Auto Parts Industry in Sichuan and Chongqing in China: A Strategic Reference, 2003

Edited by

Philip M. Parker, Ph.D.
Eli Lilly Chair Professor of Innovation, Business and Society
INSEAD (Fontainebleau & Singapore)

Miss Page

ISBN 0-497-19085-0

IMPORTANT DISCLAIMER

Neither ICON Group International, Inc. nor its employees can be held accountable for the use and subsequent actions of the user of the information provided in this publication. Great efforts have been made to ensure the accuracy of the data, but we cannot guarantee, given the volume of information, accuracy. **Since the information given in this report is forward-looking, the reader should read the disclaimer statement and user agreement provisions at the end of this report.**

About Icon Group International, Inc.

Icon Group International, Inc.'s primary mission is to assist managers with their international information needs. U.S.-owned and operated, Icon Group has field offices in Paris, Hong Kong, and Lomé, Togo (West Africa). Created in 1994, Icon Group has published hundreds of multi-client databases, and global/regional market data, industry and country publications.

Global/Regional Management Studies: Summarizing over 190 countries, management studies are generally organized into regional volumes and cover key management functions. The human resource series covers minimum wages, child labor, unionization and collective bargaining. The international law series covers media control and censorship, search and seizure, and trial justice and punishment. The diversity management series covers a variety of environmental context drivers that effect global operations. These include women's rights, children's rights, discrimination/racism, and religious forces and risks. Global strategic planning studies cover economic risk assessments, political risk assessments, foreign direct investment strategy, intellectual property strategy, and export strategies. Financial management studies cover taxes and tariffs. Global marketing studies focus on target segments (e.g. seniors, children, women) and strategic marketing planning.

Country Studies: Often managers need an in-depth, yet broad and up-to-date understanding of a country's strategic market potential and situation before the first field trip or investment proposal. There are over 190 country studies available. Each study consists of analysis, statistics, forecasts, and information of relevance to managers. The studies are continually updated to insure that the reports have the most relevant information available. In addition to raw information, the reports provide relevant analyses which put a more general perspective on a country (seen in the context of relative performance vis-à-vis benchmarks).

Industry Studies: Companies are racing to become more international, if not global in their strategies. For over 2000 product/industry categories, these reports give the reader a concise summary of latent market forecasts, pro-forma financials, import competition profiles, contacts, key references and trends across 200 countries of the world. Some reports focus on a particular product and region (up to four regions per product), while others focus on a product within a particular country.

Table of Contents

1 INTRODUCTION & METHODOLOGY 1

1.1 What Does This Report Cover? 1

1.2 How to Strategically Evaluate China 1

1.3 Latent Demand and Accessibility in China 3

2 AUTO PARTS INDUSTRY IN SICHUAN AND CHONGQING IN CHINA 5

2.1 Latent Demand and Accessibility: Background 5

2.2 Latent Demand: Aspects of Interest 5

2.2.1 Latent Demand: Statistical Profile 6
2.2.2 Best Prospects: Products and Technology 6

2.3 Accessibility: The Structure of Competition 7

2.3.1 Local Production 7
2.3.2 Key Auto Parts Companies in Sichuan and Chongqing 8
2.3.3 Accessibility: Foreign Entrants 9
2.3.4 Accessibility: U.S. Presence 10
2.3.5 Latent Demand: Target Buyers 11

2.4 Accessibility: Key Factors 11

2.4.1 Import Barriers 11
2.4.2 Distribution Strategies 12
2.4.3 Financing Strategies 12

3 FINANCIAL INDICATORS: MOTOR VEHICLE PARTS AND ACCESSORIES MANUFACTURING 13

3.1 Overview 13

3.1.1 Financial Returns and Gaps in China 14
3.1.2 Labor Productivity Gaps in China 16
3.1.3 Limitations and Extensions 17

3.2 Financial Returns in China: Asset Structure Ratios 18

3.2.1 Overview 18
3.2.2 Assets – Definitions of Terms 18
3.2.3 Asset Structure: Outlook 21
3.2.4 Large Variances: Assets 22
3.2.5 Key Percentiles and Rankings 25

3.3 Financial Returns in China: Liability Structure Ratios 40

3.3.1 Overview 40
3.3.2 Liabilities and Equity – Definitions of Terms 40
3.3.3 Liability Structure: Outlook 42
3.3.4 Large Variances: Liabilities 43
3.3.5 Key Percentiles and Rankings 46

3.4 Financial Returns in China: Income Structure Ratios 59

3.4.1 Overview 59

3.4.2 Income Statements – Definitions of Terms 59
3.4.3 Income Structure: Outlook 62
3.4.4 Large Variances: Income 63
3.4.5 Key Percentiles and Rankings 66

3.5 Financial Returns in China: Profitability Ratios 81

3.5.1 Overview 81
3.5.2 Ratios – Definitions of Terms 81
3.5.3 Ratio Structure: Outlook 83
3.5.4 Large Variances: Ratios 84
3.5.5 Key Percentiles and Rankings 87

3.6 Productivity in China: Asset-Labor Ratios 102

3.6.1 Overview 102
3.6.2 Asset to Labor: Outlook 103
3.6.3 Asset to Labor: International Gaps 104
3.6.4 Key Percentiles and Rankings 107

3.7 Productivity in China: Liability-Labor Ratios 122

3.7.1 Overview 122
3.7.2 Liability to Labor: Outlook 123
3.7.3 Liability and Equity to Labor: International Gaps 124
3.7.4 Key Percentiles and Rankings 127

3.8 Productivity in China: Income-Labor Ratios 140

3.8.1 Overview 140
3.8.2 Income to Labor: Outlook 141
3.8.3 Income to Labor: Gaps 142
3.8.4 Key Percentiles and Rankings 145

4 MACRO-ACCESSIBILITY IN CHINA 160

4.1 Executive Summary 160

4.2 Government Intervention Risks 160

4.3 Infrastructure Investment 161

4.4 Political Risks 161

4.5 Marketing Strategies 162

4.5.1 Distribution Channel Options 162
4.5.2 Selling Strategies 165
4.5.3 Advertising and Trade Promotion 166
4.5.4 Pricing Issues 167
4.5.5 Sales to the Government 167

4.6 Intellectual Property Protection and Enforcement 168

4.6.1 China's IPR Commitments 168
4.6.2 IPR Climate 169
4.6.3 IPR Enforcement Strategies 169
4.6.4 IPR Enforcement System 170
4.6.5 Local Professional Services 173
4.6.6 Due Diligence 174

4.7 Import and Export Regulation Risks 174
4.7.1 Import Tariffs and Customs Regulations ... 174
4.7.2 Trade Barrier Risks ... 176
4.7.3 Import Documentation Requirements ... 179
4.7.4 Controls on Exports ... 179
4.7.5 Chinese Export Controls ... 180
4.7.6 Inspection Standards ... 181
4.7.7 Labeling Issues ... 183
4.7.8 Additional Trade Issues ... 184
4.7.9 Restrictions on Imports ... 184
4.7.10 Customs Contact Information ... 185

4.8 Openness to Foreign Investment 185
4.8.1 Laws Affecting Foreign Enterprise Establishment ... 188
4.8.2 Other Laws Relating to Investment ... 190
4.8.3 Conversion and Transfer Policies ... 192
4.8.4 Expropriation and Compensation ... 192
4.8.5 Dispute Settlement ... 192
4.8.6 Performance Requirements and Incentives ... 194
4.8.7 Right to Private Ownership and Establishment ... 194
4.8.8 Intellectual Property Risks ... 195
4.8.9 Membership in International IPR Organizations ... 195
4.8.10 IPR Enforcement ... 195

4.9 Transparency of the Regulatory System 196
4.9.1 Capital Market Risks ... 197
4.9.2 Political Violence ... 198
4.9.3 Corruption ... 198
4.9.4 Bilateral Investment Agreements ... 199
4.9.5 OPIC and Other Investment Insurance ... 199
4.9.6 Labor ... 199
4.9.7 Free Trade Zone Options ... 201

4.10 Trade and Project Financing 201
4.10.1 Banking System ... 201
4.10.2 Foreign Exchange Control Risks ... 203
4.10.3 Financing Exports ... 204
4.10.4 Terms of Payment ... 206
4.10.5 Insurance ... 207
4.10.6 Financing Projects ... 207
4.10.7 Commercial Bank Contacts ... 207

4.11 Travel Issues 212
4.11.1 Planning and Logistics ... 212
4.11.2 Temporary Entry of Materials and Personal Belongings ... 214

4.12 Economic and Trade Statistics 215
4.12.1 Country Data and Domestic Economy ... 215
4.12.2 Trade Data ... 216
4.12.3 Investment Statistics ... 216
4.12.4 Major U.S. Investors in China ... 221

4.13 Contacts 223
4.13.1 State Commissions ... 223

4.13.2 Chinese Ministries 223
4.13.3 Associations & Corporations 231
4.13.4 American Chamber of Commerce 233
4.13.5 U.S. Embassy Contacts 235
4.13.6 Contacts in Washington D.C. 237
4.13.7 U.S.-Based Multipliers 238

5 DISCLAIMERS, WARRANTEES, AND USER AGREEMENT PROVISIONS 239

5.1 Disclaimers & Safe Harbor 239

5.2 Icon Group International, Inc. User Agreement Provisions 240

1 INTRODUCTION & METHODOLOGY

1.1 WHAT DOES THIS REPORT COVER?

The primary audience for this report is managers involved with the highest levels of the strategic planning process and consultants who help their clients with this task. The user will not only benefit from the hundreds of hours that went into the methodology and its application, but also from its alternative perspective on strategic planning relating to auto parts industry in sichuan and chongqing in China.

As the editor of this report, I am drawing on a methodology developed at INSEAD, an international business school (**www.insead.edu**). For any given industry or sector, including auto parts industry in sichuan and chongqing, the methodology decomposes a country's strategic potential along four key dimensions: (1) latent demand, (2) micro-accessibility, (3) proxy operating pro-forma financials, and (4) macro-accessibility. A country may have very high latent demand, yet have low accessibility, making it a less attractive market than many smaller potential countries having higher levels of accessibility.

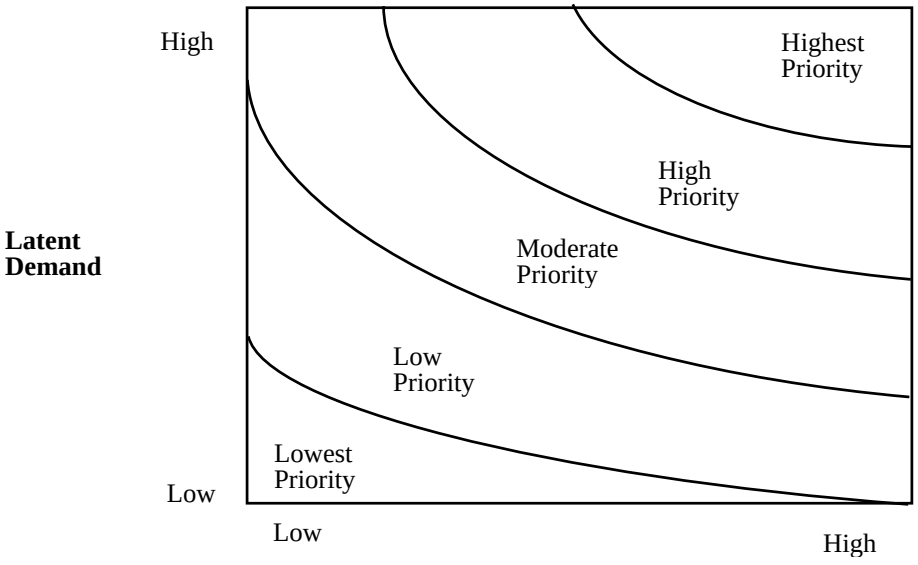
With this perspective, this report provides both a micro and a macro strategic profile of auto parts industry in sichuan and chongqing in China. It does so by compiling published information that directly relates to latent demand and accessibility, either at the micro or macro level. The reader new to China can quickly understand where China fits into a firm's strategic perspective. In Chapter 2, the report investigates latent demand and micro-accessibility for auto parts industry in sichuan and chongqing in China. In Chapters 3 and 4, the report covers proxy operating pro-forma financials and macro-accessibility in China. Macro-accessibility is a general evaluation of investment and business conditions in China.

1.2 HOW TO STRATEGICALLY EVALUATE CHINA

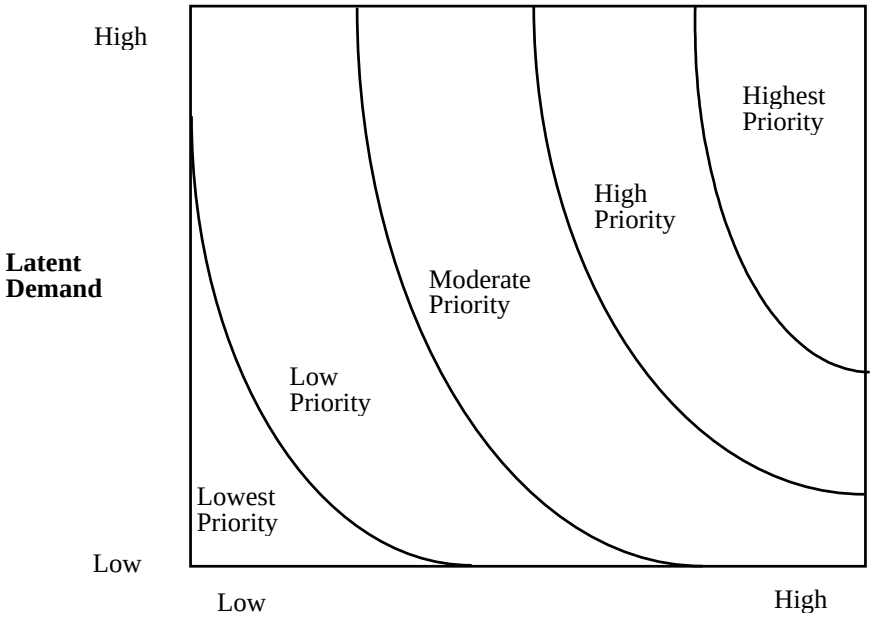
Perhaps the most efficient way of evaluating China is to consider key dimensions which themselves are composites of multiple factors. Composite portfolio approaches have long been used by strategic planners. The biggest challenge in this approach is to choose the appropriate factors that are the most relevant to international planning. The two measures of greatest relevance to auto parts industry in sichuan and chongqing are "latent demand" and "market accessibility". The figure below summarizes the key dimensions and recommendations of such an approach. Using these two composites, one can prioritize all countries of the world. Countries of high latent demand and high relative accessibility (e.g. easier entry for one firm compared to other firms) are given highest priority. The figure below shows two different scenarios. Accessibility is defined as a firm's ease of entering or supplying from or to a market (the "supply side"), and latent demand is an indicator of the potential in serving from or to the market (the "demand side").

Framework for Prioritizing Countries

Demand/Market Potential Driven Firm



Accessibility/Supply Averse Firm



In the top figure, the firm is driven by market potential, whereas the bottom figure represents a firm that is driven by costs or by an aversion to difficult markets. This report treats the reader as coming from a "generic firm" approaching the global market – neither a market-driven nor a cost-driven company. Planners must therefore augment this report with their own company-specific factors that might change the priorities (e.g. a Canadian firm may have higher accessibility in Canada than a German firm).

1.3 LATENT DEMAND AND ACCESSIBILITY IN CHINA

This report provides a detailed overview of factors driving latent demand and accessibility for auto parts industry in sichuan and chongqing in China. Latent demand is largely driven by economic fundamentals specific to auto parts industry in sichuan and chongqing. This topic is discussed in Chapter 2 using work carried out in China on behalf of American firms and authored by the United States government (typically commercial attachés or similar persons in local offices of the U.S. Department of State). I have included a number of edits to clarify the information provided. Latent demand only represents half of the picture. Chapter 2 also deals with micro-accessibility for auto parts industry in sichuan and chongqing in China. I use the term "micro" since the discussion is focused specifically on auto parts industry in sichuan and chongqing.

