a global business.

Through the Market Access Program (MAP), FAS partners with U.S. agricultural trade associations, cooperatives, state regional trade groups and small businesses to share the costs of overseas marketing and promotional activities that help build commercial export markets for U.S. agricultural products and commodities.

FAS provides cost-share assistance to eligible U.S. organizations for activities such as consumer advertising, public relations, point-of-sale demonstrations, participation in trade fairs and exhibits, market research and technical assistance. When MAP funds are used for generic marketing and promotion, participants must contribute a minimum 10 percent match. For promotion of branded products, a dollar-for-dollar match is required.

See more information:

U.S. Department of Commerce trade missions
Foreign Agricultural Service
Trade Lead System
Agricultural Trade Office

Principal Business Associations

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70 Deshengmen Xidajie, Beijing 100035, China
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Pricing

Most Chinese consumers are highly sensitive to price. Industrial and government procurement purchasing decisions are often focused primarily around price points and less around product and service quality. With carefully packaged service programs, however, Chinese industrial buyers can be convinced to pay a premium for higher quality products. Attractive export/import financing programs can also be an important tool for exporters. Refer to Chapter 7 for additional information on export financing assistance opportunities for U.S. companies.

Chinese consumers have demonstrated a willingness to pay a significantly higher price for products that provide a sense of prestige and sophistication. Simply carrying an imported label can often, though not always, be enough to put products into a premier price category. While a significant portion of such price differences is attributable to import duties and value-added tax, perceived higher quality and greater prestige of imported products has allowed importers to reap large profit margins. Refer to Chapter 5 for more information on duties and taxes.

Sales Service/Customer Support

The ability to provide adequate after-sales service is an important selling point and can distinguish a company from its competitors. WFOEs and foreign invested enterprises (FIE) are now able to provide sales service and after-sales customer support in China. Heightened consumer awareness has given U.S. companies with strong international brands an advantage in the Chinese market, as American products and services are generally considered to have superior sales and customer support standards. This, of course, requires a certain degree of localization, and a commitment to training the local sales and service force.

In addition, there are other new challenges in the Chinese market such as food safety and product warranty issues. In recent years, a few notable American companies have been criticized in China for not providing adequate customer service according to the Chinese law. American companies should be aware of the increased importance food safety and product warranty issues in China. U.S. companies need to develop a public relations strategy to address customer concerns in a very price sensitive market like China where customer expectations of the private sector are high. In China, customers often use social media outlets to express their dissatisfaction over products and services and do not hesitate to involve appropriate government bodies to obtain a response from private sector service providers.

Many successful retailers in China are now foreign-owned companies, for instance, Zara, H&M and Sephora are rapidly gaining market share by focusing on customer experience, unconditional returns, competitive prices and superior quality merchandise.

In China's increasingly competitive consumer market, good customer service matters as businesses are fighting for the attention of the increasing numbers of wealthy Chinese consumers. Expectations are rising among the middle class, particularly given the ever-growing number of Chinese people returning from studying or working overseas with a rapidly shifting view on customer service. Fierce competition is forcing companies to take greater care to attract and keep customers happy. Chinese consumers are becoming more savvy and insistent on a high level of service. The inroads that multinational companies have made in the Chinese market are also impacting overall standards. For example, Apple's stores provide a stark contrast in China to a local computer shop, thus altering and changing preferences and choices of Chinese consumers.

Protecting Intellectual Property

In China, just as in any foreign market, companies must take steps to protect and enforce their intellectual property rights and should consider several general principles for effective management of their intellectual property. China, in particular, presents unique challenges due to the size of its market and ongoing difficulties implementing a robust IPR protection and enforcement system. For additional background please review the [Department's article on protecting intellectual property](#).

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Due Diligence

While China is one of the most promising global markets, it is also one of the most challenging environments for American companies. Many U.S. companies are able to profitably enter and operate in the Chinese market, but each year a large number of firms face serious difficulties that result in costly and disruptive local business disputes.

Many of these disputes may have been successfully avoided through standard due diligence. The primary causes of commercial disputes between Chinese and American companies include breach of contractual payment obligations, irregularities in accounting practices, financial mismanagement, undisclosed debt, and the struggle for control within joint ventures. These problems can be minimized by investigating the financial standing and reputation of Chinese companies before signing contracts or entering into partnership agreements.

China's evolving policy environment over the last decade has created challenges in carrying out what would be considered routine due diligence in the United States and many countries. Rather than a consolidated privacy law, there is be a patchwork of 10 separate laws that leave a lot of gray area for China's officials and judges to determine violations, which often seem to have political motivations. Of particular note, Article 253 of the PRC Criminal Law was adopted in February 2009 and made government agencies and organizations in the fields of finance, telecom, transportation, education, or healthcare criminally liable for providing personal information on Chinese citizens collected during their routine work. Application of this law has been expanding in the years since. Furthermore, the country cut off access to much of the information that was visible in publicly available records from the State Administration of Industry and Commerce beginning in the summer of 2012.

Despite these challenges, both U.S. and Chinese service providers with offices in China conduct due diligence investigations. The fees charged by these companies should typically be considered a worthwhile investment to ensure the local customer or partner is financially sound and reliable. As part of the overall due diligence process, the Department of Commerce is able to assist American companies in evaluating potential business partners through the International Company Profile (ICP) service. As a general rule, USFCS strongly encourages more due diligence in China than American companies would typically need in the United States or most other international markets.

Online Due Diligence Resources:

Online corporate retrieval database maintained by the Administration for Industry and Commerce of PRC.

Online corporate retrieval database maintained by the Hong Kong Companies Registry.

Search engine for WeChat official accounts and articles.

Local Professional Services

The system for regulation of foreign commercial activity in China is difficult to navigate and is not fully transparent. Companies new to the market are strongly encouraged to retain professional services to structure commercial transactions. Establishing a wholly foreign owned subsidiary, joint venture, or representative office requires compliance with complex contract approval requirements, business registration requirements, taxation regulations and statutes, and labor regulations. Many U.S. banks, accountants, attorneys, and consultants have established offices in China and are familiar with Chinese requirements. Some Chinese professional service providers also have substantial experience serving foreign clients.

Accountants

Chinese law requires representative offices and foreign-invested enterprises engage the services of accountants registered in China to prepare official submission of annual financial statements and other specified financial documents. Therefore, only Chinese accountants and joint venture accounting firms may provide these services. All of the major U.S. accounting firms have established offices in China and provide services including audit, tax and advisory services, the preparation of investment feasibility studies, and setting up accounting systems that are in compliance with Chinese law.

Attorneys

The legal services that a foreign law office can provide are limited to: 1) providing consulting services to its clients with regard to the home legal affairs for which it is licensed and international conventions and practices; 2) providing legal services to its clients or Chinese law firms with regard to legal affairs in the country/region for which it is licensed; 3) entrusting Chinese law firms with regard to China legal affairs on behalf of its foreign clients; 4) establishing long-term contractual relationships with Chinese law firms with regard to legal clientele; and 5) providing information with regard to the impact of Chinese legislation.

Management Consultants

Foreign companies new to the Chinese market often engage the services of local consultants to develop market entry strategies, conduct due diligence investigations, and identify potential investment partners, sales agents and customers. Most of the major foreign consulting firms are active in the Chinese market, along with a number of small niche players, as well as many local companies.

The U.S. Department of Commerce maintains lists of U.S. law, accounting and consulting firms with offices in China, as well as lists of Chinese firms with whom the Commercial Office or its customers have had favorable dealings.

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Limitations on Selling US Products and Services

For information on limitations on selling U.S. products and services please refer to:

The U.S. Government's National Trade Estimate Report on Foreign Trade Barriers
The 2016 Investment Climate Statement prepared by the Department of State

Web Resources

U.S. Commercial Service, U.S. Department of Commerce, China (English)
U.S. Commercial Service, U.S. Department of Commerce, China (Chinese)
International Trade Administration, U.S. Department of Commerce
(now built into the export.gov/china site)
China Trade Show Events
American Chamber of Commerce, Beijing
American Chamber of Commerce, Shanghai
AmCham Shanghai's Trade & Investment Center
American Chamber of Commerce, South China
U.S.-China Business Council
U.S. Embassy, Beijing
U.S. Consulate, Shanghai
U.S. Consulate, Guangzhou
U.S. Consulate, Chengdu
U.S. Consulate, Shenyang
U.S. Consulate, Wuhan
The Chinese Central Government's Official Web Portal
AmCham China's "2017 American Business in China White Paper"
AmCham Shanghai's "2016 China Business Report"
U.S.-China Business Council 2016 China Business Environment Member Survey
The Council of American States in China (CASIC)

Leading Sectors for US Exports & Investments

Agricultural Industry

Overview

The United States Department of Agriculture, through the Foreign Agricultural Service (FAS), operates six offices in the People's Republic of China for the purpose of expanding exports of U.S. agriculture, fishery, and forestry products. In 2017, China is expected to be the most important market for U.S. exports of agricultural, forest, and fishery products followed by Canada and Mexico. The 2017 annual export forecast for China is $22.3 billion, $2.9 billion lower than total 2016 exports. While shipments of sorghum and DDGS have declined, China continues to have a strong appetite for soybeans, cotton, pork and pork variety meats, broiler meat, and dairy (especially whey products). U.S. exports of these products (see accompanying table) to China accelerated in 2016 to $25.2 billion, recovering from a decline in 2015, but significantly lower than historic highs just four years ago. Soybeans maintain the number one share of U.S. exports with a share by value of 56 percent in 2016.

First quarter U.S. exports recovered slightly in 2017 as China's economic growth picked up and consumer inflation moderated following decisive actions by China's monetary authorities in 2017 to implement a series of controls to curb capital outflows, tighten monetary policy, constrain institutional investors in speculative markets, and trim value-added taxes. At the same time, the national revenues are constrained by low returns on oil prices and exacerbated by increasing costs of pollution control. Although China's per capita income continues to remain strong, domestic per capita income growth slowed in 2017 to 5.9 percent from 6.3 percent in 2016. Rising credit and debt concerns are expected to limit loosening of monetary conditions, but continued fiscal intervention in infrastructure, health, and other sectors remains effective. Major global consumer trends in China during 2016 include continued demand growth for consumer ready products, fresh food, and animal protein products (dairy, poultry, and red meats). As incomes continue to grow, consumer demand for away-from-home options, convenience foods, fresh food, and animal protein products will expand. The eCommerce retail channel is expected to continue to mature as China's mobile phone penetration of 4G mobile services is forecast to expand to more than 60 percent of the population.

Meanwhile, prospects for a rebound in U.S. agricultural exports remain constrained by China's increasingly opaque and unresponsive legal system. Every month China issues new entry requirements—certificates, registration, attestation—that do not necessarily increase product safety but push the onus of ensuring food safety away from Chinese food regulators. Often these new requirements are not notified to the WTO for public comment and are not announced until implementation is imminent. Re-certification and re-registration of facilities that have corrected oversight procedures may take months if not years. China's erratic rule-making also often subjects U.S. products to scrutiny that is not faced by domestic producers. Long-standing requirements that lack a scientific basis, such as a ban on the import of U.S. beef due to BSE and a ban on U.S. poultry regardless of origin due to High Path Avian Influenza continue to remain in force even though Chinese domestic prices for poultry meat and beef remain above world levels. China is also extending the scope of its food regulations to cover products traded under new platforms which may begin to dampen prospects for eCommerce traded products. (For more information, please see Barriers to Trade).

China is, however, allowing the formation of trade associations. Since the agricultural reforms of the 1970s and '80s, China has encouraged the privatization of state-owned enterprises and the creation of new companies and services to support the agricultural and manufacturing sectors. However, attention to the creation of entities capable of independently representing businesses has received little support. Because of the absence of neutral intermediaries, Chinese companies have been highly reluctant to voice their opinions regarding new regulations, standards, and incident enforcement. Now trade associations—from pork to poultry, from bakery products to hotel associations—are beginning to appear at the provincial, regional, and national levels and may begin to play a more active role in food regulation and oversight. While many of these new trade associations are spin-offs of state-owned enterprises, they do reflect the increasing recognition of the rights of industry to advocate for good commerce and prudent business standards. China's agribusiness is also following a parallel track of consolidating many small holdings and creating companies that are regionally or vertically integrated. This includes conglomerates that handle animal genetics and feed processing to process animal products and Chinese chain restaurants, bakeries and coffee shops that span the entire country.

Key consumer trends over the past year have highlighted, in addition to growth in animal husbandry, continued consumer concern for food safety, and the expansion of eCommerce. The former has been a driving factor for imports, which are seen as being more heavily inspected and generally safer than local products. The impact has been particularly strong for dairy products, especially those for children, and food ingredients for Chinese manufacturers seeking to avoid problems with locally sourced ingredients.

eCommerce is also a major trend for food imports, as growth rates for eCommerce far exceeded those for any other sales format. This is also being affected by consumer concerns over food safety: in general, eCommerce products are seen as more authentic and safer than those purchased through traditional stores. Logistics for eCommerce have matured, with products as delicate as fresh cherries and pears from the U.S. and live seafood being promoted and shipped through these channels quite successfully.

Since 2013, China has embarked on a comprehensive review of its food safety and agricultural standards, including an extensive overhaul of its National Food Safety Law. Due to the changing regulatory environment in China, U.S. exporters are advised to carefully check import regulations. Individuals and enterprises interested in exporting U.S. agriculture, fishery, and forestry commodities to China should contact the FAS offices (listed below) as well as USDA Cooperator organizations. Exporters of U.S. agricultural commodities should also review the FAS website, which features general information about trade shows and other promotional venues to showcase agricultural products, FAS-sponsored promotional efforts, export financing and assistance, and a directory of registered suppliers and buyers of agricultural, fishery, and forestry goods in the United States and abroad.

The Animal Plant Health Inspection Service also operates an office in Beijing.

U.S. Exports of Agricultural, Forestry, and Fishery Products to China
January - December
Cumulative to Date Values in Millions of U.S. Dollars

	2012	2013	2014	2015	2016	Jan-Mar 2016	Jan-Mar 2017	YTD/ YTD Change (%)
Bulk Total	19,968	18,076	17,602	14,067	16,388	3,540	4,292	21
Soybeans	14,878	13,300	14,476	10,523	14,204	2,860	3,354	17
Coarse Grains (ex. corn)	0	95	1,466	2,115	1,023	334	260	(22)
Cotton	3,429	2,200	1,111	859	553	97	421	336
Wheat	214	1,283	194	160	205	17	102	505
Tobacco	119	176	216	197	172	172	124	(28)
Other Bulk Commodities	1,329	1,022	138	213	230	61	30	(1)
Intermediate Total	3,243	4,377	4,174	4,295	2,857	669	633	(5)
Hides & Skins	1,349	1,655	1,497	1,268	949	223	256	15
Distillers Grains	616	1,382	1,247	1,632	477	115	34	(71)
Feeds & Fodders NESOI	222	303	366	377	380	113	72	(36)
Hay	141	234	255	331	356	67	88	31
Soybean Oil	265	135	132	13	104	0	24	99,805
Planting Seeds	98	102	104	119	88	17	47	173
Vegetable Oils (ex. soybean)	95	54	50	48	47	12	11	(6)
Sugar, Sweeteners, Bev. Bases	16	21	20	19	12	4	2	(50)
Soybean Meal	2	4	11	6	10	1	1	(27)
Other Intermediate Products	439	485	493	480	434	117	99	

Consumer Oriented Total	2,649	3,046	2,441	1,904	2,167	450	509	13
Pork & Pork Products	704	703	474	427	715	155	166	7
Dairy Products	415	706	693	452	384	75	131	74
Fresh Fruit	111	115	102	137	187	19	21	10
Tree Nuts	392	359	192	208	182	39	36	(7)
Processed Vegetables	136	142	133	137	152	42	29	(30)
Prepared Food	82	120	115	91	126	33	29	(11)
Processed Fruit	87	61	69	95	100	19	30	62
Wine & Beer	76	85	80	63	91	14	15	12
Snack Foods NESOI	33	36	48	51	37	9	8	(7)
Non-Alcoholic Bev. (ex. juices)	41	53	37	34	35	8	9	8
Other Consumer Oriented	571	666	497	210	157	37	33	(11)
Agricultural Related Products	2,773	3,482	3,865	3,254	3,811	874	939	7
Forest Products	1,640	2,344	2,661	2,066	2,544	538	710	32
Fish Products	1,124	1,115	1,181	1,037	960	210	227	8
Ethanol (non-bev.)	0	11	8	135	296	124	0	(100)
Distilled Spirits	8	12	14	15	11	2	2	45
Biodiesel & Blends > B30	0	-	-	-	0	0	-	--
GRAND TOTAL	28,632,947	28,980,528	28,081,916	23,519,144	25,222,778	5,532,867	6,372,920	15

Leading Sub-Sectors

China continues to lead global demand for soybeans. Soybeans are crushed and used for livestock feed and edible vegetable oil. Strong demand for livestock production continues to drive demand for oilseed protein meals. Expanded U.S. export shipments and sales to China are made possible by a larger-than-previously-expected U.S. crop and a 4 percent rise in China's national crushing margin in 2017.

Chinese pork imports are projected to slow to just 5 percent, but still remain at historically high levels as domestic supplies remain constrained. Meanwhile, U.S. exports of pork variety meats to China are forecast to expand.

As Chinese broiler production continues to fall further in 2017, unmet demand will be partially filled with higher imports as was the case last year. As a result, Chinese imports are forecast up nearly 40 percent to 600,000 tons.

Overall dairy consumption in China is fairly stable, with higher-end fresh milk and yogurt products replacing milk-based beverages. Consumers continue to prefer imported dairy products for quality and food safety reasons, resulting in increased imports across the dairy sector. Imports of Ultra High Temperature (UHT) Pasteurized milk will continue to rise, albeit at a slower rate than in the past and will further penetrate into the third- and fourth-tier cities in China. The vast majority of imports continue to come from the EU, New Zealand, and Australia, which enjoy free trade agreements with China. The biggest consumption change has been growing Chinese middle-class demand for yogurt and yogurt products, with producers diverting increasingly large accounts of fluid milk and whole milk powder (WMP) into yogurt production. The majority of imported UHT milk is ordered through eCommerce channels by young professionals in the larger cities.

China continues to remain a top market for U.S. whole and processed tree nut exports. Nuts and seeds are a traditional snack food in China. Walnuts remain the favorite nut among Chinese consumers as walnuts are considered a health food that contributes to overall brain health. Imported nuts such as almonds, pistachios, pecans, and macadamia nuts are holding an increasingly large market share as a result of rising incomes and enhanced consumer awareness about the nutritional attributes of nuts.

Opportunities

Beef

Beef consumption has been increasing in China as urban consumers gain affluence. High pork prices have also pushed upper-middle and high-class consumers shift to beef consumption. China still maintains a de-facto ban on U.S. beef imports, despite the OIE restoring the United States' bovine spongiform encephalitis (BSE)-risk status to "negligible" (the highest status available) in 2013. U.S. beef has been banned from the Chinese market since the December 2003 discovery of BSE in the United States. While China announced a conditional lifting of the ban in September of 2016, no actual trade can begin until the United States and China reach a bilateral agreement on traceability and import protocol requirements. To date, no consensus has been reached. If China resumes imports of U.S. beef in 2017, Post expects that initial import numbers will be modest, mainly due to the relatively higher prices of U.S. beef.

Animal Feed

Over half the world's commercial swine are in China, requiring massive imports of animal feed inputs, like soybeans and sorghum. Additionally, in April 2017, China lowered value-added taxes on primary agricultural products from 13 percent to 11 percent.

Cotton

China's cotton imports are forecast slightly higher on a strong pace of imports to date and potential expansion of China's import quota. This recovering trend is also supported by the Chinese textile industry seeking to source higher-grade cotton from foreign suppliers to stay competitive in export markets.

Dairy Products

U.S. imports are constrained in large part by slow approvals of U.S. dairy facilities and products under China's new registration regulations. Once resolved, imports of U.S. fluid milk are expected to get a boost thanks to Chinese consumers' overall positive perceptions about the safety and quality of U.S. food products.

Tree Nuts

Nut consumption, especially for imported nuts, will recover in MY 2016/17 as current world prices for most nuts have dropped sharply from the high levels in the previous year. Chinese eCommerce is an increasingly important marketing venue for imported tree nuts. Tree nuts are ideal products for eCommerce sales due to their long shelf life, convenient packaging, and long distance shipping suitability.

Fresh Fruit

China's imports of deciduous fruit will continue to increase on strong demand for high quality fruit and off-season supplies. Apples are the top fruit consumed in China. Because of their nutritional content, apples have long been an important component of the Chinese diet. In May 2015, China granted market access to all apple varieties from all states within the United States. As a result, by the end of MY 2016, the United States had replaced Chile as the top apple supplier to China and the volume is expected to continue growing in the years to come. eCommerce is an emerging marketing venue for deciduous fruits in 1st and 2nd tier cities but still only represents a small fraction of the market due to logistical challenges.

Citrus imports are expected to continue to grow driven by consumer demand (especially in first tier cities) for high-quality and counter-seasonal fruit.

Wood and Wood Products

Despite a strong U.S. dollar, industry contacts report that demand for U.S. wood continues to rise. With ample supply of sustainable high-quality timber resources, consistent quality and reliable grading systems, U.S. wood and wood product imports are expected to continue to expand.

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Web Resources

FAS Home Page
FAS Data & Analysis

FAS publishes a wide range of reports on agriculture, agricultural markets and market access issues and regulations. These reports are available on the FAS webpage.

FAS Offices Overseas

Automotive

Overview

The Government of China views its automotive industry, including the auto parts sector, as one of the country's pillar industries. China continues to be the world's largest vehicle market with sales of over 28 million units in 2016, a year-on-year growth of 9% from 2015. The Chinese Central Government expects that China's automobile output will reach 30 million units by 2020 and 35 million by 2025.

	2014	**2015**	**2016**
Total Units Local Production of completed cars	23,491,900	24,597,600	28,028,000
Total Units New Energy Vehicle Production	74,763	340,471	517,000
Total Unit Exports of completed cars	950,000	755,500	708,000
Total Unit Imports of completed cars	1,430,000	1,101,900	1,041,000
Total Unit Imports from the US, completed cars	291,690	307,425	235,760
Total Unit Market Size	22,833,590	24,944,000	28,361,000

(Total market size = (total local production + imports) – exports)

Sources: Global Trade Atlas, MIIT, China Association of Automobile Manufacturers

Made in China 2025 is an initiative to upgrade the country's industry from low cost mass production to higher value-added advanced manufacturing. It prioritizes 10 sectors, including the auto sector (and NEVs). The initiative's objectives are to sell one million units of domestically produced pure electric and plug-in hybrid cars in China by 2020, which should account for a minimum of 70% of the country's market share. Moreover, it aims to sell three million domestic brand units by 2025, and account for a minimum of 80% of the country's market share.

The NEV market in China is dominated by domestic brands including BAIC, BYD, and JAC. A draft measure has been released for public comment that aims to set NEV production targets for both domestic and foreign automakers operating in the Chinese market. Automakers that do not meet this target would need to purchase NEV credits from other automakers that exceeded it.

China's "Automobile Mid and Long Term Development Plan", which was released in April 2017, aims to make China a "strong" auto power within ten years. It sees the development NEVs and connected cars as providing an opportunity for China to capture the market pre-emptively and leapfrog in auto development. A number of ambitious targets are also set, relating to the creation of national champions in auto parts and auto brands, connected car technology, driver assistance, and partial/conditional automatic systems driverless vehicles. Additional guidelines further focus on the sub-sectors of NEV engines, plug-in hybrid engines, fuel cell systems and key components, charging pillars, battery manufacturing facilities, and testing equipment.

Subsidies, from both the central and provincial/municipal governments, have played a significant role in spurring domestic NEV sales and are provided directly to the consumers at time of purchase. Though these subsidies' stated aim is to support the development of the domestic NEV industry, it also has the effect of preventing cost competitive market entry for foreign producers. The Ministry of Industry and Information Technology (MIIT) releases "white lists" of qualified vehicles that are eligible for subsidies, nearly all of which are produced by domestic manufacturers. MIIT announced in December 2016 that it would cut the maximum subsidies by 20 percent for 2017 and eventually phase out all subsidies by 2020.

The "Plan of Promoting Vehicle Power Battery Industry Development", which was jointly released by a number of ministries in March 2017, encourages the development and industrialization of the lithium-ion battery industry, the establishment of R&D centers, and additional support to develop the entire supply chain. It also encourages foreign enterprises to establish R&D centers in China. Relevant authorities also maintain a list of approved domestically produced NEV battery suppliers. Though not explicitly instructed to do so, Chinese NEV producers only source their batteries from companies on this list; this effectively locks foreign producers out of the Chinese NEV battery market.

Effective December 1, 2016, all imported passenger cars and medium and small size of commercial vehicles valued 1.3 million RMB excluding VAT (approximately $188,000 USD) and above are required to pay an additional 10% "Luxury Car Consumption Tax".

Leading Sub-Sectors

Specialty auto parts

China's specialty auto parts market was valued 150 billion RMB in 2016 with 30% growth every year. The car modification business remains popular in some developed cities despite the fact that China's "Road Safety Law" essentially prohibits modifications. Nonetheless, foreign tuning companies have seen the market potential. The ITA is working to inform Chinese industry and government representatives how the U.S. regulates its aftermarket, including specialty equipment. The Specialty Equipment Market Association (SEMA) has a Market Development Cooperator Program (MDCP) award with ITA to help U.S. specialty parts companies increase their exports to China. Each fall, SEMA organizes an event in China where U.S. specialty parts companies can explore the market and meet potential buyers. More information can be found on the Department of Commerce's 2016 Top Markets Report on Automotive Parts for China.

Recreational Vehicles

China's RV market has undergone significant changes over the past several years, including a national focus on the development of tourism, campgrounds and the RV industry. With a growing demand for RVs and a shift in consumers' travel preferences, tourism experts in China anticipate a surge of RV-related businesses in the coming years. According to the "2016 China Campground Industry Report", there are total of 958 campgrounds in China, of which 489 are under construction. There were about 25,000 RVs in China by 2016. 33% of the campgrounds are located along the eastern part of China, for instance Shandong, Jiangsu, Shanghai, Zhejiang, Fujian and Guangdong), while another 22% are in western China, for instance Inner Mongolia, Gansu, Sichuan and Yunnan. There are currently around 80 RV manufacturers in China, of which 56 are active. It is predicted that the campground industry will hit a trillion RMB market ($145 billion USD) by 2020, which will also stimulate the RV industry's development.

China has made a push in recent years to develop domestic tourism, including campgrounds and the RV industry. Campground development has received great support from the central government. The China National Tourism Administration, together with 10 other ministries, released "Several Opinions on Promoting the Development of Self-Driving Tourism" on November 9, 2016. This set a target of building 2,000 campgrounds by 2020, and allows vehicles to tow trailers which are less than 2.5 tons.

However, the RV industry faces issues such as lack of standards and regulations, as well as the luxury car consumption tax challenge. China Customs does not have an HS code for RVs, so RVs are treated as automobiles upon import. This means imported RVs have to pay the same high tariffs and duties as imported cars.

Trade Shows and Events

Shanghai Auto Show
Shanghai, April 22-29

The 3rd Guangzhou Lithium Battery Industry Expo 2017

Guangzhou, June 2-4

Guangzhou Int'l Auto Parts Exhibition
Guangzhou, July 1-3

CAS - China Auto Saloon / SEMA Shanghai Business Development Tour
Shanghai, September 6-10

Guangzhou Auto Show
Guangzhou, November 18-25

Automechanika
Shanghai, November 29-December 2

Web Resources

Ministry of Transport of China (MOT)
China Associations of Automobile Manufacturers (CAAM)
China Automobile Dealers Association
China Automotive Technology and Research Center (CATARC)
Ministry of Commerce (MOFCOM)
Certification and Accreditation Administration (CCC Certification)
Ministry of Information and Technology (MIIT)

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Aviation

Overview

Aircraft, Spacecraft, and related parts (HS Code 88) Unit: USD millions

	2014	2015	2016
Total Exports	2,704	3,484	3,454
Total Imports	28,503	28,004	22,791
Imports from the U.S.	15,517	17,622	13,237
U.S. share of total imports	54%	63%	58%

Source: World Trade Atlas

China is the world's second largest and one of the world's fastest growing civil aviation markets. The industry has grown at double-digit rates for several years. Commercial opportunities in China's civil aviation market include commercial aircraft, engines and parts, MRO (Maintenance, Repair and Overhaul), airport, and general aviation, among others.

China's aviation industry is a national priority, and the Chinese government is expending significant resources to develop domestic manufacturing capabilities, build new airports, train new pilots, and increase domestic maintenance capacity. China is one of the largest overall export markets for U.S. aerospace products. The U.S. aviation sector exported $13.2 billion products to China in 2016, accounting for 58 percent of China's total imports in the aviation sector.

In 2016, China's civil aviation transportation turnover reached a total of 96 billion tons km, passenger transport volume reached 490 million persons, and cargo transport volume reached 6.67 million tons; this was an increase of 12.8%, 11.8%, and 6%, respectively, from 2015. China's top three airlines—Air China, China Southern, and China Eastern—are already among the world's top 10 carriers in terms of passenger volume.

By the end of 2016, the number of civil aircraft in China increased from 4,554 to 5,037, and civil airports increased to 218. The number of airports able to accommodate passenger traffic in excess of 10 million persons reached 28. Beijing, Shanghai and Guangzhou occupy 26.2% of total passenger throughput in mainland China, of which Beijing reached 90 million and Shanghai's two airports reached 100 million in 2016. According to China's 13th Five Year Plan (2016 – 2020), China will have more than 260 civil airports by 2020.

By the end of 2016, the number of general aviation aircraft reached 1,472 and China had more than 300 general aviation airports. China currently has a total of 224 general aviation companies, with the total number of general aviation pilots at 2,524. There are currently 20 pilot training schools in China. By 2020, China plans to have 500 general aviation airports and more than 5,000 general aviation aircraft.

The expansion of China's aviation market creates both opportunities and challenges for U.S. companies. Commercial opportunities in the civil aviation market include final assembly and tier-one suppliers, small niche parts manufacturers, airport design and construction companies, MRO, and general aviation among others. However, since aerospace manufacturing is a national priority in China, U.S. companies may face substantial localization pressures or may be disadvantaged by government policies favoring local firms.

Leading Sub-Sectors

Aircraft Parts: Manufacture and Repair

Aircraft parts (HS Code 8803) Unit: USD millions

	2014	2015	2016
Total Imports	2,338	2,151	2,192
Imports from the U.S.	714	726	651
U.S. share of total imports	31%	34%	30%

Source: Global Trade Atlas

China is working to develop a globally competitive manufacturing industry. The industry sees strong growth in China's aviation sector over the long term.

China's import market for aircraft parts and components exceeded $2.19 billion in 2016, of which imports from the U.S. accounted for 30 percent. China's demand for aircraft parts can be attributed to a number of factors including increasing capacity utilization rate, the aging and expansion of China's aircraft fleet, and the domestic production and assembly of aircraft.

Boeing predicts China will need 5,110 new single-aisle airplanes through 2035. This sector is driven by growth in new carriers and low-cost airlines in developing and emerging markets, as well as continuous expansion in established airlines.

New Airplane Deliveries to China Through 2035			
Airplane type	Seats	Total deliveries	Dollar value
Regional jets	90 and below	140	$10B
Single-aisle	90-230	5,110	$535B
Small wide-body	200-300	870	$240B
Medium wide-body	300-400	630	$220B
Large wide-body	400 and above	60	$20B
Total	----------	6,810 (17% of world total)	$1.025T (17% of world total)

Source: Boeing's China Current Market Outlook 2016

U.S. companies are important suppliers of aviation technology, services, and know-how and have committed significant resources to help China reduce its capacity constraints and fulfill a wide variety of training needs. The best immediate opportunity for U.S. companies will be in supplying parts for China's commercial aircraft fleet. It is the largest and best-established segment of China's aviation market and is currently dominated by western aircrafts with many U.S. suppliers. U.S. companies are also key partners for China's own commercial aircraft programs including the Commercial Aircraft Corporation of China's (COMAC) ARJ21 regional jet and C919 narrow body civil aircraft and the Aviation Industry of China's (AVIC) MA700 m. U.S. companies also have much to offer as partners in developing China's fledgling general aviation industry.

China's domestic aircraft parts and assembly manufacturing sector is also growing. In addition to approximately 200 small aircraft parts manufacturers, there are also a number of regionally-based major manufacturers concentrated in Shanghai, Chengdu, Xi'an, Nanchang, Harbin, Shenyang, and Shijiazhuang. China's domestic manufacturing base is developing, as reflected by the commitments of large aircraft and engine manufactures to expand procurement in China over the long term. For example, over 8,000 Boeing airplanes fly throughout the world with integrated China-built parts and assemblies. China has components on every current Boeing commercial airplane model – the Next-Generation 737, 747, 767, 777, as well as the 787 Dreamliner. However, most highly technical and sophisticated parts will continue to be imported.

Opportunities

Airports

China currently has 218 civil aviation airports, including the world's second busiest in Beijing, with plans to expand aggressively to more than 260 airports by 2020. The following table shows China's top 28 airports with annual passenger throughput of 10 million or more.

Airports	Passenger Throughput			
	Rank	2016	2015	Year-to-Year %
Total of All Chinese Airports		1,016,357,068	914,773,311	11.1
Beijing/Capital	1	94,393,454	89,939,049	5.0
Shanghai/Pudong	2	66,002,414	60,098,073	9.8
Guangzhou/Baiyun	3	59,732,147	55,201,915	8.2
Chengdu/Shuangliu	4	46,039,037	42,239,468	9.0
Kunming/Changshui	5	41,980,339	37,523,098	11.9
Shenzhen/Baoan	6	41,975,090	39,721,619	5.7
Shanghai/Hongqiao	7	40,460,135	39,090,865	3.5
Xi'an/Xianyang	8	36,994,506	32,970,215	12.2
Chongqing/Jiangbei	9	35,888,819	32,402,196	10.8
Hangzhou/Xiaoshan	10	31,594,959	28,354,435	11.4
Xiamen/Gaoqi	11	22,737,610	21,814,244	4.2
Nanjing/Lukou	12	22,357,998	19,163,768	16.7
Changsha/Huanghua	13	21,296,675	18,715,278	13.8

Wuhan/Tianhe	14	20,771,564	18,942,038	9.7
Zhengzhou/Xinzheng	15	20,763,217	17,297,385	20.0
Qingdao/Liuting	16	20,505,038	18,202,085	12.7
Urumqi/Diwobao	17	20,200,767	18,506,463	9.2
Haikou/Meilan	18	18,803,848	16,167,004	16.3
Sanya/Fenghuang	19	17,369,550	16,191,930	7.3
Tianjin/Binhai	20	16,871,889	14,314,322	17.9
Harbin/Taiping	21	16,267,130	14,054,357	15.7
Dalian/Shuizhuizi	22	15,258,209	14,154,130	7.8
Guiyang/Longdongbao	23	15,105,225	13,244,982	14.0
Shenyang/Taoxian	24	14,967,228	12,680,118	18.0
Jinan/Yaoqiang	25	11,616,914	9,520,887	22.0
Fuzhou/Changle	26	11,606,446	10,887,292	6.6
Nanning/Wuxu	27	11,559,860	10,393,728	11.2
Lanzhou/Zhongchuan	28	10,897,025	8,009,040	36.1
Subtotal		804,017,093		

(Source: CAAC website)

The airport system at present is highly concentrated, with top airports suffering from major congestion. The top three airports – Beijing, Shanghai, and Guangzhou – account for 26.2 percent of all traffic, while the top 28 airports with annual passenger throughput over 10 million handle 79.1 percent of total traffic nationwide. Local industry estimates indicate that about 25 percent of China's airports are already at or near capacity.

According to the Civil Aviation Administration of China (CAAC)'s 13th Five Year Plan (2016 – 2020), China will continue major new airports' construction including Beijing New Airport (the largest new airport project under construction) and start 44 new airport construction projects including Chengdu New Airport (the 2nd largest new airport project in China). This presents tremendous opportunities for U.S. companies to sell equipment and services from airport design and construction to air traffic management and environmental consulting.

Qualified companies can bid for design, consultation, surveillance, management, and construction of designated civil airport projects. In particular, companies that provide the following equipment and services to airport development have great opportunities: airport design, green construction, energy efficiency equipment, airport security equipment, ground support and terminal related equipment, and airport management.