Chapter 3 is also a stand-alone report that I have authored. It covers proxy pro-forma financial indicators of firms operating in China. I use the word "proxy" because the provided figures only cover a "what if" scenario, based on actual operating results for firms in China. The numbers are only indicative of an average firm whose primary activity is in China. It covers a vertical analysis of the maximum likelihood balance sheet, income statement, and financial ratios of firms operating in China. It does so for a particular Standard Industrial Classification (SIC) code. That code covers "motor vehicle parts and accessories manufacturing", as defined in Chapter 3. Again, while "motor vehicle parts and accessories manufacturing" does not exactly equate to "auto parts industry in sichuan and chongqing", it nevertheless gives an indicator of how China compares to other countries for a proxy adjacent category along various dimensions.

Chapter 4 deals with macro-accessibility and covers factors that go beyond auto parts industry in sichuan and chongqing. A country may at first sight appear to be attractive due to a high latent demand, but it is often less attractive when one considers at the macro level how easy it might be to serve that entire potential and/or general business risks. While accessibility will always vary from one company to another for a given country, the following domains are typically considered when evaluating macro-accessibility in China:

- Openness to Trade in China
- Openness to Direct Investment in China
- Local Marketing and Entry Strategy Alternatives
- Local Human Resources

- Local Risks

Across these domains, a number of not-so-obvious factors can affect accessibility and risk. These are covered in the Chapter 4, which is a general overview of investment and business conditions in China. Chapter 4 is also presented from the perspective of an American firm, though is equally applicable to most firms entering China. This chapter is also authored by local offices of the U.S. government, as is Chapter 2. Likewise, I have included a number of edits to clarify the provided information as it relates to the general strategic framework mentioned earlier.

2 AUTO PARTS INDUSTRY IN SICHUAN AND CHONGQING IN CHINA

2.1 LATENT DEMAND AND ACCESSIBILITY: BACKGROUND

This report focuses on the auto parts industry in Sichuan Province and Chongqing Municipality, which was part of Sichuan before it was designated as a municipality reporting directly to the Central Government in 1997.

China is making great efforts to develop its auto industry into a pillar industry in the national economy by 2010. According to the Auto Industry Tenth Five-Year Plan (2001-2005), by 2005 annual production volume will reach 3.2 million vehicles of which 1.1 million will be passenger cars. The production value of the auto industry is projected to be RMB130 billion (USD15.7 billion). The percentage of diesel engine vehicles will be increased from 29% in 2000 to 35% by 2005. The main goals projected for the automotive components, parts and accessories industry are to improve technology and quality and to develop design capability. By 2005 the quality and standard of automobiles and key spare parts should reach or be close to that of the same categories internationally.

China's accession to the WTO will have a great impact on its automobile industry in terms of foreign competition in China. By 2006, tariffs on imported automobiles will be reduced to 25 % and tariffs on imported automobile parts and components will be reduced to 10%. The gradual reduction of tariffs on automotive parts and more importantly, China's agreement to eliminate local content requirements as part of their WTO commitment, will put domestic parts manufacturers in direct competition with their multi-national counterparts. American and other foreign companies will have the right to distribute most products including automobiles and related parts to any part of China by 2005.

The Western Development Program, promoted by the Chinese Government, will bring not only investment but also business opportunities to Western China. Although most of the western regions are geographically isolated and less developed in terms of per capita GDP, they have rich natural resources and cheap labor. Moreover, many of these regions have already established industrial infrastructures. As a result of thirty years of development, Sichuan Province and Chongqing Municipality, the most important economic areas in Southwest China, have become key production bases for automobiles, auto parts and components. More and more foreign companies are exploring business opportunities in these areas.

Most local auto parts manufacturers do not have strong capabilities to develop new products due to the small scale of production and a shortage of capital. Even some leading firms spend very little on research and development (R & D). In the next five years, the Chinese Government will continue to encourage foreign investment in auto component innovation and manufacturing expansion. There is definitely a market for imports. American products enjoy high regard among Chinese customers for reasonable price and high quality.

2.2 LATENT DEMAND: ASPECTS OF INTEREST

Sichuan, the largest province in Southwest China, has a population of 85 million. Sichuan's economy ranks among the tops nationwide, which has determined its import position in the national economy. The auto industry is a key sector of the machinery industry in Sichuan. By 2000, Sichuan claimed to have 180 enterprises involved in the automobile industry of which there were 35 State approved auto manufacturers and re-manufacturers, 18 farm vehicle manufacturers, four motorcycle companies and over 120 auto parts and components producers. Most of the manufacturing companies are located in the following four cities, Chengdu, Mianyang, Nanchong and Luzhou. In 2001, Sichuan produced 86,100 autos and farm vehicles of which 20,100 were autos and rebuilt autos, 150,000 motorcycles and 80,000 engines. The total output value was RMB9.19 billion (USD1.11 billion) of which RMB3 billion (USD362 million) came from auto parts and components.

Lying in the upper reaches of the Yangtze River, Chongqing Municipality, formerly part of Sichuan, was designated as municipality directly reporting to the Central Government in 1997. It is the largest municipality in China with a population of 30.9 million. The automobile and motorcycle industry plays a very important role in the city's economy. Thanks to the 3rd Line Construction in 1960s and 1970s, when strategic industries were relocated in Chongqing, Chongqing built a complete industrial infrastructure with many heavy industries and defense facilities. In the past twenty years, many of those companies have turned into leading manufacturers of civilian products such as automobiles and motorcycles. Chongqing currently has 17 State designated auto manufacturers and 11 re-manufacturers specializing in heavy and light duty trucks, mini-buses, passenger cars and special vehicles. In addition, there are four farm vehicle, 11 motorcycle, and 14 engine manufacturing companies. In 2000, Chongqing produced 252,700 vehicles, 2.3 million motorcycles, 6,200 farm vehicles, 240,000 auto engines and 4.65 million motorcycle engines. The export of motorcycles and spare parts was valued USD375 million which was 52 % of China's total exports.

2.2.1 Latent Demand: Statistical Profile

Auto Parts Market in Sichuan Province (USD million)

	2000	2001	2001-1-3	2002-1-3	Est. Growth (2002-03)
Import Market	0.44	22.42	3.58	3.11	7%
Local Production	362.75	411.12	N/A	N/A	14%
Exports	5.77	4.97	1.05	2.26	6%
Total Market	357.42	428.57	N/A	N/A	15%

(Source: Chengdu Customs)
Exchange Rate: USD1.00 = RMB 8.27
Estimated Future Inflation Rate: 1 percent

The import and export statistics above should only be used as an indication of market trends and may not reflect the actual value of the market in Sichuan. Many of the auto parts and components have been shipped to Sichuan through Shanghai and Tianjian Customs by product agents.

2.2.2 Best Prospects: Products and Technology

China's State Development Planning Commission (SDPC), the State Economic and Trade Commission (SETC) and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) jointly issued a new "Directory of Industries for Foreign Investment", which took effect on April 1, 2002.

The new Directory encourages foreign investment in the auto manufacturing industry related to the following fields:

- Whole passenger cars and motorcycles
- Engines for motor vehicles and motorcycles
- Key automotive parts and components including brake assemblies, axle assemblies, transmissions, diesel engine fuel pumps, turbo-superchargers for diesel engines, external emission control equipment for diesel motor vehicles, filters (lube-oil, air and fuel filters), constant velocity universal joints, combination instruments and special high-strength fastener parts
- Electronic fuel injection systems, safety air-sac equipment, and other auto electronic equipment systems
- Key motorcycle parts and components including carburetors, magnetos, starting motors and disk brakes

- Special-purpose desert vehicles for the petroleum industry
- Design and manufacturing of machine tools for motor vehicles and motorcycles including trimming dies, injection molds and die formings; clamping fixtures including welding fixtures and inspection jigs
- Casting and forging of semi-finished products for motor vehicles and motorcycles
- Auto tail gas scavengers, catalytic agents and other assistants for motor vehicles

(Source: China Automotive News 03/18/2002)

2.3 ACCESSIBILITY: THE STRUCTURE OF COMPETITION

2.3.1 Local Production

In recent years, under the government's favorable policies, China's automobile parts industry has made rapid developments by increasing investment, making use of foreign capital, and absorbing overseas advanced technology. Many auto parts manufacturers have gone through product structural adjustment and increased local product content. Quite a number of State-owned enterprises (SOEs) and private companies can meet the requirements of domestic OEMs and are becoming competitive in the international market. Local product content of major types of vehicles accounted for 80% of all automobiles and the scheduled period for 80% localization content of passenger cars will be reduced from 6-8 years to 3-4 years. In the past decade, auto parts exports increased an annual average of 30.2% from USD84.3 million in 1990 to USD798 million in 1999. By the end of 1998, China had established over 600 joint ventures with more than 20 countries and regions in the world. Total foreign investment reached USD21 billion of which USD10.6 billion was registered capital and USD4.5 billion was actual foreign investment. In addition, China introduced over three hundred specifications of technologies for finished vehicles and spare parts.

Since the reform and opening up to the outside world twenty years ago, Sichuan's auto industry has achieved great progress. It has many cooperative ventures with foreign companies from the United States, Germany, France, Australia, Britain and Japan in the form of joint venture production, co-design, technology transfer, product processing and assembly. Sichuan now has twenty foreign joint ventures in the automobile industry. The establishment of Sichuan Toyota Auto Co. Ltd., a joint venture between Sichuan Station Wagon Factory and Japan Toyota Co. Ltd. has injected new energy into the Sichuan auto industry due to the size of the investment.

As the pillar industry in Chongqing's economy, the Chongqing auto industry now has annual production capacity of 150,000 mini vans, 100,000 economy cars, 70,000 light vehicles, 16,000 heavy-duty trucks, 10,000 rebuilt vehicles, 4 million motorcycles and over 6 million engines. It also has many strong auto parts manufacturers with complete product categories. In 2000, annual output value of the auto industry reached RMB39.8 billion (USD 4.79 billion) which was one-third of the city's industrial revenues.

In 1999, the Central Government announced the Great Western Development strategy whereby central as well as local governments would channel public and private funds towards the economic development of western China. The auto parts industry is one of the main sectors the local government wants to develop.

Many local auto parts manufacturers are earnestly looking for joint venture partners to upgrade their facilities and make their products competitive.

2.3.2 Key Auto Parts Companies in Sichuan and Chongqing

Luzhou Shuangling Power Co. Ltd. is one of the largest auto parts manufacturers in western China and, claims to have a number of highly qualified technical and management personnel. Equipped with advanced Japanese and Swiss testing and measuring instruments and new technology for making piston-rings, the company can now produce 20 million piston-rings, 250,000 pistons, 150,000 axle shafts and casing pipes for axle shafts and 100,000 flying wheel gears per year. Products are exported to Southeast Asia, Latin America, Hongkong and Macao. The company is a reliable supplier to the major OEMs in China.

Mianyang Xinchen Engine Co., Ltd. is a joint venture of Mianyang Xinhua I.C. Engine Co. Ltd. and Huachen China Auto Shareholding Co. With a registered capital of USD8.6 million, the company started its operations in 1998 and is ISO9001 certified. The company has built up an internal computer network, a CAD design system and sixteen production lines with an annual capacity of 120,000 gasoline engines.

Sichuan CNG Machinery and Electronic Equipment Co. Ltd. is a manufacturer of conversion devices for CNG vehicles and has an annual capacity of 200,000. Its NGV devices are widely used by many domestic OEMs and re-manufacturers. The company has received many awards from government departments and four state patents for key technologies.

Sichuan Jianan Machinery Factory is a large State-owned enterprise under China North Industries Group. Sichuan Jianan North Automobile Co. has a total investment of USD16 million and is a joint venture incorporated with the Sixth Auto Company in the Virgin Islands. It claims to have over one thousand advanced processing machines and can turn out 200,000 sets of axles annually. Major products are mini-van front and rear axles and parts, light-duty truck driving axles, passenger car rear axles and farm vehicle axles and parts.

Sichuan Fanhua Aviation Instrument Factory is located in Yaan City, 120 kilometers from Sichuan's capital city Chengdu. It covers a land area of 320,000 square meters and has a production area of 81,000 square meters. The company has total assets of RMB210 million (USD25 million) and 1700 employees of which over 600 are technical professionals. The factory claims to have CAD, U.S. MSC emulation systems and advanced numerical control machine tools for the production of automobile electronic devices such as auto harness assemblies, relay assemblies and non-standard measuring instruments.

Sichuan Hongguang Auto Machinery Electronic Co. Ltd. is located in the industrial development zone of Pixian, Chengdu. The company is a joint venture with investment from a Singapore financing institution. The total investment for the plant is USD 26.84 million. Major products are 462Q, 465Q mini-car carburetors for ALTO mini-sedans and series throttle bodies for electronic fuel injection engines. The company is ISO9001 certified.

Sichuan Feihong Bearing Co., Ltd. is a large State owned enterprise specializing in alloy engine bearings and bushes. Its products were awarded the Sichuan Provincial Brand Product and High Quality Product from the national level State Machinery Ministry. Sichuan Feihong is a leading company member of the Automobile Bearing Branch of the China Association of Automobile Industry. It is also an enterprise member of the China First Automobile Group, Dongfeng Automobile Group, Beijing Engine Group and Chongqing Changan Auto Group. Average annual output is 40 million units of bearings and bushes. Total export value has increased to over USD 3 million in the past three years.

Sichuan Chuannan Absorbers Co., Ltd. is a subsidiary of Sichuan Chuannan Absorbers Group, a long standing and large State-owned enterprise. The company covers a land area of 40,000 square meters and has fixed assets of RMB 160 million (USD19.2 million). It is the main absorber supplier to many OEMs in China and can produce 200,000 units annually. The company has successfully developed and manufactured a series of absorbers including the LZ111 front and rear absorbers, Mazda front and rear absorbers, Suzuki ST90 front and rear absorbers, Suzuki SK410 front and rear absorbers, etc. The company has set up more than forty offices in twenty cities and provinces, forming a close marketing network across the nation. In the past few years, the company has received many awards such as

Class A Absorbers, Best Quality Absorbers by OEMs and Products of National Satisfaction by the China Quality Assessment Association. It plans to increase production capacity to 600,000 in the next five years.

Tongjiang Machinery Works is a subsidiary of the China Aerospace Science and Technical Group. Established in 1960s, this former military product manufacturer is well equipped with advanced devices and can guarantee reliable and high-quality products. Since the early 1980s, the company has been engaged in the development and production of clutch lever devices for MSB and its series, Isuzu100p and Toyota trucks.

Chongqing Qingshan Industrial Co. Ltd. is a leading manufacturer of mini vans and car gears. It has been listed in the top 50 enterprises in Chongqing since 1992. In 2000, the company produced 200,000 gears for mini vans/cars and 140,000 gearing parts for motorcycles, reaching an output value of RMB 350 million (USD 47 million).

Chongqing Xiyuan Camshaft Co., Ltd. was founded in 1985, specializing in the manufacturing of camshafts for vehicles and motorcycles and exhaust manifolds for vehicle engines. The company has CNC camshaft grinding machines Gch120B and GCS6311 imported from Japan and DV-4 and ADCOL CNC camshaft inspection and measuring instruments from the U.S. total sales in 2000 reached USD4.58 million. The company is ISO9002 certified.

Auto Companies on the List of Top 50 Enterprises in Chongqing (2000)

Name	Sales (US$ million)	Employees
Qingling Auto (Group) Co.	647	4,667
Chongqing Chanan Auto Co.	599	7,576
Chongqing Lifan Hongda Industrial Group	383	3,716
China Jialing Industrial Group	273	6,898
Southwest Aluminum (Group) Co. Ltd	236	8,567
Jianshe Group Northern Motorcycle Co.	128	2,162
Chongqing Heavy-duty Truck Co. Ltd.	121	5,025
Chongqing Longxing Gasoline Engine Co.	102	860
Chongqing Zongshen Motorcycle Group	95	867
Jialing-Honda Engine Co.	88	762
Chongqing Dima Special Vehicle Co.	45	285
Chongqing Qingshan Industrial Co.	43	2,038
Chongqing Cummins Diesel Engine Co.	42	1,945
Chongqing Changjiang Bearing Industrial Co.	18	623
Chongqing Hongyu Machinery Plant	15	1,347
Chongqing Changjiang Yizimi Piston Co.	13	1,203

(Source: Chongqing Statistical Yearbook 2001)

2.3.3 Accessibility: Foreign Entrants

China's reform and opening up to the outside world has injected new vigor into the auto industry. Preferential policies have been provided to speed up the development of the industry. In recent years, the great potential of China's auto market has drawn the interest of many foreign businesses. By taking the form of joint ventures, co-operative or solely foreign funded enterprises, many joint ventures for finished vehicles, assemblies or auto parts have taken a big share of the auto market. Japanese firms are the largest competitors to U.S. in the local market.