General Aviation (GA)

In China, airspace is tightly controlled by the Chinese military and the airspace classification system does not segment out its GA air activities. Strict military control over roughly 70 percent of all Chinese airspace is the largest single factor limiting growth of this industry. GA is still underdeveloped in China in terms of aircraft numbers, professionals, and facilities.

China is a growing market for business aircraft, helicopters, and other general aviation aircrafts. By the end of 2016, China had 1,472 general aviation aircrafts, more than 300 general aviation airports, and a total of 224 general aviation companies. The total number of general aviation pilots reached 2,524; and pilot training schools reached 20.

Although the total number of GA companies, the size of the fleet, and flight hours are still relatively small, the potential importance of this industry to the Chinese economy in the long-term has led aircraft OEMs and Chinese government officials to devote significant resources towards capacity-building for general aviation. According to CAAC, Chinese GA OEMs located in Guangdong, Shandong, Hunan, Henan, Hebei, Liaoning, Chongqing, and other provinces have put into operation 17 types of GA aircraft and helicopters that are in line with airworthiness standards. China has initially formed a GA industry structure that includes GA equipment manufacturing, GA operation, maintenance, GA airport construction, air traffic control services, and financial services.

The government has committed to gradually open access to low-altitude airspace and streamline the examination, approval, and record-keeping requirements for general aviation flights. A welcome change came in November 2010 when civilian and military authorities issued a joint reform document calling for liberalization of low altitude airspace under 4,000 meters (13,000 feet), setting the goal of opening up airspace below 3,000 meters by 2020. There is a three phase plan to deregulate G.A. airspace, beginning in pilot cities of Shenyang, Guangzhou, Hainan Island, Changchun, Tangshan, Xi'an, Qingdao, Hangzhou, Ningbo, Kunming, Chongqing. The plan is currently in Phase Two, with airspace under 1,000m now accessible to General Aviation aircrafts in these cities.

Since then, GA has been developing at a fast pace with new players joining the market and local governments getting involved. GA has big market potential driven by the state and local economic development plans, public demand for business jets, and the need for public services and individual recreation. Recent GA progress has been made on loosening regulations on low altitude airspace to enable safe and efficient operations of small aircraft and on simplifying permitting procedures for general and business aviation operations.

CAAC announced its 13th Five Year Plan on General Aviation Development. By 2020, China plans to have more than 5,000 general aviation aircrafts and 500 general aviation airports, and annual flight hours will reach 2 million hours. To facilitate that expansion, it has lowered the approval level for airports from the central government to the provincial governments, and it will encourage private investment in building airports.

A plan is in place to free up more airspace, gradually raising the observation altitude, under which pilots need not file a restrictive flight plan, to 3,000 meters (9,840 feet) from 1,000 meters (3,280 feet). Those parameters are more in line with international convention. Massive changes to China's general aviation infrastructure and policies are ahead after May 2016 initiatives announced by the Chinese State Council. In acknowledging that general aviation is vital to the country's transportation system and is just as important as commercial aviation, the State Council named general aviation the next engine to drive the Chinese economy.

Helicopters

With the rise of the GA market, China could become the fastest-growing helicopter market in the world.

For a country similar in geographical size to the United States, China currently operates comparatively few helicopters, most of which are built abroad. But with demands growing in both military and civil sectors, change is on the horizon for China's relatively small helicopter industry. The main civil helicopters are supplied by Airbus Helicopters, Sikorsky Aircraft Corporation, Bell Helicopters, Agustawestland Helicopters, Russian Helicopters, Robinson Helicopter, and Kaman Helicopter. The major local suppliers are AVIC Helicopters, AVIC Harbin Aircraft Industry Group (AVIC HAIG), and AVIC Changhe Aircraft Industry Corporation (AVIC CAIC). The Chinese government has loosened its control on helicopter manufacturing to allow local private firms and foreign companies to cooperate in developing and manufacturing civil helicopters. For example, in 2013, Chongqing Helicopter Investment Co. acquired Enstrom Helicopter Corporation and entered the Chinese market.

As of 2016, China's fleet of civil helicopters reached more than 700 in total. Over the next ten years, China's civil helicopter needs are expected to rise to about 1,500 helicopters. China has realized the importance of helicopters for disaster relief work and medical rescues, and the country has become a bright spot in the struggling helicopter industry. The growing Chinese economy provides a huge potential market for helicopters of all classes.

Below is a partial list of best sales prospects:

Air Data & Inertial Reference System (ADIRS) Airfield buses Automatic Flight Control System (AFCS) Auxiliary power unit, door system Avionics Bearings Baggage sorting systems and handling equipment Baggage x-ray machines Crew seats Composite Materials De-icers/ Refuellers Electric power system Emergency evacuation equipment Engine vibration monitoring system Flight Data Recording System	Fuel hydraulics Fuel System Fuel Tank Inserting System High Lift System Hydraulic System Integrated flight deck panel Integrated Supervise & Control System Interior components Landing gear Lighting equipment On-board Maintenance System Oxygen fuelling vehicles Radio remote control apparatus Runway friction testers Pilot training Signalling & Safety equipment for airfields Telecommunication and Navigation System

Flight Control Actuation System Flight deck control suite Fire fighting vehicles Fire protection equipment Food loaders	Towing tractors Turbofan Engines Windshield heater control & wiper system Windshields and opening windows

Close aviation partnership between the U.S. and China continues to flourish. The U.S. Federal Aviation Administration (FAA) and the Civil Aviation Administration of China (CAAC) have had a close partnership for many years. The American Chamber of Commerce China-affiliated U.S.-China Aviation Cooperation Program (ACP) brings together U.S. industry and government agencies from both countries, notably CAAC, FAA, the U.S. Trade and Development Agency, the U.S. Embassy, and the U.S. Transportation Security Administration, in a unique and active forum for bilateral cooperation. Efforts to reduce constraints on the healthy and sustainable development of civil aviation in China have been largely successful.

U.S. firms without an existing China presence may want to consider hiring a local distributor or representative. Such partners generally help establish access to decision makers and gain timely commercial information about the market. They also traditionally leverage personal connections to promote U.S. products and develop sales leads. While this is a common global practice, successful exporters comment on the need to invest significant time and attention to maintaining and managing relationships with Chinese partners. Some U.S. firms decide to enter into a Joint Venture (JV) relationship with Chinese partners, exchanging technological know-how for market access. This should only be done after significant due-diligence and cost/benefit analysis.

U.S. firms often use training programs to establish productive partnerships with Chinese clients. Industry associations such as the U.S.-China Aviation Cooperation Program (ACP) can serve as valuable vehicles for American firms to leverage similar opportunities.

Challenges

While the trend to reduce barriers on the sustainable development of civil aviation in China has been largely successful, challenges remain. Further systematic efforts are needed to open up and modernize China's airspace system, reduce inefficiencies and congestion, realize environmental benefits from the adoption of new technologies and procedures, and accommodate growth.

Reforming China's Airspace System and Improving Operational Efficiency

Reforming China's national airspace management system is critical to meeting China's aviation growth, enabling improved system efficiencies and reducing the environmental impact of the aviation industry.

The surge in air traffic has significantly increased demands on the country's large and complex airspace system. Although the system has a world-class safety record and continues to grow in passenger and cargo aircraft operations, it exhibits signs of stress, including persistent delays at airports nationwide and a continuing shortage of slots. These delays and slot shortages are due primarily to the limits placed on the use of China's national airspace for civil aviation purposes, inefficiencies in airspace operations, capacity management that relies on a command and control structure, and ripple effects from the resulting congested airspace when arriving at or departing from airports.

Trade Events

Air Show China 2018
Nov. 6-11, 2018 • Zhuhai, China •
China International Aviation & Aerospace Exhibition (Airshow China or Zhuhai Airshow) is the only international aerospace trade show in China endorsed by the Chinese central government. It features the display of real-size products, trade talks, technological exchange and flying display. Since 1996, the show has been successfully held in Zhuhai in every even-number year for 10 sessions.

2017 China Civil Aviation Development Forum
May 25 - 26, 2017 Beijing
China Civil Aviation Forum is designed to serve as a high-level communication platform for global aviation leaders. It is hosted by the Civil Aviation Administration of China and organized by the Civil Aviation Management Institute of China. It focuses on long-term trends and hot issues and discusses strategies for the development of civil aviation industry. Since its beginning, the forums have proved a series of success, greatly promoting communication among the aviation communities at home and abroad.

China Helicopter Expo
September 14 - 17, 2017 Tianjin

China International General Aviation Convention (CIGAC)
October 2017 Xi'an, China
Sanctioned by Chinese State Council in 2009, China International General Aviation Convention (CIGAC) is so far the largest general aviation event of its kind in China. CIGAC is held biennially in Xi'an featuring a spectrum of Air Show and Static Display, Exhibition of Aviation Equipment and Accessories, Summit and Seminars, and Project Promotion Session together with a series of Signing Ceremonies.

Web Resources

Government Authorities

Civil Aviation Administration of China (CAAC)
Air Traffic Management Bureau:
Center of Aviation Safety Technology

Airlines

Air China
China Eastern Airlines
China Southern Airlines
Hainan Airlines
Sichuan Airlines
Xiamen Airlines

Shenzhen Airlines

Aircraft Manufacturers

Aviation Industry Corporation of China (AVIC)
Commercial Aircraft Corporation of China (COMAC)

MRO Facilities

Aircraft Maintenance and Engineering Corporation (AMECO)
Guangzhou Aircraft Maintenance Engineering Co. (GAMECO)
Shanghai Technologies Aerospace Co. (STARCO)
Taikoo Aircraft Engineering Company Limited (TAECO)
MTU Maintenance (Zhuhai)
Sichuan Services Aero-Engine Maintenance Company (SSAMC):

Aircraft Trading Companies

China Aviation Supplies Corporation (CASC)

Other

CAAC news
ACP

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Construction and Green Building

Overview

	2016	2017 (forecast)	2018 (forecast)	2019 (forecast)	2020 (forecast)	2021 (forecast)
Construction Industry value (USD Billion)	717.71	782.61	848.92	910.48	976.43	1042.17

Construction Industry Value, Real Growth (% year to year)	6.0	6.79	5.97	4.75	4.74	4.23
Construction Industry Value (% of GDP)	6.6	6.6	6.6	6.5	6.5	6.4

Exchange Rates: $1= RMB 6.9

Source: National Sources, BMI Research

China is the world's largest construction market and the United States is China's second largest source of imports for the construction industry, with a 13 percent import market share. U.S. exports to China are expected to continue to grow in all subsectors through 2017.

Over the last several years, the construction market in China has grown more modestly as the country looks to shift toward a services-led economy and more sustainable construction policies. One area that will continue to see expanded investment is infrastructure, with as the Chinese government's 'One Belt, One Road' initiative providing opportunities for the country to accelerate transport infrastructure projects. As such, China is expected to maintain its position as the world's largest construction market and account for a significant share of all new global construction between now and 2020.

China's Increasing Emphasis on Green Building

Increasing urbanization and national commitments to conserve resources and reduce greenhouse gas emissions drive China's steady commitment to expand the green portion of its massive construction market. In 2014, the State Council Green Building Action Plan mandated that public buildings such as schools, hospitals, museums, stadiums, and affordable housing, as well as any single building area over 20,000 square meters, such as airports, railway stations, hotels, restaurants, shopping malls, offices, and other large public buildings, must meet the green building standards of China's 3-Star Rating System GBEL (The Green Building Evaluation Label). This system is administered by the Ministry of Housing and Urban-Rural Development (MOHURD) and evaluates projects based on six categories: land, energy, water, resource/material efficiency, indoor environmental quality, and operational management.

Besides China's 3-Star rating system, the U.S. Leadership in Energy and Environmental Design (LEED) certification is also prevalent in China. In 2015, LEED-certified Grade A office buildings exceeded 5.6 million square meters across 10 major cities in greater China, an increase of 7.4 percent from the previous year, and accounting for 28 percent of the total market, according to a new report published by CBRE and USGBC. The report, "Towards Excellence: Market Performance of Green Commercial Buildings in the Greater China Region," builds upon CBRE's 2015 report, "New Era of China's Green Buildings," which found that rental premiums for LEED-certified Grade A offices in key mainland China cities—including Beijing, Shanghai, Guangzhou, Shenzhen and Chengdu—enjoy a higher average rental performance ranging from 10 to 30 percent and are better positioned to weather a downward commercial real estate market. In China's tier two cities, such as Chengdu, Tianjin, Hangzhou and Wuhan, LEED-certified Grade A office buildings cover a floor area of nearly one million square meters, accounting for an estimated 18 percent of the total Grade A office area.

Smart Cities

Increased and intentional urbanization has also driven creating smart cities across China. China's 13th FYP reveals that the country aims to optimize urban space through public transport, high-capacity infrastructure, mixed-use development, and green city planning. This will spur smart city development with greater use of low-carbon technology and new energy systems. In support of the nation's objectives, the National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Public Security, Ministry of Finance, Ministry of Land and Resources, Ministry of Housing and Urban-Rural Development and Ministry of Transport collectively drafted the "Guidance for Facilitating the Healthy Development of Smart Cities" in 2014. According to the Guidance, China will launch constructions in 10 areas: Smart Transportation, Smart Grid, Smart Water Utility, Smart Environmental Protection, Smart Health Care, Smart Pension, Smart Community, Smart Household, Smart Education, and Smart National Land.

At present, the relevant government departments and various cities in China are actively promoting smart city development. In this respect, investment in Chinese smart cities is expected to exceed RMB1.6 trillion in the coming years.

Ministries such as the National Development and Reform Commission (NDRC), the Ministry of Industry and Information Technology (MIIT), and the Ministry of Housing and Urban and Rural Development (MOHURD) are jostling to sponsor programs and industry alliances. In 2012, the Ministry of Science and Technology (MOST) organized the China Strategic Alliance of Smart City Industrial Technology Innovation. In 2013, MIIT sponsored another group, the China Smart City Industry Alliance, and this year announced a RMB50 billion ($8 billion) fund to invest in smart city research and projects. A third group, the Smart City Development Alliance, was formed this spring by NDRC. Some companies are working with only one of these new groups, and some are involved with all three. At present, there is little connection between the groups though they were intended to improve communications between industry participants, communications between industry and government and, in the case of the China Smart City Industry Alliance, to coordinate investment as well.

In January 2013, MOHURD formally announced the first list of national pilot Smart Cities. By April 2015, there were over 285 pilot Smart Cities in China, as well as 41 special pilot projects.

Leading Sub-Sectors

Green building products that meet the new energy efficiency standards in new, unique, or economically competitive ways have a potential market in China.

Some of the best prospects for China's market include:

- Green building design
- Building energy efficiency retrofits
- Green building material production and supply
- Integrated energy efficiency solutions

- Green building operation and energy efficiency management
- Low-carbon neighborhood development design and energy solutions

Looking at the sector as a whole, U.S. exporters took the lead over international competitors, edging ahead of Japan, which long had occupied the leading import market share position. Japan now trails the U.S. slightly at 11 percent market share, followed by Germany (9.7 percent), Russia (7.5 percent), and Canada (5.7 percent). A view of each subsector gives a more informed sense of the competitive environment.

HVAC

China is the world's largest HVAC market. There is strong demand for high-quality HVAC products in China, with exporters from Germany, Japan, the United States, and Korea claiming 60 percent of the import market. The United States is the third largest source of subsector imports, with a 12 percent market share. Germany leads the market, with just over 20 percent.

Lighting

Lighting represents an enormous area of opportunity for U.S. exporters. Government authorities throughout China are working to encourage energy efficient retrofits of buildings, in which lighting is widely viewed as a "low hanging fruit" investment option to increase energy performance. U.S. lighting exporters have room to grow their share of the China market, currently at just 6.5 percent. Performing ahead of U.S. exporters are Japan (24 percent share), Germany (17 percent), Korea (8.9 percent), and Taiwan (8.7 percent).

Wood

China represents an enormous market opportunity for U.S. wood products exporters, who currently claim 13.3 percent of the import market and are the second largest source of imports after Russia (16 percent), just ahead of Canada (12 percent). China's demand for wood and wood products has shown extremely strong growth, with that trend expected to continue through 2017. While Chinese importers have shown strong interest in importing logs or least-processed wood and undertaking value-added production in China, U.S. exporters have tremendous opportunities in higher value-added wood product sales.

Plumbing

There is ample room for growth in U.S. plumbing exports to China, which, at 8 percent of the market, are the fifth largest source of imports. Plumbing imports in China are dominated by Japan, which holds a 22 percent market share, followed by Korea (13.2 percent), Germany (13 percent) and Taiwan (9.5 percent).

Insulation

U.S. exporters have steadily been gaining import market share in China's insulation market and now stand a close second to Japan at 19.4 percent market share. Japan leads the import market with just over 20 percent share, and Taiwan (10.3 percent), Germany (6 percent) and Korea (5.8 percent) round out the top five foreign sources of subsector imports.

Windows and Doors

There are solid opportunities for growth in U.S. window and door exports to China, which currently rank sixth in import market share at 5.7 percent. Germany leads the import market, claiming fully 30 percent, followed by Korea (9.2 percent), Taiwan (8.9 percent), Norway (8 percent), and Italy (6.3 percent).

Opportunities

One sector with a significant foreign presence is architectural design, which is dominated by many well-known architectural firms from the United States and Europe. Other opportunities exist in consulting on green building designs, as well as on energy saving strategies for both new and old buildings. Both of these sectors require skills and expertise that are not yet fully developed in the Chinese domestic market and can help lower energy intensity in line with the 13th Five-Year Plan. More than 95 percent of existing buildings in China are not green buildings, creating potential opportunities in retrofitting old buildings with green building technology.

The National New-type Urbanization Plan (2014-2020)

A Chinese national "New-Type Urbanization Plan" calls for the development of the following three sectors in China from 2014 to 2020:

New-type city construction: The key projects will be focused on building with green energy, green building, green traffic, innovation in industrial parks, and the urban environment.

Smart city construction: Cities should utilize information technology to manage the development of the city, such as extending broadband information networks and promoting cloud computing and large data centers. Promoting cross-sector, regional government information sharing and business collaboration is also encouraged.

Humanities city construction: The Plan encourages localities to focus on protecting historical and cultural heritage in old cities and to incorporate traditional cultural elements into new city construction.

Trade Shows & Events

China International Trade Fair for Sanitation, Heating, Ventilation & Air-Conditioning
May 18- May 20, 2017
New China International Exhibition Center, Beijing

Guangzhou International Lighting Exhibition 2017
June 9 – 12, 2017
China Import & Export Fair Complex
Guangzhou, China

The 13th International Green Building and Building Efficiency Conference &
New Technology and Products Expo
March 2018
Beijing International Convention Center

China Refrigeration 2018

April 2018
Beijing New International Expo Center, Beijing, China

Web Resources

Ministry of Housing and Urban-Rural Development:

See also:

Ministry of Housing and Urban-Rural Development
China Building Materials Industries Association
Ministry of Environmental Protection of China
USFCS China Design Construction Webpage
U.S.-China Energy Cooperation Program

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Education and Training

Overview

U.S. colleges and universities remain the preferred overseas destination for students from China. According to the 2016 Open Doors Report, 328,547 students from China were studying in the U.S in the 2015-2016 academic year. That constitutes an 8% increase from the previous year. China remains the leading country of origin for the seventh year in a row, comprising 31.5% of all international students studying in the U.S. In 2016, Chinese students in U.S. colleges and universities contributed $11.43 billion to the U.S. economy, (Source: U.S. Department of Commerce). The U.S. Department of Commerce 2016 Top Markets Report for the education sector ranks China as the number one prospect:

According to the Open Doors report, 57% of Chinese students pursued majors in Business/ Management, Engineering, Math, and Computer Science. During the 2015-2016 academic year, New York, California, and Texas were the states that attracted the most international students, including those from China.

The U.S. continues to experience a growing number of undergraduate students from China with an upsurge of recent graduates undertaking Optional Practical Training (OPT) – temporary employment that is directly related to a particular area of study. In 2015-16, the total breakdown of Chinese individuals studying in the U.S. was 41.3% undergraduate, 37.5% graduate students, 5.3% other, and 15.9% OPT (up 21% from last year).

Year	Number of Students From China To United States	% Change from Previous Year
2015/16	328,547	8.1%
2014/15	304,040	10.8%
2013/14	274,439	16.5%

2012/13	235,597	21.4%
2011/12	194,029	23.1%
2010/11	157,558	23.5%
2009/10	127,628	29.9%

Source: Institute of International Education

Chinese children are provided with nine years of free, compulsory education from elementary to junior high school. On November 7, 2016, the National People's Congress (NPC) revised the "Private Education Promotion Law," banning private, for-profit schools from offering compulsory education to first- through ninth-graders.

Leading Sub-Sectors

Short-term training programs, technical schools, and workshops in specialized fields as well as business education are particularly sought after. In December 2011, China's National Development and Reform Commission (NDRC) along with the Ministry of Commerce (MOFCOM) jointly released a revised edition of the Guiding Catalogue on Foreign Investment in Industry which added "training and vocational education" to the "encouraged" list of industries for foreign direct investment. The Catalogue includes four categories: "encouraged," "restricted," "prohibited," and "permitted". U.S. educational organizations can also sell teaching materials and equipment, convey the latest methodologies and case studies, exchange faculty, and provide educational consulting services. In addition, more and more Chinese high schools have created international programs to send their students to study in foreign high schools.

While there has been a great increase in online learning platform enrollments, it is important to note that degrees obtained solely online are not officially recognized by relevant Chinese overseas degree accreditation authorities.

Opportunities

There is no doubt that the desire of Chinese students to enroll in U.S. institutions is high, fueled by increasing disposable incomes and the prestige associated with attending well-known U.S. institutions. Also supporting this trend is the eligibility of qualified Chinese students and exchange scholars and their dependents to receive multiple-entry visas valid for up to five years.

U.S. institutions will have to remain active in the promotion of American education in China as competition for Chinese students from other English-speaking countries has increased. An expanded domestic education market has also created greater opportunities for students to pursue higher education without leaving China. This trend will continue as Chinese officials actively advocate for partnerships with foreign institutions that offer a "0+4" joint degree, meaning all academic work takes place in China but the degree obtained is valid in both China and the country of the partner institution.

Education technologies and e-learning products are gaining traction through large-scale deployment and via content digitization efforts in the various federal, provincial, and municipal school systems. Other supporting trends are the high demand for English language learning, consumer demand for online test prep products, and increasing enrollment in online education. One trend that is unique to China is the high demand for early childhood learning products, leading to the rapid adaption of e-learning solutions in early childhood.

Education Events

China Education Expo (CEE)

Beijing	Oct. 21-22, 2017
Chengdu	Oct. 24, 2017
Guangzhou	Oct. 26, 2017
Shanghai	Oct. 28-29, 2017

China International Education Exhibition Tour (CIEET)
Schedule TBD

Web Resources

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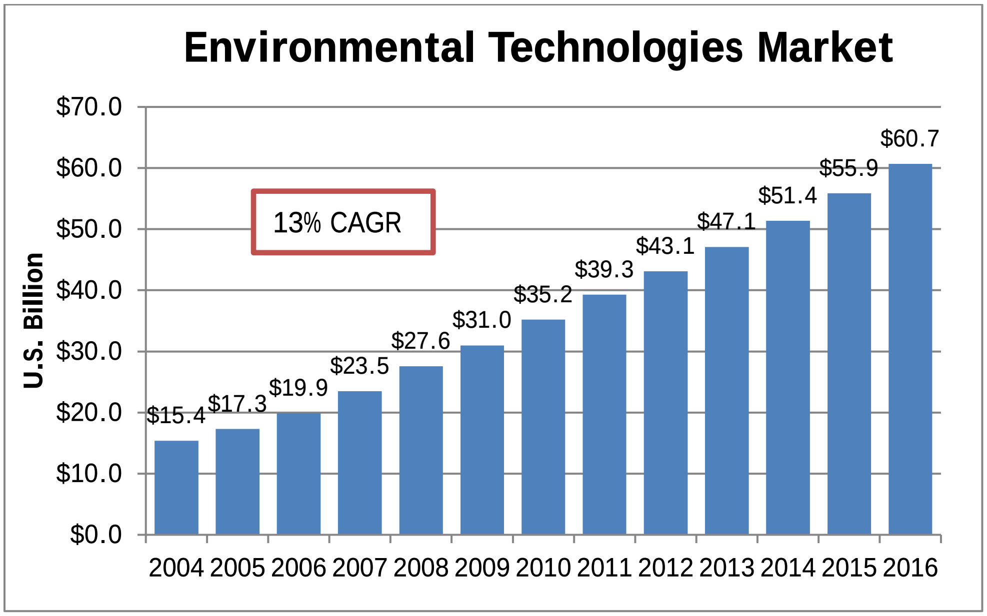
Environmental Technology

Overview

China is the largest and fastest growing emerging market for environmental technologies. The overall environmental technologies market in China (including goods and services) is valued at USD 60.7 billion (EBI Data Pack, December 2016).



China's 13th Five Year Plan promotes a cleaner and greener economy, with strong commitments to environmental management and protection, clean energy, emissions controls, ecological protection and security, and the development of green industries. With the introduction of the amended Environmental Protection Law on January 1, 2015, China fundamentally restructured its approach to environmental regulatory enforcement.

In December 2016, China promulgated its first Environmental Protection Tax Law in order to strengthen the enforcement of environmental regulations. This law imposes taxes on entities that emit solid waste, air and water pollutants, and noise pollution; and it will come to effect on January 1, 2018. Taxes collected will be based on the volume of the pollutants discharged. The reliance on monitoring and incentives to reduce emissions should result in opportunities for environmental technology firms.

Although China's environmental regime has improved with the development of a national legal framework, enforcement remains weak in many areas. Market barriers, particularly those related to protection of intellectual property, continue to make China a challenging market for U.S. companies.

Leading Sub-Sectors

Air Pollution Control

Air pollution is arguably the most egregious environmental problem plaguing China. Smog in urban areas has become so bad that flights have been grounded and children have been hospitalized. The central government has placed improving air quality as a priority on its agenda for the next several years, with China's Premier pledging in March 2017 to "bring back blue skies" and work faster to address air pollution.

The amended Air Law, approved by the National People's Congress in September 2015, established various legal mechanisms to improve ambient air quality. The new amendments have expanded the list of pollutants to also include particulate matter, volatile organic compounds, and greenhouse gases. Further doubling down on sources of pollution, the new amendments require buildings with centralized heating that discharge industrial gases or hazardous air pollutants to apply for a pollutant discharge permit from the State Council. This permit system could eventually lead to more stringent oversight of emissions and environmental impact assessments.

Water

The State Council issued its highly anticipated Water Pollution Prevention and Control Action Plan in April 2015. The plan sets a series of ambitious targets for 2030, including achieving excellent water quality in seven major water sheds, elimination of "black and odorous" water, and achieving an overall water quality of level-3 or better for 95 percent of point sources in urban areas. The Action Plan delineates 26 detailed requirements and 238 measures to improve water quality and promote water stewardship. Key themes include industrial effluent management, wastewater treatment, water reuse, enhanced monitoring, and new enforcement mechanisms. Additionally, China's 13th Five-Year Plan (2016-2020) sets new targets for wastewater effluent quality, sludge management, and drinking water quality.

Soil Remediation

China's Ministry of Environmental Protection (MEP) and the Ministry of Land Resources report that 16.1 percent of China's soil is polluted and that of this total, 19.4 percent of arable land is polluted. Much of this contamination is non-organic with the most prevalent pollutants being cadmium, nickel, and arsenic. Soil pollution threatens the safety of agricultural products and contributes to groundwater pollution through leaching.

The People's Daily newspaper has suggested that as many as 300,000 brownfield sites are in need of treatment before redevelopment. However, there are still limited market opportunities in the short term due to the lack of standards and funding.

Opportunities

Air Pollution Control

Ambient Air Monitoring

In 2015, China also amended its national Air Pollution Prevention and Control Law. The revised law took effect on January 1, 2016 and placed the onus to improve local air quality directly on city and municipal governments, which are now subject to oversight by a national-level coordinating body that is accountable to the State Council. In addition, major emitters are now required to install automated monitoring equipment and to publish their emissions data. Implementation of the state plan and amended Air Pollution Law will thus require the development of a series of ambient air monitoring networks and should yield opportunities for U.S. air pollution monitoring and instrumentation companies.

Key Technologies in Demand:

- Continuous emissions monitoring systems
- Ambient air quality monitoring equipment
- Source emissions measurement technologies
- Analytical and laboratory testing goods and services
- Air pollution control equipment
- Fuel vapor control systems

Industrial Air Pollution Reduction

In its Nationally Determined Contribution (NDC) for the December 2015 Paris Climate Agreement, China committed to reach peak carbon emissions by 2030 or earlier. China's NDC also calls explicitly for the control of emissions from key industries, specifically iron and steel, nonferrous metals, building materials, and chemicals. The recently-amended Air Pollution Law follows on China's NDC commitments by expanding the list of centrally-controlled pollutants beyond solely NOx and SOx to include particulate matter, Volatile Organic Compounds (VOCs), and greenhouse gases. If properly enforced, this emissions reduction effort will require the implementation of control technologies at industrial sites. Industries that will be of the highest interest for the application of control technologies include iron, cement, and steel plants; oil refineries; non-ferrous metallurgical plants; coal boilers; and petrochemical plants.

Key Technologies in Demand:

- Wet/dry scrubbers (particularly systems that remove multiple pollutants)
- Carbon injection systems (for reduction in mercury and organics)
- Particulate matter control systems (particularly new bagging systems)
- NOx, mercury, CO2 and particulate matter monitoring and continuous monitoring systems
- Selective catalytic and non-catalytic reduction controls
- Oxygen enrichment, fuel injection and other efficient combustion technologies
- Innovative specialty cements
- Mixing technologies
- Pumping and fluid handling equipment
- Engineering and plant design
- Leak detection equipment
- Alternative fuel technologies used to fire cement kilns

Power Plant Emissions Reduction

The Chinese power generation sector is heavily reliant on coal and in the past has applied few if any central measures to reduce particulates and other criteria pollutants such as sulfur oxides (SOx), nitrogen oxides (NOx), and mercury. Coal-fired power plants generated 70 percent of China's energy in 2014, significantly contributing to air quality issues in the region.

Though the total amount of coal-fired power capacity has grown annually, China is working to reduce the environmental footprint of coal utilization, including emissions of particulate matter (PM), sulfur dioxide (SO_2), nitrogen oxides (NO_x), and CO_2. Thus, a major focus in the country is to increase the use of high-efficiency, low-emissions (HELE) coal technologies to meet the dual objectives of providing power and realizing environmental and social responsibility.

Key Technologies in Demand:

- Continuous emissions monitoring systems
- Dry sorbent injection technologies
- Flue gas desulfurization equipment
- Activated carbon injection technologies
- Inspection, adjustment, maintenance and repair services
- Selective catalytic reduction technologies
- Electrostatic precipitators (wet and dry), including horizontal WESPs
- Waste Management and Recycling

Solid Waste and Recycling

Over the next decade, China's municipal solid waste (MSW) generation is expected to increase on pace with its rapidly growing and urbanizing population and is likely to reach 1.39 million tons per day by 2025 (World Bank, March 2012).

Key Technologies in Demand:

- Waste pile design and sampling
- Composting equipment
- Sorting machines
- Crushing and grinding machines
- Materials handling equipment
- Collection services, containers and vehicles
- Recycling process expertise

Recycling of Discarded Electronics

After almost three decades of mass production of electrical and electronic devices and equipment, China has entered a strong "phasing out" period. Managing Waste Electrical and Electronic Equipment (WEEE) has become a new and critical challenge to China's already fragile city environment ecosystem, but it also creates new growth potential for the treatment and recycling business.

Key Technologies in Demand:

- Sorting machines
- Crushing and grinding machines
- Materials handling equipment
- Collection services, containers, and vehicles
- Recycling process expertise

Hazardous Waste Management

The Chinese Ministry of Environmental Protection estimates 60 million tons of hazardous waste was generated annually as of 2015. With current disposal capacity at approximately one-third of that amount, there is an urgent need to develop disposal capacity commensurate to the scope and size of waste production. Four billion dollars have been set aside to construct 300 hazardous waste disposal facilities and initiate brownfield remediation projects throughout China.

Key Technologies in Demand:

- Waste handling equipment
- Waste treatment technologies
- Brownfield site remediation design and equipment
- Soil contamination testing and monitoring equipment

Municipal Water and Wastewater Treatment and Plant Development

Aggressive construction of water treatment plants continues as China works to improve water quality and enhance access to drinking water and sanitation services. In 2016, the 13th Five-Year Plan established a new discharge standard for wastewater treatment plants (WWTPs) that that should be met by the end of 2017. In the coming years, China hopes to protect drinking water sources and improve the water quality of centralized drinking sources. The government hopes to expand and promote the protection and management of important water resources.

Key Technologies in Demand:

- Waste handling equipment
- Engineering, procurement and construction services
- Advanced filtration
- Membrane filtration
- Waste to energy technology
- Anaerobic digestion
- Nitrification
- Biological denitrification
- Monitoring equipment
- Testing equipment
- Air flotation

Sludge Treatment

Recent government action has led to the development of technology standards for sludge treatment, a requirement that municipalities install sludge treatment systems and a central government capital development investment of RMB 60 billion (USD 9.6 billion) for sludge treatment facilities. The Water Pollution Prevention and Control Action Plan calls for enhanced processing of 90 percent of sludge from cities and prefectures, including sludge stabilization, disinfection, and resource recovery. The 13th Five-Year Plan also requires an increase in wastewater tariffs across the country by the end of 2016 to cover sludge treatment costs.

Nonetheless, lack of domestic operational expertise and technology for sludge treatment remains a challenge for China that could provide sludge treatment opportunities for U.S. firms.

Key Technologies in Demand:

- Engineering and design
- Sludge disinfection systems
- Sludge dewatering and drying systems
- Anaerobic digestion
- Bio-gas/natural gas recovery
- Nitrogen and phosphorus recovery technologies

Groundwater Monitoring, Pollution Prevention, and Remediation

Much of China's groundwater resources have been degraded by pollution, limiting their use as a reliable source for drinking water. The Ministry of Land Resources reports that 57 percent of ground water ranks "bad" or "very bad" in quality estimates. The National Groundwater Contamination Prevention and Remediation Plan calls for an RMB 34.7 billion (US$ 6.2 billion) investment through 2020. Groundwater protection efforts are focused on monitoring, source control, and remediation. U.S. Superfund experience in environmental remediation creates a competitive advantage for U.S. companies.

Key Technologies in Demand:

- Monitoring equipment
- Source pollution control technologies
- Sparging
- Bioremediation
- Chemical treatment
- Flushing
- In-situ air stripping
- Multiphase extraction
- Permeable reactive barrier
- Phytoremediation
- Pump and treat

Water Efficiency and Reuse

Increasing water efficiency and reuse to limit waste and prevent shortages is a national priority. These priorities will be a boon to companies exporting membrane, non-revenue water management, and industrial water efficiency technologies. It is estimated that water reuse will lead to 30 percent annual growth over the next five years in the membrane technology market.

Key Technologies in Demand:

- Engineering and design
- Monitoring equipment
- Non-revenue water control software
- Membranes
- Advanced filtration

- Low-loss distribution equipment
- Storage equipment

Process and Produced Water

New effluent standards and better enforcement thereof are driving growth in water treatment, while continued industrial expansion and water reuse targets also drive the processed water market. China anticipates strengthening pollution control in many of its water-intensive industries, particularly in pulp and paper, printing and dying, chemicals, leather, and large-scale livestock and poultry. The Water Action Plan anticipates the imposition of cleaner production standards for ten major industries: papermaking, nitrogen-based fertilizers, steel, nonferrous metals, textiles, agricultural products, pharmaceuticals, leather tanning, pesticides, and electroplating. The Plan also promises to inspect and close facilities in these and other industries if they continue to use highly polluting production methods.

Key Technologies in Demand:

- Engineering and design
- Monitoring equipment
- Membranes
- Advanced filtration

Soil Remediation

A result of weak or non-existent waste management strategies, including the failure to develop sanitary landfills, has led to prevalent soil pollution. The Ministry of Environmental Protection and the Ministry of Land Resources report that 16.1 percent of China's soil and 19.4 percent of all arable land is polluted. Much of this contamination is non-organic with the most prevalent pollutants being cadmium, nickel, and arsenic. Soil pollution threatens the safety of agricultural products and contributes to groundwater pollution through leaching.