Established in 1995, Chongqing Kansai Paint Co. is a joint venture between Chongqing Three Gorges Paint Co and Japan Alesco Paint Co. with a total investment of USD7.1 million. It is a major supplier to Sino-Japanese joint auto manufacturers. Kansai's paint products are used for Suzuki cars and motorcycles. Sichuan Kobelco, a Japanese invested engineering machinery plant, is a large user of their products. Changjiang Izumi Piston Co., also a joint venture with a Japanese firm, produces pistons for different vehicles such as Isuzu, Toyota, Mitsubishi and Honda. Japanese firms are very aggressive in penetrating the China market and they usually obtain financial support from their government in the form of soft loans and sometimes grants. Large Japanese automakers also help their parts and components suppliers achieve strong recognition through networking support with associated firms. Yet Japanese firms have not taken the bulk of the local auto parts and components market. But with government support and the expansion of existing Japanese vehicle makers, once the capacity reaches scales of economy, they will undoubtedly become the biggest competitor to U.S. companies.

Sino-Japanese Auto Companies with over USD25 Million Foreign Investment in Chongqing

- Chongqing Changan Suzuki Automobile Co., Ltd
- Jialing Honda Motors Co., Ltd
- Qingling Motors Co., Ltd
- Chongqing Qingling Aluminum Casting Co., Ltd
- Chongqing Qingling Axle Co., Ltd.
- Chongqing Qingling NHK Seat Co., Ltd
- Chongqing Qingling Plastic Co., Ltd.
- Chongqing Qingling Mould Co., Ltd
- Chongqing Qingling Casting Co., Ltd
- Chongqing Qingling Forging Co., Ltd
- Chongqing Wangjing Suzuki Engine Co., Ltd
- Chongqing Qingling Technical Center

European firms have also been making great efforts to enter the Chinese auto parts market, but pose no major threat thus far, especially in Southwest China. Most of these companies are centered around the major OEMs as suppliers to China First Auto Works (FAW), FAW-VW Co., Ltd., Shanghai Volkswagen Auto Co., Ltd., and China Automobile Industry Group. In April 2002, a German company, Man, signed a contract with Chongqing Dajiang Industry (Group) Co. to set up a joint venture for high platform vehicles.

2.3.4 Accessibility: U.S. Presence

Many U.S. firms have already begun moving into this fast growing industry. U.S. auto component firms have a good reputation for quality and reasonable price and some U.S. firms are already well known by Chinese end-users. Chinese OEMs recommend that U.S. suppliers establish plants in China or work more closely with local firms in order to meet domestic content requirements and consequently upgrade the quality of the local product. Since many parts are sourced locally, the total cost of production will decrease primarily due to not having to pay an import tariff.

Established in 1995, Chongqing Cummins Engine Co. Ltd is a joint venture between Chongqing Auto Engine Factory and U.S. Cummins Engine Co. Major products are N.K. M11 diesel engines, diesel generator sets and boat

engine sets which are widely used in heavy-duty trucks, commercial vehicles, mechanical engineering and petroleum engineering. In 2000, Chongqing Changan Automobile (Group) Co., Ltd signed with an agreement with four U.S. firms, IBM, Cisco, Oracle and UGS to jointly establish an IT company. These U.S. companies will help Changan Automobile Company to improve its management capabilty and upgrade its products with the aid of hi-tech and IT technologies. In 2001, the Ford Motor Company set up a joint venture in Chongqing with Changan Automobile Corporation Ltd. the Changan Ford Automobile Co. Ltd is expected to turn out 50,000 passenger cars in 2002. Total investment for the joint venture is USD98 million in which Ford holds a 50% share.

2.3.5 Latent Demand: Target Buyers

As mentioned above, the auto industry plays an important role in the economies of Sichuan and Chongqing. Chongqing, in particular, has been regarded as the premier auto city in western China. Leading auto manufacturers such as Changan, Qingling, Dajiang Industry Co. and Sichuan Auto Group are well known for heavy and light-duty trucks, mini-buses, passenger cars and special vehicles. China's accession to the WTO has brought not only business opportunities but also great challenges and competition to the automakers and auto parts companies in these areas. According to industry insiders, the development strategies for automakers can be divided into two parts. First, automakers should form a self-reliant technical development system, including a new product development base, a quality control system and information service center. Second, leading automakers should work with strong domestic and international companies to achieve high quality and large scale production and try to produce brand name products which are competitive on the international market.

In order to facilitate delivery and minimize goods storage, most of the leading automakers still depend heavily on parts and components supplied by their directly affiliated factories located nearby. The government's regulation of local content rules for vehicles, for a specific period of time, also gave effective protection to domestic suppliers. Such protection made it possible for domestic parts makers to charge their OEMs a much higher price than the international level. Inconsistent quality of parts and accessories is a big headache for OEMs. With China's entry into the WTO, the local content requirement was eliminated. Some experts have pointed out that the more local in a vehicle, the lower the quality of the vehicle. Faced with challenges from other automakers supported by some large international auto groups, Chongqing Changan Auto Co. announced that it will make international purchases of auto parts and components so as to reduce production costs. Meanwhile the company has stopped receiving parts supplied by a number of domestic companies. Small auto parts companies with low scale production and backward technology will be eliminated by the growing competition.

2.4 ACCESSIBILITY: KEY FACTORS

2.4.1 Import Barriers

With China's accession to the WTO, the automobile market in China is gradually changing. Tariff rates will be gradually reduced (as shown in the table below) until July 2006.

WTO Automobile Tariff Reduction Schedule

(Percentage)

Initial Rate	Yr.1	Yr.2	Yr.3	Yr.4	Yr.5	Yr.6	Jan Yr.7	July Yr.7
100	77.5	61.7	50.7	43.0	37.6	30.0	28.0	25.0
80	63.5	51.9	43.8	38.2	34.2	30.0	28.0	25.0

Source: China Business Update (2000)

The reductions in tariffs will make it much cheaper for foreign firms to export finished vehicles to China. Tariffs on automobile parts and components will also be reduced from the current average of 23.4 % to an average of 10%. Reduced tariffs on parts will allow companies to import essential components that cannot currently be found domestically, with reduced financial penalties. Quotas for automobile imports will begin at an initial level of USD6 billion and will grow by 15 percent annually until they are eliminated completely in 2006. Also, three years after China's accession to the WTO, American and other foreign companies will have the right to distribute most products, including automobiles and related parts, into any part of China. Currently, foreign companies can only distribute parts to one interior destination in China and they are not allowed to ship or distribute products between cities without working through a Chinese freight forwarding company.

To attract foreign investment, the Chinese Government allows Foreign–Invested Enterprises (FIEs) to import capital equipment related to production free of duty and value added tax. Furthermore, the Ministry of Foreign Trade and Economic Cooperation and the General Administration of Customs exempted high-tech industrial products from duty on January 1, 1998. The exemption is available only to FIEs engaged in projects classified by the State as "encouraged". Qualified FIEs should receive duty-free approval from the State Development and Planning Commission and receive pre-approval from the State Administration for Import and Export Commodity Inspection for each imported shipment.

2.4.2 Distribution Strategies

Basically, there are three ways for U.S. firms to enter China's market: find a qualified agent or distributor, set up a representative office, and establish a joint or solely funded venture. Considerable market research should be done before making a decision. There are cases where some joint venture and technical cooperation agreements have encountered problems in funding, management and Intellectual Property Rights (IPR) protection. U.S. firms are advised to take normal business precautions when choosing the Chinese partners

For companies new to the China market, a good way to enter the market is to work with experienced parts trading companies which have established a regional sales network with a good business reputation. Agents and distributors are geographically contracted for the automobile and auto parts market since the China market can be divided into at least six regions such as the South (Guangdong), the East (Shanghai), the Beijing-Tianjin region, Central China, the Northeast (Shenyang) and the Southwest (Chengdu and Chongqing). American companies may need to find several agents for different regions. Each agent will cover one or two of the country's many regional markets. It is much easier for foreign manufacturers to enter the local market through technical cooperation with technology licensing and technology exports. Some foreign firms prefer to work with Chinese research and design institutes, that usually do project feasibility studies, to promote their exports to China.

2.4.3 Financing Strategies

With China's accession to the WTO, non-bank foreign financial institutions will be permitted to engage in automobile financing. This will allow Chinese citizens to apply for loans from car manufacturers or credit institutions and pay for automobiles on installment plans spread over several years. Currently, most buyers with significant personal savings pay for cars in cash and auto financing is only available through a handful of banks: the Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB), the Agricultural Bank of China (ABC), and the Bank of China (BOC). Loans are given only for certain car models and the buyer must pay off the car loan to obtain title to the car.

3 FINANCIAL INDICATORS: MOTOR VEHICLE PARTS AND ACCESSORIES MANUFACTURING

3.1 OVERVIEW

Is China competitive? With the globalization of markets, the increased mobility of corporate assets, and the need for productive human resources, this question has become all the more complex to answer. The financial indicators section was prepared to tackle this question by focusing on certain fundamentals: financial performance and labor productivity. Rather than focus on the economy as a whole, the analysis presented here considers only one sector: motor vehicle parts and accessories manufacturing.

We are essentially interested in the degree to which firms operating in China have fundamentally different financial structures and performance compared to firms located elsewhere. With respect to this view of competitiveness, if one were to invest or operate in China, how would the firm's asset structure likely vary compared to a firm operating in some other country in Asia or average location in the world? In China, do firms typically hold more cash and other short term assets, or do they concentrate their assets in physical plant and equipment? On the liability side, do firms operating in China have a higher percent of payables compared to other firms operating in Asia, or do they hold a higher concentration of long term debt? The structure of the income statement is also telling. Do firms operating in China have relatively higher costs of goods sold, operating costs, or income taxes compared to firms located elsewhere in the region or the world in general? Are returns on equity higher in China? Are profit margins greater? Are inventories held longer? The financial indicators section was designed to answer these and similar questions that naturally affect one's decision to invest or operate in China. Again, we are particularly interested in motor vehicle parts and accessories manufacturing, and not the economy as a whole.

In many instances, people make all the difference. In addition to financial competitiveness, we consider the extent to which labor deployment and productivity in China differs from regional and global benchmarks. In this case, we are interested in the amount of labor required to operate a typical business in China and the likely returns on this human investment. What is the typical ratio of short-term and long-term assets to employee (employed in motor vehicle parts and accessories manufacturing operations)? What are typical capital-labor ratios? How different are these ratios to those in Asia in general and the world as a whole? What are the average sales and net profits per employee in China compared to regional benchmarks?

The goal of this section is to assist managers in gauging the competitive performance of China at the global level for motor vehicle parts and accessories manufacturing. With the globalization of markets, greater foreign competition, and the reduction of entry barriers, it becomes all the more important to benchmark China against other countries on a worldwide basis. Doing so, however, is not an obvious task.

This report generates international benchmarks and measures gaps that might be revealed from such an exercise. First, data is collected from companies across all regions of the world. For each of these firms, data are standardized into comparable categories (assets, liabilities, income and ratios), by country, region and on a worldwide basis. From there, we eliminate all currency effects by standardizing within each category. Global benchmarks are then compared to those estimated for motor vehicle parts and accessories manufacturing in China.

Though we heavily rely on historical performance, the figures reported are not historical but are forecasts and projections for the coming fiscal year.

3.1.1 Financial Returns and Gaps in China

The approach used in this report to evaluate operating performance for motor vehicle parts and accessories manufacturing in China is called "vertical analysis." For those unfamiliar with this type of analysis, frequently taught in graduate schools of business, the reader is recommended Jae K. Shim and Joel G. Siegel's recent book titled *Financial Management*.[1] In their discussion of financial statement analysis and ratios, Skim and Siegel (p. 42-43), describe common-size statement (vertical analysis) as follows:

> A common-size statement is one that shows each item in percentage terms. Preparation of common-size statements is known as *vertical analysis*, in which a material financial statement item is used as a base value and all other accounts on the financial statement are compared to it. In the balance sheet, for example, total assets equal 100 percent, and each individual asset is stated as a percentage of total assets. Similarly, total liabilities and stockholders' equity are assigned a value of 100 percent and each liability or equity account is then stated as a percentage of total liabilities and stockholders' equity, respectively. … For the income statement, a value of 100 percent is assigned to net sales, and all other revenues and expense accounts are related to it. It is possible to see at a glance how each dollar of sales is distributed among various costs, expenses, and profits.

The authors suggest that vertical analyses involve industry-based comparisons. Such a comparison "allows you to answer the question, 'How does a business fare in the industry?' You must compare the company's ratios to… industry norms." (p. 43-44) This approach is extended to country competitiveness (in this case China) for a particular sector (in this case motor vehicle parts and accessories manufacturing). This involves calculating country, regional and global norms. This introduction will describe the seven-stage methodology used to perform this analysis. Each stage should be seen as a working assumption behind the numbers presented in later chapters.

Stage 1. Industry Classification. This stage begins by classifying the company into an industry. For this, we have relied on a combination of the North American Industry Classification System (NAICS pronounced "Nakes"), a relatively new system for classifying business establishments, and the older Standard Industrial Classification (SIC) system. Adopted in 1997, NAICS codes are the new industry classification codes used by statistical agencies of the United States. NAICS was developed jointly by the U.S., Canada, and Mexico to provide comparability in statistics about business activity across North America. After 60 years of service, the outdated SIC system was retired on October 1, 2000, leaving only the NAICS codes for official use. The NAICS classification system adds some 350 new industries and represents a revision to over 60% of the previous SIC industries. Despite its official retirement, the SIC system is still commonly used (and often reported in firm's financial statements).

For most companies in the world, classification within either the new NAICS or older SIC systems is a rather straight forward exercise. For some, however, it can be problematic. This is true for several reasons. The first being that the SIC or NAICS classification systems are rather broad for many product and industry categories (a firm's products or services may be only a minor aspect of the classification's definition). The second is that some firms' activities span multiple codes. Finally, it is possible that a firm is classified by one source using its SIC code, and by another using its NAICS code, and by a third using both. Furthermore, some sources do not report either code, but instead use qualitative statements of the firm's activities. Nevertheless, if one wishes to pursue a vertical analysis, some classification needs to take place which selects a peer group. In making this classification, one can rely on a number of sources. In some countries, firms must "self" classify in official periodic reports (e.g. annular reports, 10Ks, etc.) to public authorities (such as the Securities and Exchange Commission). These reports are then open for public scrutiny (e.g. EDGAR filings). In other cases, commercial data vendors or private research firms provide SIC/NAICS codes for specific companies. These include:

- Bloomberg - www.bloomberg.com
- Datastream (Thomson Financial) - **www.datastream.com**

[1] Skim and Siegel (2000), *Financial Management* published by Barron's Educational Series, Inc. (BARON'S BUSINESS LIBRARY Series), ISBN: 0-7641-1402-6.

- **Dun & Bradstreet - www.dnb.com**
- **Hoovers - www.hoovers.com**
- HarrisInfoSource - www.HarrisInfo.com
- InfoUSA - www.infousa.com
- Investext (Thomson Financial) - www.investext.com
- Kompass International Neuenschwander SA. – www.kompass.com
- Moody's Investors Service - www.moodys.com
- Primark (Thomson Financial) - www.primark.com
- Profound (The Dialog Corporation – A Thomson Company) - www.profound.com
- Reuters - www.reuters.com
- **Standard & Poor's - www.standardandpoors.com**

It is interesting to note that commercial vendors often report different qualitative descriptions and industrial classifications from one to another. These descriptions and classifications may also be different from those reported by the firm itself. Anyone hoping to perform a benchmarking study, therefore, has to make a judgment call across these various sources in order to determine a reasonable classification. In this report, we have decided a meta-analytic process, by combining various sources (including linking a classification's keywords to qualitative descriptions of the firm's product line). In cases of inconsistency, the most recent or globally comparable available is chosen. Again, the overall goal is to classify firms, which either produce similar products, offer similar services, or are in the same stage of the value chain for a particular industrial classification. In the case of this report, the SIC code selected is: 3714 which is defined as "motor vehicle parts and accessories manufacturing". This classification should be seen as a working assumption. In order to obtain a more detailed discussion of this classification, the reader is referred to the Web sites developed by the U.S. Census Bureau: **http://www.census.gov/epcd/www/naics.html**. Basic definitions and descriptions are provided at: **http://www.census.gov/epcd/www/drnaics.htm#q1**. A full correspondence table between SIC and NAICS codes, and detailed definitions are given at **http://www.census.gov/epcd/www/naicstab.htm**.