The Chinese Government is in its early stages of planning a national effort to address soil pollution, but in the coming years a substantial remediation effort should yield opportunities for U.S. providers of remediation technology and services.

Key Technologies in Demand:

- Engineering and design
- Monitoring equipment

Environmental Engineering and Consulting

The new Environmental Protection Law (EPL) stipulates that all new construction projects must undergo an Environmental Impact Assessment (EIA) before construction permits can be issued. Similar to the U.S. National Environmental Policy Act (NEPA), if fully implemented, the EPL will drive development of a massive industry for EIAs – an area where U.S. environmental engineering and consulting firms have substantial expertise.

Key Technologies in Demand:

- Environmental Impact Assessment

Trade Shows & Events

U.S. – China Environmental Industries Forum (EIF)
May 8-9, 2017
New Orleans

International Environmental Expo
May 2017
Shanghai, China

China International Environmental Protection Exhibition & Conference (CIEPEC)
June 13-16, 2017
Beijing, China

Aquatech China
June 2017
Shanghai, China

Web Resources

Ministry of Environmental Protection Environmental
China National Environmental Monitoring Center
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China Solid Waste
Water China
China City Water

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Machinery

Overview

China's machinery industry is one of the leading pillars of the Chinese national economy. Its main business revenue increased about 7% in 2016 to reach a total value of USD 3.5 trillion. China's manufacturing industry witnessed a further recovery in 2016, indicating stable development of the world's second-largest economy. In the next few years, the Chinese government aims to control capital outflow to foreign industries such as real estate, sports, and entertainment, and instead focus overseas investment on high tech manufacturing technology industries. According to the data from China Customs, total exports accounted for USD 375 billion and total imports were approximately USD 273 billion in 2016, a decline of 3.6% and 1.8% respectively over 2016.

The low-end machinery market is largely dominated by SMEs, mainly due to their cost-cutting structures, price-based competition, and ability to—to some extent—crowd out larger enterprises. Chinese machinery SMEs are mainly clustered in and around Shanghai City, Shandong Province, Jiangsu Province, and Zhejiang Province. The high-end machinery market is largely composed of state-owned enterprises and international market players. The fact that they possess significant intellectual property assets in terms of patents, licenses, and trademarks and can leverage their globally recognized brands, means they can differentiate their products beyond the reach and capabilities of smaller local competitors. According to data from China Die Mold Industry Association, in 2013 over 500,000 people were employed by the 2,023 enterprises in the machine tools industry. Of those enterprises, 959 were state owned, accounting for 47.4% of the industry.

Leading Sub-Sectors

The Chinese Government will implement economic restructuring with the *Made in China 2025* strategy. This plan aims to remedy China's manufacturing problems by comprehensively upgrading the sector and making it more efficient and integrated so that it can occupy the highest parts of global production chains. By 2025, China aims to raise the domestic content of core components and materials to 40% by 2020 and 70% by 2025. Some sub-sectors which support the direction of the national economic restructuring could experience a period of growth.

Machine Tools

The majority of domestic machine tools companies have accomplished transformation and upgrading by adjusting product structure and innovating technologies. The import structure is still focused on high-precision, intelligent high-end CNC machine tool and accessories. CNC Machining, or Computer Numerical Control Machining, is a process used in the manufacturing sector that involves the use of computers to control machine tools.

The total output of machine tools reached about USD 22.9 billion in 2016, an increase of 3.6% over the last year. Of this, cutting machine tools output were about USD 12.2 billion, nearly identical to that of last year; and forming machine tools were approximately USD 10.7 billion, an increase of 8.1%. The total import of machine tools was about USD 7.5 billion, a decline of 12.8% over 2015. More than 1/3 of high end CNC machine tools and accessories were imported from Japan and Germany; fewer than 20 Chinese companies can provide medium and high end CNC machine tools. Post expects that the demand for metal cutting, forming machine tools, and accessories will grow at a strong pace in 2017.

Industrial Robotics

According to the Robotics Industry Development Plan for 2016-2020, the Chinese Government pledges to support the expansion of the nation's robotics industry, which aims to produce 500,000 China-made industrial robots annually by 2020. The plan also forecasts that sales of service robots will exceed USD 4 billion by 2020.

As the world's largest consumer market for industrial robots, China's industrial robot production reached 72,400 units, an increase of 34.4%, while sales accounted for about ¼ of the world in 2016. Total imports were 38,464 units and total exports reached 10,047 units in the first 9 months in 2016, an increase of 6.71% and 44.04% respectively over the last year. According to the International Federation of Robotics (IFR), about 75 percent of shipments in the past five years were from China, the Republic of Korea, Japan, the United States, and Germany. The average growth of China's robot market over this period stood at 17 percent per year.

Opportunities

The *Made in China 2025* goal is to upgrade China's machinery industry to be capable of manufacturing major machine goods with their own innovation and intellectual property rights, as well as meeting the country's needs in the energy, transportation, new material, and agriculture equipment sectors etc. Also, a top priority is to adopt high-tech intensive manufacturing by making best use of foreign capital, management expertise, advanced technology etc.

As China is trying to improve the country's manufacturing industry, U.S. firms, known for being innovative and producing high quality products, will be offered an unprecedented opportunity to export their high quality and durable industrial products and components/parts to Chinese manufacturers in different sectors, particularly the die and mold, robotics, and CNC machinery sectors. The challenges for U.S. exporters are pricing and protecting their intellectual property rights.

Market Entry & Obstacles

Entering the Chinese market often relies heavily upon personal relationships developed and maintained at all levels of distribution. Many companies utilize multiple sales channels to overcome the sheer size and cultural diversity of the country. Chinese companies are very price-conscious, which can affect after-sales service. Labor costs have continued to increase in recent years. While the cost of maintaining service plans is often factored into machinery sales, it is important for exporters to consider this as they determine pricing. Some regions and municipalities may have requirements to provide localized after-sales service, which would require on-site training or local manufacturer representatives to be present.

In addition, a license must be obtained from the Department of Commerce before exporting or re-exporting certain items to China. The U.S. Department of Commerce's Bureau of Industry and Security (BIS) is responsible for implementing and enforcing the Export Administration Regulations that regulate the export and re-export of purely commercial items, items that have both commercial and military applications, and less sensitive military items.

Intellectual Property Rights (IPR): While the Chinese government is working to improve IPR protection, U.S. companies should still take precautions to protect their IPR by ensuring that they have undertaken the proper protections to restrict illegal copying or distribution of their safety and security products. It is recommended that U.S. companies establish a clear strategy to handle the challenges of protecting their IPR in a complex legal environment. For more details on China's IPR environment, please refer to the materials located in the "China IPR Toolkit".

Trade Shows & Events

China International Industry Fair
Date: Nov 7-11, 2017
Location: National Exhibition and Convention Center (Shanghai)

China Chongqing International Machine Tool Show (organized by CMTBA & AMT)
Date: Nov 13-16, 2017
Location: Chongqing International Expo Center (Chongqing)

China International Machine Tool & Tools Exhibition
Date: June 26-30, 2018
Location: New China International Exhibition Center (Beijing)

Web Resources

Association of Manufacturing Technology (AMT) China
China Machinery Industry Federation (CMIF)
China General Machinery Industry Association (CGMA)
China Heavy Machinery Industry Association (CHMIA)
China Machine Tool & Tool Builders' Association (CMTBA)

U.S. Commercial Service Contacts for Machinery Sector

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Medical Devices

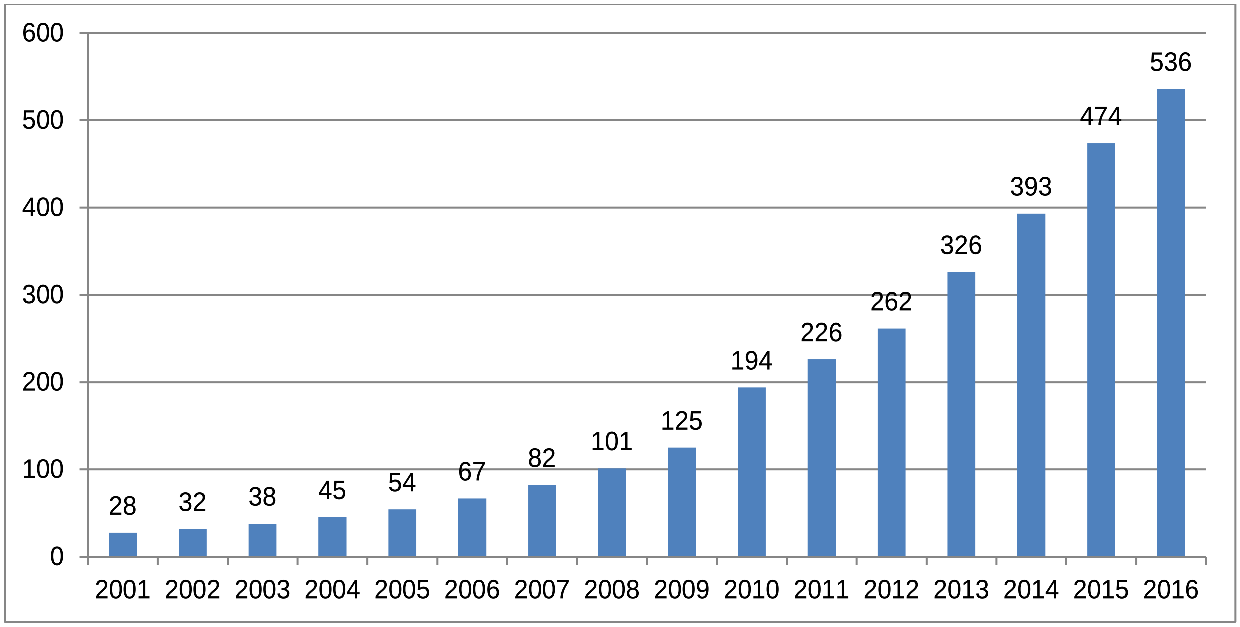
Overview

The medical device market is one of the fastest growing market sectors in China with the industry maintaining double-digit growth for over a decade. In 2016, the medical device market reached $53.62 billion, an increase of 20.1 percent compared to 2015. 72.7% of this growth is fueled by hospital procurements.

	2014	2015	2016	2017 (estimated)
Total Market Size	39.32	47.38	53.62	58.63
Total Local Production	31.54	34.22	40.64	46.01
Total Exports	35.97	38.49	38.91	39.39
Total Imports	18.08	18.49	20.23	21.34
Imports from the U.S.	6.06	6.19	6.65	6.89

Source: Industry Estimate (Unit: USD billion)

In 2016, China's total health expenditure was USD 663 billion, and accounted for 6 percent of China's GDP, which is a far lower percentage than countries like the U.S. (17 percent), Germany (11 percent), Canada (10 percent), and Japan (10 percent). Health expenditure is expected to increase to between 6.5-7 percent by 2020. Globally, the medical device market is approximately 42 percent the size of the pharmaceuticals market. In China, however, the percentage is much lower at approximately 14 percent. This demonstrates the significant growth potential of the sector. In 2016, the medical device market in China reached 53.62 billion USDs, an increase of 20.1 percent compared to 2015. 72.7% of this growth is fueled by hospital procurement.



Market size of the Chinese medical device sector (unit: USD100 million)

Source: 2016 China Medical Device Blue Book

In 2016, China renewed efforts to deepen its healthcare system reform and set the ambitious goal of ensuring that all citizens have access to basic healthcare services by 2020.

The State Council released an outline for its "Healthy China 2030" initiative - placing health at the center of China's policy formulation mechanism, aiming to address health in all relevant government policy areas. China also published the "13th Five-Year Plan for Medical and Healthcare System Reform", which emphasize breakthroughs in the hierarchical medical treatment system, modern hospital management, universal healthcare, drug supply assurance, all covered by comprehensive supervision during the 13th Five-Year Plan.

Currently China's medical device market has two distinct categories. The first of these are the domestic manufacturers who supply low to mid-range products. Over 80 percent of the domestic manufacturers belong to this category. The second category includes foreign-sourced, high-end products supplied by large companies like GE, J&J, Philips, and Siemens. According to the Annual Report of China's healthcare Industry issued by China Chamber of Commerce for Import and Export of Medicines and Health Products (CCCMHPIE), China had approximately 16,000 domestic medical device and equipment manufacturing companies in 2017. The United States ranks as the #1 foreign supplier of medical devices in China, followed by Germany and Japan. These three countries represent the majority share of China's imports.

2014-2016 China's Import of Medical Device by HS code from the Top 3 Countries (USD millions)

Partner Country	United States Dollars			% Share			% Change	% Change
	2014	2015	2016	2014	2015	2016	2015/ 2014	2016/ 2015

World	18,083	18,487	20,234	100%	100%	100%	2.23%	9.45%
U.S.	6,060	6,189	6,646	33.51%	33.48%	32.85%	2.13%	7.38%
Germany	3,181	3,092	3,403	17.59%	16.73%	16.82%	-2.80%	10.06%
Japan	2,303	2,193	2,392	12.74%	11.86%	11.82%	-4.78%	9.07%

In 2016, China had approximately 27,360 hospitals, of which 23,900 were public and 3460 were private. Foreign-invested medical institutions are facing challenges of high corporate tax rates, a cap on foreign ownership and eligibility requirements for Social Health Insurance. All hospitals are classed into three levels (Tier one, two and three) based on hospital size and capability. Tier three is the most comprehensive of general hospitals with a bed capacity exceeding 500. They are responsible for providing specialist health services, perform a bigger role with regard to medical education and scientific research and they serve as medical hubs providing care to multiple regions.

Chinese hospitals consider U.S. products to be of superior quality and the most technologically advanced; and welcome medical equipment and products with high-technology content. U.S. firms garner nearly three-quarters of their local revenues from tier three hospitals and the remainder from tier two hospitals. In an effort to capitalize on China's burgeoning medical device market, U.S. firms have expanded their local presence in China while also targeting the country's rural population. At the same time, Chinese domestic medical device companies are consolidating, upgrading quality, and beginning to compete in medium-level technology niches. With the government policy of supporting and encouraging domestic medical device innovation, some local manufacturers are growing stronger and competing with foreign suppliers. In addition, the government's "Made in China 2025" initiative to improve industry efficiency, product quality, and brand reputation will further spur the development of domestic medical device manufactures and will increase the competitiveness of Chinese medical device brands in the long term.

Significant potential exists for U.S. companies interested in entry or expansion in the Chinese market. China continues to deepen public hospital reform at all levels. However, Medical device companies will still face the pressure to cut prices from the public hospitals. The procurement process, price limits, and secondary bargaining are remaining issues relating to the centralized procurement and bidding process in China.

Market Entry

Companies interested in entering the Chinese market must overcome existing barriers and navigate an uncertain and changing regulatory environment. The "Management Standard for Technical Review and Consulting for Medical Devices," (Management Standard) released in October 2016 has essentially closed the existing channel for pre-submission consultation prior to submission of product registration documents. Industry is concerned that this will delay the overall registration process.

In May 2015, The CFDA issued the "Technical Guidelines for Clinical Evaluation of Medical Devices" (Technical Guidelines); requiring medical device producers to provide comprehensive evaluations of clinical effectiveness and product safety based on equivalent devices already on the market. This is especially onerous for new and innovative products.

The Implementation of “Good Clinical Practices for Medical Devices” in June 2016 has created a number of challenges for foreign companies regarding clinical trials. In addition, many of China’s medical device standards are not in compliance with related international standards. This may cause difficulties and delays in bringing an existing product into the Chinese market.

Significant progress to improve market access for U.S. medical device manufacturers was made at the 2016 U.S.-China Joint Commission on Commerce and Trade (JCCT) on Medical Devices. Chinese commitments include:

Strengthening oversight on government procurement of medical devices and to treat overseas brands and products manufactured overseas in a transparent, fair and equitable manner, and both sides stand ready to further communicate with parties concerned.

China has issued two batches of Class II Medical Device Clinical Trial Exemption Catalogues and Class III Medical Device Clinical Trial Exemption Catalogues. China will take into account opinions from industry and relevant stakeholders as it continues to develop and work on this area.

Adjust its medical device classification system based on commonly recognized and risk based principles, appropriately downgrading device classes. Industry comments will also be solicited.

During the drafting of China’s identification number regulations and implementing plans, it will fully consider relying on international standards and to harmonize with globally accredited unique device identification (UDI) issuing agencies. China will also offer a phased-in and risk-based implementation approach, a transitional period, and an exemption for all devices manufactured or labeled prior to the rule’s effective date.

Opportunities

The best-selling prospects in the medical device sector include:

- In vitro diagnostic equipment and reagents: clinical and diagnostic analysis equipment, diagnostic reagents, medical test and basic equipment instruments, and point of care testing (POCT).
- Orthopedics
- Implantable and intervention materials and artificial organs: Interventional materials, implantable artificial organs, contact artificial organs, stent, implantable materials, and artificial organ assisting equipment.
- Therapeutic products: Tri-dimensional ultrasonic-focused therapeutic systems, body rotary gamma knife, simulator, linear accelerator, laser diagnostic and surgical equipment, nuclide treatment equipment, physical and rehabilitation equipment.
- Medical diagnostic and imaging equipment: black & white and colored supersonic diagnostic units, sleeping monitor, digital X-ray system, MRI, CT, DR, and ultrasound equipment.

- Surgical and emergency appliances: anesthesia ventilation systems and components: high frequency surgical equipment, high frequency and voltage generators.
- Healthcare Information Technology related equipment and products: medical software, computer-aided diagnostic equipment, and hospital information systems (HIS, CIS, and HLT).
- Medical equipment parts and accessories.

Trade Shows & Events

2017 Dental South China
Date: March 21-25, 2017
Venue: Pazhou Exhibition Center
Contact: Ms. Christine Su
Tel: +020-83549150
Fax: +020-83549078
Email: Christine@ste.cn

Healthcare Expo China West 2017
Date: March 2017
Venue: New International Convention & Exhibition Center, Chengdu Century City
Organizer: Tarsus Hope Exhibition
Contact: Ms. Mikeo Wang
Tel: + 86-21-6427 9089
Fax: +86-21-6427 9169
Email: mwang@tarsus.co.uk

The 16th Dental Show West China 2017 (Certified by ufi)
Date: April 25-28, 2017
Venue: New International Convention & Exhibition Center, Chengdu Century City
Organizer: Tarsus Exhibition & Huaxi Hospital
Contact: Ms. Mikeo Wang
Tel: + 86-21-6427 9089
Fax: +86-21-6427 9169
Email:mwang@tarsus.co.uk

The 77th China International Medical Equipment Fair (CMEF)
The 24nd International Component Manufacturing & Design Show
Date: May 15-18, 2017
Venue: Shanghai National Exhibition and Convention Center
Contact: Mr. Gu Ying
Tel: + 86-10-84556603
Fax: +86-10-82022922
Email: ying.gu@reedsinopharm.com

MEDTEC China 2017
September 20-22, 2017
Venue: Shanghai World Expo Exhibition & Convention Center

Sponsored by: UBM
Contact: Mr. Alston Tian
Tel: + 86-10-57652822
Fax: +86-10-57652999
Email: Alston.Tian@ubm.com

Dentech China 2017
October 25-28, 2017
Venue: Shanghai World Expo Exhibition & Convention Center
Sponsored by: UBM
Contact: Ms. Sandra Shen
Tel: + 86-21-61573953
Fax: +86-21-61577272
Email: Sandra.shen@ubm.com

Web Resources

China Food and Drug Administration (CFDA)
The National Health and Family Planning Commission (NHFPC)
China Association of Medical Device Industry (CAMDI)
China Chamber of Commerce for Medicines and Health Products (CCCMHPIE)

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Mining and Materials

Overview

	2012	2013	2014	2015	2016	2017 (f)	2018 (f)	2019 (f)	2020 (f)	2021 (f)
Mining Industry value (USD Billion)	429.32	372.77	310.90	256.95	233.52	228.46	230.61	232.22	241.37	253.11
Mining Industry Value, Real Growth (% year to year)	1.94	-13.17	-16.60	-17.35	-9.12	-2.17	0.94	0.70	3.94	4.86

Exchange Rates: $1= RMB 6.9   f: forecast

Source: National Sources, BMI Research

China is the world's largest producer of coal, gold, and most rare earth minerals. Additionally, China is the world's leading consumer of most mining products, particularly for commodities like thermal coal and iron ore, which account for approximately 49% and 58% of global demand, respectively. In total, there are more than 10,000 (mostly coal) mines in China, producing a large amount of the world's supply.

After nearly a decade of rapid growth, coal consumption in China dropped continuously in 2016. This is due in large part to China's ongoing economic downturn, industry restructuring, and new energy and environmental policies that are focused on increasing the percentage of cleaner thermal energy sources such as natural gas and renewable energy. In particular, coal-intensive industries such as steel, cement, and fertilizer saw marked reductions in demand that, combined with the ongoing drive to make these industries more energy efficient, also contributed to the drop in coal consumption in 2016.

Looking forward, China's "Made in China 2025" blueprint, unveiled by the State Council in May 2015, outlines China's strategic vision to modernize manufacturing through information technology and other innovations. This modernization will likely accelerate the reduction of energy intensity and change energy consumption patterns across the country. Significant future reductions are also expected with respect to industrial use and consumption as the country moves to close inefficient, polluting coal-fired boilers and phase out industrial processes that utilize coal as a primary energy source. For reference, coal directly burned at industrial facilities accounts for more than 20 percent of the coal consumption in China (compared with less than 5 percent in the United States). This suggests significant potential for reduction.

China's Energy Development Strategy Action Plan (2014-2020) also sets binding caps—at absolute levels for the first time—on annual primary energy and coal consumption until 2020, specifying targets for reducing coal's share in primary energy consumption to 62 percent while increasing non-fossil energy's share to 15 percent by 2020 and to 20 percent by 2030.

Clean Coal Development

As discussed above, the Chinese government continues to promote the clean and efficient development of conventional fossil energy production and utilization. The Development Plan for Coal Industry as part of the 13th Five-Year Plan calls for the vigorous development of clean coal technology and the efficient and clean utilization of coal.

Clean coal is the process of chemically washing coal of its minerals and impurities, removing sulfur dioxide, and making the carbon dioxide in the flue gas economically recoverable. The coal industry uses the term "clean coal" to describe technologies designed to enhance both the efficiency and the environmental acceptability of coal extraction, preparation, and usage. Present day clean coal technologies include several generations of technological advances that have led to a more efficient combustion of coal, with reduced sulfur dioxide and nitrogen oxide emissions.

Clean coal technologies currently being developed and used in China include advanced coal utilization, high efficiency combustion, advanced power generation technologies, coal conversion technologies, integrated gasification, combined cycle and carbon capture (precombustion capture, post–combustion capture, oxy-combustion capture), utilization, and storage.

Leading Sub-Sectors

Carbon Capture, Utilization and Storage (CCUS)

CCUS technology has been considered an important strategy of China's clean coal technology strategy in both the short and the long term. The International Energy Agency (IEA) forecasts that by 2050, CCUS could become the biggest contributor to emissions reduction among any single technology. As such, China is emerging as a major influencer on CCUS deployment with several planned and operational demonstration projects. The country has adopted an encouraging policy framework and has increased the support for research and development projects.

As a pioneer in CCUS, the United States has developed cutting edge technology through various R&D projects. The U.S. Department of Energy (DOE) administers a Clean Coal Technology program to encourage and support public/private partnerships to research, develop, and demonstrate clean coal technologies that can be ultimately brought to large-scale commercial deployment.

Advanced Coal Gasification Technology

China is the largest coal gasification market in the world. The market is supported by the National Energy Administration, which has laid out plans to produce 50 billion cubic meters of gas from coal by 2020, enough to satisfy more than 10 percent of China's total gas demand. However, there are two major problems with coal gasification. Coal gasification produces more CO_2 than a traditional coal plant, and it is one of the more water-intensive forms of energy production. New technology and equipment to solve these two problems are good prospects for U.S. companies.

Coal Gasification with Carbon Capture and Storage

Combining coal gasification with carbon capture and storage in the power sector remains a critical pathway towards low-carbon power generation. As such, China has high demand for technologies that include coal co-generation systems with CO_2 capture including new coal-to- chemical co-generation, new CO_2 capture processes, and co-generation system with combined pyrolysis, gasification, and combustion.

CO_2 -EOR (Enhanced Oil Recovery)

CO_2 -EOR is an oil production technique through which CO_2 is injected into previously developed oil fields to recover additional oil not obtainable by primary and secondary techniques. CO_2-EOR is widely considered to be a method to increase domestic oil production by using CO_2 captured from power plants and industrial sources. China is in the developing stage to adopt this technology to local oil fields. The United States has more than 40 years of experience in CO_2 -EOR which gives U.S. companies a leg up in China's growing EOR market.

Opportunities

The bestselling opportunities in the clean coal technology sector include:

- CO_2 capture technology exports/licensing
- Pipeline fabricators for CO_2 transportation
- Information technology companies, materials suppliers, and engineering contractors for CO_2 utilization
- Storage monitoring service suppliers and Emergency Response services suppliers for CO_2 Storage
- Coal gasification technology exports/licensing

Trade Shows & Events

International Field Exploration and Development Conference 2017
Sep 21-22, Chengdu

China Gold Congress
Date TBC, Beijing

China Mining Conference and Exhibition
Sep 22-25, Tianjin 2017

China Coal & Mining Expo 2017
Oct 26-28, Beijing

Bauma China 2018
November 27-30, Shanghai

Web Resources

U.S. China Clean Energy Research Center
Clean Coal Working Group, Energy Cooperation Program
Climate Change Working Group
China NDRC Climate Change Division
National Center for Climate Change Strategy and International Cooperation

U.S. Commercial Service Contact for Mining and Materials Sector

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Nuclear Energy

Overview

	2012	2013	2014	2015	2016
Nuclear Electricity Generation (billion kWh)	92.7	104.8	123.8	158.2	210.5
Nuclear Energy Supply Shares (%)	2	2.1	2.4	3	3.56

Source: World Nuclear Association

China remains a massive market for U.S. companies involved in all aspects of nuclear power development. As of December 2016, China had 34 operational nuclear power reactors and 21 reactors under construction (the largest number of nuclear builds of any country in the world). The total installed capacity was 33.6 GW. In 2016, seven new reactors were connected to the grid, and nuclear power accounted for about 3.56 percent of the country's electric generating capacity. The Chinese Government is actively promoting nuclear energy as a clean, efficient, and reliable source of electricity generation. As such, nuclear power is on pace to grow substantially to 58 GWe by 2020 and 150 GWe by 2030. During China's 13th Five-Year Plan period (2016 to 2020), six to eight new nuclear units will be built every year.

The Chinese Government forecasts it will invest more than 1.2 trillion RMB (180 billion USD) in China's nuclear industry within the 13th Five-Year Plan period. Much of this investment will come from the construction of new nuclear sites and from the development of more advanced designs. Whereas most plants currently in operation have a production capacity of 2 GW, the vast majority of reactors currently under construction are using more advanced designs. The designs most favored in current construction plans are the CPR-1000 and the American-designed AP1000 generators, which have a production capacity of around 1.25 GW. With respect to the AP1000, this imported design is forming the basis of China's move towards 3rd generation nuclear technology. Given the successful final performance testing of the coolant pumps of the first four builds of the AP1000s in China, it is anticipated that the AP1000 program will experience significant additional construction in the coming years.

In addition to the growth of the AP1000 reactor program, China's own indigenously designed reactors are making progress. Building off of foreign technology and original research, China has developed its own third generation reactors. The advanced reactors, Hualong-1, CAP1400, and a high-temperature gas-cooled reactor design (HTR), are expected to enter international markets in the coming decade. China's "One Belt, One Road" strategy is intended to shape global economic integration and trade by Chinese terms, and will likely support advancement of nuclear power technology as one of China's new high-tech export brands.

Foreign competition for access to the Chinese market is high, and China has become increasingly self-sufficient for its nuclear power technology needs, which will limit U.S. content in future reactor builds. However, ample opportunities exist for U.S. industry, including fuel cycle, nuclear components, and services related to nuclear power in China.

While China recognizes the need to import foreign technology, it also wants to localize as much of this technology as possible and will continue to demand full technology transfer and localization whenever possible. As a result, many U.S. power equipment manufacturers and related construction and engineering firms have formed joint-ventures in this market. The country's energy policy states that domestic manufacturing of plants and equipment will be maximized.

China also intends to build strategic and commercial uranium stockpiles through overseas purchases, and it continues to develop domestic production. The country is also in the process of developing nuclear fuel reprocessing facilities that are expected to come online by 2017. China has become largely self-sufficient in reactor design and construction, as well as other aspects of the fuel cycle, but it has done so by adapting and improving upon western technology.

Regulatory Environment

In contrast to the situation in much of the rest of the world, China's regulatory environment is relatively supportive of nuclear development. The Chinese Government has a strong interest in diversifying the country's energy supply and in promoting the cleaner production of energy. Looking to the next five years, China is in a good position to meet its commitments under the Paris Agreement on Climate Change, which China signed in December 2015. Under the 13th Five-Year Plan, the country's leaders committed themselves to several ambitious targets including a 15 percent reduction in energy and carbon intensity and a 15 percent share of non-fossil fuel in the energy mix by 2020. Given these regulatory incentives, it seems that China will continue to support the development of the nuclear industry in the future.

The Fukushima Daiichi reactor incident event had a heavy impact on the advancement of the nuclear power industry, stalling the approval process for all new nuclear sites and mandating an immediate safety review for all existing nuclear facilities. In addition, the Chinese Government committed itself to the development of a new safety plan and improved regulatory oversight of the industry.

To this end, the government released the "Nuclear Safety Radioactive Pollution Prevention Five-Year Plan and Vision for 2020", which seeks to belay concerns that China will forego safety procedures as it seeks to rapidly develop its nuclear industry. This plan, which was developed by the National Energy Administration, places a far more rigorous set of safety criteria upon each stage of nuclear development. In addition, it calls for the deployment of more advanced nuclear technology and better safety management systems to minimize future risks.

Leading Sub-Sectors

Given the enormous growth in the Chinese nuclear industry, foreign companies looking to conduct business in the local market have several avenues to explore. As development of new nuclear plants continues, surveying, construction, and construction equipment services will be in high demand. Furthermore, as domestic energy firms look to improve reactor design, U.S. companies with a specialty in advanced reactor technologies have opportunities to cooperate in reactor production.

China is also looking to move towards the construction of more Fast Neutron Reactors (FNR). Beyond standard technologies, Chinese firms are also eager to explore alternative nuclear reactor designs including "pebble bed reactors" and "molten salt reactors." China is following international trends and is working to develop and deploy Small Modular Reactor (SMR) technology, and the Chinese Government is providing significant financial support for these efforts.

In the wake of the Fukushima Daiichi nuclear disaster, efforts have been focused on improving safety standards across the industry. China currently operates several types of nuclear reactors using multiple technologies, making safety management a significant challenge. The Ministry of Environmental Protection (MEP) has suggested that China may have to spend as much as

$13 billion to achieve 3rd generation safety standards across all of its existing plants, since China will only be approving 3rd generation projects over the next five years. Given this expected outlay, U.S. companies with significant experience in nuclear safety management, retrofits, and extensive upgrade technology will have significant opportunities in China over the next few years.

Opportunities

Running the world's largest new build program safely and successfully continues to require significant investment in areas including:

- Services (front-end and back-end): Opportunities for probabilistic risk assessment and regulatory advisory services.
- Licensing Support: Opportunities to support China's National Nuclear Safety Administration (NNSA).
- Design, Construction, and Operations: Significant opportunities for new nuclear plant construction.
- Components: The interim portion of the NPP supply chain represents the largest current opportunity for U.S. exporters. Under China's mammoth nuclear energy expansion, China is building plants of two basic types. The first are Generation II reactors based on technology already mastered by Chinese domestic producers. The second are Generation III reactors, for which China is still largely dependent on foreign suppliers. Currently, China plans to manufacture 50-60 percent of the units domestically based on the older Generation II technology, leaving 40-50 percent of the market for Generation III nuclear equipment imports, an estimated $15 billion in market value. In the downstream market, similar to the interim market, the quality of products produced by most Chinese domestic manufacturers does not meet the demand of Chinese buyers. The best prospects for U.S. exporters in the downstream market are nuclear pumps and valves, breakers, large forging parts, and other accessories.
- Fuel Management: China is not fully self-sufficient in the upstream market of raw materials used in nuclear power plants. Chinese mines produce 70 percent of the uranium used in Chinese reactors. Chinese imports of U.S. graphite moderator rods recently increased, and this market is now the third largest buyer after Japan and Canada of U.S. graphite. China intends to become self-sufficient in most aspects of the nuclear fuel cycle, which will limit opportunities for foreign exporters. However, the country still relies on foreign suppliers for all stages of the fuel cycle, from uranium mining through fabrication and reprocessing. As China rapidly increases the number of new reactors, it has initiated a number of domestic projects, often in cooperation with foreign suppliers, to meet its nuclear fuel needs. Local content requirements are a key barrier for U.S. civil nuclear exports. Although there is strong foreign competition, the size of China's market is so large and the industry is developing so rapidly that China will remain a strong market for U.S. exports for years to come in all areas of the civil nuclear supply chain.
- Waste Management: Mid- and low-level waste processing continues to be an area of relative weakness for Chinese firms. China National Nuclear Corporation (CNNC) and Candu Energy renewed a strategic agreement in 2014 to develop uranium-recycling

technology at the Qinshan pressurized heavy water reactor, and both companies have been in discussions over mining and the potential addition of an Advanced Fuel CANDU Reactor (AFCR) to China's existing fleet. Spent fuel storage issues are also a large challenge, as China has yet to designate a dry spent fuel repository.

Trade Shows

The 2nd World Nuclear Energy Development Exhibition and Forum
Dates: April 26-28, 2017
Venue: Radisson Blu Hotel Beijing

The 15th China International Nuclear Industry Exhibition
Dates: April 2018
Venue: China National Convention Center, Beijing

Web Resources

Government Authorities

China Atomic Energy Authority
National Energy Administration
National Nuclear Safety Administration
State-owned Assets Supervision & Administration Commission

Chinese Corporations

State Nuclear Power Technology Corporation –
China National Nuclear Corporation
China General Nuclear Power Group
China Power Investment Corporation

Additional Information

Civil Nuclear Trade Advisory Committee
Civil Nuclear Guide to Exporting
Nicobar Group
World Nuclear Association

U.S. Commercial Service Contact for Nuclear Energy Sector

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Oil and Gas

Overview

China is the world's top crude oil consumer and importer. For each day in 2016, China consumed 11.5 million barrels of oil, over a half million barrel increase from 2015, according to the annual report released by China Petroleum and Chemical Industry Association (CPCIA). With a domestic production of around 4 million barrels per day, China relies heavily on the international market for its oil supply. Statistics from Chinese Customs indicate that China imported 7.59 million barrels of crude oil per day in 2016, an increase of 13.6 percent over the previous year. China's reliance on oil importation exceeded 65.6 percent. It is predicted that China's consumption of crude oil by the year 2020 will be 12 million barrels a day, and by 2030, 80 percent of China's crude oil supply will be imported.

Natural gas is China's fastest growing major fuel, with demand quadrupling in the past decade. Natural gas now accounts for 6 percent of China's energy demand, double the market share in 2007. In 2016, China's consumption of natural gas grew by 6.4 percent, reaching 224 billion cubic meters. China's domestic gas production in 2016 was 150 billion cubic meters, up by 2.2%, and China's gas imports increased 22 percent to reach 75 billion cubic meters. This indicates there was a slight oversupply of gas in China last year. However, as China is moving forward with its plan to replace coal with cleaner and more efficient natural gas in power generation, the demand for gas will increase steadily in the long-run. The Chinese government expects gas to provide 10 percent of the country's energy by the end of the 13th Five-year Plan period (2016-2020).

China's oil and gas markets are dominated by four national and provincial oil companies: PetroChina, Sinopec, China National Offshore Oil Corporation (CNOOC), and Yanchang Petroleum (a Shaanxi Provincial-level state-owned company). Sinopec controls 46 percent of total crude refining capacity, while PetroChina accounts for 31 percent. The remainder is processed by smaller refineries. CNOOC focuses on offshore oil development and has limited refining capacity.

In the field of equipment manufacturing, Chinese domestic companies are dominating the market, in particular the lower end market. China's State-Owned Enterprises (SOEs) control approximately 66 percent of the market for well-drilling equipment. Small- and medium-sized private Chinese companies make-up 19 percent of the market. Foreign companies make up 10 percent of the market and supply advanced complete-set equipment. Chinese privately owned oil and gas equipment companies are catching up quickly. Among them, Sichuan-based HongHua Group and Shandong-based Jereh Group and Kerui Group are among the leading suppliers of such equipment.

As global oil prices continue to stay at a level below $50/per barrel, Chinese oil and gas operators are confronted with more challenges than their international counterparts because of the fact that production costs for many wells in China are above competing international production prices. Given current crude oil prices, PetroChina, Sinopec, and CNOOC have been unable to compete within such a low-price environment and were forced to reduce production from many of their high-cost fields, mostly within China. In 2016, China's capital investment in oil and gas exploration and production dived by 31.9% to RMB 233.1 billion Yuan (about USD32.4 billion). As a result, China's oil output dropped 6.9% to 3.98 million bbl/d. Despite these challenges, low global crude oil prices have allowed the Chinese Government to fill its strategic petroleum reserve with inexpensive foreign crude oil.

Oilfield service companies and equipment manufacturers have also been hurt badly by low oil prices as their customers stopped or delayed purchases to try to minimize expenditures. Some service companies and equipment manufacturers have reported that their businesses revenues have dropped between 30 to 50 percent this past year.

International Oil Companies (IOCs) and international service companies have established their presence in China mostly through partnering with Chinese companies. At present, IOCs mostly team up with CNOOC in offshore oil development projects while service companies are hired by the Big Three oil giants on both onshore and offshore projects, which often include complex drillings. IOCs and international service companies have started working with Sinopec, PetroChina, and Yanchang to develop shale gas and tight oil and gas in Sichuan, the Erdos Basin, and Xinjiang.

The following chart explains the market size and penetration of foreign products in this industry including drilling and refinery equipment, compressed vessels, and offshore engineering equipment. U.S. manufactured oil and gas equipment represents 50-60 percent of China imports in this sector. This will likely increase in the future as China looks to more fully develop its shale gas resources, much of which are in more geologically complex locations than those of the United States.

China's Oil and Gas Equipment Market (USD Billions)

Year	2014	2015	2016	2017 (Estimated)
Total Local Production	89.98	83.5	59.5	51
Total Exports	18.9	18.6	17	16
Total Imports	6.9	5.9	5.53	4.8
Imports from the US		1.5	n/a	
Total Market Size	77.98	70	48	39.8
Exchange Rates			1USD=6.88RMB	

(total market size = (total local production + imports) – exports

Source: China Petroleum Equipment Industry Association (CPEIA)

The 2017 numbers are estimated by U.S. Commercial Service, Beijing

Leading Sub-Sectors

In general, areas with high government support and low domestic product maturity offer the best prospects for foreign companies. Oil and gas exploitation technologies enjoy strong government support and high demand, specifically steam-assisted gravity drainage (onshore), geologic exploration equipment, position navigation systems, deep-water drill systems (offshore), and fracturing technology (shale gas).

Natural Gas

The Chinese Government is looking for ways to increase demand for cleaner sources of energy production, including natural gas. The government recently reduced the price for non-residential users to $8/mm Btu to better reflect market conditions. While this will immediately decrease domestic production of natural gas, it should contribute to increased long-term demand.

Despite holding 31.6 Tcf of technically recoverable shale gas resources, shale gas producers face China's complex topography, and the remote location of shale resources has increased the price and time required for drilling new shale gas wells. Since the geology of Chinese shale has proven difficult to develop, the government is incentivizing producers to increase investment and production.

Foreign participation in China's shale gas development is limited, and lack of competition and uncertain regulations continue to frustrate international companies' efforts. Nonetheless, ample subsidies, legal reform, and productivity targets are among the reasons companies are still investing in China's shale gas sector. U.S. companies that specialize in drilling, extraction equipment, pipeline monitoring systems, or providing operational services for shale gas developers may benefit from the growth of the Chinese shale gas market. In addition, companies with expertise in seismic analysis and water treatment and production efficiency technologies will also be well-positioned as the market continues to develop. Chinese operators, leading Chinese state-owned oil companies, and new players that have been rewarded shale gas development licenses in previous mineral rights auctions, are interested in partnering with experienced IOCs to deal with the complex topographical conditions in China.

Difficulties in developing domestic shale gas resources have forced the Chinese Government to turn to imported gas as an alternative effort to reach the goal of replacing coal with cleaner natural gas. China is the third largest buyer of gas in Asia after to Japan (35 percent) and Korea (15 percent). The size of the Chinese economy and population as well as climate change concerns will push up China's demand for natural gas. In particular, as the Chinese government encourages the construction of gas-fired power plants and plans to help 140 million more people connect to gas pipelines in the 13th Five-Year-Plan period, China will have import more natural gas. It is estimated that China's reliance on imported natural gas would go up from the current 33% to 50% in the end of 2020. The Chinese Government now allows privately-owned companies to build LNG (liquefied natural gas) receiving terminals along the eastern coastline and in southern China. ENN, Guanghui, Jovo, and Changchun Sinoenergy, among many others, are constructing terminals near Shanghai and Guangzhou to prepare for receiving LNG ships from outside China, including LNG from the United States. While the world economy, including Chinese economy, is slowing down, the LNG market will remain a spot market for at least a few more years. LNG buyers will be hesitant to enter long-term contract with suppliers. AS more natural gas infrastructure, including LNG receiving terminals, pipelines, and distribution networks, will be built in China, the demand will catch up.

The Chinese government is encouraging distributed energy in the use of shale gas because it is not economically viable to transport the already high-cost locally produced shale gas to regions where there is a need of energy. U.S. firms with expertise, technologies, and products in distributed energy should have opportunities in helping Chinese companies to develop their distributed power generation stations.

Opportunities

With China struggling to meet its defined targets for natural gas production, U.S. companies are expected to find significant opportunity in investment and exploration. This situation has the potential to create substantial sales for American companies across the shale gas value chain. For example, firms that have developed significant advantages in extraction technologies – particularly in water efficiency and deep extraction - are well positioned. Companies that specialize in drilling, extraction equipment, or provide operational services for shale gas developers may also benefit from the growth of the Chinese shale gas market. Furthermore, China is becoming an important buyer in the world's LNG market. U.S. LNG exporters will have an ample opportunity to ship U.S. LNG to China.

In addition, U.S. firms that have technologies and expertise in other unconventional gas sector such as tight gas, coal-bed methane, and coal gasification will also have sales opportunities in the market as China is trying to cope with the increasing demand for gas and searching for alternative and cleaner ways for using its coal resources.

Trade Events

U.S.-China Oil and Gas Industry Forum
September 2017
City (TBD), China
18th China International Petroleum & Petrochemical Technology and Equipment Exhibition
Date: 3/27/2018 - 3/29/2018
Venue: New China International Expo Center (NCIEC), Beijing

Web Resources

Government Authorities

National Energy Administration
Ministry of Land Resources
National Development and Reform Commission
Ministry of Environmental Protection

Additional Information

China Greentech Initiative Reports
Gas Technology Institute
Energy Information Administration
United States Energy Association

U.S. Commercial Service Contact for Oil and Gas Sector

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Rail and Urban Rail

Overview

China’s Rail Investment/Operating Mileage/Passenger Volume/Freight Volume

	2014	2015	2016
Total Fixed Asset Investment (billion)	RMB 737.1 US 112.7	RMB 823.8 US $125.9	RMB801.5 US $ 117
Total Operating Mileage (kilometer)	112,000	121,000	124,000
Passenger Traffic Volume (billion)	2.3	2.5	2.8
Total Freight Volume (billion tons)	3.8	3.4	3.3

(Source: National Railway Administration of China website)

Railway transportation plays a key role in China's economic development. In 2016, China’s total railway operating mileage reached 124,000 kilometers, ranking second after the United States, while its high-speed railway operating mileage reached over 20,000 kilometers, ranking first worldwide. China is now considered technologically advanced in high-speed rail, high-altitude rail, and heavy-haul freight rail.

China’s double-track mileage reached 68,000 kilometers, an increase of 5.2% over the previous year; and the double-track rate is 54.9%, 1.4% higher than the previous year. China has 80,000 kilometers of electrified railway, an increase of 7.4% over the previous year; and the electrification rate is 64.8%, an increase of 3% over the previous year. The railway mileage of the western region reached 50,000 kilometers, an increase of 2,230.9 kilometers or 4.6% over the previous year.

China’s passenger railway transport increases every year; however, the total volume of goods transported by China's national railway dropped in the last two years due to weak demand at home and abroad, factory overcapacity, and cooling investment. With recent economic changes, rail transport structure has changed dramatically. Some railway bureaus are looking for innovative opportunities to solve the problem of decreasing freight transport volumes. For example, Taiyuan Railway Bureau, China's largest railway freight transport bureau, is transiting from coal-dominant freight to "white goods" (non-coal cargo) transport.

In terms of equipment, China has a total of 21,000 locomotives. Among them, diesel locomotives account for 41.8%, and electric locomotives account for 58.1%. Railway passenger cars reached 7.1 million, an increase of 0.3 million over the previous year; and railway freight cars reached 764,000.

Urban Rail Transit Industry

Currently, China is the world’s largest urban rail market. By the end of 2016, 30 cities in China had metro/light rail operation lines extending 4,153 kilometers. Beijing, Shanghai, Guangzhou, and Shenzhen share 70 percent of the built urban rail transit tracks in China. In 2016, China invested RMB384.7 billion in urban rail transit construction. By the end of 2016, NDRC approved new urban rail projects in 58 cities, with plans to lay down 7,305 kilometers of track.

Opportunities

In the freight rail market, according to National Railway Administration (NRA), by 2020 China plans to increase its railway freight volume to 4.2 billion tons, which means an average increase of 1.6 billion tons each year during China's 13th Five Year Plan period (2016 – 2020). To achieve this goal, Chinese railway authorities and operational organizations are eager to implement new technologies, learn best practices, and study international standards on freight rail in order to continue to improve cargo shipping efficiency and lower operating costs. The U.S. freight rail network is widely considered one of the most dynamic freight systems in the world, with a rail network of 225,000 kilometers and broad experience in freight rail operation. U.S. companies own proprietary technologies and technical expertise with a demonstrated track record of success.

By 2020, China's urban rail transit market is expected to have a total of 7,000 kilometers of urban rail lines, which brings opportunities for American OEM companies.

Opportunities also exist for American companies as the suppliers to China Railway Rolling Stock Corporation (CRRC), the world's largest supplier of rail transit equipment for the railway and urban rail sector, for both the China market and third country rail markets.

The U.S. rail industry, organized in China through the U.S. Embassy Commercial Section's American Railway Working Group (ARWG), is actively engaged in collaborating with Chinese partners to assist in developing China's railway and urban rail industry in the following best opportunity areas.

Rail Industry Technology and Equipment

Locomotives: brake system, compressor, radiator, and other parts;
Rolling Stock/Freight car: brake system, coupler, door control, and other parts;
Wheel/rail optimization by wheel/rail profile design and management, wheel/rail friction control and lubrication;
New track design, new track components;
Track maintenance technologies; track/vehicle detection and monitoring technologies;
Communication, signaling, and IT systems;
Power generator;
Railway design and construction technologies;
Railway safety;
Passenger station design and construction;
Energy conservation and environmental protection.
Metro/Light Rail Industry Technology and Equipment
Urban rail rolling stock and components;
Communication and signaling;
Power supply and distribution;
Electromechanical systems;
Security technology and equipment;
IT system;
Engineering and construction, survey, and design;

Track maintenance;
Friction and noise control.

American Rail Working Group (ARWG)

The U.S. Embassy Commercial Section in Beijing (USFCS Beijing) launched an American Rail Working Group (ARWG) in January 2009 to strengthen public-private cooperation in the rail sector. The ARWG currently features 15 U.S. company members and benefits from close partnership with the Chinese railway and urban rail sector. The group meets regularly in Beijing and USFCS Beijing organizes industry road shows and seminars in China for ARWG members. New company members are welcome to join. For ARWG membership inquiries, please contact the U.S. Embassy Commercial Section in Beijing by email: aiqun.peng@trade.goV

Trade Shows & Events

Modern Railways 2017
Dates: October 26 - 29, 2017
Venue: Shanghai, China

Staged for 13 editions since 1992, MODERN RAILWAYS has become the No. 1 railway show in Asia, playing an important role in promoting international railway exchanges and cooperation, and offered an ideal platform for railway enterprises from both at home and abroad.

China Guangzhou International Rail Transit Industry Expo (iMETRO 2017)
Dates: August 25 – 27, 2017
Venue: Guangzhou, Guangdong province

Web Resources

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Technology and ICT

Overview

Information and communication technology (ICT) is one of the most dynamic market sectors in China's economic boom. China is the world's second largest ICT market. China's ICT market will reach USD $844 billion by 2020 according to IDC. Total imports of ICT products in 201x were USD $528 billion, while and exports reached USD $781 billion. Competition from Chinese firms is strong, as the quality of hardware, software, and services has continued to improve in recent years.

In the next few years, the transformation of traditional industries through Internet technology and Chinese enterprises' participation in 'Belt and Road' initiatives to enter foreign markets will become the main driving forces for the development of China's domestic ICT market. The transformation of traditional industries by integrating ICT technologies will push forward the application and development of industry sectors such as mobile Internet, cloud computing, Big Data, Internet of Things (IoT), and other emerging technologies, and lead to the rapid development of intelligent terminals along with communication services.

It is predicted by IDC (a well-known IT consulting firm) that the construction of "smart cities", deployment of the IoT, big data and cloud services, and mobility and consumer IT products will be the main drivers of China's ICT market growth. Compared to 2015, the sales volume of smart phones has increased moderately due to the saturated smart phone market. Research by EnfoDesk, a think tank, demonstrated that China's big data market also began to increase quickly in 2014 with almost 30 percent annual growth. According to Mr. Liu Lihua, Vice Minister of the Ministry of Industry and Information Technology, China's big data market reached a size of $31.3 billion in 2015, a 50 percent increase compared to 2014. Forrester, a US-based research institute, reported the total value generated from IoT-related technologies has the potential to become 30 times larger than that of the internet.

While market potential in this sector is great, the ICT market is arguably the most difficult sector to navigate in China. China views the sector through not only a business, but also through a national security lens, and policies intended to ensure security often appear to do so at the expense of foreign companies. Issues related to China's dynamic policy landscape in the ICT market are discussed in greater detail below.

2016 China's ICT Hot Topics and 2017 Trends

2016 was a milestone for the Chinese ICT regulatory environment. In November 2016, China enacted its first ever Cybersecurity Law, effective June 1, 2017, which establishes the regulatory framework for promoting cybersecurity as a function of national security and for the supervision of the ICT sector more generally. China continues to roll out implementing measures for the law, which 54 industry and trade associations from 10 countries criticized in May 2017 as overly vague and presenting a threat to foreign businesses and investment. The central government has launched a flurry of incentive programs including State Council Guidelines for Big Data Development, Cloud Computing Action Plan 2017-2019, State Council National Informatization Strategic Guidelines for Development and Internet Plus Action Plan etc., to provide guidance to ICT industry development.

China has been making efforts to develop a stronger internet industry sector. The amount of cybersecurity and industry policies was increasing throughout 2016. Internet broadband speed improved significantly in 2016, and the number of 4G subscribers exceeded 734 million. China's 5G rollout has been ongoing. China has been active in 5G international standards development and many domestic firms are beginning trials of 5G technology.

The basic telecommunication carriers are transforming themselves to accommodate the Internet of Things (IoT). New connections, new computing, and new platforms are accelerating the Chinese strategic digital transmission from traditional IT.

Industrial big data and the industrial internet are two major efforts aligned with Made in China 2025. In 2017, there is clear demand for these new technologies, as China's industrial internet architecture is now in place.

Internet of vehicles (IoV) and smart vehicles will be another emerging subsector with the development and integration of smart platform/vehicle operating system, artificial intelligence (AI) and 5G.

Virtual reality (VR), augmented reality (AR), and artificial intelligence (AI) are the leading emerging technologies which China has put forth great effort to develop. China seeks win-win cooperation in these new areas. Technology-based cooperation and market opportunities are predicted to be abundant in 2017.

Leading Sub-Sectors

Semiconductors and Semiconductor Manufacturing Equipment

Over the past decade, China has consistently ranked as one of the largest and fastest growing country markets for U.S. semiconductors and semiconductor manufacturing equipment, and will continue to do so in the near-term. Global headwinds brought on by slowing global demand for ICT products, slowing transitions to smaller IC manufacturing nodes, and a strong dollar, however, will be exacerbated by China's opaque policies and unprecedented, state-led investment to develop an indigenous semiconductor industry. China's policies create medium and long-term uncertainties for U.S. industry prospects in the Chinese market.

Regionally, annual sales increased 9.2 percent in China, leading all regional markets. Besides Japan (3.8 percent), all other regional markets—Asia Pacific/All Other (-1.7 percent), Europe (-4.5 percent), and the Americas (-4.7 percent)—saw decreased sales compared to 2015. According to the Semiconductor Industry Association (SIA), China represents 50 percent ($168 billion) of the $336 billion global market. U.S. companies had 51 percent of worldwide semiconductor sales, while Chinese companies only had a 4 percent share in 2016.

Most semiconductors and semiconductor manufacturing equipment have duty-free access to the Chinese market under the existing WTO Information Technology Agreement. As the ITA Expansion Agreement is rolled out, the majority of tariffs will be eliminated on the 201 products within three years, with reductions beginning in 2016. Reductions will include certain types of semiconductors and semiconductor manufacturing equipment, accessories; and parts whose coverage is in question under the original Agreement will be eligible for duty free trade. This will help U.S. exporters compete on level terms with non-U.S. suppliers, creating potential opportunities for U.S. companies. According to the Nairobi Ministerial Declaration on the Expansion of Trade in IT Products, the first set of tariff cuts was to be implemented on July 1, 2016 and the second set no later than July 1, 2017, with successive reductions taking place on July 1, 2018 and effective elimination no later than July 1, 2019. China implemented the initial cuts late—in September 2016, due to legislative approvals—but is now on track.

Cloud Computing

Although China is a fast-growing, important market for global cloud computing, the country presents serious challenges for U.S. cloud providers. Regulatory restrictions, some aspects of governmental decision making, and local competition make China a problematic market for even large, experienced U.S. providers. Operating in China therefore requires substantial resources, flexibility, and a long-term outlook.

As in other sectors, the main challenge for U.S. firms in seizing cloud-related opportunities in China is its regulatory environment. Foreign cloud providers are required to partner with local companies to serve customers in China, raising questions about how much control foreign providers will ultimately have over their joint ventures, given that their Chinese partners must fully manage daily operations of internet data centers (IDCs). Moreover, certain regulatory requirements necessitate that extra care be taken to avoid hosting certain content and create uncertainty about some industries' ability to contract with foreign cloud providers. To deal with these challenges, U.S. companies have found it necessary to completely isolate their China cloud systems from their global networks, creating technical inefficiencies and other operational complications.

Smart City Development in China

"Smart City" is a loosely-defined term applied to everything from urban design to higher education policy. But the most accepted definition is the use of information technology to solve urban problems including related to the management of traffic and utilities. Database and network systems developed in Silicon Valley to power Google, Amazon, and Facebook—not to mention Taobao and WeChat—are now being connected to objects in the physical world such as meters, sensors, cameras, and control systems in pilot projects around the world. Smart city systems are managing traffic, stabilizing electric grids, allocating and coordinating emergency services, and providing more city information to people and managers than has ever been available before.

New urbanization is one of the key strategies in China's 13th Five Year Plan (2016-2020) and creating smart and low-carbon cities is an important part of such a strategy. According to the plan, China will significantly increase investment in smart city development. The Ministry of Housing and Urban-Rural Development is now in the process of putting together a 13th FYP smart cities planning forecast, and during the next five years, the overall scope of investment in China's smart cities will likely exceed RMB 500 billion.

In 2014, China's National Development and Reform Commission (NDRC) released the Notice on the Guiding Opinions on Promoting the Healthy Development of Smart Cities, which clearly points out that China needs to attract private capital to participate in the building of intelligent cities through the granting of concessions, service procurement and other mechanisms. The NDRC notice also encourages eligible businesses to issue debt and raise capital to start smart city construction projects. Foreign companies have the opportunity to leverage technological, operational and management advantages to participate in smart city construction in areas such as smart governance, smart industry and smart public services.

There are more than 300 smart city pilot sites in China, including the 193 local governments and economic development zones that the Ministry of Housing and Urban and Rural Development (MOHURD) picked last year as official smart city pilot project sites. MOHURD is working to make a RMB 100 billion ($16 billion) investment fund sponsored by the China Development Bank available for eligible pilot cities. Investment from local government and private sources has also been growing fast. There's no standard definition of the sector, but some estimates foresee RMB 2 trillion ($320 billion) of investment into smart city development projects over the next 10 years. A more focused projection at the end of 2015 that looked only at the "smart" technology component of smart city projects anticipated a cumulative market of RMB 28.5 billion ($4.6 billion) over the next 10 years in mainland China, Hong Kong, and Taiwan. Defined broadly or narrowly, the investment will be huge.

These enormous sums, rapid technology advances, and vigorous marketing of smart city products from both domestic and international companies, have created a booming and chaotic marketplace. Both boosters and critics of smart cities are now concerned that local governments eager to juice their economies will see this indiscriminate encouragement as a blank check. In Beijing, the effort now is to create standards and guidelines to manage this flood of new projects. In 2016, all the ministries involved joined with the Standardization Administration of China to create working groups whose job is to manage and standardize smart city development, though their activities have not been publicized.

The smart city sector is not a single industry, but an emerging collection of technologies cutting across many industries – transportation and utility infrastructure, network equipment, telecom and wireless, data analytics, electronics equipment, and software applications. To manage the torrent of information, applications rely heavily on new IT technologies such as cloud computing and "big data" analytics.

For international companies, huge opportunities in China are tempered by real challenges. The local government market is famously opaque, and smart city applications sometimes involve areas—digital mapping, for example—considered sensitive for non-Chinese firms. U.S. firms in particular face increased scrutiny in the wake of the Congressional investigation of Huawei, the 2013 revelations of global NSA surveillance from whistle-blower Edward Snowden, and the U.S. Justice Department's 2014 move to indict and name five members of the Chinese military to its most-wanted list for cyber-attacks against U.S. companies. This last move provoked several countermeasures from China, including the banning of Microsoft's Windows 8 from government offices and the reported phasing out of IBM servers from Chinese banks. Actions to define new security testing processes for information technology products and services only further underscore the difficulties that international firms may face in China.

But the most significant challenge may be China's rapidly maturing domestic competition. China is no longer a developing-nation market in which international companies compete only with one another. Chinese firms have been adept at mastering technologies and shaking up markets, often by offering low prices. Firms like Huawei and ZTE are becoming increasingly important players in the world market. U.S. firms are increasingly partnering to stay in the market. For example, Microsoft is partnering with a large state-owned enterprise (SOE) to develop a "secure & controllable" version of Windows 10 for use by the Chinese government and SOEs.

Policies

Policy/Regulation-Led Market Barriers

China enacted its first ever Cybersecurity Law in November 2016. The law, which took effect on June 1, 2017 is designed to promote national security. Implementing measures for the law – including those on cybersecurity review and cross-border data flow – will have a large, but as yet unknown effect on the development of the ICT industry as a whole. China continues to introduce new laws and measures related to the Cybersecurity Law for public comment in advance of future implementation. From January to May 1, 2017, the Chinese government released a new draft Telecom Service Licensing Requirement, draft Cryptography Law (in NPC reading process), and new State Radio Administrative Measure, and a series of cybersecurity technology product standards (led by TC260).

Multi-Level Protection Scheme (MLPS)

In 2007, the Chinese Ministry of Public Security (MPS), the leading ministry tasked with combating cybercrime and protecting critical infrastructure, implemented the Multi-Level Protection Scheme (MLPS). Designed to restrict the sale of foreign ICT products to government, Party, state-owned enterprise, and institutionally important web sites in order to protect information networks according to their relative impact on national security, social order, and economic interests were the system to be damaged or attacked. The classification levels range from one to five, one being the lowest and five being the most critical to China's national security. Technology products at MLPS levels three and above must include at least some domestic IP. MLPS also requires that traditional IT products at level three or above be subject to rigorous testing and review guidelines under the China Compulsory Certification for Information Security Products (CCCi) for government procurement. As a result of the 2014 JCCT discussions, companies are no longer required to use Chinese encryption for MLPS. Few foreign companies are licensed to sell products at level three. The State Council is in the process of updating and expanding MLPS to cover new high growth sectors including big data, cloud computing, and mobile internet.

Telecom Services Catalog

China's March 2016 Telecom Services Catalog provides for the licensing of all telecoms services - including cloud computing - as either basic or value-added telecom services. Various licenses are required to provide services within each specific sub-category. Foreign firms are prohibited from operating numerous services – including cloud – outside the structure of a joint venture partnership with a Chinese company. The Catalog expands value-added telecom services licensing requirements to include a host of Internet-based business activities and services that have generally been unregulated in China, and are unregulated in most other markets. MIIT released a Telecom Service Licensing Requirement on February 7, 2017 to enforce the Catalog.

CBRC Guidelines and CIRC Informatization Rules

China issued an official notice (CBRC/MIIT Joint Circular #57) on April 13, 2015 to its banking sector, including Chinese and foreign-owned banks, suspending for revision its earlier Guidelines for Secure and Controllable Information Technology in the Banking Industry for 2014-2015 (CBRC Circular [2014] 317, the Guidelines). The Guidelines, as previously written, would have required banks in China to ensure that at least 75 percent of their ICT products and services were "secure and controllable," by 2019. The guidelines were suspended – but not withdrawn - following an international outcry, including from the United States. China committed during President Xi's September 2015 state visit to the United States that ICT cybersecurity regulations "should be consistent with WTO agreements, be narrowly tailored, take into account international norms, be nondiscriminatory, and not impose nationality-based conditions or restrictions, on the purchase, sale, or use of ICT products by commercial enterprises unnecessarily." Nevertheless, U.S. and other foreign ICT companies continue to report that an informal whisper campaign continues to affect their sales to the banking and other industries.

Cybersecurity Review Regime

The Cyberspace Administration of China's (CAC) new Measures for the Security Review of Network Products and Services implementing certain requirements in the Cybersecurity Law took effect on June 1, 2017. CAC's Cybersecurity Review Committee together with other relevant government departments, a Cybersecurity Review Expert Panel and a third-party testing institutions will perform security reviews on ICT products prior to their sale to operators of critical information infrastructure. Regulators for the Banking, telecommunications, energy, and transportation industries will establish their own procedures for the review of ICT products by their respective industries, while ICT products in use by all other industries will undergo review in a process led by CAC.

Trade Show & Events

SEMICON China 2016, Shanghai, March 15-17, 2016
SEMICON China is one of the most important events for the semiconductor industry in China. 15-17 March 2016

Info COMM China, Beijing, April 12-14, 2017
Info COMM is the biggest audio and video system exhibition in China.

NEPCON China 2018, Shanghai, April 24-26, 2018
NEPCON China is one of the largest and longest running trade and sourcing events in Asia, featuring well-known brands in electronics manufacturing

China (Shanghai) International Technology Fair (CSITF), Shanghai, April 20-22, 2017
CSITF is a national-level fair specifically for international technology trade.

CES Asia, Shanghai, June 7-9, 2017
CES Asia is the Asian version of well-known Las Vegas Consumer Electronic Show.
The 7th China International internet of Things Technologies and Application Exhibition, Shenzhen, August 16-18, 2017
The exhibition offers a platform for businesses in the RFID, information perception, and smart sensor sectors.

13th Asia Electronics Exhibition in Shanghai (AEES 2016), November 8-10, 2016
AEES is organized by five leading electronic exhibition organizers in Asia. AEES promotes cooperation between Chinese and overseas electronics and IT enterprises.

ITS EXPO, Shenzhen, June 23-25, 2017
ITS is one of the largest l intelligent transportation industrial expos in Asia.

China Beijing International High-tech Expo (CHITEC), Beijing, June 8-10, 2017
CHITEC is an annual technology expo held in Beijing sponsored by a number of national government agencies.

China Digital Entertainment Expo & Conference (China Joy), Shanghai, July 27-30, 2017
China Joy is a leading event in China covering gaming, comics, and other relevant industries.

Web Resources

Ministry of Industry and Information Technology (MIIT)
Ministry of Science and Technology
China Academy of Information and Telecommunications Technology (CAICT)
China Electronics Standardization Institute (CESI)
China Institute of Electronics (CIE)
China Communications Standards Association (CCSA)
China Electronics Chamber of Commerce (CECC)

U.S. Commercial Service Contact for Technology and ICT Sector

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Travel and Tourism

Overview

China is rapidly becoming one of the most important outbound tourism markets in the world. According to the China National Tourism Administration (CNTA), Chinese outbound travelers reached 120 million in 2015, an increase of 5 million travelers from 2014.

The United States is an increasingly popular destination for Chinese travelers. In 2015, China ranked as the 5th largest international market (and 3rd largest overseas market) for the United

States. While final 2016 data is not yet available, an estimated 3 million Chinese (excluding Hong Kong) visited the U.S. in 2016, constituting a 16 percent increase over 2015.

The United States welcomed a record 2.59 million visitors from China in 2015, and received more than $30 billion in spending from Chinese tourists on travel and tourism related goods and services. Travel exports from Chinese visitors to the United States set a record in 2015. China is the largest travel export market for the U.S. The below charts illustrate how Chinese travelers to the U.S. compared among other top markets in 2015 and how their spending compared to their counterparts, respectively.

Top International Arrivals to the U.S. in 2014 vs 2015

Rank	Region/Country of Residence	2014r	2015p	%Change (2015/2014)
	Total Arrivals (1) (2)	75,021,716	77,510,282	3%
	North America (3)	40,083,509	39,118,350	-2%
1	Canada	23,013,691	20,704,701	-10%
	Canada Air (2)	8,243,286	7,966,040	-3%
2	Mexico (2)	17,069,818	18,413,649	8%
	Mexico Air (2) (4)	2,486,381	2,640,481	6%
	Overseas (2) (5) (6)	34,938,207	38,391,932	10%
3	United Kingdom (2)	4,149,129	4,900,823	18%
4	Japan	3,620,224	3,758,297	4%
5	China (excl HK) (2)	2,189,781	2,591,333	18%
6	Germany (2)	2,056,492	2,271,820	10%
7	Brazil	2,263,996	2,218,883	-2%
8	South Korea (2)	1,459,938	1,764,871	21%
9	France (2)	1,658,345	1,752,611	6%
10	Australia (2)	1,304,172	1,450,113	11%

Sources: U.S. Department of Commerce, ITA, National Travel and Tourism Office: Statistics Canada and Banco de Mexico/Secretaria de Turismo (Mexico).
"Total Arrivals" is the sum of Canada, Mexico and all Overseas.
Record level of visits in 2015.
"North America" includes Canada and Mexico only.
"Mexico Air" data based on U.S. Department of Homeland Security I-94 arrival records.
"Overseas" excludes Canada and Mexico.
2015P changes (excluding Canada and Mexico) reflect a combination of additional records counted in 2015 and market conditions.
R = Revised data.
P = Preliminary data.
Released: June 2016

Spending to and within the U.S. (2015)
Total $246.2 billion USD
2015 Travel Exports all purposes (including education) by Country

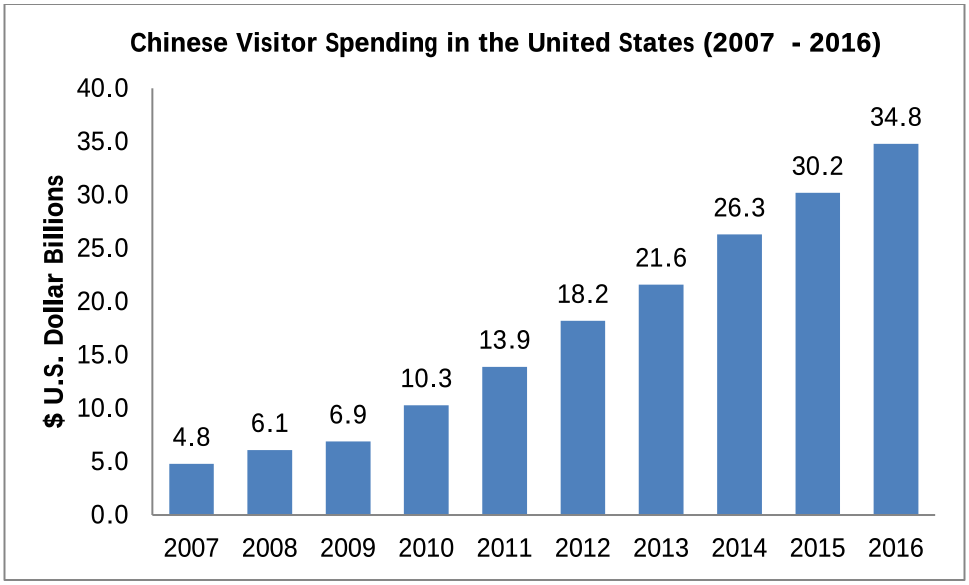
Rank	Country of Residence	2015
1	China	$30.2 billion
2	Canada	$22.7 billion
3	Mexico	$19.7 billion
4	Japan	$17.2 billion
5	U.K.	$16.2 billion
6	Brazil	$14.4 billion
7	India	$11.8 billion
8	Australia	$9.3 billion
9	Germany	$8.9 billion
10	S. Korea	$8.1 billion

Source: U.S. Department of Commerce, National Travel and Tourism Office

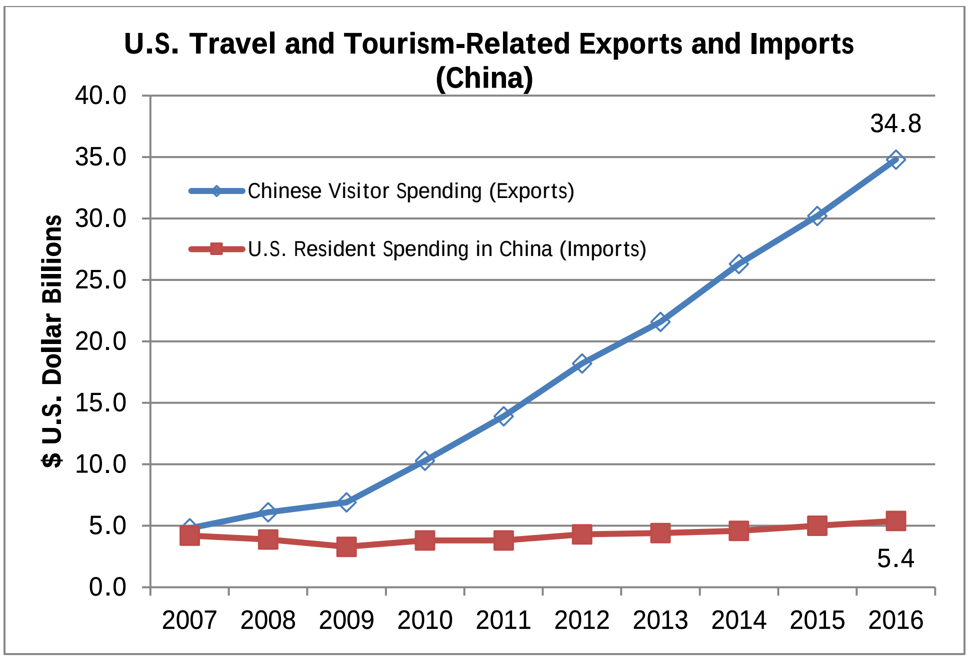
Spending Trends by Chinese Visitors (Exports)

$ U.S. Dollar Millions	2008	2009	2010	2011	2012	2013r	2014	2015	Change 2015/2008
Total Travel and Tourism Exports2	$6,086	$6,869	$10,249	$13,925	$18,152	$21,624	$26,317	$30,178	$24,092
Travel Receipts	$5,189	$6,022	$8,942	$11,877	$15,864	$19,244	$23,725	$27,728	$22,539
Education Receipts	$2,377	$3,049	$4,014	$5,123	$6,498	$8,076	$9,734	$11,429	$9,052
Other	$2,594	$2,926	$4,874	$6,696	$9,306	$11,093	$13,906	$16,209	$13,615
Health/ Border/ Seasonal	$218	$47	$54	$58	$60	$75	$85	$90	-$128
Passenger Fare	$897	$847	$1,307	$2,048	$2,288	$2,380	$2,592	$2,450	$1,553
% Change in Total Exports	27%	13%	49%	36%	30%	19%	22%	15%	396%

Source: U.S. Department of Commerce, National Travel and Tourism Office



Source: U.S. Department of Commerce, National Travel and Tourism Office



Source: U.S. Department of Commerce, National Travel and Tourism Office

Leading Sub-Sectors

As China rebalances its economy to promote consumerism as a greater driver of economic growth, the best sub-sector prospects for U.S. travel and tourism suppliers include luxury travel experiences, such as winery tours, fine dining, golf courses, and leisure activities, MICE (meetings, incentives, conventions, and exhibitions), as well as foreign independent travel. While group tours to well-known American destinations are still preeminent, more Chinese travelers are becoming interested in venturing off the beaten path to visit places of natural beauty, and of cultural and, historical significance.