Stage 2. Firm-level Data Collection. A global search was conducted across over 20,000 companies in over 40 major economies, including China, for those that report financials (balance sheet and income statements) and that are involved in motor vehicle parts and accessories manufacturing. It should be noted that the public-domain financials can be either historic or projections. It should also be noted that even historic figures can be modified in the future and often represent "estimates" of performance.

Stage 3. Standardization. Once collected, public domain financial figures of firms identified in Stage 2 are standardize into comparable categories (assets, liabilities, and income). Again, these are limited to firms involved in some aspect of motor vehicle parts and accessories manufacturing (i.e. are members of the value chain). From there, we eliminate all currency effects by standardizing within each category (creating ratios). In order to maintain comparability over time and across countries, vertical analysis is used. In the case of a firm's assets, we treat the total assets as equaling 100, irrespective of the value of the local currency. All other assets are then calculated as a percent of total assets. In this way, the structure of the firm's assets can be easily interpreted and compared with international benchmarks. For liabilities, total liabilities and equity are indexed to equal to 100. For the income statement, total revenue is indexed to equal 100, and all other figures are calculated as a percent of these figures.

Stage 4. Filtering. Not all the firms selected in Stage 2 or the ratios calculated in Stage 3 are used for the country, regional or global benchmarks, as a number of companies are purposely dropped from the analysis. This is justified by the "outlier" phenomenon that plagues such analysis. The problem lies in that any given company in the benchmarking pool may be facing some exceptional event or may be organized in an exceptional way so as to make its ratios vastly different from the norm. By including such firms, the global benchmarks can be overly skewed. In many countries, firms are organized into holding groups. These groups nominally have very few employees (e.g. 4 to 25 employees), but have extremely large assets, liabilities, or revenues. As such, the inclusion or exclusion of firms having this form of management can affect the ratios and benchmarks reported. Likewise, some firms have no net sales, no assets, no liabilities, or ratios. Others have ratios that appear implausible for a normal or viable

company. In order to not allow these firms to affect the global benchmarks, only those firms with reasonable financials have been chosen. Finally, in some countries, detailed financials are not available or are not comparable to either the company in question or the global norm (e.g. various forms of depreciation). In this case, only those which exist and are comparable are reported. The details, therefore, that comprise a given ratio or set of ratios may not be reported. This may lead to the addition of several ratios, not summing to the whole.

Stage 5. Calculation of Global Norms. Once the filtering process has eliminated outliers, a final list of companies included is compiled. Based on this list, the ratios discussed in Stage 3 are calculated for every firm, and then averaged to create country, regional and global benchmarks. The world average is calculated using each country's population as a weight.

Stage 6. Projection of Deviations. The goal of this report is not only to estimate raw ratios or averages, but also to present the difference between China and projected global averages for that same ratio. Furthermore, it can be insightful to know the location of each ratio within the distribution of the countries represented in Stage 5. These deviations, in fact, can be seen as projections or likely scenarios for the future. This is often true for two reasons. First, while a company's financials change from year to year, its ratios are often stable. This is especially true for the country, regional and global benchmarks which represent averages across companies. From a purely Bayesian sense, the difference between the company's recent ratios and the benchmarks are a reasonable prior for future deviations. This is true, even if the entire industry is hit by an external or exogenous shock, such as an oil crisis or economic slowdown. In other words, we assume that the structure of the variance in the industry's financials remains stable. Second, many of the data are based on preliminary reports that might be changed in future filings. As forecasts, therefore, the numbers derived from these are also forecasts of past and future performance (with associated uncertainties). The calculation of the difference between a country's ratios and the global benchmarks is meant to yield roughly approximate forecasts, or "useful measures". Within Asia, the reliability of estimates varies from one country to another for those ratios given in tables that report national averages. This is true because reliable source statistics are not available for all countries in Asia. Countries with the highest reliability, or sample sizes after filtering in Stage 4, include China, Hong Kong, India, Indonesia, Japan, Malaysia, Singapore, and South Korea. Others are generally econometrically extrapolated using models that use country characteristics (e.g. income per capita) as independent variables (i.e. countries having similar economic structures are assumed to have similar operating ratios). Again, the forecasts are based on the assumption of relative stability. This assumption has proven extremely robust in previous applications of this methodology (i.e. today's weather is a good predictor of tomorrow's weather, but not the weather three years from now). The results reported should be viewed as those for a "proto-typical" firm operating in China whose primary activity is motor vehicle parts and accessories manufacturing.

Stage 7. Projection of Ranks and Percentiles. Based on the calculation of deviations, relative ranks and percentiles are calculated across the firms used in the benchmarks. The percentile estimates the percent of a representative sample of countries in the world having values of the ratio lower than China. It is important to note that a percentile being high (or low) does not mean good (or bad) past, present or future financial performance. The reader must draw this conclusion on their own. The estimates provided were created to provide managerial insight, and not a recommendation with respect to particular investments within any country.

We graphically report, for each part of the financial statement, the larger structural differences between China and the regional and global benchmarks, and provide a summary table of ranks and percentiles. These are estimates for firm which would be involved in motor vehicle parts and accessories manufacturing. A deviation from the global norm need not be a bad sign. Rather, it is simply a substantial difference that might merit further attention or perhaps signal a country's relative strength or weakness for the coming fiscal year.

3.1.2 Labor Productivity Gaps in China

In the case of labor productivity measures, this report maintains comparability over time and across countries by using a common currency (the US dollar) and relates each measure to a "per employee basis". Ratios are projected

using raw financial statistics and, as ratios, are therefore comparable. Given a country's human resource ratios, the resulting figures are benchmarked across regional and global averages. The seven stage approach given above is used in a similar manner.

We then report, for each part of the financial statement, the larger labor productivity gaps that China has vis-à-vis the worldwide average (for motor vehicle parts and accessories manufacturing). Again, a gap need not be a bad sign. Rather, it is simply a substantial difference that might merit further attention or signal a firm's relative incentive to invest locally. All figures are projections, so due caution is required.

3.1.3 Limitations and Extensions

Shim and Siegal (p. 60) stress that "while ratio analysis is an effective tool for assessing a company's financial condition," operating China or any other country, "its limitations must be recognized." They find that (p. 59) "no single ratio or group of ratios is adequate for assessing all aspects of a company's financial condition" operating in a particular country. The authors note the following limitations associated with ratio analyses which apply to the global benchmarking and vertical analysis presented here (p.60):

- Accounting standards or policies may limit useful comparisons across companies
- Management accounting practices across companies and countries may not be performed in the same style
- Ratios are static and do not reveal future trends
- Ratios do not indicate the quality of the components used to calculate the ratios (i.e. ratios have ambiguous interpretations)
- Reported ratios may not reflect real values
- Companies may be highly diversified, limiting the comparability of their ratios to others
- Industry averages or norms are approximate; finer industry definitions may be required for certain interpretations or comparisons
- Financial statements and resulting ratios often mean different things to different people depending on their points of view or motivations.

Again, all figures reported here are estimates, so due caution is required. The above caveats, and the fact that statements made in this report are forward-looking, requires that this point be emphasized. A number of intervening factors can have material effect on the ratios and variances forecasted. These include changes in a company's management style, exchange rate volatility, changes in accounting standards, the lack of oversight or comparability in accounting standards, changes in economic conditions, changes in competition, changes in the global economy, changes in source data quality, and similar factors.

3.2 FINANCIAL RETURNS IN CHINA: ASSET STRUCTURE RATIOS

3.2.1 Overview

In this chapter we consider the asset structure of companies involved in motor vehicle parts and accessories manufacturing operating in China benchmarked against global averages. The chapter begins by defining relevant terms. A common-size statement, or vertical analysis of assets is then presented for companies operating in China and the average global benchmarks (total assets = 100 percent). For ratios where there are large deviations between China and the benchmarks, graphics are provided (sometimes referred to as a financial "gap" analysis). Then the distribution of ratios is presented in the form of ranks and percentiles. Certain key vertical analysis asset ratios are highlighted across countries in the comparison group.

3.2.2 Assets – Definitions of Terms

The following definitions are provided for those less familiar with the asset-side of financial statement analysis. As this chapter deals with the vertical analysis and global benchmarking of assets, only definitions covering certain terms used in this chapter's tables and graphs are provided here. The glossary below reflects commonly accepted definitions across various countries and official sources.

- **Accumulated Depreciation - Buildings.** Accumulated depreciation is commonly understood as a contra asset account used to report the accumulation of periodic credits to reflect the use of the estimated service life of a fixed asset. Buildings are fixed assets which represent the acquisition and improvement costs of permanent structures owned or held by the company. Such structures typically include office buildings, storage quarters, or other facilities and also associated items such as loading docks, heating and air-conditioning equipment, refrigeration equipment, and all other property permanently attached to or forming an integral part of the structure. However, it generally does not include furniture, fixtures, or other equipment which are not an integral part of the building.

- **Accumulated Depreciation - Transportation Equipment.** Accumulated depreciation of transportation equipment is commonly understood to be contra asset account used to report the accumulation of periodic credits to reflect the use of the estimated service life of transportation equipment.

- **Accumulated Depreciation -Machinery & Equipment.** Accumulated depreciation of machinery and equipment is commonly understood to be contra asset account used to report the accumulation of periodic credits to reflect the use of the estimated service life of machinery and equipment.

- **Buildings.** Buildings are defined as fixed assets which represent the acquisition and improvement costs of permanent structures owned or held by the company. Such structures include office buildings, storage quarters, or other facilities and also associated items such as loading docks, heating and air-conditioning equipment, refrigeration equipment, and all other property permanently attached to or forming an integral part of the structure. However, it does not include furniture, fixtures, or other equipment which are not an integral part of the building.

- **Cash.** Cash is typically defined as money on hand, on deposit with chartered bank, or held in the form of eligible securities.

- **Current Assets.** Current assets are generally defined to be resources which are available, or can readily be made available, to meet the cost of operations or to pay current liabilities.

- **Deferred Charges.** Deferred charges are generally understood to represent the amount which has been paid for services already received by the company but has not been charged to operations.

- **Finished Goods.** Finished goods generally comprise the ready-for-sale inventory.

- **Intangible Other Assets.** Intangible assets are generally understood to be nonphysical assets such as legal rights (patents and trademarks) recorded at their historical cost then reduced by systematic amortization.

- **Investments in Unconsolidated Subsidiaries.** Investments in unconsolidated subsidiaries are typically defined as investments for the purpose of generating revenue in subsidiaries whose financial statements are not combined with the company's.

- **long Term Receivables.** Long-term receivables are commonly defined as amounts due within a period exceeding one year from private persons, businesses, agencies, funds, or governmental units which are expected to be collected in the form of moneys, goods, and/or services.

- **Machinery & Equipment.** Machinery and equipment is commonly defined as a fixed asset classification which typically includes tangible property (other than land, buildings, and improvements other than buildings) with a life of more than one year. Such assets typically include office equipment, furniture, machine tools, and motor vehicles. Equipment may be attached to a structure for purposes of securing the item, but unless it is permanently attached to an integral part of the building or structure, it will generally be classified as equipment and not buildings. Equipment is generally defined as tangible property other than land, buildings, or improvements other than buildings, which is used in operations. Examples include machinery, tools, trucks, cars, furniture, and furnishings.

- **Prepaid Expenses.** Prepaid expenses are typically defined as those supplies and/or services (not inventory) acquired or purchased but not consumed or used at the end of the accounting period.

- **Progress Payments.** Progress payments are commonly defined as periodic payments to a supplier, contractor, or subcontractor for work as it is completed as desired, in order to reduce working capital requirements.

- **Property Plant & Equipment Under Capitalized Leases.** Property plant & equipment under capitalized leases generally consists of the gross book value (rather than the more commonly-used measures of fixed capital stocks in current or real value), of all commercial buildings, associated land and equipment used therein that are owned by the company and that are either used or operated by the company or leased or rented to others (under capitalized leases).

- **Property Plant and Equipment - Gross.** Gross property, plant and equipment generally consists of the gross book value (rather than the more commonly-used measures of fixed capital stocks in current or real value), of all commercial buildings, associated land and equipment used therein that are owned by the company and that are either used or operated by the company or leased or rented to others.

- **Property Plant and Equipment - Net.** Net PP&E equals the original cost of property, plant, and equipment (PP&E), less accumulated depreciation, depletion and amortization (DD&A).

- **Raw Materials.** Raw materials are materials which will be converted by a manufacturer into a finished product.

- **Receivables (Net).** Net receivables are defined as the net amount due to the company from private persons, businesses, agencies, funds, or governmental units which is expected to be collected in the form of moneys, goods, and/or services.

- **Short Term Investments.** Short-term investments are investments which can be typically liquidated in less than one year.

- **Tangible Other Assets.** Other tangible assets are commonly understood to be something substantial or real that is capable of being given an actual or approximate value (market or estimated), not classified elsewhere.

- **Total Assets.** Total assets are defined as the financial representation of economic resources, the beneficial interest in which is legally or equitably secured to a particular organization as a result of a past transaction or event.

- **Total Inventories.** Total inventories are defined as the total amount of goods on hand.

- **Transportation Equipment.** Transportation equipment is equipment used for the transportation of goods for sale.

- **Work in Process.** Work in progress includes goods which have been started but are not yet ready for sale.

3.2.3 Asset Structure: Outlook

Using the methodology described in the introduction, the following table summarizes asset structure benchmarks for firms involved in motor vehicle parts and accessories manufacturing in China. To allow comparable benchmarking, a common index of Total Assets = 100 is used. All figures are current-year projections for companies operating in China based on latest financial results available.

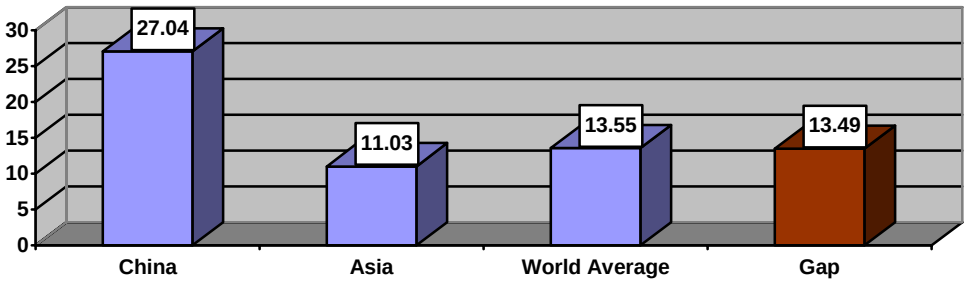
Asset Structure	China	Asia	World Avg.
Cash & Short Term Investments	27.04	11.03	13.55
Cash	14.03	4.42	5.40
Short Term Investments	17.63	6.90	9.26
Receivables (Net)	16.52	19.10	18.16
Total Inventories	17.87	12.12	15.86
Raw Materials	5.04	3.89	5.57
Work in Process	1.04	1.83	2.24
Finished Goods	8.30	7.51	6.41
Progress Payments & Other	0.89	1.09	1.45
Prepaid Expenses	0.21	2.57	2.15
Other Current Assets	0.80	0.91	1.18
Current Assets - Total	**62.31**	**44.22**	**50.00**
Long Term Receivables	1.86	0.68	0.99
Investments in Unconsolidated Subsidiaries	2.02	5.10	3.64
Other Investments	0.12	3.51	3.51
Property Plant and Equipment - Net	31.32	32.03	32.34
Property Plant and Equipment - Gross	52.53	62.11	64.15
Buildings	14.11	15.23	13.14
Machinery & Equipment	25.33	29.14	34.36
Transportation Equipment	0.76	2.43	1.07
Other Property Plant & Equipment	16.88	8.36	10.11
Property Plant & Equipment Under Capitalized Leases	0.54	2.33	1.02
Accumulated Depreciation - Total	19.74	30.61	32.08
Accumulated Depreciation - Buildings	2.22	4.98	3.86
Accumulated Depreciation -Machinery & Equipment	12.50	19.73	20.73
Accumulated Depreciation - Transportation Equipment	0.40	1.33	0.55
Accumulated Depreciation - Other Prop & Equip	7.02	4.00	4.64
Other Assets	3.71	3.28	4.55
Deferred Charges	0.55	0.85	0.84
Tangible Other Assets	0.09	0.23	0.33
Intangible Other Assets	1.80	1.04	1.98
Total Assets	**100.00**	**100.00**	**100.00**

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

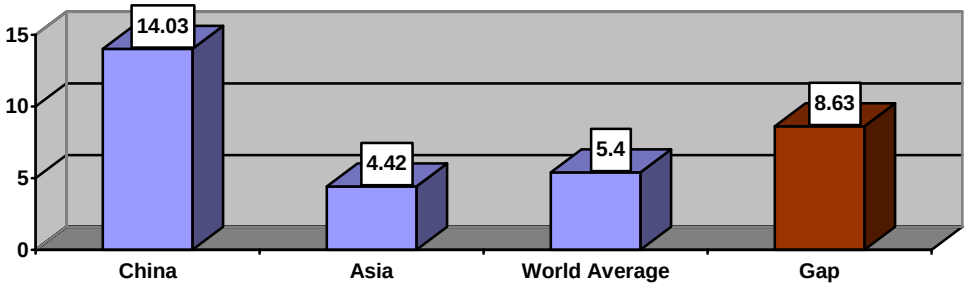
3.2.4 Large Variances: Assets

The following graphics summarize for motor vehicle parts and accessories manufacturing the large asset structure gaps between firms operating in China and the world average. A gap cannot necessarily be interpreted as a positive or negative reflection on performance. Gaps may signal areas of specialization, market focus, or expertise. More contextual information is required to fully interpret these gaps. The gaps highlighted here are simply those that are large.