2016 U.S. – China Tourism Year

The U.S. China Tourism Year was a strategic deliverable during the Obama-Xi Summit meeting in Washington D.C. in September 2015. The initiative aimed to increase travel and tourism between the two countries by enhancing the traveler's experience, increasing the traveler's cultural understanding, and expanding the traveler's appreciation of natural landscapes in each other's countries.

From the U.S. perspective, the Tourism Year offered the chance to build on the current double-digit growth in arrivals from China, expanding the United States' share of the nearly 100 million Chinese visitors traveling each year. The Tourism Year provided both countries many opportunities and achieved significant milestones over the course of the year, including the launch event held in Beijing in February 2016 and the closing event held in Washington D.C. in November 2016. Other significant events during the U.S.-China Tourism Year included one thousand U.S. tourists visiting the Great Wall; the China-U.S. Tourism Leadership Summit; and five thousand Chinese tourists visiting Washington D.C. in November 2016 to coincide with the Tourism Year closing event.

Opportunities

While the 2.59 million visitors from China in 2015 represented substantial growth from an already significant number of travelers, this figure represents about 2% of the 120 million outbound travelers from China. This suggests that substantial opportunity remains for the U.S. travel service industry to capture a greater share of the Chinese market and should encourage the industry to focus on understanding the complexities of the Chinese travel market. Currently, 15 U.S. cities are connected by non-stop flights to Chinese cities. The top three states in inbound Chinese visitors are California, New York, and Hawaii with 1.0 million, 800 thousand, and 300 thousand Chinese visitors respectively per year.

U.S. Gateway Cities with Direct Flights from China

Los Angeles	San Francisco	New York	Seattle	Dallas
Detroit	Chicago	Boston	Washington, D.C.	Houston
San Jose	Honolulu	Guam	Saipan	Las Vegas

Emerging Trends in Chinese- U.S. Visitation

While package tours still account for 70% of Chinese tourism to U.S., the "Frequent Independent Traveler (FIT)" segment is witnessing rapid growth. Tastes in travel and travel experiences are changing with a decrease in the average age of Chinese travelers and an increase in the availability of online resources to research and purchase travel services independently. The Chinese travel market is rapidly shifting from a multi-destination to a multi-experience focus. The FIT traveler profile is often young (18-44), highly educated, affluent, tech savvy, and English-speaking.

As part of this shift, and as Chinese visitors are able to afford increasing amounts of international travel (sometimes three to four trips abroad per year), there is a growing demand for travel to U.S. destinations outside the most frequented gateways, or first-trip cities, like New York, Los Angeles, and San Francisco. Such trends translate to increased travel service opportunities for those U.S. destinations historically less frequented by Chinese visitors. These less frequented destinations should that take the time to understand the Chinese traveler and endeavor to articulate the unique value of their respective destinations.

Profile of the Chinese Traveller to the U.S.

The average age of Chinese travelers to the U.S. is in their mid-thirties, and the average travel party size is 1.6 people. Travelers visit an average of 1.8 states and approximately 67% visit friends and family during their stay in the U.S. The average length of trip is seven to fourteen days, and spending averages $7,566 per traveler. About 41% of Chinese travelers are choosing the U.S. as their first international trip. The U.S. is the only long haul destination ranked in the top ten destinations for Chinese travelers.

Electronic Visa Update System (EVUS)

The successful launch of EVUS in November 2016 marked the full implementation of the 10 year visa validity for Chinese travelers. The implementation of the visa validity agreement in November 2014 resulted in a 53 percent increase versus the previous 12 month period. Chinese travelers' demand for visas continues to be strong. Mission China issued over 2.1 million non-immigrant visas (NIV) to Chinese travelers in fiscal year 2016. This number represents over 20% of worldwide NIV issuances. According to the National Travel and Tourism Office of the U.S. Department of Commerce, China is expected to have 5.7 million visitors to the United States by 2021 becoming the United States' largest source of overseas travelers, excluding Canada and Mexico.

Challenges

It is important to note that as the Chinese government continues to develop its policy governing this sector and that new policies, guidelines, and regulations may be imposed. Key bilateral policy challenges include restricting foreign travel companies from directly selling outbound travel to Chinese citizens; opening China's market to foreign owned global distribution systems (GDS); and the renegotiation of the U.S.-China bilateral air services agreement. The current air services agreement caps weekly flights between the U.S. and China at 180 for Chinese carriers and 160 for U.S. carriers. Given the rapid growth in flights between the U.S. and China, the airlift allowed under the current agreement will reach maximum capacity in the near future.

Market Entry

In regard to long-term entry into the China market, travel and tourism organizations have two ways to enter the market. The first is to establish a direct office in China. To do this the travel and tourism supplier should obtain a registration license from the China National Tourism Administration (CNTA). The second method is to contract with a marketing/PR company to represent and/or promote your organization or destination. The second method is the one that has been adopted by the majority of U.S. destinations.

The Commercial Service has staff dedicated to serve the tourism market in Beijing, Shanghai, Guangzhou, Chengdu, Shenyang, and Wuhan. BrandUSA now has four representative offices in China located in Beijing, Shanghai, Guangzhou, and Chengdu. The Commercial Service and

BrandUSA operate collaboratively in China to organize and support U.S. pavilions at major travel trade shows around China, run broad-based marketing campaigns, and other tourism events and programs. In general, U.S. destinations and travel and tourism suppliers should consider working with the Commercial Service for their initial entry into the China tourism market.

Trade Shows & Events

Beijing International Travel Mart (September 14 – 16, 2017)
Beijing: China Incentive Business Travel and Meeting Exhibition (MICE) (August 23-24, 2017)
Shanghai: China International Travel Mart (CITM) (November 2018)
Shanghai: ITB China (May 2018)
Guangzhou: Guangzhou International Travel Fair (March 1-3, 2018)
Xiamen: Xiamen Tourism Expo (May 2018)

Web Resources

Brand USA
Visit the USA
U.S. Travel Association (USTA)
National Tour Association (NTA)
China National Tourism Administration (Chinese regulatory agency, the U.S. does not have an equivalent bureau)
Commercial Service China Tourism Team
National Travel and Tourism Office (NTTO)
2015 China Market Profile for Travel and Tourism
NTTO 2015-2020 Forecast
NTTO Inbound Data Page

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Customs, Regulations & Standards

Trade Barriers

Following China's accession to the WTO in 2001, the Chinese Government took significant steps to revise its laws and regulations in a manner consistent with WTO obligations and to strengthen its role in the global economy. Nevertheless, despite progress in many areas, significant barriers for U.S. companies still exist. The U.S. Government strives to address these barriers through bilateral dialogue and engagement and enforcement of U.S. and international trade laws and obligations.

For more information on specific barriers, please see the U.S. Government's National Trade Estimate Report on Foreign Trade Barriers.

A report on China's compliance with WTO rules since joining that organization is published by United States Trade Representative (USTR) and titled "2016 Report to Congress on China's WTO Compliance" (January 2017).

Import Tariff

The Customs Clearance Handbook (2016), compiled by the General Administration of Customs (China Customs), is a comprehensive guide to China's customs regulations. This guide contains the tariff schedule and national customs rules and regulations, and can be purchased at bookshops in China or ordered from the following online bookstore:

China Customs Press Online Bookstore
1st Floor, East Wing,
General Administration of Customs of PRC, No. 6, Jianguomen Nei Street,
Dongcheng District, Beijing, China
Phone: (86 10) 6519-5616
Fax: (86 10) 6519-5127
E-mail: bjjyssd@sina.com

Tariff Rates

China Customs assesses and collects tariffs. Import tariff rates are divided into six categories: general rates, most-favored-nation (MFN) rates, agreement rates, preferential rates, tariff rate quota rates, and provisional rates. As a member of the WTO, imports from the United States are assessed at the MFN rate. The five Special Economic Zones, open cities, and foreign trade zones within cities offer preferential duty reductions or exemptions. Companies doing business in these areas should consult the relevant regulations.

China may apply tariff rates significantly lower than the published MFN rate for goods that the government has identified as necessary to the development of a key industry. For example, China's Customs Administration has occasionally announced preferential tariff rates for items in the automotive, steel, and chemical sectors.

Customs Valuation

The dutiable value of an imported good is its Cost, Insurance, and Freight (CIF) price, which includes the normal transaction price of the good, plus the cost of packing, freight, insurance, and seller's commission. According to Customs Order 954, the "Administrative Regulation on Examination and Determination of the Dutiable Value of Imported and Exported Goods," China Customs is tasked with assessing a fair valuation to all imports.

To assess a value, all China Customs officers have access to a valuation database that lists appropriate valuations for various imports, based on international market prices, foreign market prices, and domestic prices. China Customs officers check the price reported by the importer against this database. Normally, China Customs officers will accept the importer's price. However, if the reported value is too far out of line with the database, the China Customs officer will estimate the value of the goods based on methods listed in Article 7 of the PRC Administrative Regulations. For agricultural products, China Customs information frequently does not reflect seasonal changes in pricing or the effects of quality/grade on pricing. As a general rule, China Customs will charge against the highest price reflected in their database. The Foreign Agricultural Service is working with China Customs to improve their understanding of agricultural products pricing.

Taxes

On top of normal tariff duties, both foreign and domestic enterprises are required to pay value-added taxes (VAT) and business taxes. VAT is assessed on sales and importation of goods and processing, repairs, and replacement services. Business taxes are assessed on providers of services, the transfer of intangible assets, and/or the sales of immovable properties within China. VAT is assessed after the tariff, and incorporates the value of the tariff. China is bound by WTO rules to offer identical tax treatment for domestic and imported products. VAT is collected regularly on imports at the border. Importers note that their domestic competitors often fail to pay taxes. VAT rebates up to 17 percent (a full rebate) are available for certain exports. The Chinese Government frequently adjusts VAT rebate levels to fulfill industrial policy goals. Exporters complain that it takes months to obtain the rebates and amounts are often miscalculated. Also, rebates are limited by local budgets and coastal provincial authorities often run out of funds for rebates well before the end of the year. The applicable rebate method varies according to the date the enterprise was established.

The U.S. signed a tax treaty with China that took effect on January 1, 1987 (United States the People's Republic of China Income Tax Convention). It provides certain benefits and allows for the avoidance of double taxation, but in order to enjoy the benefits provided by the tax treaty, non-residents (enterprises and individuals) must register with their local tax authorities in accordance with Circular 124. The corporate income tax rate in China is 25 percent. The law includes two exceptions to the 25 percent flat rate: one for qualified small-scale and thin profit companies, which will pay 20 percent, and another to encourage investment by high tech companies, which will pay 15 percent. Additional incentives are available for investments in resource and water conservation, environmental protection, and work safety. Preferential tax treatment for investments in agriculture, animal husbandry, fisheries, and infrastructure development continues to be applied.

In June 2015, China reduced a number of import tax rates for clothing, footwear, skincare products, diapers and other consumer goods to boost domestic consumption. The average reduction is more than 50 percent. Specifically, import tariffs for suits and fur garments will be reduced from 14–23 percent to 7–10 percent, import tariffs on shoes and sports shoes will be reduced from 22–24 percent to 12 percent, import tariffs for paper diapers will be reduced from 7.5 percent to only 2 percent, and import tariffs for skincare products will be reduced from 5 percent to 2 percent.

During APEC meetings in Beijing in November 2015, China agreed to participate in the expansion of the WTO's Information Technology Agreement (ITA Expansion). On October 26, 2016 China submitted its ITA expansion commitments to WTO Director-General Roberto Azevêdo for inclusion in its WTO schedule of concessions. China's commitments were ratified by the country's Standing Committee of the National People's Congress on September 3, 2016, and China started implementing its first tariff cuts on covered goods from September 15, 2016.

Import Requirements & Documentation

Normally, the Chinese importer (agent, distributor, joint-venture partner, or FIE) will gather the documents necessary for importing goods and provide them to Chinese Customs agents. Necessary documents vary by product but may include standard documents such as a bill of lading, invoice, shipping list, customs declaration, insurance policy, and sales contract as well as more specialized documents such as an import quota certificate for general commodities (where applicable), import license (where applicable), inspection certificate issued by the General Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ) or its local bureau (where applicable), and other safety or quality licenses.

To help U.S. exporters of food, fishery and forestry products to China, the United States Foreign Agricultural Service, including the Agricultural Affairs Office in Beijing, issues a magnitude of 100 reports a year. These span new developments in commodities markets, changes in the hotel and restaurant sector, and announcements and analysis of new regulatory requirements. As China is a continental economy with diverse ecosystems and a vast variety of food preferences, it is also home to no less than eight ministries involved regulating food safety, quality, and trade. These agencies run the gamut of food regulation, inspection, packaging, canning, storage, labeling, quality control, record keeping and import requirements. Chinese regulators are busily releasing new rules that reflect the requirements and support the implementation of the 2015 Food Safety Law. These include numerous new measures issued by General Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ) such as registration requirements for grains and oilseeds (AQSIQ Decree 177), and live seafood (Decree 183). Similarly, the China Food and Drug Administration (CFDA) has issued registration requirements for infant formula recipes (CFDA Decree 26), health foods (CFDA Decree 22), foods for special medical purposes (CFDA Decree 24), and new requirements for on-line food trading. To help U.S. exporters navigate the many layers of regulation, FAS published three guides to educate exporters on the requirements, procedures, and bottlenecks that may occur for their industries. The three most significant annual reports are the:

Exporter Guide to China: This report targets those who are completely new to exporting to China.

Food and Agricultural Import Regulations FAIRS Country Report: This report identifies key regulations by commodity sector and level of processing.

FAIRS Export Certificate Report: This report identifies commodity and facility certification requirements.

Labeling/Marking Requirements

Chinese import inspection authorities point to labeling as one of the major reasons for noncompliance reports which has generated a lot of consumer complaints. Pursuant to the 2015 Food Safety Law, pre-packaged food must be labeled and must include the following information:

- Name, specification, net content, and date of production;
- Table of ingredients or formulation;
- Producer name, address and contact information;
- Shelf life;
- Code of product standard(s);
- Storage requirements;
- Generic name of the food additives as used in the national standard;
- Production License Number; and
- Other information that must be indicated in accordance with applicable laws, regulations, and food safety standards.

The labels of staple and supplementary foods for infant consumption and other specific populations must also list main nutritional ingredients and their contents. A series of national food safety standards were developed to provide specific guidance in product labelling:

Date of issuance	Effective Date	Standard Number	Standard-in Chinese	Standard-in English
4/20/2011	4/20/2012	GB7718-2011	预包装食品标签通则	Standard for the Labelling of Prepackaged Foods
10/12/2011	1/1/2013	GB28050-2011	预包装食品营养标签通则	Standard for Nutrition Labelling of Prepackaged Foods
11/29/2013	6/1/2015	GB29924-2013	食品添加剂标识通则	General Standard for the Labeling of Food Additives
12/26/2013	5/1/2015	GB13432-2013	预包装特殊膳食用食品标签	The Labelling of Pre-packaged Foods for Special Dietary Uses

In addition, in December 2016, the China Food and Drug Administration began requiring infant formula powder producers to review their infant formula labels, and ensure that labels are in compliance with the relevant laws, regulations, rules and standards. More specific information is provided in the Infant Formula section of the FAS FAIRS Country Report.

Labelling of agriculture biotech products is governed by the Administrative Measures for Agricultural GMO, which is discussed Section VII of FAS FAIRS Country report.

Labeling and marking requirements are mostly made by different industry authorities. However, all products sold in China must be marked in the Chinese language. The State Administration for Quality Supervision, Inspection, and Quarantine (AQSIQ) requires imported and exported (but not domestic) food items such as candy, wine, nuts, canned food, and cheese to have labels verified and products tested for quality before a good can be imported or exported. According to the Food Labeling Standards of China (GB7718-2011), imported foods shall have clear markings that indicate the country of origin, in addition to the name and address of the general distributor registered in the country. Please note that Labeling Standards are currently under review to reflect requirements under the 2015 Food Safety Law and are expected to be issued soon.

Products requiring the CCC mark, in addition to undergoing an application and testing process, must have the mark physically applied on products before entering or being sold in China. Many electronic products require the CCC mark.

U.S. Export Controls

The United States imposes export controls to protect national security interests and promote foreign policy objectives. The United States also participates in various multilateral export control regimes to prevent the proliferation of weapons of mass destruction and prevent destabilizing accumulations of conventional weapons and related material. The Department of Commerce's Bureau of Industry and Security (BIS) administers U.S. laws, regulations and policies governing the export, reexport, and transfer (in-country) of commodities, software, and technology (collectively "items") falling under the jurisdiction of the Export Administration Regulations (EAR). The primary goal of BIS is to advance the United States' national security, foreign policy, and economic objectives by ensuring an effective export control and treaty compliance system and promoting continued U.S. strategic technology leadership. BIS also enforces antiboycott laws and coordinates with U.S. agencies and other countries on export control, nonproliferation, and strategic trade issues.

The EAR controls certain exports, reexports, or in-country transfers of purely commercial items, items that have both commercial and military applications (i.e., "dual-use" items), and less sensitive military items.

Items subject to the EAR may require a license prior to export, reexport, or transfer (in-country). BIS's Export Administration reviews license applications for exports, reexports, and deemed exports/reexports (technology transfers to foreign nationals in/outside of the United States) subject to the EAR. Through its Office of Exporter Services, Export Administration also provides information on BIS programs, conducts seminars at locations across the United States on the EAR's requirements and compliance thereof, and provides guidance to individual exporters via telephone and e-mail. BIS also provides web-based guidance on export controls, including links to amendments to the EAR, videos and webinars on export control topics, and electronic decision tree tools to facilitate an exporter's export control-related determinations. BIS's Export Enforcement is staffed with federal law enforcement agents who investigate illegal exports of items subject to the EAR and enforcement analysts who analyze intelligence and other information to assess the bona fides of parties and evaluate export transactions in support of investigations. BIS also posts regional Export Control Officers in Beijing, Dubai, Frankfurt, Hong Kong, New Delhi, and Singapore to conduct end-use verifications, perform industry outreach and liaise with foreign government counterparts on export control matters of mutual interest.

Under the EAR, a license is required to export, reexport, or transfer (in-country) certain controlled items to end users in China. See the Commerce Control List in Supplement No. 1 to Part 774 of the EAR for item-specific information. In some cases, an end-use check, which can take the form of either a Pre-license Check (PLC) or Post-Shipment Verification (PSV), is also required. U.S. exporters are required to obtain an End-User Statement from China's Ministry of Commerce (MOFCOM) for licensed transactions valued over $50,000 as part of the license application process. In certain circumstances, an End-User Statement may be required for transactions of a lower dollar value.

Generally, the licensing policy for China is to approve items for civil end use to civil end users. There is a presumption of denial for items that would make a direct and significant contribution to China military capabilities. Items that are destined to a military end user or for military end use are reviewed with a presumption of denial. See parts 742 and 744 of the EAR. End users in China can apply for the Validated End-User (VEU) program. This allows end users who have an established track record of engaging in only civil activities to receive exports of specified items without the need for their suppliers to first obtain individual export or reexport licenses. Interested companies can apply by submitting a request for an advisory opinion to BIS, as described in Section 748.15 of the EAR.

U.S. exporters should consult the EAR for information on how export license requirements may apply to the sale of their goods to China. If necessary, a commodity classification request may be submitted in order to determine how an item is controlled (i.e., the Export Control Classification Number (ECCN)). Exporters may also request a written advisory opinion from BIS about application of EAR's licensing requirements.

Information on commodity classifications, advisory opinions, and export licenses can be obtained through the BIS website or by contacting the Office of Exporter Services at the following numbers:

Washington, D.C. Tel: (202) 482-4811 Fax: (202) 482-3322

Western Regional Office Tel: (949) 660-0144 Fax: (949) 660-9347 ECDOEXS@bis.doc.gov

Exporters are also urged to check lists identifying specific end users (persons, companies and entities) that are under U.S. Government sanctions or for whom export licenses or other authorization may be required. Information on these lists, which include the Entity List, Denied Persons List, Unverified List, Specially Designated Nationals List, and Debarred List, is available on the BIS website.

A consolidation of export screening lists of the Departments of Commerce, State, and the Treasury can be found online. Exporters who engage in unauthorized transactions with listed parties may themselves become subject to administrative and/or criminal penalties.

Additional information about U.S. export controls administered by BIS may be obtained from the BIS Export Control Officer at the U.S. Commercial Service, U.S. Embassy Beijing, Tel: (86) (10) 8531-3301/4484 or Fax: (86) (10) 8529-6558.

Select Legislation

Executive Orders, or Regulatory Actions Impacting Exports or Re-exports to China

In 1990, the U.S. Congress passed P.L. 101-246, Title IX of which is commonly referred to as the "Tiananmen Square Sanctions." Among other things, this law restricts the U.S. licensing of exports and re-exports of crime control and crime detection equipment and instruments listed in the EAR to China, as well as the licensing of defense articles and defense services subject to the International Traffic in Arms Regulations (ITAR). These restrictions apply regardless of the end user in China.

In 1999, the U.S. Congress passed P.L. 105-261, Section 1512 of which requires the President to certify to Congress before any export to China of missile equipment or technology that the specific proposed export is not detrimental to the United States space launch industry and the equipment or technology to be exported, including any indirect technical benefit, will not measurably improve China's missile or space launch capabilities. In 2009, the President delegated the certification responsibility to the Secretary of Commerce. This requirement may affect the licensing process for any missile technology or equipment exports to China.

On June 28, 2005, President Bush signed Executive Order 13382, which amended Executive Order 12938 by providing sanctions against entities that finance and support proliferation activities. Chinese entities have been sanctioned under this Executive Order, as well as under the Iran Nonproliferation Act of 2000 (P.L. 106-178), Iran-Iraq Arms Nonproliferation Act of 1992 (P.L. 102-484), and Executive Order 12938, as amended by Executive Orders 13094, 13128, and13382. Additional information on these sanctions can be found on the State Department website.

In addition, although foreign made items incorporating less than 25 percent controlled U.S.-origin content are generally not subject to the EAR for purposes of export or reexport to China, there is no de minimis for exports to China of foreign made items incorporating U.S.-origin 600-series and 9x515 content. All such items will remain subject to the licensing requirements of the EAR, regardless of the level of U.S.-origin 600-series and 9x515 content.

Related Controls

Other U.S. agencies regulate exports of more specialized items. For example, the U.S. Department of State's Directorate of Defense Trade Controls administers U.S. export controls covering defense articles and defense services that appear on the U.S. Munitions List under the ITAR. Information on U.S. Department of State export licensing procedures, the ITAR, and the Arms Export Control Act can be found at Tel: (202) 663-1282.

The point of contact for U.S. Department of State licensing issues at the U.S. Embassy Beijing is the Economic Section, Tel: (86) (10) 8531-3000, Fax: (86) (10) 8531-4949.

Temporary Entry

Trade Shows & Exhibitions

Participants of trade shows and exhibitions can come into China on tourist visas and travel in-country. Notebook computers, cameras, and portable printers can be brought into China as personal belongings. Business firms seeking to bring in exhibits and items for display should consult with customs authorities or the show organizers for regulation on the procedures and to obtain copies of appropriate forms.

Temporary Entry

Goods imported in China for display or demonstration at trade shows and exhibitions are exempt from customs duty, provided they are re-exported within six months. The time for reexport may be extended with China Customs approval. The exhibition organizer must obtain advance approval from China Customs, provide certain shipping documents and a list of items to be exhibited, and coordinate with China Customs officials. China Customs may sometimes request a guarantee in the form of a deposit or letter.

A local sponsor with authority to engage in foreign trade may sponsor small exhibitions or technical seminars, requiring less than 1,000 square meters in exhibition space. Customs will handle the tariff exemption formalities based upon a guarantee of re-export that is signed between the sponsor and the foreign party.

Food and beverage exhibition "not-for-sale" sample-entry rules are frequently not acknowledged by Chinese authorities. Under the current system, such samples are officially subject not only to full tariff and taxes, but product and labeling registration requirements. Trade show organizers may be able to obtain exceptions; however, these are largely of a one-off nature. It may also be possible to obtain exceptions to registration and labeling regulations at a given port by working through the local ATO office. However, such arrangements require substantial lead times and cannot be guaranteed.

Some exhibits or samples imported under the temporary not-for-sale regulations may be sold after the trade event is completed, in which case the duties owed on these items are levied by Customs.

According to the Corporation for International Business, the ATA Carnet Issuing authority in China no longer requires a cover letter along with the carnet presented to Chinese customs inspectors. The CIB is an ATA Carnet Service Provider of the U.S. Council for International Business (USCIB), New York City. USCIB is the Guaranteeing and Issuing Association for the ATA Carnet in the United States, under appointment of the U.S. Bureau of Customs and Border Protection. Interested firms can contact the CIB by sending an e-mail to carnets@atacarnet.com or by calling the CIB Carnet hotline (800 ATA-2900).

Companies are advised that freight forwarders will help to prepare a declaration form and Chinese Customs requests the model and serial numbers for high-value exhibits. Requirements may differ for types of products to be imported. In addition, fumigation is required for all wooden packing materials, in accordance with IPPC standards, and must bear the IPPC symbol.

Importing Commercial Samples into Beijing, China

Import commercial samples are those articles imported specifically for the purpose of placing an order.

Related Regulations

Even if items can enter free of charge, they should be declared by the consignee or agent that registered at Customs.

Imported commercial samples subject to import controls should only be imported with licenses. It is recommended to consult with Customs at the destination before samples are sent from the origin country.

Imported commercial samples with no commercial value should be imported duty and VAT free, while all the other imported commercial samples are subject to duty and VAT.

Imported commercial samples that belong to companies that have not registered with Customs need to apply for temporary registration to Customs. It is recommended to consult the destination before samples are sent from the origin country.

Notifications

If the commercial sample is made of any dangerous materials, it is recommended to send them directly to the final destination, and carriers and the final destination should be consulted prior to the samples being sent from the origin.

The normal operation for customs clearance in Beijing takes three days. Never consign commercial samples to an individuals' name or hotel address. It is highly recommended to check on the China Customs Regulations before sending samples.

Passenger Baggage

Reasonable quantities of items for personal use by short-term visitors may be imported duty-free. An individual is allowed to carry under $6,000 worth of foreign currency without having to declare it to Chinese Customs upon arrival.

Advertising Materials and Trade Samples

Shipments containing samples and advertising articles are taxed according to their respective commodity HS codes, unless they fulfill the following criteria:

Shipments with import tax less than US $8, and/or

Shipments with no business value, to be applied by shippers from Monday to Friday (domestic overseas), that pass strict physical inspection by China Customs, and/or

Only those parties who have registered with China Customs can declare shipments (i.e. China shipper, China consignee, and agent).

The following samples, regardless of value are dutiable: motor vehicles, bicycles, watches, televisions, recorders, radios, electric gramophones, cameras, refrigerators, sewing machines, photocopiers, air conditioners, electric fans, vacuum cleaners, acoustic equipment, video recording equipment, video cameras, amplifiers, projectors, calculators, electronic microscopes, electronic color analyzers and their major parts. In these cases, the shipper should not only use the word "sample" on the Air Waybill and Commercial Invoice, but also include a detailed description of the commodity. For more information contact the [Customs General Administration of the People's Republic of China].

Representative Offices' Personal Effects and Vehicles

Representative offices must submit a written application to Customs if they intend to import any personal effects or vehicles. Approval by Customs waives any relevant import license requirements and allows the office to import the equipment in reasonable amounts for office-use only.

Processing Materials and Parts

Raw materials, components, spare parts, auxiliary materials, and packaging materials imported by FIEs for the production of goods which will be re-exported are exempt from customs duty and VAT. The materials and components must be processed into products and exported within one year from the date of importation. In special circumstances, an FIE can apply to extend the date of export to a total time no longer than two years from the date of importation. Bonded warehouses may be established within the FIE and are subject to supervision by Customs.

Warehouses

Goods that are allowed to be stored at a bonded warehouse for up to one or two years are limited to: materials and components to be used for domestic processing subject to re-exportation; goods imported under special Customs approval on terms of suspending the payment of import duties and VAT; goods in transit; spare parts for free maintenance of foreign products within the period of warranty; and fuel for aircraft and ships.

At the end of the two-year period, the goods must be imported for processing and re-exported, licensed for import, or disposed of by Customs. Customs duties and VAT may be assessed depending upon the degree of processing done in China. Goods imported under normal import contracts are not allowed to be stored in bonded warehouses.

Prohibited & Restricted Imports

The following items are prohibited from entering China: arms, ammunition, and explosives of all kinds; counterfeit currencies and counterfeit negotiable securities; printed matter, magnetic media, films, or photographs which are deemed to be detrimental to the political, economic, cultural and moral interests of China; lethal poisons; illicit drugs; disease-carrying animals and plants; foods, medicines, and other articles coming from disease-stricken areas; old/used garments; and local currency (RMB). Food items containing certain food colorings and additives deemed harmful to human health by the National Health and Family Planning Commission (NHFPC) are also barred entry.

In addition, China restricts or prohibits the importation of certain commodities related to the processing trade. The "[Catalogue of Commodities Which are Restricted or Prohibited from Importing for Use in the Processing Trade]" is designed to shift the direction of China's processing trade toward handling commodities with higher technological content and greater value-added potential.

The catalogue identifies the following "prohibited commodities": used garments; used publications with licentious content; radioactive or harmful industrial waste; junk cars, used automobiles or components; seeds, seedlings, fertilizers, feed, additives, or antibiotics used in the cultivation or breeding of any export commodity. The catalogue lists seven general types of "restricted commodities": raw materials for plastics, polyester sections, raw materials for chemical fibers, cotton, cotton yarn, cotton cloth, and some steel products. This list was updated yearly beginning in 1999, with the last one published in 2010.

However, these reports only show updates and do not reflect the final list. U.S. firms should contact the China General Administration of Customs for guidance regarding the import of any of these products. (See below for contact information).

All wood packages should carry an IPPC mark, or it will be subject to further requirements. The latest rule is called the Measures for the Administration of Quarantine and Supervision of Wooden Packages of Imported Goods, promulgated by AQSIQ, effective from January 1, 2006.

Scrap: In 2007, the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) published a “Notice Regarding Renewal Procedures for the License and Registration of Overseas Enterprises of Imported Scrap Materials.” All written application materials should be marked “Renewal Application Materials for Registration of Overseas Supplier Enterprise for Scrap Materials” and mailed to:

Division of Inspection & Supervision, General Administration of Quality Supervision, Inspection & Quarantine of the P.R. of China (AQSIQ)
No. 9, MaDian East Road, Haidian District, Beijing 100088, China
Telephone for Enquiry: (86 10) 8226-0092.

Customs Regulations

China General Administration of Customs

Standards for Trade

Overview

The Standardization Administration of China (SAC) is the central accrediting body for all activity related to developing and promulgating national standards in China. The China National Certification and Accreditation Administration (CNCA) coordinates compulsory certification and testing, including the China Compulsory Certification (CCC) system. Both SAC and CNCA are administratively under the General Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ).

Standards in China fall into at least one of four broad categories: national standards, industry standards, local or regional standards, and enterprise standards for individual companies. National standards (sometimes described as “GB” standards) can be either mandatory (technical regulations) or voluntary. Either way, they take precedence over all other types of standards.

In general, exporters to China should be aware of a few regulatory requirements in the standards and testing area. First, it is important to note that laws and regulations can reference voluntary standards, thereby making the voluntary standard, in effect, mandatory. Second, for certain products, such as certain electrical products, information technology products, consumer appliances, fire safety equipment and auto parts, CNCA requires that a safety and quality certification mark (the aforementioned CCC mark) be obtained by a manufacturer before selling in or importing to China. This process can take some time. Third, numerous government agencies in China mandate industry-specific standards or testing requirements for products under their jurisdiction, in addition to the GB standards and the CCC mark described above. This often leads to onerous, duplicative testing requirements.

Standards

Technical Committees (TC) developing national or GB standards must be accredited by SAC. These TCs are comprised of members from government agencies, private industry associations, companies (sometimes local branches of foreign companies may participate, but often do so with limited voting rights), and academia. Under recent reforms to China' standardization process, industry alliances are also being formed. It remains to be seen what role they will play in standards setting and to what degree foreign companies will be allowed to participate.

Additionally, other government agencies, such as the National Development and Reform Commission (NDRC), and the Ministry of Industry and Information Technology (MIIT), can approve and promulgate technical regulations that may reference voluntary standards, rendering them mandatory.

SAC is currently undergoing a complete reform of its standards setting system. It will continue with its top-down system in which the government sets standards, but it will also encourage industry-level work to develop standards. The stated goal of the reform is to decrease the number of mandatory standards, and employ a top-down system like the European Union, as well as a bottom-up system like the United States' system. A possible unintended outcome might be more domestic standards instead of adoption of international standards. China has repeatedly stated that it intends to become a significant player in international standards organizations. The United States will continue to monitor this progress. In April 2016, China released its Draft Standardization Law for public comment. USG and U.S. industry submitted comments. The final version has not been released as of April 2017.

Testing, Inspection & Certification

Conformity Assessment

CNCA is the primary government agency responsible for supervision of China's conformity assessment policies, including its primary safety and quality mark, the CCC mark. CNCA supervises the work of the China National Accreditation Service for Conformity Assessment (CNAS), which accredits certification bodies and laboratory and inspection facilities.

Product Certification

The China Compulsory Certification (CCC) mark is China's national safety and quality mark. The mark is required for 23 categories, ranging from electrical fuses to toaster ovens to automobile parts to information technology equipment. About 20 percent of U.S. exports to China are on the product list. If an exporter's product is on the CCC mark list, it cannot enter China until CCC registration has been obtained, and the mark physically applied to individual products as an imprint or label. Domestic products also cannot be sold in China without obtaining registration and applying the mark on individual products. The CCC mark system is administered by CNCA.

Obtaining the CCC Mark involves an application process to authorized Chinese certification bodies. At present, three foreign testing labs (one U.S., one Hong Kong, and one Swiss) have been approved to test to CCC mark standards. The application process can take several months or more, and can cost upward of $4,500 in fees, in addition to inspectors' travel costs. The process includes sending testing samples to a Chinese laboratory and testing in those labs to ensure the products meet safety and/or electrical standards. Applicants' factories are also required to undergo inspection to determine whether the product line matches the samples tested in China. Finally, Chinese testing authorities approve the design and application of the CCC logo on the applicant's products. Some companies, especially those with a presence in China and with a dedicated certification/standards staff, are able to manage the application process in-house. Other exporters can tap the expertise of standards consultants based both in the U.S. and in China who can provide application management services and handle all aspects of the application process.

The U.S. Department of Commerce maintains a comprehensive CCC mark website to help U.S. exporters determine whether they need the CCC mark and how to apply. The bottom of the above website link has contact information for the Office of China and Mongolia at the U.S. Department of Commerce.

Though the CCC mark is China's most widely required product certification mark, other product certification requirements exist. These include, for example, requirements for boilers and 81 pressure vessels, under a product certification regime administered by the Special Equipment Licensing Office of AQSIQ. Another product certification scheme is required for certain measurement equipment, known as Certificate of Pattern Approval, which is also administered by AQSIQ.

Accreditation

The China National Accreditation Service for Conformity Assessment (CNAS) is the national accreditation body of China solely responsible for the accreditation of certification bodies, laboratories and inspection bodies, which is established under the approval of the Certification and Accreditation Administration of China (CNCA) and authorized by the CNCA in accordance with the Regulations of the People's Republic of China on Certification and Accreditation. The list of accredited bodies can be found on the CNAS website. Over the past few years, CNCA has gradually approved a few foreign labs for testing certain products for the CCC mark. For example, in 2014, UL was approved for testing HVAC equipment. In 2016 UL's Suzhou lab was approved for testing motors, and in January 2017 it was approved for testing wire and cable to the CCC mark standards. Additional foreign lab approval will likely make the CCC process much less cumbersome and expensive.

Publication of Technical Regulations

China is obligated to notify other World Trade Organization members of proposed technical regulations that would significantly affect trade. Notifications are made through the Technical Barriers to Trade (TBT) committee notification point. All members, including China, are required to allow for a reasonable amount of time for comments to proposed technical regulations (i.e., compulsory standards). However, China often only gives a few weeks, as opposed to the standard of 30 to 60 days practiced by other nations.

Contact Information for Trade Standards

Liting Bao, Liting.Bao@trade.gov
T: +86 10 8531-3889

Trade Agreements

China has bilateral investment agreements with over 100 countries and economies, including Austria, the Belgium-Luxembourg Economic Union, Canada, France, Germany, Italy, Japan, South Korea, Spain, Thailand, and the United Kingdom. China's bilateral investment agreements cover expropriation, arbitration, most-favored-nation treatment, and repatriation of investment proceeds. They are generally regarded as weaker than the investment treaties the United States seeks to negotiate.

China maintains 14 Free Trade Agreements (FTAs) with its trade and investment partners, and is negotiating or implementing an additional eight FTAs. China's FTA partners are ASEAN, Singapore, Pakistan, New Zealand, Chile, Peru, Costa Rica, Iceland, Switzerland, Hong Kong, Macao, and Taiwan. China has also recently signed FTAs with Korea and Australia, both of which include a chapter on investment.

Web Resources

For a comprehensive list of accredited technical committees in China

For a complete list of products required to obtain China Compulsory Certification

For free notifications of proposed technical regulations and standards

For information regarding rules of importation from AQSIQ, including a very useful map with links to local bureaus of entry-exit and quarantine

Investment Climate Statement

Executive Summary

China has a more restrictive foreign investment climate than its major trading partners, including the United States. While China remains a top destination for foreign direct investment, many sectors of its economy are closed to foreign investors. China continues to rely on an investment catalogue to encourage foreign investment in some sectors of the economy while restricting or prohibiting investment in many others. China's investment approval regime shields inefficient and monopolistic Chinese enterprises—especially state-owned enterprises (SOEs) and other national champions—from competition. Foreign investors are hampered by discriminatory practices, selective regulatory enforcement, licensing barriers, and the lack of an independent judiciary. Other challenges include poor intellectual property rights (IPR) enforcement, forced technology transfer, and a systemic lack of rule of law. Moreover, many of China's industrial policy goals, including the 13th Five Year Plan and Made in China 2025, inherently discriminate against foreign companies and brands by favoring local products in key high-tech and advanced manufacturing sectors.

U.S. companies and industry associations are increasingly vocal in their criticism of China's discriminatory investment regime. A 2017 business climate survey by the American Chamber of Commerce in China found over 60 percent of U.S. businesses surveyed felt China would be unlikely in the next three years to carry out needed reforms to provide greater market access to foreign companies; 81 percent felt China's business climate had deteriorated and become less friendly to U.S. investors in the last year.

In 2016, the Chinese leadership pledged to gradually improve the investment climate through:

- Intensification of U.S.-China Bilateral Investment Treaty (BIT) negotiations covering "pre-establishment" market access and using a "negative list" approach, with the aim of a high-standard agreement reflecting non-discrimination, transparency, and open and liberalized investment regimes on both sides.
- Implementation of staggered "negative lists" to govern investment throughout the country, including: a pilot market access negative list applicable to both domestic and foreign investors; an updated draft Catalogue for the Guidance of Foreign Investment in Industries, which proposes new liberalization in 20 investment sectors; and the announced expansion of the Free Trade Zone (FTZ) pilot foreign investment negative list to include seven new FTZs (for a total of eleven) that will go into effect in 2017.

Although Chinese officials continue to promise economic reforms that will provide greater market access and protection to foreign investors, announcements are met with skepticism due to lack of details and timelines. Investors also cite inconsistent regulations, growing labor costs, licensing and registration problems, shortages of qualified employees, insufficient intellectual property protections, and other forms of Chinese protectionism as contributing to China's deteriorating business climate.

Key Transparency Indicators of China's Economy

Measure	Year	
TI Corruption Perceptions	2016	79 of 175
World Bank "Ease of Doing Business" Report	2016	78 of 190
Global Innovation Index	2016	25 of 128
U.S. FDI in partner country	2015	U.S. $74.56 Billion
World Bank GNI per capita	2015	U.S. $7,930

Openness to and Restrictions upon Foreign Investment

Policies toward Foreign Direct Investment

China has long relied on foreign investment to develop key sectors of its economy. Although many industries and economic sectors remain restricted or prohibited to foreign investment, government officials recognize the important role that Foreign Direct Investment (FDI) has historically played in China's economic development. They have therefore continued to promise economic reforms to further open up China's economy for foreign investment. According to the Ministry of Commerce (MOFCOM), 2016 saw China's total inward FDI flows rise 4.1 percent from the year prior, to RMB 813.22 billion (U.S. $126 billion). China's sustained high economic growth rate, growing middle class, and the expansion of diverse product demand all contribute to its attractiveness as an FDI destination.

Foreign investors, however, often temper their optimism regarding potential investment returns with uncertainty about China's willingness to offer a level playing field vis-à-vis Chinese competitors. Foreign investors report a range of challenges related to China's current investment climate, including: broad use of industrial policies to protect and promote state-owned and other domestic firms through employing subsidies, preferential financing, and selective enforcement of laws and regulations; restrictions on controlling ownership of foreign entities through equity caps, limited voting rights, limits to foreign participation on companies' board of directors, etc.; weak protection and enforcement of IPR; corruption; discriminatory and non-transparent anti-monopoly enforcement; excessive national or cyber security requirements; and an unreliable legal system lacking transparency and rule of law. The 2015 Anti-Terrorism Law, the Foreign Non-Governmental Organization (NGO) Law, the Cyber Security Law, and other measures impede local Chinese firms (especially banks) from purchasing foreign technology, raising concerns that China has back-tracked on reforms to further open up to foreign investment.

China promotes inward investment through MOFCOM's "Invest in China" website. MOFCOM publishes laws and regulations related to foreign investment, economic statistics, lists of investment projects, relevant news articles, and other relevant information about investing in China. In addition, each region has a provincial-level investment promotion agency through local MOFCOM departments.

Web Resources

American Chamber of Commerce China 2016 American Business in China White Paper
American Chamber of Commerce China 2017 Business Climate Survey

U.S.-China Business Council's China October 2016 Economic Reform Scorecard:
MOFCOM's Investment Promotion Website

Limits on Foreign Control and Right to Private Ownership and Establishment

The Catalogue for the Guidance of Foreign Investment in Industries, or Foreign Investment Catalogue (FIC), governs the "pre-establishment," or market access, phase of investment and establishes whether foreign investment in a particular economic sector or industry is "encouraged," "restricted," or "prohibited." In both the encouraged and restricted categories, the FIC clearly outlines industry sectors that are completely liberalized and those that are open to foreign investment but subject to equity caps, joint ventures requirements, and Chinese national leadership requirements. Encouraged sectors are industries China believes would benefit from foreign investment and technology transfer, often in line with industrial policy goals. Restricted and prohibited sectors are those seen as sensitive, possibly touching on national security concerns, or at odds with the industrial goals of China's economic development plans.

In December 2016, MOFCOM and the National Development and Reform Commission (NDRC) jointly issued for public comment an updated draft of the FIC that proposed reforms to further liberalize 20 sectors of the economy. Of note, the proposed draft FIC changed the header of the restricted and prohibited section to the "nationwide negative list." Foreign investors interested in industries not on the negative list will no longer require pre-approval from MOFCOM, but rather, need only register their investment with MOFCOM.

The proposed revisions in the draft FIC may improve market access in some sectors, but are relatively minor, and revisions affecting investments in industries that have traditionally faced heavy restrictions, such as banking, telecommunications, and cultural industries, fall short of the reform expectations of the U.S. business community. In addition, it is unclear how the updated FIC will be prioritized vis-à-vis other, contradictory industry-based regulations or whether other industrial policies will supersede the version of the FIC that is ultimately published. This uncertainty undermines confidence in the stability and predictability of China's investment climate and impedes foreign investors' future business planning.

Web Resources

The Chinese language version of the 2015 FIC
The Chinese language version of the 2016 draft FIC

Ownership Restrictions

In both the "encouraged" and "restricted" categories of the FIC, certain industries require joint ventures and/or requirements that a company be controlled by Chinese nationals.

For example:

In the oil and natural gas exploration and development industry, foreign investment is required to take the form of equity joint ventures and cooperative joint ventures.

In the accounting and auditing sectors, the Chief Partner of a firm must be a Chinese national.

In higher education and pre-school, foreign investment is only permitted in the form of cooperative joint ventures led by a Chinese partner.

In some sectors, the Chinese partners individually or as a group must maintain control of the enterprise. Examples include: construction and operation of civilian airports, construction and operation of nuclear power plants, establishment and operation of cinemas, and the design and manufacture of civil-use satellites.

In some sectors, the foreign shareholder's proportion of the investment may not exceed a certain percentage. For example, foreign equity ownership is limited to:

- 50 percent in value-added telecom services (excepting e-commerce);
- 49 percent in basic telecom enterprises;
- 50 percent in life insurance firms; and
- 49 percent in security investment fund management companies.

Mandatory joint venture structures and equity caps give Chinese partner firms significant control, often allowing them to benefit from technology transfer. In addition, the relative opacity of the approval process and the broad discretion granted to authorities foster an environment where the Chinese government can impose deal-specific conditions beyond written legal requirements, often with the intent to force technology transfer as a condition of market access or to support industrial policies and the interests of local competitors.

Other Investment Policy Reviews

Organization for Economic Cooperation and Development (OECD)

China is not a member of the OECD. The OECD Council decided to establish a country program of dialogue and co-operation with China in October 1995. The most recent OECD Investment Policy Review for China was completed in 2008. The OECD Investment Policy Review noted that policy changes in China between 2006 and 2008 tightened restrictions on inward direct investment, including cross-border mergers and acquisitions.

OECD 2008 report

In 2013, OECD published a working paper entitled "China Investment Policy: An Update," which provided an update on China's investment policy since the publication of the 2008 Investment Policy Review. The paper noted that while China's economic strength buoys foreign investor confidence, fears of investment protectionism are growing.

World Trade Organization (WTO)

China became a member of the World Trade Organization (WTO) in 2001. WTO membership boosted China's economic growth and advanced its legal and governmental reforms. The most recent WTO Investment Trade Review for China was completed in 2016. The report highlighted key changes between the 2011 and 2015 FIC. In addition, it noted that the foreign investment pilot negative list expanded from the Shanghai FTZ to the FTZs of Tianjin, Fujian, and Guangdong. The trade review also said that China encourages inward FDI, as well as joint ventures between Chinese and foreign companies, particularly in research and development. The report also mentioned that technology transfer, while not a requirement for investment approval, is a practice widely encouraged by Chinese authorities.

WTO Investment Trade Review for China
International Monetary Fund (IMF) information on China
FDI Statistics from MOFCOM

Business Facilitation

Basic business registration procedures in China are difficult. The World Bank ranked China 78th out of 190 economies in terms of ease of doing business and 127th for starting a business. In Shanghai and Beijing, at least 11 procedures are reportedly required to establish a business, with an average timeline of more than 30 days to complete the registration process. Steps to register a business include pre-approval for a company name, a business license approved by the State Administration for Industry and Commerce (SAIC), an organization code certificate with the Quality and Technology Supervision Bureau, registration with the provincial and local tax bureaus, a company seal issued by the police department, registration with the local statistics bureau, a local bank account, the authorization to print or purchase invoices and receipts, and registration with the Ministry of Human Resources and Social Security, as well as with the Social Welfare Insurance Center.

The Government Enterprise Registration (GER), an initiative of the United Nations Conference on Trade and Development (UNCTAD), gave China a score of 1.5 out of 10 on its website for registering and obtaining a business license. SAIC is the main government body that approves business licenses, and according to GER, SAIC's website lacks even basic information, such as what to do and how to do it.

Recently, the State Council—China's cabinet—has tried to reduce red tape by eliminating hundreds of administrative licenses and delegating administrative approval power across a range of sectors. The number of investment projects subject to central government approval has reportedly dropped more than 75 percent. The State Council also has set up a website in English, which is more user-friendly than SAIC's website, to help foreign investors looking to do business in China:

MOFCOM's Department of Foreign Investment Administration is responsible for foreign investment promotion in China.

Despite efforts to streamline business registration procedures, foreign companies still continue to complain about the many challenges of setting up a business, including the process of registration and obtaining administrative licenses. Numerous companies offer consulting, legal, and accounting services for establishing wholly foreign-owned enterprises, partnership enterprises, joint ventures, and representative offices. The differences among these corporate entities are significant, and investors should review their options carefully with an experienced advisor before choosing a particular corporate entity or investment vehicle.

Outward Investment

In 2001, China initiated a "going-out" investment strategy for SOEs to go abroad to acquire foreign assets and gain greater access to foreign markets. Over time, this policy has evolved to include both state and private Chinese companies in a diversified number of economic sectors. Today, China is one of the largest outbound direct investors in the world and invested over U.S. $200 billion globally in 2016 alone, according to the Rhodium Group, a leading private sector analyst of U.S.-China bilateral investment. China's preferred investment location is the United States, where it invested over U.S. $45 billion in 2016, almost triple 2015 investment, according to Rhodium reports.

Chinese officials support foreign investment opportunities that help China move up the manufacturing value chain by acquiring advanced manufacturing and high-technology capabilities that can be transferred back to China. This emphasis is stressed in both the 13th Five Year Plan and the Made in China 2025 policy that aims to transform China's economy to better compete against advanced economies in 10 key high-tech sectors, including: new energy vehicles, next-generation IT, biotechnology, new materials, aerospace, oceans engineering and ships, railway, robotics, power equipment, and agriculture machinery. Chinese government officials provide preferred financing, subsidies, and access to an opaque network of investors to promote and provide incentives for outbound investment in key sectors.

While China continues to push for value-added outbound acquisitions, in November 2016, Chinese officials at the State Administration for Foreign Exchange (SAFE) issued guidelines that regulate foreign currency outflow for investments considered financial in nature or investments deemed "illogical" because the investment falls outside the core business of the acquiring company. In other words, investments made strictly for the purpose of financial returns, like commercial real estate, or investments where a company enters a completely different economic sector than it currently operates, will receive greater scrutiny from Chinese regulators. These guidelines were intended to slow the momentum of China's shrinking foreign currency reserves, in part brought about by a surge in outbound investment that, starting in Q3 2015, has exceeded capital inflows from foreign direct investment. Experts attribute China's shrinking foreign currency reserves to two factors. First, as China's GDP has slowed down, the quality of investment opportunities in China that yield a high return have diminished, making foreign investors less likely to invest in China and causing Chinese investors to look overseas to other markets with better return potential. Second, Chinese investors expect the RMB will continue to depreciate over time, which makes holding RMB-denominated investments less attractive than investments made in U.S. dollars and other foreign currencies. In an attempt to diversify assets into different currencies, Chinese household and company investments have fled to quality destinations like the United States and Europe.

Bilateral Investment Agreements

China has bilateral investment agreements with over 100 countries and economies, including: Austria, the Belgium-Luxembourg Economic Union, Canada, France, Germany, Italy, Japan, South Korea, Spain, Thailand, and the United Kingdom. China's bilateral investment agreements cover expropriation, arbitration, most-favored-nation treatment, and repatriation of investment proceeds. They are generally regarded as weaker than the investment treaties the United States seeks to negotiate.

The United States and China were actively engaged in BIT negotiations from October 2012 until January 2017.

In addition to bilateral investment agreements, China also has 14 Free Trade Agreements (FTAs) with its trade and investment partners. It is negotiating an additional nine FTAs and researching six more potential FTAs. China's FTA partners are ASEAN, Singapore, Pakistan, New Zealand, Chile, Peru, Costa Rica, Iceland, Switzerland, Hong Kong, Macao, and Taiwan. China has also recently signed FTAs with Korea and Australia, both of which include a chapter on investment. The United States and China concluded a bilateral taxation treaty in 1984.

Legal Regime

Transparency of the Regulatory System

In China's complex legal and regulatory system, regulators and other government authorities inconsistently enforce regulations, rules, and other regulatory guidelines. Foreign investors rank inconsistent and arbitrary regulatory enforcement, along with the lack of transparency, among the major problems of doing business in China. Government-controlled trade organizations and regulatory bodies set standards that often ignore Chinese transgressors while strictly enforcing regulations against targeted foreign companies. In China's regulatory system, different agencies at both the central and local levels issue rules and regulations that impact foreign businesses in certain geographical areas and in certain industries. Some of these rules are only guidelines that are not necessarily considered part of the legal code. Because all of these regulations and guidelines could potentially impact foreign investors, foreign companies often feel overburdened by a complex regulatory system rife with contradictions and inconsistencies. Knowing how to apply central versus local rules, for example, is a common complaint of U.S. businesses that are both confused by and lack confidence in the regulatory system.

In accordance with China's WTO accession commitments, the State Council's Legislative Affairs Office (SCLAO) issued instructions to Chinese agencies to publish all foreign trade and investment-related laws, regulations, rules, and policy measures in the MOFCOM Gazette. Chinese agencies rarely meet these commitments. In addition, the State Council has issued Interim Measures on Public Comment Solicitation of Laws and Regulations and a Circular on Public Comment Solicitation of Department Rules, which require government agencies to post proposed trade and economic-related administrative regulations and departmental rules on the official SCLAO website for 30-day public comment period. Officials have publicly confirmed that these documents are legally binding. However, despite these efforts, ministries under the State Council continue to post only some of the draft administrative regulations and departmental rules on the SCLAO website. When drafts are published, they often are available for comment for less than the required 30 days.

While not provided for in China's Law on Legislation, the State Council and ministries under the State Council also issue "normative documents" (opinions, circulars, notices, etc.), which are a form of quasi-regulation to implement applicable law, regulations, and rules when further specificity is necessary, or when there is no governing law. The U.S. business community reports that Chinese ministries often impose new requirements on companies through the issuance of a normative document, which, unlike the formal rulemaking process, does not necessitate a public comment period.

Proposed regulations are often drafted without using scientific studies or quantitative analysis to assess the regulation's impact. When an assessment is made, the results and methodology of the study are not made available to the public. Third parties are asked to comment on draft regulations, but it is unclear what impact the comments have on the final regulation. This lack of transparency adds to foreign investor perceptions that industrial policy goals and other anticompetitive factors are driving forces behind China's regulatory regime.

Chinese state actions are strongly motivated by the perceived need to protect social stability and/or achieve other political goals, many times at the detriment of foreign investors. The opaque relationship between the Chinese government, Chinese companies, and the Communist Party often makes it impossible to know where decisions originate. An example of these blurred lines is the existence of Self-Regulatory Organizations (SROs) that are responsible for certain licensing decisions. In the financial sector, Chinese financial institutions that are members of these same SROs can decide on the license applications of foreign firms. If a license decision might threaten a Chinese firm's competitive position in the domestic market, there may be incentives to disapprove the license. For this reason, foreign firms are concerned that decisions may be made based on non-transparent and discriminatory licensing procedures.

Access to foreign online resources—including news, cloud-based business services, and virtual private networks (VPNs)—are increasingly restricted without official acknowledgement or explanation. Foreign-invested companies have also reported threats of retaliation by government regulators for actions taken by the United States and other foreign governments at the WTO or other legal forums.

For accounting standards, Chinese companies must use the Chinese Accounting Standards for Business Enterprises (ASBE) for all financial reporting within mainland China. Companies listed overseas (including in Hong Kong) may choose to use ASBE, the International Financial Reporting Standards (IFRS), or Hong Kong Financial Reporting Standards (HKFRS).

International Regulatory Considerations

China has been a member of the WTO since 2001. As part of its ascension agreement, China agreed to notify the WTO Committee on Technical Trade of all draft technical regulations. Compliance with this WTO commitment is something Chinese officials continue to promise in different dialogues with U.S. government officials.

Legal System and Judicial Independence

The Chinese court system is based on a civil law model that borrowed from the legal systems of Germany and France. Modified to account for local characteristics in China, the rules governing commercial activities are present in various laws, regulations, and judicial interpretations, including China's civil law, contractual law, partnership enterprises law, security law, insurance law, enterprises bankruptcy law, labor law, and Supreme People's Court (SPC) Interpretation on Several Issues Regarding the Application of the Contract Law. China does not have specialized commercial courts, but in 2014, began a three-year pilot program to establish three IPR courts in Beijing, Guangzhou, and Shanghai; in addition, courts throughout China often have specialized IPR "tribunals" to hear disputes.

China's Constitution provides a legal basis for courts to independently exercise adjudicative power, and several laws have provisions stating courts are not subject to interference by administrative organs, public organizations, and/or individuals. However, the Constitution also emphasizes the "leadership of the Communist Party." In practice, China's court system is not independent of government agencies or the Chinese Communist Party (CCP), which often intervene in disputes. Interference takes place for many reasons, including:

- Courts fall under the jurisdiction of local governments;
- Court budgets are appropriated by local administrative authorities;
- Judges in China have administrative ranks and are managed as administrative officials;
- The CCP is in charge of the appointment, dismissal, transfer, and promotion of administrative officials;
- China's Constitution stipulates local legislatures appoint and supervise the courts; and
- Corruption may also influence local court decisions.

The U.S. business community consistently reports that Chinese courts, particularly at lower levels, are susceptible to outside political influence (particularly from local governments), lack the sophistication to understand complex commercial disputes, and operate without transparency. U.S. companies often avoid challenging administrative decisions or bringing commercial disputes before a local court for fear of future retaliation.

Reports of business disputes involving violence, death threats, hostage-taking, and travel bans involving Americans continue to be prevalent, although American citizens and foreigners in general do not appear to be more likely than Chinese nationals to be subject to this treatment. Police are often reluctant to intervene in what they consider internal contract disputes.

Laws and Regulations on Foreign Direct Investment

China's legal and regulatory framework provides discretion to promote investment in specific industries and geographic regions and to restrict foreign investment not considered in China's national interests. Laws and regulations with undefined key terms and standards allow for inconsistent application by different agencies and localities. As a result, China has in place investment restrictions that are broader than developed countries, including the United States.

Despite repeated calls by Chinese leadership to strengthen the rule of law in China, foreign investors often point out that weaknesses in the legal system allow regulators to inconsistently apply and interpret laws and regulations. This diminishes the predictability of China's business environment and has created a feeling among U.S. investors that the Chinese legal system discriminates against them.

China's current foreign investment regime is based on three central laws: the China-Foreign Equity Joint Venture Enterprise Law, the China-Foreign Cooperative Joint Venture Enterprise Law, and the Foreign-Invested Enterprise (FIE) Law. Multiple administrative regulations and regulatory documents issued by the State Council are derived from these three laws, including:

- Implementation Regulations of the China-Foreign Equity Joint Venture Enterprises Law;
- Implementation Regulations of the China-Foreign Cooperative Joint Venture Enterprise Law;

- Implementation Regulations of the FIE Law;
- State Council Provisions on Encouraging Foreign Investment;
- Provisions on Guiding the Direction of Foreign Investment; and
- Administrative Provisions on Foreign Investment to Telecom Enterprises.

There are also over 1,000 rules and regulatory documents related to foreign investment in China and issued by government ministries, including:

- the FIC;
- Provisions on Mergers & Acquisition of Domestic Enterprises by Foreign Investors;
- Administrative Provisions on Foreign Investment in Road Transportation Industry;
- Interim Provisions on Foreign Investment in Cinemas;
- Administrative Measures on Foreign Investment in Commercial Areas;
- Administrative Measures on Ratification of Foreign Invested Projects;
- Administrative Measures on Foreign Investment in Distribution Enterprises of Books, Newspapers and Periodicals;
- Provision on the Establishment of Investment Companies by Foreign Investors; and
- Administrative Measures on Strategic Investment in Listed Companies by Foreign Investors.

Local legislatures and governments also enact their own regulations, rules, and guidelines that directly impact foreign investment in their geographical area. Examples of local regulations include the Wuhan Administration Regulation on Foreign-Invested Enterprises and Shanghai's Municipal Administration Measures on Land Usage of Foreign-Invested Enterprises.

A list of Chinese laws and regulations, at both the central and local levels can be found online.

FDI Laws on Investment Approvals

China approves foreign investments on a case-by-case basis. China claims to provide foreign investors with "national treatment," or treatment no less favorable than the treatment it gives to domestic investors, after an investment has been established. The process varies based on industry and investment type, with overall low transparency.

Foreign investors are required to obtain approvals for establishing an enterprise and undertaking an investment project. MOFCOM pre-approval is not required for an investment not listed in the "restricted" or "prohibited" sections of the FIC, but foreign investors still need to register the investment with MOFCOM. That being said, the mere fact that an investment category is not on the FIC negative list does not guarantee approval, as other steps and approvals may be required. In some industries, such as telecommunications, foreign investors are also required to get approval from industry regulators like the Ministry of Industry and Information Technology.

In July 2004, the State Council issued the Decision on Investment Regime Reform and the Catalogue of Investment Projects subject to Government Ratification (Ratification Catalogue). According to the Ratification Catalogue, all proposed foreign investment projects in China must be submitted for "review and ratification" by the NDRC, or provincial or local

Development and Reform Commissions, depending on the sector and value of the investment. In 2013, however, the government issued a new catalogue to narrow the scope of foreign investment projects subject to NDRC ratification. An "encouraged" investment under the FIC that does not require a Chinese controlling interest, and is in a sector not listed on the Ratification Catalogue, only needs to be "filed for record" with the local NDRC office. This policy shift marked a positive step toward easing bureaucratic barriers to foreign investment.

In November 2014, China released an updated edition of the Ratification Catalogue, which eliminated NDRC ratification requirements for 15 new sectors and delegated ratification authority to local governments in 23 additional sectors. In several new sectors, the new Ratification Catalogue also raised the threshold of foreign ownership that would trigger the requirement for NDRC approval. When announcing the reforms, NDRC stated the goal of the latest revision to the Ratification Catalogue was to limit ratification to projects relating to "national and ecological security, geographic and resource development," and the "public interest." NDRC estimates that revisions made to the Ratification Catalogue over the past several years would reduce the number of projects requiring ratification from central government authorities by 76 percent.

The NDRC approval process for foreign investment projects also includes assessing the project's compliance with China's laws and regulations; its compliance with the FIC and industrial policy; its national security, environmental safety, and public interest implications; its use of resources and energy; and its economic development ramifications. In some cases, NDRC also solicits the opinions of relevant Chinese industrial regulators and "consulting agencies," which may include industry associations that represent Chinese domestic firms. This presents potential conflicts of interest that can disadvantage foreign investors seeking to receive project approval. The State Council may also weigh in on high-value projects in "restricted" sectors.

After receiving NDRC approval for the investment project and either notifying or applying for approval for an investment from MOFCOM, investors next apply for a business license with the SAIC. Once a license is obtained, the investor registers with China's tax and foreign exchange agencies. Greenfield investment projects must also seek approval from China's Environmental Protection Ministry and its Ministry of Land Resources. The specific approvals process may vary from case to case, depending on the details of a particular investment proposal and local rules and practices.

U.S. Chamber of Commerce report on Approval Process for Inbound Foreign Direct Investment

Antitrust Review

For investments made via merger or acquisition with a Chinese domestic enterprise, an antimonopoly review and national security review may be required by MOFCOM if there are concerns about the foreign transaction. The anti-monopoly review is detailed in a later section on competition policy.

Article 12 of MOFCOM's Rules on Mergers and Acquisitions of Domestic Enterprises by Foreign Investment stipulates that parties are required to report a transaction to MOFCOM if:

- Foreign investors obtain actual control, via merger or acquisition, of a domestic enterprise in a key industry;
- The merger or acquisition affects or may affect "national economic security"; or
- The merger or acquisition would cause the transfer of actual control of a domestic enterprise with a famous trademark or a Chinese time-honored brand.

If MOFCOM determines that the parties did not report a merger or acquisition that affects or could affect national economic security, it may, together with other government agencies, require the parties to terminate the transaction or adopt other measures to eliminate the impact on national economic security.

National Security Review

In February 2011, China released the State Council Notice Regarding the Establishment of a Security Review Mechanism for Foreign Investors Acquiring Domestic Enterprises. The notice established an interagency Joint Conference, led by NDRC and MOFCOM, with the authority to block foreign mergers and acquisitions of domestic firms that it believes may impact national security. The Joint Conference is instructed to consider not just national security, but also "national economic security" and "social order" when reviewing transactions. China has not disclosed any instances in which it invoked this formal review mechanism.

Local commerce departments are responsible for flagging transactions that require a national security review when they review them in an early stage of China's foreign investment approval process. Some provincial and municipal departments of commerce have published online a Security Review Industry Table listing non-defense industries where transactions may trigger a national security review, but MOFCOM has declined to confirm whether these lists reflect official policy. In addition, third parties such as other governmental agencies, industry associations, and companies in the same industry can seek MOFCOM's review of transactions, which can pose conflicts of interest that disadvantage foreign investors. Investors may also voluntarily file for a national security review.

Foreign Investment Law

In January 2015, MOFCOM proposed for public comment a new Foreign Investment Law. This law, if enacted, would unify and supersede the three governing foreign investment laws established by the State Council. It also would abolish the case-by-case approval system for foreign investment and replace it with a system that treats foreign investment the same as domestic investments, except in the limited number of industries enumerated on the "negative list." The draft law calls for streamlining the approval process for foreign investment in some sectors, but contains a number of troubling provisions—e.g., broadening the definition of foreign investor, expanding the role of the national security review mechanism, increasing reporting requirements, and threatening the structure of variable interest entities (VIEs)—that could facilitate discriminatory treatment against foreign investment. To date, there have been no new announcements about a future release of the Foreign Investment Law or a timeline for its implementation.

In addition to transforming the current foreign investment regime, the aforementioned MOFCOM draft Foreign Investment Law would also establish a broad and potentially intrusive national security review mechanism. As it is currently envisaged, the national security review could be used to hinder market access and increase the financial burden of foreign investment in China.

Free Trade Zones – Negative List Approach

In April 2015, the State Council issued a General Plan for the FTZs in Tianjin, Guangdong, and Fujian that offers national treatment for the "pre-establishment," or market access, phase of investment, except as otherwise provided under a negative list. The State Council-issued negative list for these FTZs contains 85 measures restricting foreign investment and 37 measures forbidding foreign investment. Together, this negative list has 17 fewer measures than the negative list adopted in the Shanghai FTZ in 2014 and 68 fewer measures than Shanghai FTZ's 2013 negative list. Nevertheless, while the number of discriminatory measures declined, the most recent negative list includes no commercially significant openings for foreign investment.

China also issued in 2015 the Interim Measures on the National Security Review of Foreign Investment in Free Trade Zones. The definition of "national security" is broad, implicating investments in military, national defense, agriculture, energy, infrastructure, transportation, culture, information technology products and services, key technology, and manufacturing.

In addition, MOFCOM issued the Administrative Measures for the Record-Filing of Foreign Investment in Free Trade Zones, outlining the streamlined process that foreign investors need to follow to register investments in the FTZs.

Competition and Anti-Trust Laws

China uses a complex system of laws, regulations, and agency specific guidelines at both the central and provincial level that impacts an economic sector's makeup, sometimes as a monopoly, near-monopoly, or authorized oligopoly. These measures are particularly common in resource-intensive sectors such as electricity and transportation, as well as in industries seeking unified national coverage like fixed-line telephony and postal services. The measures also target sectors the government deems vital to national security and economic stability, including defense, energy, and banking. Examples of such laws and regulations include the Law on Electricity (1996), Civil Aviation Law (1995), Regulations on Telecommunication (2000), Postal Law (1986), Railroad Law (1991), and Commercial Bank Law (amended in 2003), among others.

Anti-Monopoly Law

China's Anti-Monopoly Law (AML) went into effect on August 1, 2008. The AML delegates antitrust enforcement to three agencies: MOFCOM to review concentrations (mergers and acquisitions); the NDRC to review cartel agreements, abuse of dominant position, and abuse of administrative powers centered on product pricing; and the SAIC to review the same types of activities as NDRC when those activities are not directly price-related. In addition, the AML established the Anti-Monopoly Commission to provide oversight, expertise, and coordination among different stakeholders and enforcement agencies. After the AML was enacted, the need to clarify parts of the law became apparent, leading MOFCOM, NDRC, SAIC, and other Chinese government ministries and agencies to formulate implementing guidelines, departmental rules, and other measures. Generally, the AML enforcement agencies have sought public comment on proposed measures and guidelines, although comment periods can be less than 30 days.

In 2015, the CCP Central Committee and State Council declared that all future economic policies would reflect China's competition policy. In 2016, the three AML enforcement agencies drafted guidelines on six enforcement areas: anti-monopoly guidelines for the automobile industry, guidelines on determining illegal incomes and fines, guidelines on the "leniency" system in horizontal monopoly agreements, guidelines on AML settlement cases, guidelines for intellectual property abuse, and guidelines on monopolistic agreement exemptions. In addition, the State Council in June 2016 introduced guidelines on the Fair Competition Review Mechanism that targets administrative monopolies at the local level and requires agencies to first conduct a fair competition review to certify that new measures do not inhibit competition, prior to issuing new policies, laws, and guidelines. While it is too early to tell the extent to which the Fair Competition Review Mechanism will break down China's pervasive administrative monopolies, Chinese academics in particular are optimistic that this development signals a more prominent role for competition in future economic decisions.

While China's antitrust law developments are seen as generally positive, China's actual enforcement of competition laws and regulations is uneven. Inconsistent central and provincial enforcement often will exacerbate local protectionism by restricting inter-provincial trade, limiting market access for certain imported products, using measures that raise production costs, and limiting opportunities for foreign investment. Government authorities at all levels in China may also restrict competition to insulate favored firms from competition through various forms of regulations and industrial policies. The ultimate benefactor of such policies is often unclear; however, foreign companies have expressed concern that the central government's use of AML enforcement is often selectively used to target foreign companies, becoming an extension of other industrial policies that favor SOEs and Chinese companies deemed potential "national champions."

Since the AML went into effect, the number of merger and acquisition transactions MOFCOM has reviewed each year has continued to grow. According to MOFCOM statistics, in 2016 alone, MOFCOM completed an AML review for 395 cases (a 19 percent year-on-year increase), with the majority of cases coming from manufacturing industries like semi-conductors, telecommunications, and other high-end manufacturing. Of these reviewed cases, 82 percent were finished in the initial 30-day review period. Since AML's inception, the vast majority (over 80 percent) of cases "conditionally" approved have involved offshore transactions between foreign parties. The other "conditional" cases involved foreign companies merging with Chinese enterprises. Observers have expressed concerns about the speed and inconsistent application of the review process, along with suspicions that Chinese regulators rarely approve "on condition" transactions involving two Chinese companies, thus signaling an inherent AML bias against foreign enterprises. MOFCOM has stated it will enforce the requirement that Chinese firms, in addition to foreign firms, notify regulators of proposed mergers and acquisitions for review.

In 2016, foreign companies expressed fewer complaints than in previous years about NDRC's AML investigations. Some experts said leadership changes at NDRC improved enforcement practices, including introduction of a more balanced approach to investigations which looks into Chinese companies more often than foreign enterprises. NDRC has also made progress in AML enforcement transparency by releasing aggregate data on investigations and publicizing case decisions. That said, many foreign companies still worry about future "dawn raids" and express concerns that NDRC regulators, along with SAIC and MOFCOM, can at any time use competition law to promote China's industrial policy goals by targeting foreign firms to limit competition.

In bilateral dialogues, China continues to express its commitment to protect and enforce IPR across a range of industry sectors. Chinese officials are also in the process of clarifying AML guidelines that address areas where IPR and AML intersect, such as forcing foreign companies to license IPR technology to local companies at a "fair" price that does not violate a company's "dominant market position." Chinese officials also reiterated the need for AML agencies to be free from intervention from other government agencies. Lastly, Chinese officials committed to protecting commercial secrets obtained during AML proceedings. Despite the dialogues, U.S. companies remain concerned about IPR protections, along with the lack of independence of AML agencies from outside influences.