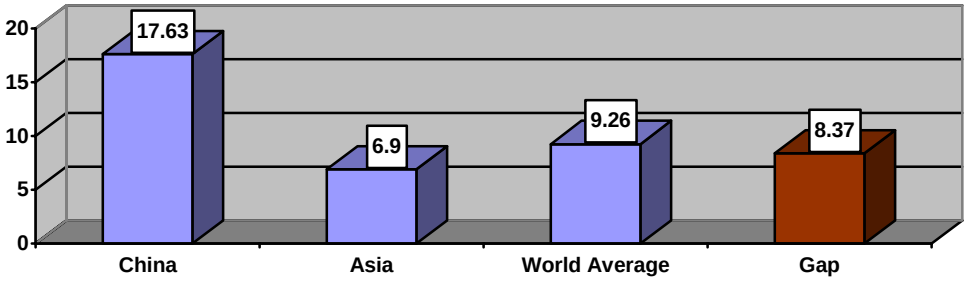
Gap: Cash & Short Term Investments



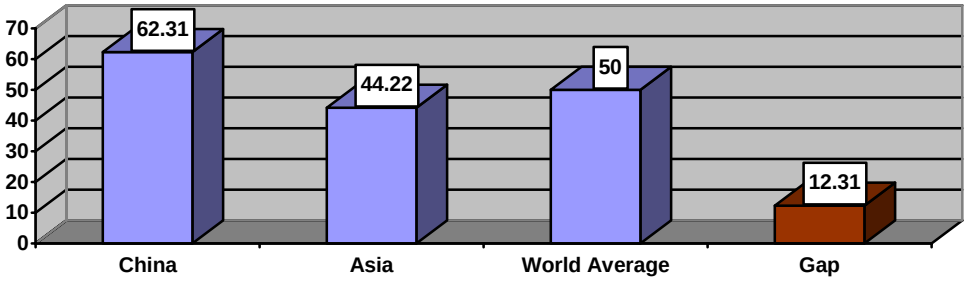
Gap: Cash



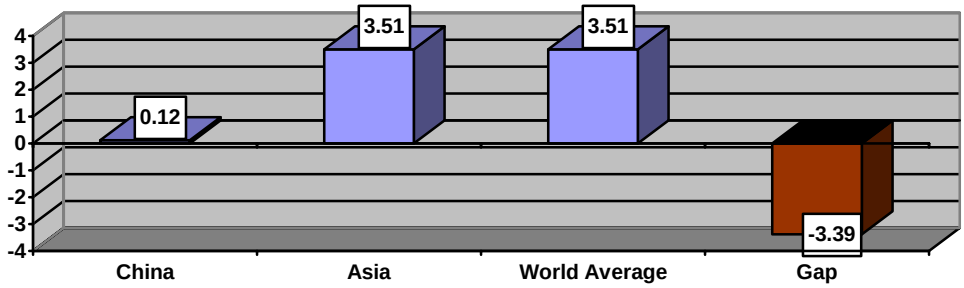
Gap: Short Term Investments



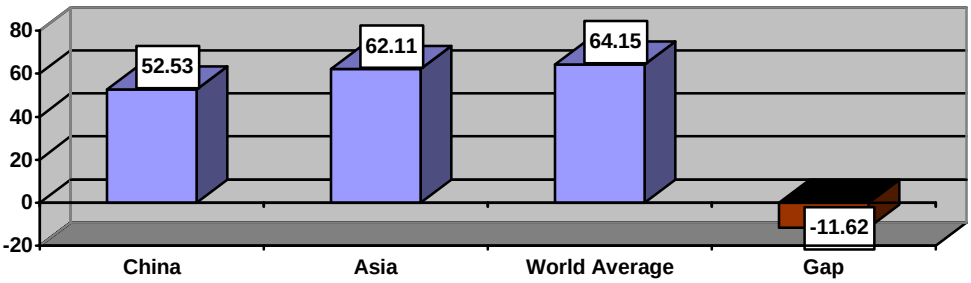
Gap: Current Assets - Total



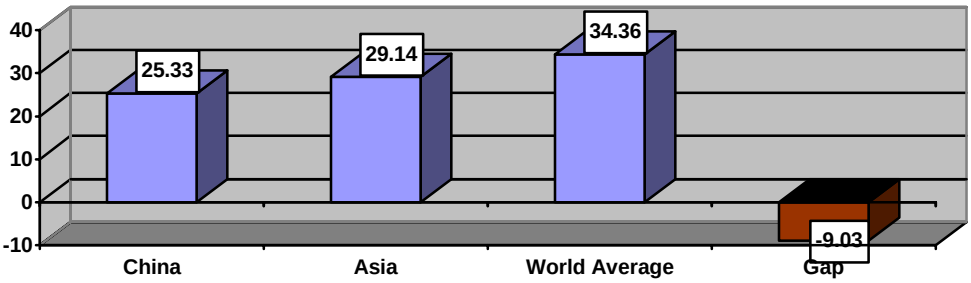
Gap: Other Investments



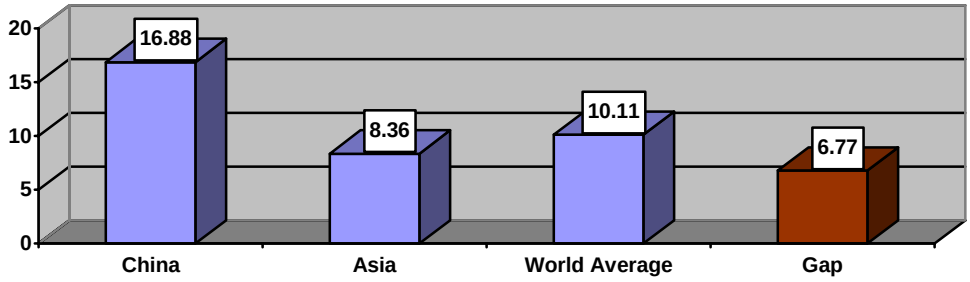
Gap: Property Plant and Equipment - Gross



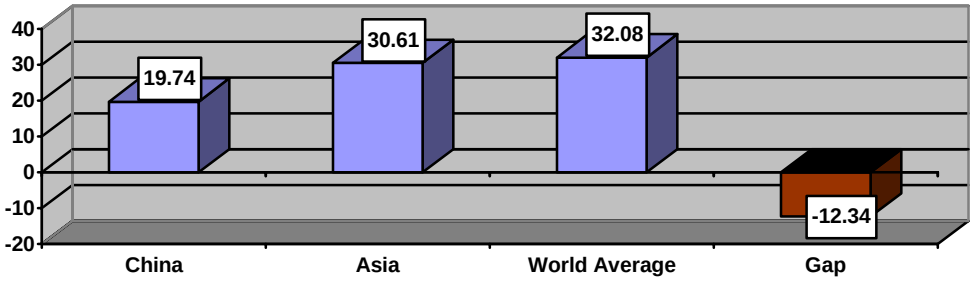
Gap: Machinery & Equipment



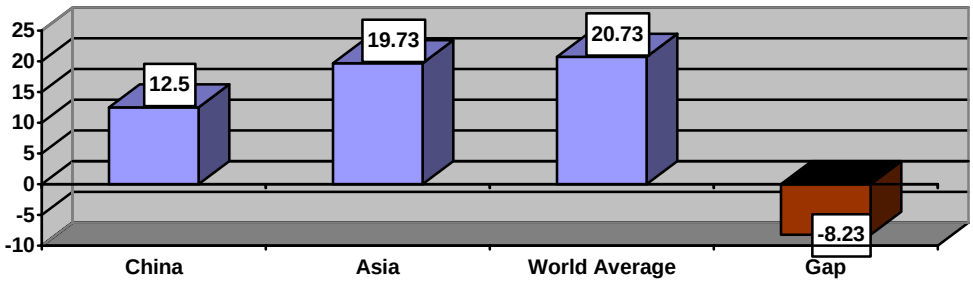
Gap: Other Property Plant & Equipment



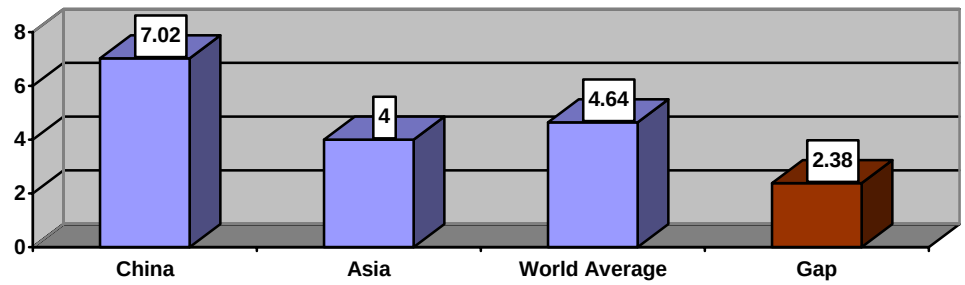
Gap: Accumulated Depreciation - Total



Gap: Accumulated Depreciation -Machinery & Equipment



Gap: Accumulated Depreciation - Other Prop & Equip



3.2.5 Key Percentiles and Rankings

We now consider the distribution of asset ratios for motor vehicle parts and accessories manufacturing using ranks and percentiles. What percent of countries have a value lower or higher than China (what is the ratio's rank or percentile)? The table below answers this question with respect to the vertical analysis of asset structure. The ranks and percentiles indicate, from highest to lowest, where a value falls within the distribution of all countries considered in the global benchmark (the number of countries in the benchmark per line item may vary, as indicated in the Rank). Again, a high or low figure does not necessarily indicate good or bad performance. After the summary table below, a few key vertical asset ratios are highlighted in additional tables.

Asset Structure	China	Rank of Total	Percentile
Cash & Short Term Investments	27.04	2 of 53	96.23
Cash	14.03	3 of 49	93.88
Short Term Investments	17.63	2 of 41	95.12
Receivables (Net)	16.52	43 of 53	18.87
Total Inventories	17.87	23 of 53	56.60
Raw Materials	5.04	21 of 48	56.25
Work in Process	1.04	36 of 44	18.18
Finished Goods	8.30	18 of 44	59.09
Progress Payments & Other	0.89	23 of 45	48.89
Prepaid Expenses	0.21	28 of 34	17.65
Other Current Assets	0.80	24 of 46	47.83
Current Assets - Total	**62.31**	**12 of 53**	**77.36**
Long Term Receivables	1.86	11 of 32	65.63
Investments in Unconsolidated Subsidiaries	2.02	26 of 44	40.91
Other Investments	0.12	30 of 36	16.67
Property Plant and Equipment - Net	31.32	25 of 53	52.83
Property Plant and Equipment - Gross	52.53	34 of 53	35.85
Buildings	14.11	25 of 51	50.98
Machinery & Equipment	25.33	32 of 51	37.25
Transportation Equipment	0.76	27 of 34	20.59
Other Property Plant & Equipment	16.88	8 of 48	83.33
Property Plant & Equipment Under Capitalized Leases	0.54	16 of 20	20.00
Accumulated Depreciation - Total	19.74	42 of 53	20.75
Accumulated Depreciation - Buildings	2.22	37 of 49	24.49
Accumulated Depreciation -Machinery & Equipment	12.50	37 of 48	22.92
Accumulated Depreciation - Transportation Equipment	0.40	23 of 31	25.81
Accumulated Depreciation - Other Prop & Equip	7.02	12 of 40	70.00
Other Assets	3.71	27 of 52	48.08
Deferred Charges	0.55	13 of 27	51.85
Tangible Other Assets	0.09	20 of 25	20.00
Intangible Other Assets	1.80	24 of 48	50.00
Total Assets	**100.00**		

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Cash & Short Term Investments

Countries	Value (total assets = 100)	Rank	Percentile	Region
Pakistan	55.35	1	98.11	the Middle East
China	**27.04**	**2**	**96.23**	**Asia**
New Zealand	26.68	3	94.34	Oceana
Hong Kong	26.15	4	92.45	Asia
Singapore	18.04	5	90.57	Asia
Thailand	17.96	6	88.68	Asia
Malaysia	15.80	7	86.79	Asia
Indonesia	15.38	8	84.91	Asia
Brazil	13.89	12	77.36	Latin America
South Korea	13.78	13	75.47	Asia
Switzerland	13.28	14	73.58	Europe
Peru	13.27	15	71.70	Latin America
Greece	13.05	16	69.81	Europe
Sweden	12.01	17	67.92	Europe
Czech Republic	11.62	18	66.04	Europe
Japan	11.50	19	64.15	Asia
Luxembourg	11.49	20	62.26	Europe
France	11.23	21	60.38	Europe
Argentina	10.82	22	58.49	Latin America
Italy	10.33	23	56.60	Europe
Austria	9.77	24	54.72	Europe
India	9.39	25	52.83	Asia
Turkey	8.89	26	50.94	the Middle East
Canada	7.78	28	47.17	North America
Spain	7.55	29	45.28	Europe
Belgium	7.50	30	43.40	Europe
Mexico	7.43	31	41.51	Latin America
Israel	6.92	32	39.62	the Middle East
Ireland	6.87	34	35.85	Europe
USA	6.80	35	33.96	North America
Russian Federation	6.33	38	28.30	Europe
Germany	6.06	39	26.42	Europe
the United Kingdom	6.03	40	24.53	Europe
Taiwan	5.72	41	22.64	Asia
Hungary	5.68	42	20.75	Europe
Norway	5.25	43	18.87	Europe
Poland	4.65	44	16.98	Europe
Denmark	4.61	45	15.09	Europe
Australia	3.92	46	13.21	Oceana
Finland	2.88	47	11.32	Europe
Chile	2.19	48	9.43	Latin America
Philippines	2.13	49	7.55	Asia
Portugal	1.79	51	3.77	Europe
South Africa	0.66	52	1.89	Africa
Netherlands	0.60	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Cash & Short Term Investments
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total assets = 100)	Rank	Percentile
China	**27.04**	**1**	**96.15**
Hong Kong	26.15	2	92.31
Singapore	18.04	3	88.46
Thailand	17.96	4	84.62
Mongolia	16.02	5	80.77
Malaysia	15.80	6	76.92
Indonesia	15.38	7	73.08
Maldives	14.03	8	69.23
South Korea	13.78	9	65.38
North Korea	12.88	10	61.54
Brunei	12.00	11	57.69
Japan	11.50	12	53.85
Macau	10.66	13	50.00
India	9.39	14	46.15
Sri Lanka	8.68	15	42.31
Cambodia	7.13	16	38.46
Laos	6.87	17	34.62
Vietnam	6.24	18	30.77
Papua New Guinea	6.22	19	26.92
Seychelles	5.90	20	23.08
Taiwan	5.72	21	19.23
Bangladesh	5.35	22	15.38
Bhutan	5.09	23	11.54
Nepal	4.56	24	7.69
Burma	2.13	25	3.85
Philippines	2.13	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Receivables (Net)