How the AML applies to SOEs and government monopolies in certain industries also is unclear. While language in the AML protects the lawful operations of SOEs and government monopolies in industries deemed nationally important, all three AML enforcement agencies have publicly stated the law does apply to SOEs. All three additionally claim to have pursued some enforcement action, albeit small, against SOEs. Given the prominent role of SOEs in China's economic structure, along with the CCP's proactive orchestration of mergers in key industries like rail, marine shipping, metals, and other strategic sectors, concerns persist that enforcement against SOEs will remain limited. These mergers in key industries have been criticized for further insulating SOEs from both domestic and foreign competition, leading to higher prices for Chinese consumers and more concentrated market power post-merger.

Expropriation and Compensation

Chinese law prohibits nationalization of FIEs, except under "special" circumstances. Chinese officials have said these circumstances include national security and when an investment presents an obstacle to achieving a large civil engineering project, but the law does not define these special circumstances. Chinese law requires compensation of expropriated foreign investments, but does not explain what method to use or the formula to calculate the value of the foreign investment. The Department of State is not aware of any cases since 1979 in which China has expropriated a U.S. investment, although the Department has notified Congress through the annual 527 Investment Dispute Report of several cases of concern.

Dispute Settlement

ICSID Convention and New York Convention

China is a member of the International Center for the Settlement of Investment Disputes (ICSID) and has ratified the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention). The domestic legislation that provides for enforcement of foreign arbitral awards related to these two Conventions include the Arbitration Law adopted in 1994, the Civil Procedure Law adopted in 1991 (later amended in 2012), the Law on Chinese-Foreign Equity Joint Ventures adopted in 1979 (amended most recently in 2001), and a number of other laws with similar provisions. China's Arbitration Law has embraced many of the fundamental principles of The United Nations Commission on International Trade Law's Model Law on International Commercial Arbitration.

Investment and Commercial Disputes in the Chinese Legal System

Chinese officials typically urge firms to resolve disputes through informal conciliation. If formal mediation is necessary, Chinese parties and the authorities typically promote arbitration over litigation. Many contract disputes require arbitration by the China International Economic and Trade Arbitration Commission (CIETAC). Established by the State Council in 1956 under the auspices of the China Council for the Promotion of International Trade (CCPIT), CIETAC is China's most widely-utilized arbitral body for foreign-related disputes. Some foreign parties have obtained favorable rulings from CIETAC, while others question CIETAC's fairness and effectiveness.

CIETAC is based in Beijing and has four sub-commissions in Shanghai, Shenzhen, Tianjin, and Chongqing. In 2012, CCPIT, under the authority of the State Council, issued new arbitration rules that granted CIETAC headquarters significantly more authority to hear cases than the sub-commissions. Expecting a loss in revenue, CIETAC Shanghai and CIETAC Shenzhen declared their independence, issued their own rules, and changed their names. As a result, CIETAC disqualified its former Shanghai and Shenzhen affiliates from administering arbitration disputes.

This jurisdictional dispute between CIETAC in Beijing and the former sub-commissions raised serious concerns among the U.S. business and legal communities, particularly regarding the validity of arbitration agreements specifying particular arbitration procedures and the enforceability of arbitral awards issued by the sub-commissions. In 2013, the SPC issued a notice clarifying that any lower court that hears a case arising out of the CIETAC split must report the case to the SPC before making a decision. However, the SPC notice is brief and lacks detail on certain issues, including the timeframe for the lower court's decision to reach the SPC and for the SPC to issue its opinion.

Other arbitration commissions exist and are usually affiliated with the government at the provincial or municipal level. The Beijing Arbitration Commission and the Shanghai Arbitration Commission have emerged as serious domestic competitors to CIETAC. For contracts involving at least one foreign party, offshore arbitration may be adopted. Foreign companies often encounter challenges in enforcing arbitration decisions issued by Chinese and foreign arbitration bodies. Investors may appeal to higher courts in such cases.

The Chinese government and judicial bodies do not maintain a public record of investment disputes. The SPC maintains a count of the annual number of cases involving foreigners tried throughout China, but does not specify the types of cases, identify civil or commercial disputes, or note foreign investment disputes. Rulings in some cases are open to the public.

Although it has not concluded a BIT with the United States, China has bilateral investment agreements with over 100 countries and economies. The majority of these agreements set mediation, domestic remedies, and international arbitration as the means to settle disputes. However, investor-state disputes leading to arbitration are rare in China.

International Commercial Arbitration and Foreign Courts

There are few precedents where Chinese courts have recognized and enforced foreign court judgments. Articles 281 and 282 of China's Civil Procedure Law cover the recognition and enforcement of the effective judgments of foreign courts by the court system in China. According to these laws, if the Chinese courts determine validity of a claim, after reviewing the foreign courts' judgments, China's treaty obligations, reciprocity principles, basic principles of Chinese laws, China's sovereignty, security, and social public interests, the Chinese courts shall issue verdicts to recognize the effectiveness of foreign court judgments and issue enforcement orders if enforcement is needed. China has concluded 27 bilateral agreements on the recognition and enforcement of foreign court judgments, but none with the United States. China's recognition of judgments by U.S. courts can be inconsistent, according to anecdotal reports.

Article 270 of China's Civil Procedure Law states that time limits in civil cases do not apply to cases involving foreign investment. According to the 2012 CIETAC Arbitration Rules, in an ordinary procedure case, the arbitral tribunal shall render an arbitral award within six months (in foreign-related cases) from the date on which the arbitral tribunal is formed. In a summary procedure case, the arbitral tribunal shall make an award within three months from the date on which the arbitral tribunal is formed.

Bankruptcy Regulations

China's primary bankruptcy legislation is the Enterprise Bankruptcy Law, which was promulgated on August 27, 2006 and took effect on June 1, 2007. The 2007 law applies to all companies incorporated under Chinese laws and regulations, including private companies, public companies, SOEs, FIEs, and financial institutions. It is commensurate with developed countries' bankruptcies laws and provides for potential reorganization or restructuring rather than liquidation. Due to uncertainty about authorities and procedures, lack of implementation guidelines, and the limited number of cases providing precedent, the law has never been fully enforced, and most corporate debt disputes are settled through negotiations led by local governments. The potential for local government interference, along with corporate fears of losing control, disincentivize companies from pursuing bankruptcy proceedings. Chinese courts lack capacity to handle bankruptcy cases, and bankruptcy administrators, clerks, and judges all lack experience.

In the October 2016 State Council Guiding Opinion on Reducing Enterprises' Leverage Ratio, bankruptcy was identified as a tool to manage China's corporate debt problems. This was consistent with increased government rhetoric throughout the year in support of bankruptcy. For example, in June 2016, the SPC issued a notice to establish bankruptcy divisions at intermediate courts and to increase the number of judges and support staff to handle liquidation and bankruptcy issues. On August 1, the SPC also launched a new bankruptcy and reorganization electronic information platform.

Although still relatively small, the number of bankruptcy cases began to pick up starting in 2015, with the government announcing in 2016 several high-profile SOE bankruptcies. The SPC reported that in 2016, 5,665 bankruptcy cases were accepted by the Chinese courts and 3,602 cases were closed, representing a 53.8 percent year-on-year increase from 2015, when only 3568 cases were accepted. Most bankruptcy cases are still resolved through liquidation due to long delays, but 1,041 cases were resolved through reorganization, an 85 percent increase from 2015. Since the fall of 2016, 73 new specialized bankruptcy tribunals were founded, along with the SPC issuing several implementing measures to improve bankruptcy procedures.

Industrial Policies

Investment Incentives

Different localities court foreign investors by providing preferential packages like reduced income taxes, resources and land use benefits, reduced import/export duties, special treatment in obtaining basic infrastructure services, streamlined government approvals, and funding for initial startup. These packages may stipulate export, local content, technology transfer, and other requirements as part of the preferred investment package. These localities offer preferential treatment in special economic zones (like Shanghai, Tianjin, Fujian, and Guangdong), development zones, and science parks. China in 2016 announced seven additional FTZs (Chongqing, Zhejiang, Hubei, Henan, Sichuan, Shaanxi, and Liaoning), to begin operating in 2017. These new economic zones are a shift from prior FTZs because they target inland areas in need of economic development and areas that are consistent with Chinese officials' call for greater foreign investment in Central and Western China. China also uses the Catalogue of Priority Industries for Foreign Investment in Central and Western China to provide greater market access to foreign investors in inland areas of mainland China, so as to spur investment.

There are no expressed prohibitions against foreign firms participating in research and development programs financed by the Chinese government. In fact, for certain sectors where China lacks the capacity and expertise to conduct advanced research or supply advanced technology in a given field, foreign participation is generally encouraged and solicited. This is part of China's stated goal of moving up the manufacturing value chain and transforming China's economy to a model driven by innovative growth. However, there are a large number of sectors that China deems sensitive due to broadly defined national security concerns, including "economic security," which can effectively close off foreign investment to those sectors.

Foreign Trade Zones/Free Ports/Trade Facilitation

China's principal customs-bonded areas include Shanghai, Tianjin, Shantou, three districts within Shenzhen (Futian, Yantian, and Shatoujiao), Guangzhou, Dalian, Xiamen, Ningbo, Zhuhai, and Fuzhou. Besides these official duty-free zones identified by China's State Council, numerous economic development zones and open cities offer similar privileges and benefits to foreign investors.

In September 2013, the Shanghai Municipal government and the State Council announced the establishment of the Shanghai Pilot FTZ, which condensed four previously existing bonded areas into a single FTZ. In April 2015, the State Council expanded the number of FTZs to include Tianjin, Guangdong, and Fujian, although the Shanghai FTZ remains the largest of the four. The goal of the FTZs is to provide a trial ground for trade and investment liberalization measures and to introduce service sector reforms, especially in financial services, that China expects to eventually introduce in other parts of the domestic economy.

In particular, Chinese officials tout the use of a "negative list" – that is, a list expressly identifying sectors where national treatment does not apply – as a key reform introduced in the FTZs. On April 20, 2015, the State Council published a revised negative list to supersede the 2014 list. The 2015 list regulates trade and investment in all four FTZs, reducing the number of excluded items to 122 (down from a high of 190 items when the list was first rolled out in 2013). Major sectors in which restrictions have been lifted include manufacturing, construction, wholesale and retail, information technology services, financial services, real estate, and business services.

In 2016, the State Council announced the establishment of seven additional FTZs in Chongqing, Zhejiang, Hubei, Henan, Sichuan, Shaanxi, and Liaoning. The foreign investment negative list used in the existing four FTZs will also apply to the seven new FTZs. The stated purpose of the new FTZs is to integrate more closely with the "One Belt, One Road" plan – the Chinese government's initiative to enhance global economic interconnectivity through joint infrastructure and investment projects that connect China's inland and border regions to countries in Southeast Asia, Central Asia, Africa, and Europe. These new FTZs will be operational beginning in 2017.

Although the FTZ negative list in theory provides greater market access for foreign investment in the FTZs, many foreign firms have reported that in practice, the degree of liberalization in the FTZs is comparable to other opportunities in other parts of China. According to Chinese officials, over 18,000 entities have registered in the FTZs. The municipal and central governments have released a number of administrative and sector-specific regulations and circulars that outline the procedures and regulations in the zones.

Performance and Data Localization Requirements

Shortly after China's WTO ascension, China revised its FDI laws regarding export performance requirements, requirements to include local content, requirements to balance foreign exchange through trade, technology transfer requirements, and requirements to create research and development centers. As part of these revisions, China committed to only enforce technology transfer requirements that do not violate WTO standards on intellectual property and trade-related investment measures. In practice, however, some local officials and regulators prefer investments with "voluntary" performance requirements that develop favored industries and support the local job market. Provincial and municipal governments will sometimes restrict access to local markets, government procurement, and public works projects even for firms that have already invested in the province or municipality. In addition, Chinese regulators have reportedly pressured foreign firms in some sectors to disclose intellectual property content or provide intellectual property licenses to Chinese firms, often at below market rates.

Regulatory restrictions, including in the Cyber Security Law, limits the ability of domestic and foreign operators of "critical information infrastructure" to transfer business and personal data outside of China, while requiring those same operators to store such data in China. Restrictions on cross-border data flows and unclear requirements on the use of domestic encryption algorithms have prompted many firms to review how their China systems interact with their global corporate networks. In order to comply with emerging requirements that technology used by business be "secure and controllable," foreign firms are facing pressure to disclose source code and other intellectual property disclosures during testing and certification related to government procurement; adhere to prescriptive technology adoption requirements, often in the form of domestic standards that diverge from global standards, which give preference to domestic firms; and to comply with operational restrictions such as privacy measures, data center location, and cross-border data flow restrictions.

Protection of Property Rights

Real Property

The Chinese legal system mediates acquisition and disposition of property. Foreign companies have complained that Chinese courts have inconsistently protected the legal real property rights of foreigners.

Land is entirely owned by the State. The State can issue long-term land leases to individuals and companies, including foreigners, subject to many restrictions. China's Property Law stipulates that residential property rights will renew automatically, while commercial and industrial grants shall be renewed if the renewal does not conflict with other public interest claims. A number of foreign investors have reported that their land use rights were revoked and given to developers to build neighborhoods slated for building by government officials. Investors often complain that compensation in these cases has been nominal.

In rural China, land use rights are more complicated. The registration system chronically suffers from unclear ownership lines and disputed border claims, often at the expense of local farmers who are excluded from the process by village leaders making "handshake deals" with commercial interests. In 2016, the central government announced plans to reform the rural land registration system so as to put more control in the hands of farmers, but some experts remain skeptical that changes will be properly implemented and enforced.

China's Securities Law defines debtor and guarantor rights, including rights to mortgage certain types of property and other tangible assets, including long-term leases. Chinese law does not prohibit foreigners from buying non-performing debt, which can only be acquired through state-owned asset management firms. However, in practice, Chinese official often use bureaucratic hurdles that limit foreigners' ability to liquidate assets, further discouraging foreign purchase of non-performing debt.

Intellectual Property Rights

Following WTO accession, China updated many of its laws and regulations to comply with the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) and other international agreements. However, there are still aspects of China's IPR legal and regulatory regime that the U.S. government believes fall short of international best practices and, if improved, would provide greater protection to IPR. Furthermore, effective enforcement of China's IPR laws and regulations remains a significant challenge.

Generally speaking, criminal penalties imposed by Chinese courts for IPR infringement are not applied on a frequent and consistent enough basis to significantly deter ongoing infringement. Furthermore, when administrative sanctions are issued, the basis for the sanctions is inconsistent and non-transparent, and penalties applied are insignificant, further weakening any deterrent effect. In addition, the award for IPR damage is very low, making civil litigation against IPR infringements an option with limited effect. For detailed information on China's environment for IPR protection and enforcement, please see the following reports:

Office of the U.S. Trade Representative's (USTR) 2017 Special 301 Report (see section on China)

USTR's 2016 National Trade Estimate Report on Foreign Trade Barriers in China (see section on China)

USTR's 2016 Report to Congress on China's WTO Compliance

USTR's Notorious Market Report (see China)

For additional information about national laws and points of contact at local intellectual property offices, please see WIPO's country profiles.

Financial Sector

Capital Markets and Portfolio Investment

China's leadership has stated that it seeks to build a modern, highly developed, and multi-tiered capital market. Bank loans continue to provide the majority of credit options (reportedly around 70 percent) for Chinese companies, although other sources of capital, such as corporate bonds, trust loans, equity financing, and private equity are quickly expanding their scope, reach, and sophistication. Chinese regulators regularly use administrative methods to control credit growth, although market-based tools such as interest rate policy play an increasingly important role.

The People's Bank of China (PBOC), China's central bank, has gradually increased flexibility for banks in setting interest rates, formally removing the floor on the lending rate in 2013 and the deposit rate cap in 2015—although it is understood to still influence bank's interest rates through "window guidance". Favored borrowers, particularly SOEs, benefit from greater access to capital and lower financing costs, as they can use political influence to secure bank loans, and lenders perceive these entities to have an implicit government guarantee. Small- and medium-sized enterprises, by contrast, have the most difficulty obtaining financing, often forced to rely on retained earnings or informal investment channels for financing.

In recent years, China's "shadow banking" sector, which includes vehicles such as wealth management and trust products, has grown rapidly. Chinese authorities have taken steps to increase the transparency requirements and strengthen supervision of these banking activities, while also permitting these vehicles to continue to develop. These vehicles often provide private firms additional channels to obtain capital, though at higher than benchmark rates. In 2016, worried about increasingly interconnected leverage across China's corporate sector, the government introduced a new macro prudential assessment tool to take a more comprehensive approach to managing financial risks. Regulators also issued informal "window guidance" to domestic and foreign banks to reduce lending and currency operations.

Direct financing has expanded over the last few years, including through public listings on stock exchanges, both inside and outside of China, and issuing more corporate and local government bonds. The majority of foreign portfolio investment in Chinese companies occurs on foreign exchanges, primarily in United States and Hong Kong. In addition, China has significantly expanded quotas for certain foreign institutional investors to invest in domestic stock markets; has opened up direct access for foreign investors into China's interbank bond market; and has approved a two-way, cross-border equity direct investment scheme between Shanghai and Hong Kong that allows Chinese investors to trade designated Hong Kong-listed stocks through the Shanghai Exchange and vice versa. Direct investment by private equity and venture capital firms is also rising, although from a small base, and has faced setbacks due to China's increased capital controls that complicate the repatriation of returns.

Money and Banking System

After several years of rapid credit growth, China's banking sector faces asset quality concerns. For 2016, the China Banking Regulatory Commission reported a rise in the non-performing loans (NPL) ratio to 1.74 percent, up from 1.67 percent at the end of 2015. The outstanding balance of commercial bank NPLs in 2016 reached 1.5 trillion RMB (approximately U.S. $230 billion). China's total banking assets surpassed 228 trillion RMB (approximately U.S. $35 trillion) in December 2016, a 14.4 percent year-on-year increase. Experts estimate Chinese banking assets account for over 20 percent of global banking assets. China's credit and broad money supply continue to post low double-digit growth, outpacing GDP growth nearly two-to-one.

Foreign Exchange and Remittances

Foreign Exchange

In 2016, several foreign companies complained about administrative delays in remitting large sums of money from China, even after completing all of the documentation requirements. Such incidents come amid announcements that SAFE had issued guidance to tighten scrutiny of foreign currency outflows due to China's rapidly decreasing foreign currency exchange.

Under Chinese law, FIEs do not need pre-approval to open foreign exchange accounts and are allowed to retain income as foreign exchange or to convert it into RMB without quota requirements. Foreign exchange transactions related to China's capital account activities do not require review by SAFE, but designated foreign exchange banks review and directly conduct foreign exchange settlements. Chinese officials register all commercial foreign debt and will limit foreign firms' accumulated medium- and long-term debt from abroad to the difference between total investment and registered capital. China issued guidelines in February 2015 that allow, on a pilot basis, a more flexible approach to foreign debt within several specific geographic areas, including the Shanghai Pilot FTZ. The main change under this new approach is to allow FIEs to expand their foreign debt above the difference between total investment and registered capital, so long as they have sufficient net assets.

Chinese foreign exchange rules cap the maximum amount of RMB individuals are allowed to convert into other currencies at approximately U.S. $50,000 each year and restrict them from directly transferring RMB abroad without prior approval from SAFE. While SAFE has not reduced this quota, banks are reportedly being instructed by SAFE to increase scrutiny over individuals' request for foreign currency and to require additional paperwork clarifying the intended use of the funds.

In 2016, facing significant capital outflow pressure, the government tightened capital controls through informal guidance to banks and the introduction of reserve requirements for institutions conducting foreign currency transactions, among other measures. While the central bank's official position is that companies with proper documentation should be able to freely conduct business, in practice, companies have reported facing challenges and delays in getting foreign currency transactions approved by sub-national regulatory branches.

China's exchange rate regime is managed within a band that allows the currency to rise or fall by two percent per day from the "reference rate" set each morning. In August 2015, China announced that the reference rate would more closely reflect the previous day's closing spot rate. Since that change, daily volatility of the RMB has at times been higher than in recent years, but for the most part, remains below what is typical for other currencies.

Remittance Policies

The following operations do not require SAFE approval: purchase and remittance of foreign exchange as a result of capital reduction, liquidation, or early repatriation of an investment in a foreign-owned enterprise, or as a result of the transfer of equity in an FIE to a Chinese domestic entity or individual where lawful income derived in China is reinvested.

The remittance of profits and dividends by FIEs is not subject to time limitations, but FIEs need to submit a series of documents to designated banks for review and approval. The review period is not fixed and is frequently completed within one or two working days of the submission of complete documents.

Remittance policies have not changed substantially since SAFE simplified some regulations in January 2014, devolving many review and approval procedures to banks. Firms that remit profits at or below U.S. $50,000 dollars can do so without submitting documents to the banks for review. For remittances above U.S. $50,000, the firm must submit tax documents, as well as the formal decision by its management to distribute profits. However, in 2016, some companies reported increased delays in receiving approval.

For remittance of interest and principle on private foreign debt, firms must submit an application form, a foreign debt agreement, and the notice on repayment of the principle and interest. Banks will then check if the repayment volume is within the repayable principle.

The remittance of financial lease payments falls under foreign debt management rules. There are no specific rules on the remittance of royalties and management fees. However, beginning in 2016, SAFE began requiring banks to hold 20 percent reserves against foreign currency transactions, significantly increasing the cost of foreign exchange operations.

The Financial Action Task Force has identified China as a country of primary concern. Global Financial Integrity (GFI) estimates that over U.S. $1 trillion of illicit money left China between 2003 and 2012, making China the world leader in illicit capital flows. In 2013, GFI estimates that another U.S. $260 billion left the country.

Sovereign Wealth Funds

China officially has only one sovereign wealth fund (SWF), the China Investment Corporation (CIC). Established in 2007, CIC manages an estimated U.S. $813.8 billion in assets (as of November 2016) and invests on a 10-year time horizon. China's sovereign wealth is also invested by a subsidiary of SAFE, the government agency that manages China's foreign currency reserves, and reports directly to the PBOC. The SAFE Administrator also serves concurrently as a PBOC Deputy Governor.

CIC publishes an annual report containing information on its structure, investments, and returns. CIC invests in diverse sectors like financial, consumer products, information technology, high-end manufacturing, healthcare, energy, telecommunication services, and utilities.

China also operates other funds that function in part like sovereign wealth funds, including: China's National Social Security Fund, with an estimated U.S. $295 billion in assets; the China-Africa Development Fund (solely funded by the China Development Bank), with an estimated U.S. $5 billion; the SAFE Investment Company, with an estimated U.S. $474 billion; and China's state-owned Silk Road Fund, established in December 2014 with $40 billion to foster investment in countries along the "One Belt, One Road." Chinese SWFs do not report the percentage of their assets that are invested domestically.

Chinese SWFs follow the voluntary code of good practices known as the Santiago Principles and participates in the IMF-hosted International Working Group on SWFs. The Chinese government does not have any formal policies specifying that CIC invest funds consistent with industrial policies or in government-designated projects, although CIC is expected to pursue government objectives. The SWF generally adopts a "passive" role as a portfolio investor.

State-Owned Enterprises

China has approximately 150,000 SOEs, of which around 50,000 (33 percent) are owned by the central government and the remainder by local governments. The central government directly controls and manages 102 strategic SOEs through the State Assets Supervision and Administration Commission (SASAC), of which 66 are listed on stock exchanges domestically and/or internationally. SOEs, both central and local, account for 30 to 40 percent of total GDP and about 20 percent of China's total employment. The percentage of SOE revenue spent on research and development is unknown. SOEs can be found in all sectors of the economy, from tourism to heavy industries.

China's leading SOEs benefit from preferential government policies aimed at developing bigger and stronger "national champions." SOEs enjoy favored access to essential economic inputs (land, hydrocarbons, finance, telecoms, and electricity) and exercise considerable power in markets like steel and minerals. SOEs have long enjoyed preferential access to credit and the ability to issue publicly traded equity and debt. SOEs also are not subject to the same tax burdens as their private sector competitors. According to some Chinese academics, provincial governments have used their power to manipulate industrial policies and deny operating licenses to domestic and foreign investors in order to persuade reluctant owners to sell out to bigger, state-owned suitors.

During the November 2013 Third Plenum of the 18th Party Congress—a hallmark session that announced economic reforms, including calling for the market to play a more decisive role in the allocation of resources—President Xi Jinping called for broad SOE reforms. Cautioning that SOEs will remain a key part of China's economic system, Xi emphasized improved SOE operational transparency and legal reforms that would subject SOEs to greater competition by opening up more industry sectors to domestic and foreign competitors and by reducing provincial and central government preferential treatment of SOEs. The Third Plenum also called for "mixed ownership" economic structures, providing greater economic balance between private and state-owned businesses in certain industries, including equal access to factors of production, competition on a level playing field, and equal legal protection.

OECD Guidelines on Corporate Governance

SASAC participates in the OECD Working Party on State Ownership and Privatization Practices (WPSOPP). Chinese officials have indicated China intends to utilize OECD SOE guidelines to improve the professionalism and independence of SOEs, including relying on Boards of Directors that are independent from political influence. However, despite China's Third Plenum commitments to foster "market-oriented" reforms in China's state sectors, Chinese officials and SASAC have made minimal progress in fundamentally changing the regulation and business conduct of SOEs. China has also committed to implement the G-20/OECD Principles of Corporate Governance, which apply to all publicly-listed companies, including listed SOEs.

Chinese law lacks unified guidelines or a governance code for SOEs, especially among provincial or locally-controlled SOEs. Among larger SOEs that are primarily managed by SASAC, senior management positions are filled by senior CCP members who report directly to the CCP. SASAC Chairman Xiao Yaqing reemphasized this point during a March 9, 2017 press conference at the National People's Congress, where he stated newly implemented rules required the chairman of any SOE under his ministry's control to also be the secretary of the SOE's CCP committee, as a way of strengthening the Party's control.

The lack of management independence and the controlling ownership interest of the State make SOEs de facto arms of the government, subject to government direction and interference. SOEs are rarely the defendant in legal disputes, and when they are, they almost always prevail due to the close relationship with the CCP. U.S. companies often complain about the lack of transparency and objectivity in commercial disputes with SOEs. In addition, SOEs enjoy preferential access to a disproportionate share of available capital, whether in the form of loans or equity.

In its September 2015 *Guiding Opinions on Deepening the Reform of State-Owned Enterprises*, the State Council instituted a system for classifying SOEs as "public service" or "commercial enterprises." Some commercial enterprise SOEs were further sub-classified into "strategic" or "critically important" sectors (i.e., with strong national economic or security importance). SASAC has said the new classification system would allow the government to reduce support for commercial enterprises competing with private firms and instead channel resources toward public service SOEs.

Other recent reforms have included salary caps, limits on employee benefits, and attempts to create stock incentive programs for managers that have produced mixed results. However, analysts believe minor reforms will be ineffective as long as SOE administration and government policy are intertwined.

A major stumbling block of SOE reform is that SOE regulators are outranked in the CCP party structure by SOE executives, which minimizes SASAC and other government regulators' effectiveness at implementing reforms. In addition, SOE executives are often promoted to high-ranking positions in the CCP or local government, further complicating the work of regulators.

The Third Plenum Decision emphasizes that SOEs need to focus resources in areas that "serve state strategic objectives." However, experts point out that despite these new SOE distinctions, SOEs continue to hold dominant shares in their respective industries, regardless of whether they are strategic, which may further restrain private investment in the economy. Moreover, the application of China's Anti-Monopoly Law, together with other industrial policies and practices that are selectively enforced by the authorities, protect SOEs from private sector competition.

China is not a party to the Government Procurement Agreement (GPA) within the framework of the WTO, although Hong Kong is listed.

Investment Restrictions in "Vital Industries and Key Fields"

The intended purpose of China's State Assets Law is to safeguard and protect China's economic system, promoting "socialist market economy" principles that fortify and develop a strong, state-owned economy. A key component of the State Asset Law is enabling SOEs to play the leading role in China's economic development, especially in "vital industries and key fields." To accomplish this, the law encourages Chinese regulators to adopt policies that consolidate SOE concentrations to ensure dominance in industries deemed vital to "national security" and "national economic security." This principle is further reinforced by the December 2006 announcement of the Guiding Opinions Concerning the Advancement of Adjustments of State Capital and the Restructuring of State-Owned Enterprises, which called for more SOE consolidation to advance the development of the state-owned economy, including enhancing and expanding the role of the State in controlling and influencing "vital industries and key fields relating to national security and national economic lifelines." These guidelines defined "vital industries and key fields" as "industries concerning national security, major infrastructure and important mineral resources, industries that provide essential public goods and services, and key enterprises in pillar industries and high-tech industries."

Around the time the guidelines were published, the SASAC Chairman also listed industries where the State should maintain "absolute control" (e.g., aviation, coal, defense, electric power and the state grid, oil and petrochemicals, shipping, and telecommunications) and "relative control" (e.g., automotive, chemical, construction, exploration and design, electronic information, equipment manufacturing, iron and steel, nonferrous metal, and science and technology). China has said these lists do not reflect its official policy on SOEs. In fact, in some cases, regulators have allowed for more than 50 percent private ownership in some of the listed industries on a case-by-case basis, especially in industries where Chinese firms lack expertise and capabilities or in a given technology that Chinese officials deemed important at the time.

A key SOE-dominant industry that is insulated from competition is agricultural products. Current agriculture trade rules, regulations, and limitations placed on foreign investment severely restrict the contributions of U.S. agricultural companies, depriving China's consumers of the many potential benefits additional foreign investment could provide. These investment restrictions in the agricultural sectors are at odds with China's 12th Five Year Plan objective of shifting more resources to agriculture and food production in order to improve Chinese lives, food security, and food safety.

Right to Private Ownership & Establishment

At the November 2013 Third Plenum, the Chinese government announced reforms to SOEs that included selling shares of SOEs to outside investors. This gradual approach to privatization is an effort to improve SOE management structures, emphasize the use of financial benchmarks, and gradually take steps that will bring private capital into some sectors traditionally monopolized by SOEs like energy, telecommunications, and finance. In practice, these reforms have been gradual as the Chinese government has struggled to implement its SOE reform vision and often opted to utilize a preferred SOE consolidation approach. In the past few years, the Chinese government has listed several large SOEs and their assets on the Hong Kong stock exchange, subjecting SOEs to greater transparency requirements and heightened regulatory scrutiny. This approach is a possible mechanism to improve SOE corporate governance and transparency. The government also committed at the Third Plenum to raise the portion of earnings that SOEs pay out as dividends to the public budget, although here, too, the pace and method of implementation remain uncertain.

Responsible Business Conduct

For Chinese companies, Responsible Business Conduct (RBC) is a relatively new concept. The degree of understanding and general awareness of RBC standards (including environmental, social, and governance issues) is extremely low, especially with companies operating exclusively in the domestic market. Chinese laws regulating business conduct are limited in scope, often voluntary, and frequently ignored when other economic imperatives compete with RBC priorities. In general, China suffers from the lack of independent NGOs, investment funds, worker organizations/unions, or other business associations that actively promote or monitor RBC issues.

The recently implemented Foreign NGO Law restricts certain NGO activities and remains a concern to U.S. organizations, especially with respect to its limiting influence on the promotion, development, and implementation of RBC and corporate social responsibility (CSR) practices. It is especially challenging for U.S. investors looking to partner with Chinese companies or expand operations with Chinese suppliers, when few Chinese firms meet internationally recognized standards in areas like labor and environmental protection and manufacturing best practices.

Despite these restrictions, Chinese officials increasingly place emphasis on protecting the environment. This priority was highlighted in the 13th Five Year Plan, which highlighted sustainability as a key area for Chinese companies to enact CSR initiatives.

In 2014, China also signed a memorandum of understanding (MOU) with the OECD to cooperate on RBC initiatives. However, the MOU does not require or necessarily mean that Chinese companies will adhere to the OECD Guidelines for Multinational Enterprises. Industry leaders have pushed to establish a national contact point or RBC center, a key initiative of the OECD guidelines, and in 2016, China's Ministry of Commerce launched the RBC Platform to raise awareness of RBC issues.

China participated in the OECD's Global Forum on RBC in 2014 and 2015, including hosting a workshop in Beijing in May 2015. Policy developments from the workshops included incorporation of human rights into social responsibility guidelines for the electronics industry; referencing the United Nations Guiding Principles on Business and Human Rights; mandating social impact assessments for large footprint projects; and agreeing to draft a new law on public participation in environmental protection and impact assessments.

The MOFCOM-affiliated Chinese Chamber of Commerce of Metals, Minerals, and Chemical Importers and Exporters (CCCMC) also signed a separate MOU with the OECD in October 2014 to help Chinese companies implement RBC policies in global mineral supply chains. In December 2015, CCCMC released Due Diligence Guidelines for Responsible Mineral Supply Chains, which draw heavily from the OECD Due Diligence Guidelines. China is currently drafting legislation to regulate the sourcing of minerals, including tin, tungsten, tantalum, and gold, from conflict areas. China is not a member of the Extractive Industries Transparency Initiative (EITI), but Chinese investors participate in EITI schemes where these are mandated by the host country.

Corruption

Corruption remains endemic in China. The lack of an independent press, along with the fact that corruption investigators answer to and are managed by the CCP, all hamper the transparent and consistent application of anti-corruption efforts.

Chinese anti-corruption laws have strict penalties for bribes. Accepting a bribe is a criminal offense punishable up to life imprisonment or death in "especially serious" circumstances.

Offering a bribe carries a maximum punishment of up to five years in prison, except in cases with "especially serious" circumstances, when punishment can extend up to life in prison.

In August 2015, the National People's Congress amended several corruption-related parts of China's Criminal Law. For instance, bribing civil servants' relatives or other close relationships is a crime with monetary fines imposed on both the bribe-givers and the bribe-takers; bribe-givers, mainly in minor cases, who aid authorities can be given more lenient punishments; and instead of basing punishments solely on the specific amount of money involved in a bribe, authorities now have more discretion to impose punishments based on other factors.

In February 2011, an amendment was made to the Criminal Law, criminalizing the bribing of foreign officials or officials of international organizations. However, to date, there have not been any known cases where someone was successfully prosecuted for offering this type of bribe.

The Supreme People's Procuratorate (SPP) and the Ministry of Public Security investigate criminal violations of laws related to anti-corruption, while the Ministry of Supervision (MOS) and the Discipline Inspection Commission (CCDI) enforce ethics guidelines and party discipline. China's National Audit Office also inspects the accounts of SOEs and government entities. The National Bureau of Corruption Prevention (NBCP) is under the direct administration of the State Council and is responsible for improving government transparency and coordinating anti-corruption efforts among different government organizations. In January 2017, China announced plans for a National Supervision Commission, which will absorb the current functions carried out by MOS, anti-corruption units of the SPP, and the NBCP. China may also pass a corresponding National Supervision Law by as early as March 2018.

President Xi Jinping's Anti-Corruption Efforts

Since President Xi's rise to power in 2012, China has undergone an intensive and large-scale anti-corruption campaign, with investigations reaching into all sectors of the government, military, and economy. President Xi labeled endemic corruption as an existential threat to the very survival of the CCP that must be addressed. Since then, each CCP annual plenum has touched on judicial, administrative, and Party discipline reforms needed to thoroughly root out corruption. Judicial reforms are viewed as necessary to institutionalize the fight against corruption and reduce the arbitrary power of Party investigators, but concrete measures have emerged slowly. To enhance regional anti-corruption cooperation, the 26th Asia-Pacific Economic Cooperation (APEC) Ministers Meeting adopted the Beijing Declaration on Fighting Corruption in November 2014.

According to Wang Qishan, head of the CCDI and also a member of China's ruling seven-member Politburo Standing Committee, the CCP disciplined around 415,000 officials in 2016, almost a 25 percent increase compared to the previous year. However, over 75 percent of those disciplined received only "light discipline." Of the officials disciplined, about 11,000 officials were expelled from the CCP and handed over to Chinese courts for prosecution. One group heavily disciplined has been the discipline inspectors, with the CCP punishing more than 7,900 inspectors since late 2012. This led to new regulations being implemented in 2016 by CCDI that increased overall supervision of investigators. Authorities also noted an increase in SOE officials being investigated, including 43 total investigations conducted in 2015, in comparison to 10 in 2014 and just two in 2013. Around 40 percent of SOE corruption investigations were of SOEs in the energy sector.