Countries	Value (total assets = 100)	Rank	Percentile	Region
Spain	40.79	2	96.23	Europe
Israel	37.39	3	94.34	the Middle East
Finland	37.09	4	92.45	Europe
Ireland	37.08	5	90.57	Europe
Belgium	34.11	6	88.68	Europe
France	33.74	7	86.79	Europe
Turkey	33.29	8	84.91	the Middle East
Norway	32.13	9	83.02	Europe
New Zealand	31.25	10	81.13	Oceana
Taiwan	30.90	11	79.25	Asia
Hong Kong	30.62	12	77.36	Asia
Greece	29.05	13	75.47	Europe
Switzerland	28.28	14	73.58	Europe
Austria	28.13	15	71.70	Europe
Netherlands	28.05	16	69.81	Europe
Denmark	26.85	17	67.92	Europe
South Africa	26.78	18	66.04	Africa
Czech Republic	25.86	19	64.15	Europe
Italy	25.37	20	62.26	Europe
Chile	25.11	21	60.38	Latin America
Luxembourg	24.46	22	58.49	Europe
Argentina	24.09	23	56.60	Latin America
Canada	23.74	24	54.72	North America
Brazil	23.25	25	52.83	Latin America
Japan	21.97	26	50.94	Asia
Sweden	21.91	27	49.06	Europe
the United Kingdom	21.77	28	47.17	Europe
South Korea	21.72	29	45.28	Asia
Malaysia	21.08	30	43.40	Asia
Germany	20.44	31	41.51	Europe
Portugal	19.98	32	39.62	Europe
Indonesia	19.02	33	37.74	Asia
Australia	18.92	34	35.85	Oceana
USA	18.57	35	33.96	North America
Singapore	18.44	36	32.08	Asia
India	18.11	37	30.19	Asia
Thailand	18.04	38	28.30	Asia
Mexico	17.91	39	26.42	Latin America
China	**16.52**	**43**	**18.87**	**Asia**
Russian Federation	16.22	44	16.98	Europe
Philippines	14.75	47	11.32	Asia
Hungary	14.58	48	9.43	Europe
Peru	13.33	50	5.66	Latin America
Poland	11.92	52	1.89	Europe
Pakistan	4.96	53	0.00	the Middle East

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Receivables (Net)
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total assets = 100)	Rank	Percentile
Sri Lanka	57.98	1	96.15
Taiwan	30.90	2	92.31
Hong Kong	30.62	3	88.46
Brunei	25.54	4	84.62
Macau	23.74	5	80.77
Japan	21.97	6	76.92
South Korea	21.72	7	73.08
Malaysia	21.08	8	69.23
Indonesia	19.02	9	65.38
Singapore	18.44	10	61.54
India	18.11	11	57.69
Thailand	18.04	12	53.85
Maldives	17.34	13	50.00
China	**16.52**	**14**	**46.15**
Mongolia	16.10	15	42.31
Seychelles	15.14	16	38.46
Burma	14.81	17	34.62
Philippines	14.75	18	30.77
Papua New Guinea	13.81	19	26.92
Cambodia	13.74	20	23.08
Laos	13.25	21	19.23
North Korea	12.94	22	15.38
Vietnam	12.03	23	11.54
Bangladesh	10.31	24	7.69
Bhutan	9.82	25	3.85
Nepal	8.79	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Total Inventories

Countries	Value (total assets = 100)	Rank	Percentile	Region
Finland	36.71	1	98.11	Europe
Denmark	36.26	2	96.23	Europe
Portugal	33.02	3	94.34	Europe
Australia	32.70	4	92.45	Oceana
South Africa	32.61	5	90.57	Africa
Netherlands	31.45	6	88.68	Europe
Austria	29.27	7	86.79	Europe
Germany	25.67	8	84.91	Europe
France	25.08	9	83.02	Europe
Pakistan	24.33	10	81.13	the Middle East
Italy	24.09	11	79.25	Europe
Canada	23.16	12	77.36	North America
Indonesia	23.14	13	75.47	Asia
Belgium	22.74	14	73.58	Europe
Sweden	21.45	16	69.81	Europe
the United Kingdom	20.72	17	67.92	Europe
USA	20.59	18	66.04	North America
Mexico	19.95	19	64.15	Latin America
Greece	18.49	21	60.38	Europe
Singapore	18.03	22	58.49	Asia
China	**17.87**	**23**	**56.60**	**Asia**
Chile	17.37	25	52.83	Latin America
Russian Federation	17.33	26	50.94	Europe
Spain	17.00	27	49.06	Europe
Czech Republic	16.46	28	47.17	Europe
India	15.90	29	45.28	Asia
Malaysia	15.62	30	43.40	Asia
Israel	15.58	31	41.51	the Middle East
Hungary	15.57	32	39.62	Europe
Ireland	15.45	33	37.74	Europe
Argentina	15.34	34	35.85	Latin America
Brazil	14.60	35	33.96	Latin America
Norway	14.16	36	32.08	Europe
Switzerland	13.91	37	30.19	Europe
Thailand	13.23	38	28.30	Asia
Taiwan	12.88	39	26.42	Asia
Poland	12.74	40	24.53	Europe
Turkey	12.20	42	20.75	the Middle East
Luxembourg	12.03	43	18.87	Europe
Japan	11.28	44	16.98	Asia
New Zealand	10.58	46	13.21	Oceana
Hong Kong	10.37	47	11.32	Asia
Peru	9.78	49	7.55	Latin America
South Korea	7.63	50	5.66	Asia
Philippines	2.60	52	1.89	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Total Inventories
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total assets = 100)	Rank	Percentile
Indonesia	23.14	1	96.15
Maldives	21.09	2	92.31
Singapore	18.03	3	88.46
China	**17.87**	**4**	**84.62**
Seychelles	16.17	5	80.77
India	15.90	6	76.92
Malaysia	15.62	7	73.08
Macau	15.11	8	69.23
Thailand	13.23	9	65.38
Taiwan	12.88	10	61.54
Brunei	12.56	11	57.69
Cambodia	12.07	12	53.85
Mongolia	11.81	13	50.00
Laos	11.64	14	46.15
Japan	11.28	15	42.31
Papua New Guinea	11.19	16	38.46
Vietnam	10.56	17	34.62
Hong Kong	10.37	18	30.77
North Korea	9.49	19	26.92
Bangladesh	9.05	20	23.08
Bhutan	8.62	21	19.23
Nepal	7.71	22	15.38
South Korea	7.63	23	11.54
Sri Lanka	6.76	24	7.69
Burma	2.61	25	3.85
Philippines	2.60	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Current Assets - Total

Countries	Value (total assets = 100)	Rank	Percentile	Region
Pakistan	85.51	1	98.11	the Middle East
Finland	83.14	2	96.23	Europe
New Zealand	71.73	4	92.45	Oceana
France	70.66	5	90.57	Europe
Hong Kong	70.29	6	88.68	Asia
Austria	68.42	7	86.79	Europe
Denmark	67.89	8	84.91	Europe
Spain	65.57	9	83.02	Europe
Belgium	64.34	10	81.13	Europe
Italy	63.23	11	79.25	Europe
China	**62.31**	**12**	**77.36**	**Asia**
Netherlands	61.34	13	75.47	Europe
Greece	60.78	14	73.58	Europe
Indonesia	60.36	15	71.70	Asia
South Africa	60.33	16	69.81	Africa
Israel	60.11	17	67.92	the Middle East
Ireland	59.61	18	66.04	Europe
Sweden	57.10	19	64.15	Europe
Australia	56.96	20	62.26	Oceana
Turkey	56.64	22	58.49	the Middle East
Germany	56.60	23	56.60	Europe
Canada	56.08	24	54.72	North America
Singapore	55.48	25	52.83	Asia
Switzerland	55.47	26	50.94	Europe
Portugal	55.36	27	49.06	Europe
Czech Republic	54.11	28	47.17	Europe
Brazil	53.16	29	45.28	Latin America
Malaysia	53.14	30	43.40	Asia
Norway	51.54	31	41.51	Europe
Argentina	50.40	32	39.62	Latin America
USA	50.39	33	37.74	North America
the United Kingdom	50.25	34	35.85	Europe
Thailand	49.82	35	33.96	Asia
Taiwan	49.67	36	32.08	Asia
Japan	48.36	37	30.19	Asia
Luxembourg	47.97	39	26.42	Europe
India	47.93	40	24.53	Asia
Russian Federation	47.44	41	22.64	Europe
Mexico	45.47	42	20.75	Latin America
Chile	45.42	43	18.87	Latin America
South Korea	44.55	44	16.98	Asia
Hungary	42.62	45	15.09	Europe
Peru	36.81	49	7.55	Latin America
Poland	34.86	50	5.66	Europe
Philippines	21.41	52	1.89	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Current Assets - Total
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total assets = 100)	Rank	Percentile
Sri Lanka	74.66	1	96.15
Hong Kong	70.29	2	92.31
China	**62.31**	**3**	**88.46**
Indonesia	60.36	4	84.62
Singapore	55.48	5	80.77
Maldives	55.03	6	76.92
Malaysia	53.14	7	73.08
Brunei	50.09	8	69.23
Thailand	49.82	9	65.38
Taiwan	49.67	10	61.54
Macau	49.66	11	57.69
Japan	48.36	12	53.85
India	47.93	13	50.00
South Korea	44.55	14	46.15
Mongolia	44.44	15	42.31
Seychelles	44.27	16	38.46
Cambodia	36.37	17	34.62
North Korea	35.73	18	30.77
Laos	35.07	19	26.92
Vietnam	31.82	20	23.08
Papua New Guinea	31.22	21	19.23
Bangladesh	27.28	22	15.38
Bhutan	25.98	23	11.54
Nepal	23.25	24	7.69
Burma	21.49	25	3.85
Philippines	21.41	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Property Plant and Equipment - Net

Countries	Value (total assets = 100)	Rank	Percentile	Region
Mexico	51.31	1	98.11	Latin America
Thailand	47.17	3	94.34	Asia
Philippines	46.53	4	92.45	Asia
South Korea	43.08	5	90.57	Asia
Japan	39.84	6	88.68	Asia
Malaysia	38.90	9	83.02	Asia
Portugal	38.18	10	81.13	Europe
India	38.15	11	79.25	Asia
Indonesia	38.02	12	77.36	Asia
Brazil	36.25	15	71.70	Latin America
Canada	36.19	16	69.81	North America
Peru	34.85	18	66.04	Latin America
Australia	34.67	19	64.15	Oceana
Netherlands	34.27	20	62.26	Europe
Turkey	32.17	22	58.49	the Middle East
Russian Federation	32.12	23	56.60	Europe
Chile	31.44	24	54.72	Latin America
China	**31.32**	**25**	**52.83**	**Asia**
Singapore	31.06	26	50.94	Asia
the United Kingdom	30.37	27	49.06	Europe
South Africa	30.29	28	47.17	Africa
Sweden	29.88	29	45.28	Europe
Spain	29.61	30	43.40	Europe
Hungary	28.86	31	41.51	Europe
Switzerland	28.78	32	39.62	Europe
Germany	28.77	33	37.74	Europe
USA	28.24	34	35.85	North America
Israel	27.15	35	33.96	the Middle East
Ireland	26.92	36	32.08	Europe
Luxembourg	24.89	38	28.30	Europe
Norway	24.21	39	26.42	Europe
Poland	23.60	40	24.53	Europe
Denmark	23.04	41	22.64	Europe
New Zealand	22.51	42	20.75	Oceana
Taiwan	22.43	43	18.87	Asia
Italy	22.41	44	16.98	Europe
Hong Kong	22.05	45	15.09	Asia
Greece	22.00	46	13.21	Europe
Austria	21.52	47	11.32	Europe
France	20.98	48	9.43	Europe
Belgium	20.55	49	7.55	Europe
Czech Republic	19.59	50	5.66	Europe
Argentina	18.24	51	3.77	Latin America
Pakistan	14.21	52	1.89	the Middle East
Finland	8.36	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Property Plant and Equipment - Net
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total assets = 100)	Rank	Percentile
Thailand	47.17	1	96.15
Burma	46.70	2	92.31
Philippines	46.53	3	88.46
South Korea	43.08	4	84.62
Mongolia	42.08	5	80.77
Japan	39.84	6	76.92
Malaysia	38.90	7	73.08
India	38.15	8	69.23
Indonesia	38.02	9	65.38
Maldives	34.67	10	61.54
Papua New Guinea	34.48	11	57.69
North Korea	33.83	12	53.85
China	**31.32**	**13**	**50.00**
Singapore	31.06	14	46.15
Seychelles	29.97	15	42.31
Cambodia	28.95	16	38.46
Laos	27.92	17	34.62
Brunei	25.99	18	30.77
Sri Lanka	25.34	19	26.92
Vietnam	25.33	20	23.08
Taiwan	22.43	21	19.23
Hong Kong	22.05	22	15.38
Bangladesh	21.71	23	11.54
Bhutan	20.68	24	7.69
Nepal	18.51	25	3.85
Macau	17.98	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Accumulated Depreciation - Total

Countries	Value (total assets = 100)	Rank	Percentile	Region
Mexico	72.22	1	98.11	Latin America
Japan	66.24	3	94.34	Asia
Switzerland	54.28	4	92.45	Europe
Spain	51.84	5	90.57	Europe
Germany	49.86	6	88.68	Europe
India	49.14	7	86.79	Asia
Thailand	47.53	9	83.02	Asia
Israel	47.52	10	81.13	the Middle East
Ireland	47.13	11	79.25	Europe
Luxembourg	46.94	12	77.36	Europe
Brazil	45.56	13	75.47	Latin America
Netherlands	39.43	15	71.70	Europe
Taiwan	39.27	16	69.81	Asia
Turkey	37.93	17	67.92	the Middle East
Peru	35.12	19	64.15	Latin America
Denmark	32.13	21	60.38	Europe
Russian Federation	31.34	23	56.60	Europe
Portugal	31.02	24	54.72	Europe
Belgium	30.88	25	52.83	Europe
South Africa	29.69	26	50.94	Africa
Italy	29.23	27	49.06	Europe
Hungary	28.16	28	47.17	Europe
Sweden	27.88	29	45.28	Europe
France	27.10	30	43.40	Europe
Canada	26.97	31	41.51	North America
Austria	26.91	32	39.62	Europe
South Korea	25.10	33	37.74	Asia
Philippines	24.50	34	35.85	Asia
the United Kingdom	24.25	35	33.96	Europe
USA	23.73	36	32.08	North America
Pakistan	23.38	37	30.19	the Middle East
Poland	23.03	38	28.30	Europe
Finland	22.50	39	26.42	Europe
Malaysia	21.72	40	24.53	Asia
China	**19.74**	**42**	**20.75**	**Asia**
Australia	17.72	43	18.87	Oceana
Singapore	17.29	44	16.98	Asia
New Zealand	14.90	45	15.09	Oceana
Hong Kong	14.60	46	13.21	Asia
Chile	14.11	47	11.32	Latin America
Norway	13.27	48	9.43	Europe
Greece	11.65	49	7.55	Europe
Indonesia	10.86	50	5.66	Asia
Czech Republic	10.37	51	3.77	Europe
Argentina	9.66	53	0.00	Latin America

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Accumulated Depreciation - Total
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total assets = 100)	Rank	Percentile
Japan	66.24	1	96.15
India	49.14	2	92.31
Brunei	49.01	3	88.46
Thailand	47.53	4	84.62
Papua New Guinea	44.03	5	80.77
Mongolia	42.40	6	76.92
Taiwan	39.27	7	73.08
Cambodia	37.29	8	69.23
Laos	35.95	9	65.38
North Korea	34.09	10	61.54
Sri Lanka	32.88	11	57.69
Vietnam	32.63	12	53.85
Seychelles	29.25	13	50.00
Bangladesh	27.96	14	46.15
Bhutan	26.63	15	42.31
South Korea	25.10	16	38.46
Burma	24.58	17	34.62
Philippines	24.50	18	30.77
Nepal	23.84	19	26.92
Malaysia	21.72	20	23.08
China	**19.74**	**21**	**19.23**
Singapore	17.29	22	15.38
Hong Kong	14.60	23	11.54
Indonesia	10.86	24	7.69
Maldives	9.90	25	3.85
Macau	9.51	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Intangible Other Assets