China's overseas fugitive-hunting campaign, called "Operation Skynet," has led to the capture of around 2,500 fugitives suspected of corruption. In 2016 alone, CCDI reported that 1,032 fugitives suspected of official crimes were apprehended. The Chinese government reports that in the first 11 months of 2016, China recovered 2.3 billion RMB (U.S. $334.47 million) in losses from graft, from over 70 countries and regions, through this campaign.

Anecdotal information suggests that China's anti-corruption crackdown oftentimes is inconsistently and discretionarily applied, raising concerns among foreign companies in China. For example, to fight rampant commercial corruption in the medical/pharmaceutical sector, China's health authority issued "black lists" of firms and agents involved in commercial bribery. Several of these blacklisted firms were foreign companies. Additionally, anecdotal information suggests many Chinese government officials responsible for approving foreign investment projects are slowing approvals to not arouse corruption suspicions.

While central government leadership has welcomed increased public participation in reporting suspected corruption at lower levels, direct criticism of central government leadership or policies remains off-limits and is seen as an existential threat to China's political and social stability. Some citizens who have campaigned against officials' misuse of public resources or called for officials to provide transparency and public accountability by disclosing public and personal assets have been subject to criminal prosecution.

United Nations Anticorruption Convention, OECD Convention on Combatting Bribery

China ratified the United Nations Convention against Corruption in 2005 and participates in APEC and OECD anti-corruption initiatives. China has not signed the OECD Convention on Combating Bribery, although Chinese officials have expressed interest in participating in the OECD Working Group on Bribery meetings as an observer.

Resources to Report Corruption

The following government organization receives public reports of corruption:

Anti-Corruption Reporting Center of the CCP Central Commission for Discipline Inspection and the Ministry of Supervision, Telephone Number: +86 10 12388

Political and Security Environment

The risk of political violence directed at foreign companies operating in China remains minimal. Every year, different watchdog organizations report tens of thousands of protests throughout China. The government is adept at handling protests without violence, but given the volume of protests annually, the potential for violent flare-ups is real. Violent protests, while rare, have generally involved ethnic tensions, local residents protesting corrupt officials, environmental and food safety concerns, confiscated property, and disputes over unpaid wages.

In recent years, the growing number of protests over corporate mergers and acquisitions has increased, often with workers and mid-level managers of an acquired firm protesting because they were not included or consulted in the process. There have also been a small number of cases of foreign businesspeople being trapped in China during a business contract dispute.

In the past few years, Chinese authorities have detained or arrested several foreign nationals, including American citizens, and have refused to notify the U.S. Embassy or allow consular officers access to the detained American citizens. These trends are in direct contravention of recognized international agreements and conventions.

Labor Policies and Practices

For U.S. companies operating in China, adequate human resources remain a major challenge. Finding, developing, and retaining domestic talent, particularly at the management and highly-skilled technical staff levels, remain a difficult challenge often cited by foreign firms. In addition, labor costs continue to be a concern, as salary and other inputs of production have continued to rise. In addition, foreign companies continue to cite air pollution concerns as a major hurdle in attracting and retaining qualified foreign talent to relocate to China. These labor concerns contribute to a small but growing number of foreign companies relocating to the United States, Canada, Mexico, or other parts of Asia.

Chinese labor law does not protect rights such as freedom of association and the right of workers to strike. China to date has not ratified the United Nations International Labor Organization conventions on freedom of association and collective bargaining, but it has ratified conventions prohibiting child labor and employment discrimination. Foreign companies often complain of the difficulty of navigating the ever-evolving labor laws, social insurance laws, and different agencies' implementation guidelines on labor issues. Compounding the complexity, local characteristics and the application by different localities of national labor laws often vary.

Although required by national law, labor contracts are often not used by domestic employers with local employees. Without written contracts, employees struggle to prove employment, thus losing basic labor rights like claiming severance and unemployment compensation if terminated, as well as access to publicly-provided labor dispute settlement mechanisms. Similarly, regulations on dispatch agencies that provide temporary labor (referred to as "labor dispatch" in China) have tightened, and some domestic employers have switched to hiring independent service provider contractors in order to skirt the protective intent of these regulations. These loopholes incentivize employers to skirt the law because compliance leads to substantially higher labor costs.

Establishing independent trade unions is illegal in China. The law allows for worker "collective bargaining"; however, in practice, collective bargaining focuses solely on collective wage negotiations—and even this practice is uncommon. The Trade Union Law gives the All-China Federation of Trade Unions (ACFTU), a CCP organ chaired by a member of the Politburo, control over all union organizations and activities, including enterprise-level unions. The ACFTU's priority task is to "uphold the leadership of the Communist Party." The ACFTU and its provincial and local branches aggressively organize new constituent unions and add new members, especially in large multinational enterprises, but in general, these enterprise-level unions do not actively participate in employee-employer relations.

ACFTU enterprise unions issue a mandatory employer-borne cost of 2 percent of payroll for membership. While labor laws do not protect the right to strike, "spontaneous" worker protests and work stoppages occur with increasing regularity, especially in labor intensive and "sunset" industries (i.e., old and declining industries such as low-end manufacturing). Official forums for mediation, arbitration, and other similar mechanisms of alternative dispute resolution have generally been ineffective in resolving labor disputes in China. Some localities actively discourage acceptance of labor disputes for arbitration or legal resolution. Even when an arbitration award or legal judgement is obtained, getting local authorities to enforce judgments is problematic.

OPIC and Other Investment Insurance Programs

The United States suspended Overseas Private Investment Corporation (OPIC) programs in China, in the aftermath of China's crackdown on Tiananmen Square demonstrators in June 1989. OPIC honors outstanding political risk insurance contracts. The Multilateral Investment Guarantee Agency, an organization affiliated with the World Bank, provides political risk insurance for investors in China. Some foreign commercial insurance companies also offer political risk insurance, as does the People's Insurance Company of China.

Foreign Direct Investment and Foreign Portfolio Investment Statistics

Key Macroeconomic Data, U.S. FDI in Host Country/Economy

Economic Data	Year	Amount	Year	Amount
Host Country Gross Domestic Product (GDP) (in US$)	2016	$11.39 trillion	2015	$11.01 trillion
U.S. FDI in partner country (in US$, stock positions)	2015	$70 billion	2015	$74.56 billion
Host country's FDI in the United States (in US$, stock positions)	2015	$40.8 billion	2015	$14.84 billion
Total inbound stock of FDI as % host GDP	2014	16%	2015	11.1%

Source: National Bureau of Statistics of PRC; China Commerce Yearbook; MOFCOM

Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations ()					
Inward Direct Investment	Amount (USD, Millions)	%	Outward Direct Investment	Amount	%
Total Inward	2,579,564	100%	Total Outward		100%
China, P. R. Hong Kong	1,238,823	48%			
Brit Virgin Islands	328,085	13%			
Japan	151,926	6%			
Singapore	111,218	4%			

United States	78,490	3%			

"0" reflects amounts rounded to +/- USD 500,000.

Source: IMF Coordinated Direct Investment Survey

Sources of Portfolio Investment

IMF Coordinated Portfolio Investment Survey data for China are unavailable.

Contact for More Information

Thomas D. Bevan
Investment Officer-U.S. Embassy Beijing Economic Section

55 Anjialou Road, Chaoyang District, Beijing, P.R. China
+86 10 8531 3000
beijinginvestmentteam@state.gov

Other useful online resources:

Chinese Government:

- Chinese Embassy in Washington, D.C
- Ministry of Commerce
- Invest in China
- National Development and Reform Commission
- State Administration of Foreign Exchange
- State Administration of Taxation

United States Government:

- U.S. Embassy in Beijing (Doing Business in China):
- U.S. Department of State travel information
- U.S. Trade Representative
- U.S. Department of Commerce
- U.S. Department of the Treasury
- Export Import Bank
- Overseas Private Investment Corporation (OPIC
- U.S. Trade and Development Agency

Trade & Project Financing

Methods of Payment

In China, there are many ways to finance imports. The most commonplace are letters of credit and documentary collections. No matter what method is used, the Chinese importer needs to apply for the foreign exchange amount for the trade transaction from the State Administration of Foreign Exchange (SAFE). Please see the section below on "Foreign-Exchange Controls" for more information.

Letters of Credit

China, as a member of the International Chamber of Commerce since 1995, is subject to the Unified Customs and Practice (UCP) 600 code that govern letters of credit.

Most Chinese commercial banks, e.g., Bank of China, China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of Communications, China Merchants Bank, and CITIC Bank, have the authority to issue letters of credit (L/C) for both imports and exports. Foreign banks with branch or representative offices in China can also issue letters of credit. Please refer to the following Chinese banks' website for details on how to apply for an L/C in China:

Documentary Collections

This method of payment is similar to a letter of credit, but less formal and more flexible. Just as with letters of credit, the exporter submits a full set of trade documents for payment collection to the bank designated in the contract. The bank will send the documents to the home office, which examines them and, in some cases, passes them to the buyer for further examination. Payment is made after the documents have met the approval of all parties. This method of payment provides only limited coverage against default. It can be considerably less expensive than a letter of credit, but should be used with caution. It is the responsibility of the exporter to determine the specific instructions to be used in the collection letter. Please refer to the Bank of China for further details on application qualifications and a flowchart of the process:

Contract Advance (for wire remitted funds, also called T/T Finance)

It is a specially tailored service for transactions under open account contract wherein T/T payment terms are called for. Upon arrival of goods, the Chinese importer may apply for this service whereby a Chinese bank may advance the importer the payment to the exporter. The importers are to repay this advance after the goods are sold and the proceeds are received. Before applying for a contract advance, the importer needs to apply to the Chinese bank for a T/T Finance facility, which may be granted after assessment of the importer's financial status.

Import Factoring

Import factoring is suitable for Open Account (O/A) import business. At the request of the supplier and in the light of a Chinese bank's internal appraisal of the importer's credit standing, the bank can offer the supplier a credit line, under which the bank will not only protect the export receivables assigned to the Chinese bank against the importer's credit risk, but also provide the importer with financial management services as well. The importer needs to select O/A as the payment term when negotiating with the supplier, and suggest the supplier to submit factoring application to a Chinese bank, i.e., the import factor, through the supplier's local export factor. Upon receipt of the supplier's application, the import factor will notify the supplier of the credit line decision after comprehensive assessment of the importer's credit standing. The supplier will dispatch goods and assign the related export receivables to the import factor in accordance with the approved credit line. When the factored invoices come due, the import factor will remind the importer to effect payment.

Banking Systems

China's 13th Five Year Plan for the Finance Sector

In January 2016, China State Council announced the Plan for Promoting the Development of Inclusive Finance (2016-2020). The goal of the Plan is to set an inclusive finance system that is in coordination with the construction of a moderately prosperous society by 2020 and satisfies people's need for financial services, the State Council said. The financial services will be offered by financial institutions to micro-businesses, farmers, low-income population in urban areas, poor population, the disabled, and senior citizens. Under the new policy, full coverage of bank and insurance services will be accomplished in rural areas, and financial support will be improved for low-income population in urban areas, the poor, farmer entrepreneurs, college student entrepreneurs, and the disabled.

According to the circular, the coverage rate for farmer households that take part in agricultural insurance will be raised to above 95 percent. Banks will play an important role in lowering debt costs for micro-businesses and improving financial services in mid-west regions, grain-producing areas, and regions that are hubs for micro businesses.

To improve financing services for micro-businesses, efforts will be made to expand financing channels of petty loan companies and pawnshops. Financial leasing companies and equipment leasing companies are encouraged to better support improvements for equipment and technology at micro-businesses and agricultural companies. Emerging technologies such as big data and cloud computing will be used to build Internet financial service platforms for customers.

Foreign Exchange Controls

China maintains a "closed" capital account, meaning companies, banks, and individuals can't move money in or out of the country except in accordance with strict rules.

The People's Bank of China (PBOC) and State Administration of Foreign Exchange (SAFE) regulate the flow of foreign exchange in and out of the country, and set exchange rates through a "managed float" system.

Starting from October 1, 2008, companies must report any overseas payment with a payment term over 90 days from the date shown on the import declaration form to SAFE —no matter the amount—or they will not be allowed to arrange the overseas payment. The accumulated reported overpayment amount in one calendar year can't exceed 10 percent of total importation amount of the last year.

On October 30, 2008, SAFE published a notice stipulating that when an enterprise enters into a contract that contains a clause for the pre-payment for purchases, the enterprise must register (with SAFE) within 15 working days after the contract is signed. The enterprise also must register the foreign exchange repayment within 15 days before the remittance. If the contract does not contain a pre-payment clause but a foreign exchange repayment is nevertheless required, the enterprise must register the contract and the foreign exchange prepayment within 15 working days before the remittance. As to the amount of the pre-payment, in principle, the enterprise pre-payment quota cannot exceed 10 percent of the total payment the enterprise has made for importation in the past 12 months. However, enterprises handling large, complete sets of equipment are exempt.

On December 30, 2016, China People's Bank of China issued Measures for the Administration of Financial Institutions' Reporting of High-Value Transactions and Suspicious Transactions, the goal is meant to target money laundering, terrorism financing and fake outbound investment transactions, and not normal, legitimate business activities. Under the new rules, From July 1, 2017, banks and other financial institutions in China will have to report all domestic and overseas cash transactions of more than 50,000 yuan, compared with 200,000 yuan previously. Banks will also need to report any overseas transfers by individuals of $10,000 or more. In addition, all banks must report to central government on every single foreign exchange transaction of at least $5 million. SAFE will supervise and halt any on-going ODI projects in which Chinese investors still need to transfer more than $50 million out of the country. Only once they have vetted the authenticity and legality of the company's ODI plans will the green light be given.

US Banks and Local Correspondent Banks

Among the 41 locally incorporated foreign banks in China, there are eight from the U.S. that operate about 80 branches and representative offices in China.

Citibank
JPMorgan Chase Bank
East West Bank
Morgan Stanley Bank International
Bank of America Merrill Lynch
BNY Mellon

Wells Fargo Bank (Beijing branch: F721-723, Winland International Finance Center, 7 Financial Street, Beijing; Shanghai branch: 32/F, Shanghai World Finance Center, 100 Century Avenue, Pudong District, Shanghai)

SPD Silicon Valley Bank, (a joint venture bank between Shanghai Pudong Development Bank and U.S. Silicon Valley Bank)

Project Financing

Export Credits

The U.S. Export-Import Bank (Ex-Im Bank), an independent agency of the U.S. Government, seeks to increase the competitive position of U.S.-based exporters in overseas markets by supporting the financing of U.S. export sales. All of Ex-Im Bank's financial products are available for Chinese buyers of U.S goods and services for the short, medium and long term. Generally speaking, Ex-Im Bank guarantees the repayment of loans or makes loans to international purchasers of U.S. goods and services. Ex-Im Bank also extends export credit insurance thus protecting U.S. exporters against the risks of non-payment for political or commercial reasons. A reasonable assurance of repayment on every transaction financed must be provided.

Ex-Im Bank signed a Framework Agreement (Agreement) with China's Ministry of Finance (MoF). According to this Agreement, the MoF will provide a sovereign guarantee for imports from the U.S. for Chinese Government projects. The Sovereign Guaranteed Loan Program (SGLP) was created in 2005 to help strengthen economic and trade ties between the two countries by offering beneficial terms to boost U.S. exports of advanced technology and equipment.

In April 2017, Ex-Im Bank and China's Ministry of Finance (MoF) discussed the future trade finance cooperation between US and China. The meeting was held after China implemented its New Budget Law in 2015. This law which was meant to better manage the local government debts, restricts China EXIM and MOF's ability to support Sovereign Guarantee loans under the U.S.-China Framework Agreement. U.S. Ex-Im Bank and China's Ministry of Finance (MoF) are currently in the process of negotiating a new agreement.

Eligible Buyers: The SGLP program is not limited to a specific set of customers, but procurements must be pre-approved at the municipal and provincial levels before being considered for approval by the MoF. To date, the end-users of U.S. export products have principally been SOEs, agricultural cooperatives, and provincial and municipal authorities.

Eligible Products: The SGLP is targeted to cover a wide range of U.S. equipment and services exports, in sectors ranging from environmental technology, water and wastewater, renewable energy, agricultural machinery, medical equipment, firefighting equipment, machine technology, and others.

For private sector borrowers, U.S. Ex-Im Bank will accept financial statements audited according to acceptable accounting practices with auditor's notes and statements that adequately disclose financial conditions and afford a reasonable basis for reliance on the information provided. The terms and conditions of standard export financing are governed by the OECD Arrangement on export credits.

For U.S. Ex-Im Bank direct loans, lending rates (commercial interest reference rates or CIRR) are set monthly and are based on a spread above U.S. Treasuries. The U.S. Ex-Im Bank is also open for limited-recourse, project financing in China. Such a project is one in which anticipated cash flows can cover debt service repayment to lenders and payment of dividends to shareholders, and is without government guarantees. Loans under this program will be available to companies operating investment projects that require imports from the United States. Project financing is also available from the various multilateral financial institutions as described below.

For more information concerning U.S. Ex-Im Bank programs and application procedures contact Richard Pearson, Business Development Officer, Global Business Development, Export-Import Bank of the United States tel. (202) 565-3709, richard.pearson@exim.gov. Exposure fee calculations and applications can be found on-line.

U.S. Department of Agriculture

The USDA GSM-102 program provides credit guarantees to encourage financing of commercial exports of U.S. agricultural products. By reducing financial risk to lenders, credit guarantees encourage exports to buyers in countries — mainly developing countries — that have sufficient financial strength to have foreign exchange available for scheduled payments.

The program is available to exporters of:

- high-value, consumer-oriented, processed products such as frozen foods, fresh produce, meats, condiments, wine, and beer;
- intermediate products such as hides, flour, and paper products; and bulk products such as grains, oilseeds, and rice.

U.S. Trade and Development Agency

The U.S. Trade and Development Agency (USTDA) helps companies create U.S. jobs through the export of U.S. goods and services for priority development projects in emerging economies. USTDA links U.S. businesses to export opportunities by funding project planning activities, pilot projects, and reverse trade missions while creating sustainable infrastructure and economic growth in partner countries.

USTDA promotes economic growth in emerging economies by facilitating the participation of U.S. businesses in the planning and execution of priority development projects in host countries. The Agency's objectives are to help build the infrastructure for trade, match U.S. technological expertise with overseas development needs, and help create lasting business partnerships between the United States and emerging economies.

If a priority project exists for which you wish to consider U.S. sources of goods and services, please contact Mr. Carl B. Kress, Regional Director for East Asia, at USTDA's Arlington, VA office. Tel: (703) 875-4357, Fax: (703) 875-4009, Email: east_asia@ustda.gov. In China, contact the USTDA Representatives, Mr. Steven Winkates and Ms. Wan Xiaolei, at the U.S. Embassy Beijing at Tel: (86 10) 8531-4534, Fax: (86 10) 8531-3701.

Multilateral Development Banks

U.S. Commercial Service Liaison Offices at the Multilateral Development Banks (Asian Development Bank, World Bank)

The Commercial Service maintains Commercial Liaison Offices in each of the main Multilateral Development Banks, including the Asian Development Bank and the World Bank. These institutions lend billions of dollars in developing countries on projects aimed at accelerating economic growth and social development by reducing poverty and inequality, improving health and education, and advancing infrastructure development. The Commercial Liaison Offices help American businesses learn how to get involved in bank-funded projects, and advocate on behalf of American bidders. Learn more by contacting the Commercial Liaison Offices to the Asian Development Bank and the World Bank.

Web Resources

Export-Import Bank of the United States
Country Limitation Schedule
OPIC
Trade and Development Agency
SBA's Office of International Trade
USDA Commodity Credit Corporation
U.S. Agency for International Development
Commercial Liaison Office to the Asian Development Bank
Commercial Liaison Office to the World Bank

Business Travel

Business Customs

Business/name cards are ubiquitous in Chinese business and will almost always be exchanged upon meeting a stranger in such a context. The card should be held in both hands when offered to the other person; offering it with one hand is considered ill mannered. When receiving a card, use two hands and study it. Acknowledge it with thanks and initiate conversation, when feasible. Use an interpreter, if available, to make sure you are communicating correctly and/or understanding the other person correctly. Do not miss an opportunity to develop an appropriate new business contact, as relationships, called guanxi in Mandarin, remain very important in China.

Travel Advisory

The threat level for all China posts is considered low for crime and medium for terrorism.

For the most up-to-date information related to traveling and living in China, please see the Department of State's Country Specific Information on China.

China experiences a moderate rate of crime. Violent crime is less common but does occur. Violent crime affecting the expatriate community most often occurs in the bars and clubs of China's various nightlife districts. To reach the police in China, dial "110," the local equivalent of 911. Pickpockets are particularly active in crowded markets and foreigners are often sought out as primary targets. Foreigners have often had bags or backpacks stolen when they set them down momentarily in a shop or put them on a chair in a restaurant; avoid keeping your passport in a bag. Thefts from taxis have also become more common and travelers are especially urged to hold purses or computer bags and to be sure drivers are not given the opportunity to leave with the traveler's luggage in the car or trunk. Petty theft from hotel rooms is uncommon but visitors are advised not to leave valuables lying loose or unattended in their rooms. Use safes in rooms or safe deposit boxes at the front desk when provided. Use caution if approached by individuals purporting to be English-language or art students, and avoid sellers of pirated or fake products. These transactions are illegal and should be avoided.

Americans arriving without valid passports and Chinese visas are not permitted to enter China and may also be subject to fines. Visitors traveling to China on a single-entry visa should be reminded that trips to Hong Kong or Macau Special Administrative Regions are treated as a visit outside Mainland China. If the traveler tries to return to Mainland China after a visit to one of these two destinations but only has a single entry visa, they will be denied entry. Visitors facing this dilemma should apply for a new visa at the Chinese Ministry of Foreign Affairs or the China Travel Service in Hong Kong to re-enter China. Transit through China without a visa is permitted in some circumstances, see visa requirement information below, but to avoid problems, check your itinerary and the most recent Chinese visa regulations to be sure your trip meets the regulations. Recent travel advisories and other useful information can be found on the U.S. State Department's travel website.

If traveling to China, remember to connect with the U.S. Embassy and Consulates through the Department of State's Smart Traveler Enrollment Program.

Visa Requirements

A valid U.S. passport and Chinese visa are required to enter China. A visa must be obtained from Chinese Embassies or Consulates before traveling to China. Following the new U.S.-China visa reciprocity agreement announced during the Asia-Pacific Economic Cooperation event in November 2014, multiple entry, 10-year visas are now available. Visitors should request a multiple entry, 10-year Chinese visa to maximize their benefit from this new policy. Americans arriving without valid passports and the appropriate Chinese visa are not permitted to enter and can be subject to a fine and immediate deportation at the traveler's expense. U.S. citizens may stay in mainland China for up to 144 hours without a Chinese visa if transiting certain international airports. Consult the Chinese Embassy/Consulate for a current list of eligible airports. Transiting without a visa requires a valid passport, a visa for your onward destination (if necessary), and an onward plane ticket departing from the same airport. Some cities require that you remain in the same municipality or province while in China. Make sure to get an endorsement stamp at the immigration desk before leaving the airport.

For information about visa requirements and other entry requirements and restricted areas, travelers should visit the website here for current visa information.

There are Chinese Consulates General in Chicago, Houston, Los Angeles, New York, and San Francisco.

Americans who overstay or otherwise violate the terms of their Chinese visas may be subject to a RMB 500 fine per day up to a maximum of RMB 10,000 or be detained for 5-15 days, and/or deported. Note that if you lose your passport or become the victim of passport theft, you will not only need to obtain a new passport, but you will need to obtain an exit visa before you will be able to depart China. This process can take up to 15 days.

Currency

The People's Republic of China's currency is officially called the Renminbi (RMB) and is also known as the Yuan. Colloquially, locals and expatriates may use the Chinese word "kuai," as in "that book is 50 kuai." The distribution of counterfeit Chinese currency continues to plague official and private Americans. Unsuspecting Americans are passed fraudulent notes at restaurants, stores, and taxi cabs. Large numbers of 100 RMB and 50 RMB counterfeit notes continue to circulate, while even fake 20 RMB and 10 RMB (roughly three and two dollars respectively) denominations have been introduced in Beijing and other parts of the country.

Telecommunications/Electric

International and domestic phone calls can be made with little difficulty in China, particularly in the major cities. International and domestic calls can typically be made directly from hotel rooms and phone cards and SIM cards are widely available. Phones can be rented at the airport arrival terminals for short term use.

City Codes

Cities shown are where the U.S. Government has an Embassy or Consulate. For calls made within China, add a "0" before the city code. For calls made to China, dial "86" before the city code. When calling China from the United States, add "011" before the country code.

Beijing: 10
Chengdu: 28
Guangzhou: 20
Shanghai: 21
Shenyang: 24
Wuhan: 27
Hong Kong: 852

Telephone Operators

Local Directory Assistance (some English): 114

Other Numbers (Emergencies)

U.S. Embassy: 011-86 10-8531-3000. Within Beijing, dial 8531-3000 (American Citizen Services) and listen for the menu options. For after-hours emergencies only, dial 8531-3000, and ask the operator or the Marine Guard receiving the call to let you speak to the Duty Officer.

Additional important information, including travel advisories, can be found at the Misson China's U.S. Citizen Service's website.

Emergency/Fire (Chinese & English): 119
Police (Chinese & English): 110
Medical Emergency (Chinese & English): 120

All visitors should be aware that they have no expectation of privacy in public or private locations. The U.S. Embassy regularly receives reports of human and technical monitoring of U.S. citizens.

All hotel rooms and offices are considered to be subject to on-site or remote technical monitoring at all times. Hotel rooms, residences, and offices may be accessed at any time without the occupants' consent or knowledge. Elevators and public areas of housing compounds are also under continuous surveillance.

All means of communication--telephones, mobile phones, faxes, e-mails, text messages, etc.--are likely monitored. The government has access to the infrastructure operated by the limited number of internet service providers (ISPs) and wireless providers. Wireless access to the Internet in major metropolitan areas is becoming more common.

Transportation

Taxis

Metered taxis are plentiful and can be hailed along most main streets, especially near hotels and major sightseeing attractions. Taxis are a convenient and fairly inexpensive means of transport, especially if you have your destination address written in Chinese. Transportation is easily arranged at the front door of the hotel. Concierge desks have cards with the name and address of the hotel in Chinese and can assist with giving instructions to the taxi driver. The use of unregistered or "black" taxi cabs continues to be a concern. In a limited number of cases, Americans using "black" taxi cabs have reported being sexually assaulted; have had their luggage stolen; or have been charged exorbitant fares.

Airlines

Airline	Number	Note
American Airlines	400-818-7333	
Cathay Pacific/ Dragon Air	400-888-6628	(86 10) 6453-2566 (airport office)
Japan Airlines	400-888-0808	
Korean Airlines	400-658-8888	Press "3" for English
Malaysian Airlines	(86 10) 6505-2681 ; 10-6459-0206 (airport)	Press "2" for English
Delta/Northwest	400-814-0081	Press "3" English
Qantas	800-819-0089 ; (86 10) 6567-9006	Press "1" for English Press "101" for English
Singapore Airlines	(86 10) 6505-2233	Press "2" for English
Thai Airways	(86 10) 8515-0088	Press "0" for English
United	800-810-8282	Press "1" for English
Vietnam Airlines	(86 10) 8454-1196	

Please be advised that while air connections within China are plentiful, the frequency and length of delays has steadily worsened over the past couple years. It is not uncommon for an internal flight to be delayed for hours. Be sure to confirm which airport/terminal your departure flight will use in Beijing (Terminal 2 or Terminal 3) or in Shanghai (Hongqiao or Pudong) as they are miles apart.

Language

Mandarin Chinese is the national language, spoken by over 70 percent of Chinese. Other than Mandarin there are six major Chinese dialects, as well as numerous local dialects. Pinyin refers to the standardized Romanization system used to represent the pronunciation of Chinese characters; it is used throughout China on signs. Simplified Chinese characters are written the same across Mainland China despite being pronounced differently in each dialect. For business purposes, it is important to provide contacts with bilingual business cards, usually with Chinese characters on one side, English on the other. Titles and company names should be translated with care into Chinese to ensure a positive meaning.

Cantonese is often spoken in southern China and Hong Kong.

Health

Western-style medical facilities with international staff are available in Beijing, Shanghai, Guangzhou and a few other large cities. Many other hospitals in major Chinese cities have so-called VIP wards (*gaogan bingfang*). These feature reasonably up-to-date medical technology and physicians who are both knowledgeable and skilled. Most VIP wards also provide medical services to foreigners and have English-speaking doctors and nurses.

Most hospitals in China will not accept medical insurance from the United States, with the exception of the following hospitals:

- Beijing United Family Hospital,
- Beijing Friendship Hospital,
- International Medical Center in Beijing,
- Peking Union Medical Center, and
- Shanghai Family Health United.

Travelers will be asked to post a deposit prior to admission to cover the expected cost of treatment. Hospitals in major cities may accept credit cards for payment. Even in the VIP/Foreigner wards of major hospitals, however, American patients have frequently encountered difficulty due to language, cultural, and regulatory differences. Physicians and hospitals have sometimes refused to supply American patients with complete copies of their Chinese hospital medical records, including laboratory test results, scans, and x-rays. All Americans traveling to China are strongly encouraged to buy foreign medical care and medical evacuation insurance prior to arrival. Travelers who want a list of medical facilities in China that will treat foreigners can access that information at the Embassy's website. Information for consular districts can be accessed by clicking "locations" in the upper right-hand corner of this site.

Ambulances do not carry sophisticated medical equipment, and ambulance personnel generally have little or no medical training. Therefore, injured or seriously ill Americans may be required to take taxis or other immediately available vehicles to the nearest major hospital rather than waiting for ambulances to arrive. In rural areas, only rudimentary medical facilities are generally available. Rural clinics are often reluctant to accept responsibility for treating foreigners, even in emergency situations.

Medical Insurance

The Department of State strongly urges Americans to consult with their medical insurance company prior to traveling abroad to confirm whether their policy applies overseas and if it will cover emergency expenses such as a medical evacuation. U.S. medical insurance plans seldom cover health costs incurred outside the United States unless on a reimbursable basis or if supplemental coverage is purchased. Furthermore, U.S. Medicare and Medicaid programs do not provide payment for any medical services outside the United States. However, many travel agents and private companies offer insurance plans that will cover health care expenses incurred overseas, including emergency services such as medical evacuations.

When making a decision regarding health insurance, Americans should consider that many foreign doctors and hospitals require payment in cash prior to providing service and that a medical evacuation to the U.S., or even to Hong Kong, may cost well in excess of $100,000. Uninsured travelers who require medical care overseas often face extreme difficulties. When consulting with your insurer prior to your trip, ascertain whether payment will be made to the overseas healthcare provider or if you will be reimbursed later for expenses you incur. Some insurance policies also include coverage for psychiatric treatment and for disposition of remains in the event of death.

Raffles Medical Clinic, UnitedHealthcare Global, and Heathrow Air Ambulance offer medical insurance policies designed for travelers.

Raffles Medical Clinic Beijing (Formerly Beijing International SOS Clinic)
Address: Suite 105, Wing 1, Kunsha Building, No 16 Xinyuanli, Chaoyang District, Beijing 100027, China
Telephone: (86 10) 6462-9112

UnitedHealthcare Global (Formerly MEDEX Assistance Corporation)

Service information:
Email: safetrip_info@uhcglobal.com
U.S. toll free:1-800-732-5309
International: 1-410-453-6380

Immediate assistance:
Email: assistance@uhcglobal.com
U.S. toll free: 1-800-527-0218
International: 1-410-453-6330

Address: 8501 LaSalle Road, Suite 200, Baltimore, MD 21286, USA

Heathrow Air Ambulance

Heathrow is an air evacuation service with offices in the United States and England. Travelers can pre-arrange air evacuation insurance and other emergency travel assistance. This service also has a business plan to assist foreigners who lack travel insurance.

Address: Heathrow Air Ambulance Service, 15554 FM, Suite 195 Houston, TX. 77095-2704.
Telephone: 1-800-513-5192
Fax: 1-832-934-2395.
E-mail: info@heathrowairambulance.com

Useful information on medical emergencies abroad, including overseas insurance programs, is provided in the Department of State's Bureau of Consular Affairs brochure, Medical Information for Americans Traveling Abroad.

Other Health Information

Air pollution is a significant problem throughout China. Travelers should consult their doctor prior to travel and consider the impact seasonal smog and heavy particulate pollution may have on them. The U.S. Embassy and Consulates have air quality monitors to measure PM 2.5 particulates as an indication of the air quality at the following website:

Poor sterilization practices are problems in China, contributing to transmission of diseases such as hepatitis, which is endemic in China. In order to protect themselves from blood and other tissue borne disease such as hepatitis and HIV, travelers should always ask doctors and dentists to use sterilized equipment and be prepared to pay for new syringe needles in hospitals or clinics. Tuberculosis is endemic in China.

Most roads and towns in Tibet, Qinghai, parts of Xinjiang, and western Sichuan are situated at altitudes over 10,000 feet. Travelers in these areas should seek medical advice in advance of travel, allow time for acclimatization to the high altitude, and remain alert to signs of altitude sickness.

Prior to departing for China, travelers are advised to consult the [CDC's traveler's health website](), prior to departing for China.

Local Time, Business Hours and Holidays

Time throughout China is set to Beijing time, which is eight hours ahead of GMT/UTC. When it's noon in Beijing it's also noon in far-off Lhasa, Urumqi, and all other parts of the country. However, western China does follow a later work schedule to coincide with daylight hours.

Business Hours

China officially has a five-day work week, although some businesses stretch to six days. Offices and government departments are normally open Monday to Friday between 8:30 AM and 5 PM, with some closing for one or two hours in the middle of the day.

Embassy Holidays for 2017

The Embassy is open from 8:00 a.m. to 5:00 p.m. Monday through Friday. We are closed on the following American and Chinese holidays in 2017:

Note	Holiday	Dates	Weekdays
***	New Year's Day	January 1-2	Sunday-Monday
*	Martin Luther King, Jr.'s Birthday	January 16	Monday
**	Chinese (Lunar) New Year	January 27-31	Friday-Tuesday
*	Presidents' Day	February 20	Monday
*	Tomb Sweeping Day	April 4	Tuesday
**	International Labor Day	May 1	Monday
*	Memorial Day	May 29	Monday
**	Dragon Boat Festival	May 30	Tuesday
*	Independence Day	July 4	Tuesday
*	Labor Day	September 4	Monday
**	Chinese National Day and Mid-Autumn Festival	October 1-6	Sunday-Friday
*	Columbus Day	October 9	Monday
*	Veterans Day	November 10	Friday
*	Thanksgiving Day	November 23	Thursday
*	Christmas Day	December 25	Monday

*American Holidays

**Chinese Holidays

***American and Chinese Holidays 2017 Embassy Holiday Schedule

Please note that this schedule is subject to change if the PRC government makes any adjustments to legally-recognized Chinese holidays.

Temporary Entry of Materials or Personal Belongings

Although travelers will notice that China Customs officials at the airports do not routinely subject baggage to careful inspection upon arrival, random searches are possible. China allows an individual to import 400 cigarettes (600, if you are staying more than six months), 100 cigars, two bottles of wine or spirits (verify current allowable quantity at the duty free shop before you purchase), and a reasonable amount of perfume. Cash amounts exceeding $5,000 (or equivalent in other foreign currency) should be declared.

Chinese law prohibits the import of cold cuts and fresh fruit. There are limits on other items, such as herbal medicine, that can be taken out of the country. Rare animals and plants cannot be exported. Cultural relics, handicrafts, gold and silver ornaments, and jewelry purchased in China have to be shown to customs upon leaving China. If these items are deemed to be "cultural treasures" they will be confiscated.

It is illegal to import any printed material, film, and tapes, etc. that are "detrimental to China's political, economic, cultural, or ethical interests." Tapes, books or DVDs that "contain state secrets or are otherwise prohibited for export" can also be seized on departing China.

Web Resources

U.S. Embassy Beijing
U.S. Foreign Commercial Service, China
China Council for the Promotion of International Trade (CCPIT)
National Development and Reform Commission (NDRC)
Chinese Ministry of Commerce
American Chamber of Commerce China (AmCham)
U.S.-China Business Council
Chinese Government