Countries	Value (total assets = 100)	Rank	Percentile	Region
the United Kingdom	16.00	1	97.92	Europe
USA	15.37	2	95.83	North America
Norway	12.90	3	93.75	Europe
Denmark	9.01	4	91.67	Europe
Italy	8.04	5	89.58	Europe
Belgium	7.57	6	87.50	Europe
Switzerland	7.17	7	85.42	Europe
Luxembourg	6.20	9	81.25	Europe
Germany	5.69	10	79.17	Europe
Sweden	5.43	11	77.08	Europe
Mexico	5.02	12	75.00	Latin America
France	4.98	13	72.92	Europe
Canada	4.83	14	70.83	North America
Finland	4.05	16	66.67	Europe
Austria	3.87	17	64.58	Europe
Australia	3.66	18	62.50	Oceana
New Zealand	2.60	19	60.42	Oceana
Hong Kong	2.54	20	58.33	Asia
Russian Federation	2.05	22	54.17	Europe
Hungary	1.85	23	52.08	Europe
China	**1.80**	**24**	**50.00**	**Asia**
Poland	1.51	25	47.92	Europe
South Korea	1.37	26	45.83	Asia
Spain	1.15	27	43.75	Europe
Philippines	1.07	28	41.67	Asia
Israel	1.06	29	39.58	the Middle East
Ireland	1.05	30	37.50	Europe
Malaysia	1.02	31	35.42	Asia
Taiwan	0.87	33	31.25	Asia
Turkey	0.75	34	29.17	the Middle East
Japan	0.73	35	27.08	Asia
Thailand	0.45	36	25.00	Asia
Netherlands	0.40	37	22.92	Europe
Peru	0.33	40	16.67	Latin America
Portugal	0.27	41	14.58	Europe
Singapore	0.24	42	12.50	Asia
Greece	0.23	43	10.42	Europe
Chile	0.22	44	8.33	Latin America
Czech Republic	0.20	45	6.25	Europe
Argentina	0.19	46	4.17	Latin America
India	0.16	47	2.08	Asia
South Africa	0.11	48	0.00	Africa

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Intangible Other Assets
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total assets = 100)	Rank	Percentile
Brunei	6.48	1	95.65
Papua New Guinea	5.73	2	91.30
Hong Kong	2.54	3	86.96
Seychelles	1.92	4	82.61
China	**1.80**	**5**	**78.26**
South Korea	1.37	6	73.91
Burma	1.08	7	69.57
Philippines	1.07	8	65.22
Malaysia	1.02	9	60.87
Taiwan	0.87	10	56.52
Japan	0.73	11	52.17
Thailand	0.45	12	47.83
Mongolia	0.40	13	43.48
North Korea	0.32	14	39.13
Singapore	0.24	15	34.78
Macau	0.19	16	30.43
India	0.16	17	26.09
Cambodia	0.12	18	21.74
Laos	0.12	19	17.39
Vietnam	0.11	20	13.04
Bangladesh	0.09	21	8.70
Bhutan	0.09	22	4.35
Nepal	0.08	23	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

3.3 FINANCIAL RETURNS IN CHINA: LIABILITY STRUCTURE RATIOS

3.3.1 Overview

In this chapter we consider the liability structure of firms operating in China benchmarked against global averages. The chapter begins by defining relevant terms. A common-size statement, or vertical analysis of liabilities and shareholder equity is then presented for the proto-typical firm operating in China and the average global benchmarks (sometimes referred to as a financial "gap" analysis). The figure reflect firms involved in motor vehicle parts and accessories manufacturing in China. For ratios where there are large deviations between China and the benchmarks, graphics are provided (total liabilities and equity = 100 percent). Then the distribution of ratios is presented in the form of ranks and percentiles. Certain key vertical analysis liability ratios are highlighted.

3.3.2 Liabilities and Equity – Definitions of Terms

The following definitions are provided for those less familiar with the liability-side of financial statement analysis. As this chapter deals with the vertical analysis and global benchmarking of liabilities and equity, only definitions covering certain terms used in this chapter's tables and graphs are provided here. The glossary below reflects commonly accepted definitions across various countries and official sources.

- **Accounts Payable.** Accounts payable are defined as amounts owed on open account to private persons or organizations for goods or services received.

- **Accrued Payroll.** Accrued payroll is defined as the cost of payroll that has been incurred but has not yet been paid. Payroll is typically defined as comprising records detailing the salaries, wages, allowances and deductions for each employee for a specific period of time.

- **Capital Surplus.** Capital surplus is commonly defined as an amount of equity which is directly contributed capital in excess of the par value.

- **Common Equity.** Common equity is defined to equal the company's net worth. It typically comprises capital stock, capital surplus, retained earnings, and, in some cases, net worth reserves. Common equity is the portion of total net worth belonging to the common stockholders. Synonyms which are often used for common equity are "common stock" and "net worth".

- **Common Stock.** Common stock is defined as the securities which represent the company's ownership interest. Common stockholders typically assume greater risk than preferred stockholders; although common stockholders maintain greater control and generally greater dividends and capital appreciation. Common stock can be used interchangeably with the term capital stock when the company has no preferred stock.

- **Current Liabilities - Total.** Total current liabilities are defined as the total amount of obligations which would require the use of current assets or other current liabilities to pay.

- **Current Portion of Long Term Debt.** The current proportion of long term debt is typically defined as debt which is payable in more than one year.

- **Deferred Taxes.** Deferred taxes are compulsory charges from a previous accounting period which are yet unpaid.

- **Dividends Payable.** Dividends payable typically include the declared dividend dollar amount that a company is obligated to pay. The dividend payment eliminates dividends payable and reduces cash.

- **Income Taxes Payable.** Income taxes payable are understood to mean taxes which are levied by state, federal, and local governments on the company's reported accounting profit. Income taxes payable are those which are due in the current accounting period.

- **Long Term Debt.** Long-term debt is defined to be due in a period exceeding one year or one operating cycle, whichever is longer. Long-term debt can have an extended repayment period such as a many-year mortgage on land and buildings, or debt that's intended to be permanent such as bonds issued to investors.

- **Long Term Debt Excluding Capitalized Leases.** Long term debt excluding capitalized leases is defined as debt which is typically due in a period exceeding one year or one operating cycle, whichever is longer, less capitalized leases (see Long Term Debt for exceptions). Capital leases are generally recorded as assets with liability at the current value of the lease payment.

- **Minority Interest.** Minority interest is the proportional share of the minority ownership's interest (less than 50 percent) in the earnings or losses.

- **Non-Equity Reserves.** Non-equity reserves are the amount set aside for losses or liabilities which are certain to arise but cannot be quantified with certainty, and are not part of the firm’s equity.

- **Retained Earnings.** Retained earnings is an equity account reflecting the accumulated earnings of proprietary funds.

- **Shareholders Equity.** Shareholders equity is commonly defined to be the amount of total equity reserved for common and preferred shareholders.

- **Short Term Debt.** Short term debt is generally defined as debt payable within one year.

- **Total Liabilities.** Total liabilities are generally defined to include all the claims against a corporation. Liabilities include accounts and wages and salaries payable, dividends declared payable, accrued taxes payable, fixed or long-term liabilities such as mortgage bonds, debentures, and bank loans.

3.3.3 Liability Structure: Outlook

Using the methodology described in the introduction, the following table summarizes liability and equity structure benchmarks for firms involved in motor vehicle parts and accessories manufacturing in China. To allow comparable benchmarking, a common index of Total Liabilities & Shareholders Equity = 100 is used. All figures are current-year projections for companies operating in China based on latest financial results available.

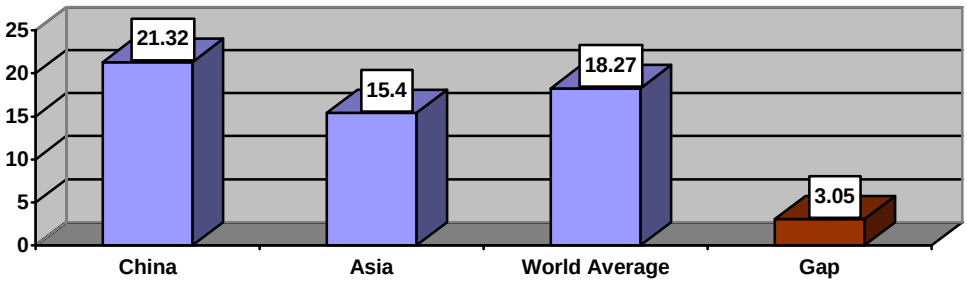
Liability Structure	China	Asia	World Avg.
Accounts Payable	21.32	15.40	18.27
Short Term Debt & Current Portion of Long Term Debt	13.17	10.28	10.76
Accrued Payroll	0.91	0.93	0.63
Income Taxes Payable	1.22	1.96	2.19
Dividends Payable	1.69	1.90	1.59
Other Current Liabilities	14.55	7.43	10.26
Current Liabilities - Total	**47.75**	**33.10**	**38.93**
Long Term Debt	3.11	6.00	8.75
Long Term Debt Excluding Capitalized Leases	3.11	5.41	7.90
Provision For Risks and Charges	1.27	2.07	1.83
Deferred Taxes	-0.31	0.95	0.91
Other Liabilities	0.23	2.12	1.50
Total Liabilities	**51.21**	**43.34**	**51.47**
Non-Equity Reserves	0.03	0.09	0.05
Minority Interest	4.02	2.10	1.61
Common Equity	44.74	41.33	39.97
Common Stock	18.70	14.13	12.64
Capital Surplus	17.08	9.42	10.68
Revaluation Reserves	0.69	0.46	1.07
Other Appropriated Reserves	6.16	3.94	2.95
Unappropriated Reserves	3.24	11.12	9.44
Retained Earnings	3.24	9.05	6.52
Unrealized Gain/Loss on Marketable Securities	-0.24	0.08	0.00
Total Liabilities & Shareholders Equity	**100.00**	**100.00**	**100.00**

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

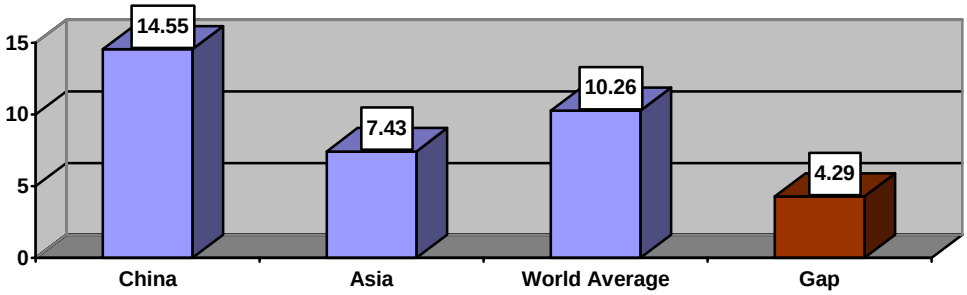
3.3.4 Large Variances: Liabilities

The following graphics summarize for motor vehicle parts and accessories manufacturing the large liability structure gaps between firms operating in China and the world average. A gap cannot necessarily be interpreted as a positive or negative reflection on performance. Gaps may signal areas of specialization, market focus, or expertise. More contextual information is required to fully interpret these gaps. The gaps highlighted here are simply those that are large.

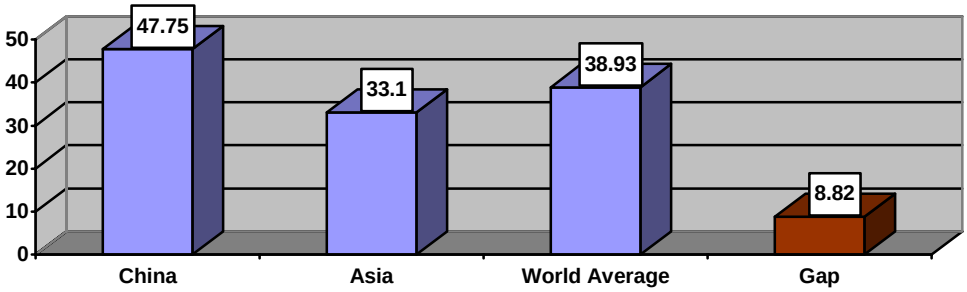
Gap: Accounts Payable



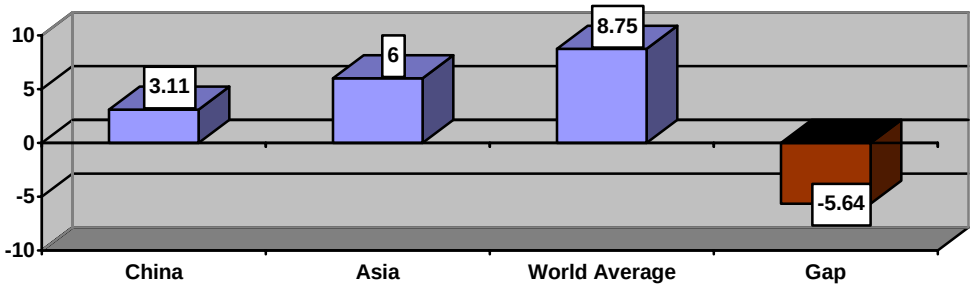
Gap: Other Current Liabilities



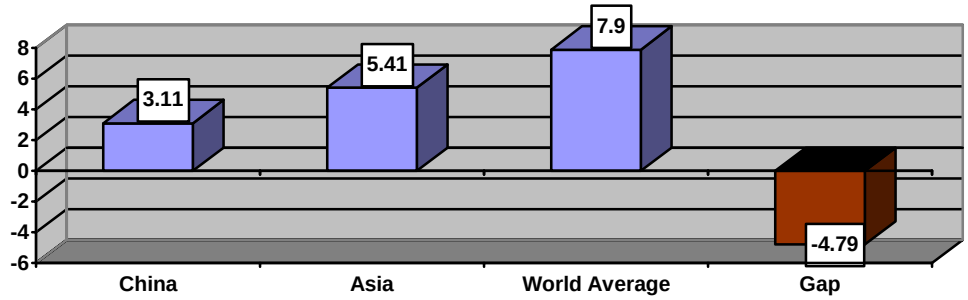
Gap: Current Liabilities - Total



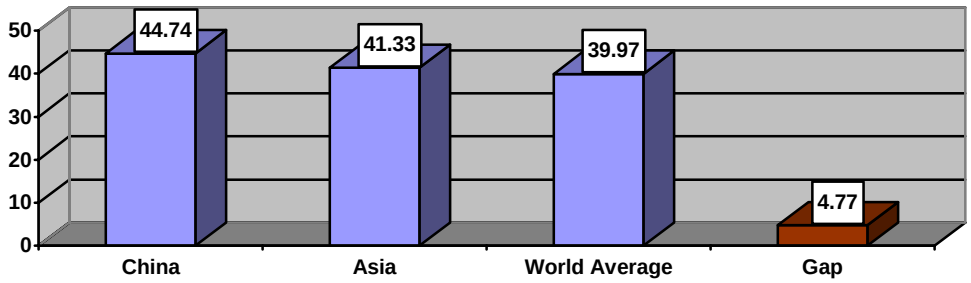
Gap: Long Term Debt



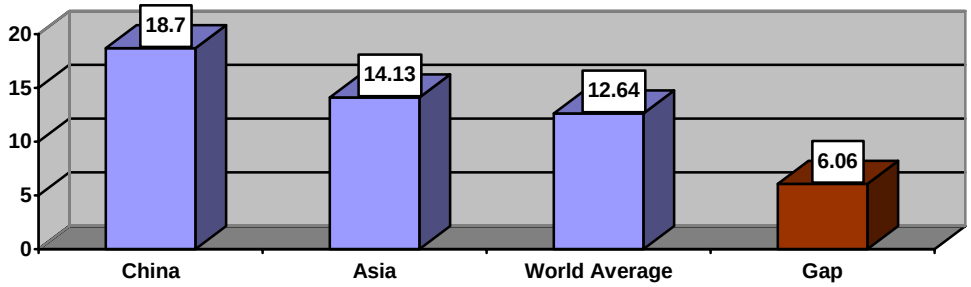
Gap: Long Term Debt Excluding Capitalized Leases



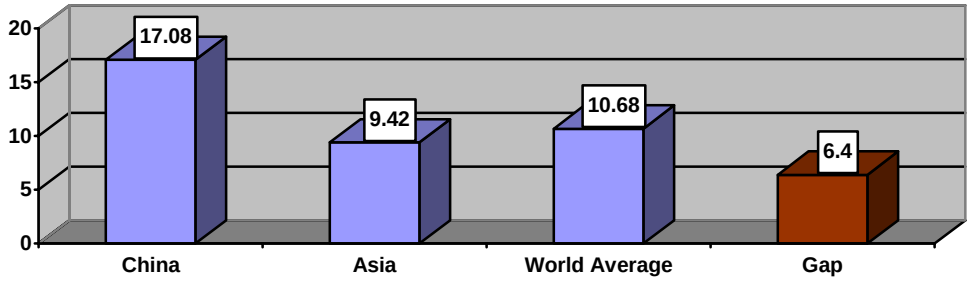
Gap: Common Equity



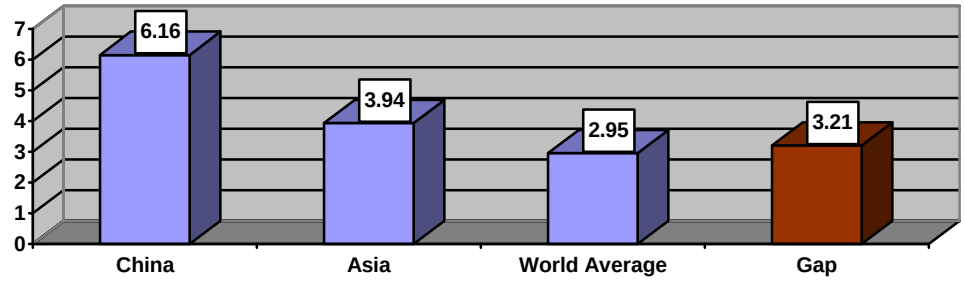
Gap: Common Stock



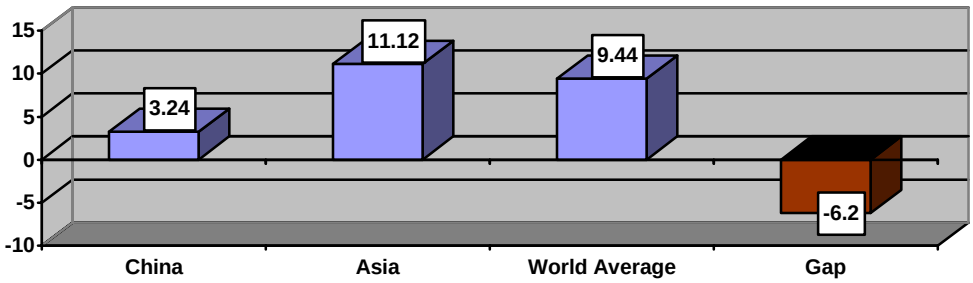
Gap: Capital Surplus



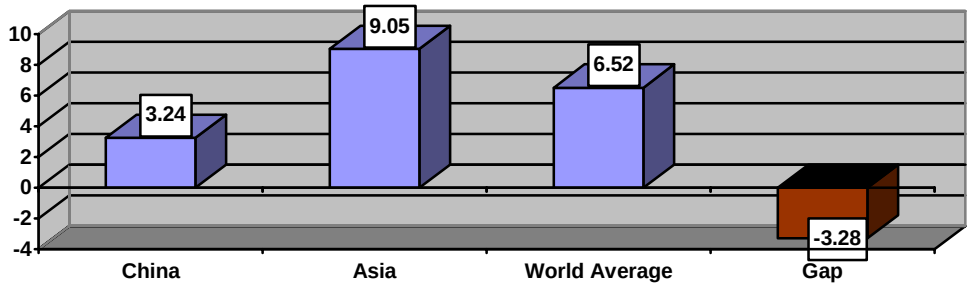
Gap: Other Appropriated Reserves



Gap: Unappropriated Reserves



Gap: Retained Earnings



3.3.5 Key Percentiles and Rankings

We now consider the distribution of liability ratios for motor vehicle parts and accessories manufacturing using ranks and percentiles. What percent of countries have a value lower or higher than China (what is the ratio's rank or percentile)? The table below answers this question with respect to the vertical analysis of liability The ranks and percentiles indicate, from highest to lowest, where a value falls within the distribution of all countries considered in the global benchmark (the number of countries in the benchmark per line item may vary, as indicated in the Rank). Again, a high or low figure does not necessarily indicate good or bad performance. After the summary table below, a few key vertical liability ratios are highlighted in additional tables.

Liability Structure	**China**	**Rank of Total**	**Percentile**
Accounts Payable	21.32	14 of 53	73.58
Short Term Debt & Current Portion of Long Term Debt	13.17	24 of 53	54.72
Accrued Payroll	0.91	16 of 21	23.81
Income Taxes Payable	1.22	21 of 46	54.35
Dividends Payable	1.69	7 of 23	69.57
Other Current Liabilities	14.55	10 of 53	81.13
Current Liabilities - Total	**47.75**	**13 of 53**	**75.47**
Long Term Debt	3.11	37 of 52	28.85
Long Term Debt Excluding Capitalized Leases	3.11	37 of 46	19.57
Provision For Risks and Charges	1.27	20 of 36	44.44
Deferred Taxes	-0.31	32 of 41	21.95
Other Liabilities	0.23	35 of 42	16.67
Total Liabilities	**51.21**	**34 of 53**	**35.85**
Non-Equity Reserves	0.03	18 of 20	10.00
Minority Interest	4.02	6 of 43	86.05
Common Equity	44.74	18 of 53	66.04
Common Stock	18.70	14 of 52	73.08
Capital Surplus	17.08	8 of 36	77.78
Revaluation Reserves	0.69	20 of 27	25.93
Other Appropriated Reserves	6.16	12 of 45	73.33
Unappropriated Reserves	3.24	21 of 31	32.26
Retained Earnings	3.24	31 of 47	34.04
Unrealized Gain/Loss on Marketable Securities	-0.24	11 of 11	0.00
Total Liabilities & Shareholders Equity	**100.00**		

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Accounts Payable

Countries	Value (total liabilities & equity = 100)	Rank	Percentile	Region
Spain	38.67	1	98.11	Europe
Russian Federation	35.73	3	94.34	Europe
Israel	35.45	4	92.45	the Middle East
Ireland	35.16	5	90.57	Europe
Hungary	32.11	6	88.68	Europe
Taiwan	29.30	7	86.79	Asia
Indonesia	28.11	8	84.91	Asia
Canada	27.47	9	83.02	North America
Poland	26.26	11	79.25	Europe
India	24.98	12	77.36	Asia
France	21.68	13	75.47	Europe
China	**21.32**	**14**	**73.58**	**Asia**
Italy	20.59	15	71.70	Europe
Turkey	19.86	16	69.81	the Middle East
South Africa	18.82	17	67.92	Africa
Japan	18.36	18	66.04	Asia
Belgium	17.83	19	64.15	Europe
Greece	17.76	20	62.26	Europe
South Korea	16.09	21	60.38	Asia
Czech Republic	15.81	22	58.49	Europe
Switzerland	15.31	23	56.60	Europe
the United Kingdom	15.21	24	54.72	Europe
New Zealand	15.19	25	52.83	Oceana
Hong Kong	14.89	26	50.94	Asia
Argentina	14.73	27	49.06	Latin America
Luxembourg	13.24	29	45.28	Europe
Pakistan	13.19	30	43.40	the Middle East
Finland	12.61	31	41.51	Europe
Denmark	12.58	32	39.62	Europe
Australia	12.45	33	37.74	Oceana
Netherlands	11.50	34	35.85	Europe
Chile	10.88	35	33.96	Latin America
Singapore	10.86	36	32.08	Asia
Austria	10.85	37	30.19	Europe
USA	10.78	38	28.30	North America
Mexico	10.22	39	26.42	Latin America
Sweden	9.82	40	24.53	Europe
Portugal	9.55	41	22.64	Europe
Germany	9.19	43	18.87	Europe
Thailand	8.91	44	16.98	Asia
Norway	8.64	45	15.09	Europe
Malaysia	7.11	48	9.43	Asia
Peru	6.59	50	5.66	Latin America
Brazil	6.00	51	3.77	Latin America
Philippines	2.10	52	1.89	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Accounts Payable
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total liabilities & equity = 100)	Rank	Percentile
Seychelles	33.35	1	96.15
Taiwan	29.30	2	92.31
Indonesia	28.11	3	88.46
Maldives	25.63	4	84.62
India	24.98	5	80.77
China	**21.32**	**6**	**76.92**
Cambodia	18.95	7	73.08
Japan	18.36	8	69.23
Laos	18.28	9	65.38
Vietnam	16.58	10	61.54
South Korea	16.09	11	57.69
Hong Kong	14.89	12	53.85
Macau	14.51	13	50.00
Sri Lanka	14.48	14	46.15
Bangladesh	14.21	15	42.31
Brunei	13.82	16	38.46
Bhutan	13.54	17	34.62
Nepal	12.12	18	30.77
Singapore	10.86	19	26.92
Thailand	8.91	20	23.08
Mongolia	7.95	21	19.23
Malaysia	7.11	22	15.38
Papua New Guinea	6.53	23	11.54
North Korea	6.39	24	7.69
Burma	2.10	25	3.85
Philippines	2.10	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Current Liabilities - Total

Countries	Value (total liabilities & equity = 100)	Rank	Percentile	Region
Pakistan	68.47	1	98.11	the Middle East
Russian Federation	67.11	3	94.34	Europe
Hungary	60.30	4	92.45	Europe
Spain	53.51	6	88.68	Europe
France	53.31	7	86.79	Europe
Poland	49.31	8	84.91	Europe
Netherlands	49.09	9	83.02	Europe
Israel	49.05	10	81.13	the Middle East
Ireland	48.65	11	79.25	Europe
Italy	47.79	12	77.36	Europe
China	**47.75**	**13**	**75.47**	**Asia**
Portugal	47.44	14	73.58	Europe
Belgium	46.31	15	71.70	Europe
Austria	46.26	16	69.81	Europe
Greece	42.48	17	67.92	Europe
South Korea	41.75	18	66.04	Asia
New Zealand	41.50	19	64.15	Oceana
Japan	41.41	20	62.26	Asia
Finland	40.84	21	60.38	Europe
Mexico	40.67	22	58.49	Latin America
Hong Kong	40.66	23	56.60	Asia
Taiwan	40.54	24	54.72	Asia
the United Kingdom	40.46	25	52.83	Europe
Turkey	40.07	26	50.94	the Middle East
Denmark	39.79	27	49.06	Europe
India	38.87	28	47.17	Asia
Singapore	37.97	29	45.28	Asia
Czech Republic	37.81	30	43.40	Europe
Thailand	37.57	32	39.62	Asia
Norway	36.58	33	37.74	Europe
Germany	36.32	34	35.85	Europe
Canada	35.96	35	33.96	North America
Switzerland	35.48	36	32.08	Europe
Argentina	35.22	37	30.19	Latin America
Indonesia	34.94	38	28.30	Asia
Brazil	34.37	39	26.42	Latin America
Sweden	33.12	40	24.53	Europe
Luxembourg	30.69	43	18.87	Europe
South Africa	30.43	44	16.98	Africa
Australia	29.69	45	15.09	Oceana
USA	29.47	46	13.21	North America
Peru	27.76	48	9.43	Latin America
Chile	25.72	49	7.55	Latin America
Malaysia	24.81	50	5.66	Asia
Philippines	15.31	52	1.89	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Current Liabilities - Total
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total liabilities & equity = 100)	Rank	Percentile
Seychelles	62.63	1	96.15
Sri Lanka	55.75	2	92.31
China	**47.75**	**3**	**88.46**
South Korea	41.75	4	84.62
Japan	41.41	5	80.77
Hong Kong	40.66	6	76.92
Taiwan	40.54	7	73.08
India	38.87	8	69.23
Singapore	37.97	9	65.38
Thailand	37.57	10	61.54
Indonesia	34.94	11	57.69
Macau	34.71	12	53.85
Mongolia	33.52	13	50.00
Brunei	32.04	14	46.15
Maldives	31.86	15	42.31
Cambodia	29.50	16	38.46
Laos	28.44	17	34.62
North Korea	26.95	18	30.77
Vietnam	25.81	19	26.92
Malaysia	24.81	20	23.08
Bangladesh	22.12	21	19.23
Bhutan	21.07	22	15.38
Papua New Guinea	20.38	23	11.54
Nepal	18.86	24	7.69
Burma	15.36	25	3.85
Philippines	15.31	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Long Term Debt

Countries	Value (total liabilities & equity = 100)	Rank	Percentile	Region
Finland	25.05	1	98.08	Europe
Chile	20.05	2	96.15	Latin America
USA	19.70	3	94.23	North America
Netherlands	19.70	4	92.31	Europe
Norway	18.09	5	90.38	Europe
Portugal	17.33	6	88.46	Europe
India	16.46	7	86.54	Asia
Sweden	16.09	8	84.62	Europe
Italy	14.86	9	82.69	Europe
the United Kingdom	13.20	10	80.77	Europe
Germany	12.86	11	78.85	Europe
South Korea	12.16	12	76.92	Asia
Switzerland	11.84	13	75.00	Europe
Canada	11.75	14	73.08	North America
Brazil	11.46	15	71.15	Latin America
Japan	11.38	16	69.23	Asia
France	11.29	17	67.31	Europe
Mexico	11.05	18	65.38	Latin America
Luxembourg	10.24	20	61.54	Europe
Denmark	10.05	22	57.69	Europe
Russian Federation	9.98	23	55.77	Europe
Greece	9.95	24	53.85	Europe
Belgium	9.47	25	51.92	Europe
Australia	9.44	26	50.00	Oceana
Hungary	8.97	27	48.08	Europe
Czech Republic	8.86	28	46.15	Europe
Argentina	8.25	29	44.23	Latin America
Austria	8.16	30	42.31	Europe
Poland	7.33	31	40.38	Europe
South Africa	7.07	32	38.46	Africa
Singapore	6.91	33	36.54	Asia
Turkey	5.87	34	34.62	the Middle East
Malaysia	4.09	36	30.77	Asia
China	**3.11**	**37**	**28.85**	**Asia**
New Zealand	2.01	39	25.00	Oceana
Hong Kong	1.97	40	23.08	Asia
Philippines	1.17	41	21.15	Asia
Spain	0.93	43	17.31	Europe
Israel	0.85	44	15.38	the Middle East
Ireland	0.85	45	13.46	Europe
Taiwan	0.71	46	11.54	Asia
Indonesia	0.11	47	9.62	Asia
Thailand	0.09	49	5.77	Asia
Peru	0.07	52	0.00	Latin America

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Long Term Debt
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total liabilities & equity = 100)	Rank	Percentile
India	16.46	1	96.15
Cambodia	12.49	2	92.31
South Korea	12.16	3	88.46
Laos	12.05	4	84.62
Japan	11.38	5	80.77
Vietnam	10.93	6	76.92
Brunei	10.69	7	73.08
Bangladesh	9.37	8	69.23
Seychelles	9.31	9	65.38
Bhutan	8.92	10	61.54
Macau	8.13	11	57.69
Nepal	7.99	12	53.85
Singapore	6.91	13	50.00
Sri Lanka	4.28	14	46.15
Malaysia	4.09	15	42.31
China	**3.11**	**16**	**38.46**
Papua New Guinea	2.19	17	34.62
Hong Kong	1.97	18	30.77
Burma	1.17	19	26.92
Philippines	1.17	20	23.08
Taiwan	0.71	21	19.23
Indonesia	0.11	22	15.38
Maldives	0.10	23	11.54
Thailand	0.09	24	7.69
Mongolia	0.08	25	3.85
North Korea	0.06	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Total Liabilities

Countries	Value (total liabilities & equity = 100)	Rank	Percentile	Region
Russian Federation	78.08	2	96.23	Europe
Greece	75.92	3	94.34	Europe
Italy	75.11	4	92.45	Europe
Germany	73.18	5	90.57	Europe
Netherlands	72.50	6	88.68	Europe
Belgium	71.73	7	86.79	Europe
Hungary	70.15	8	84.91	Europe
France	70.02	9	83.02	Europe
Pakistan	69.01	10	81.13	the Middle East
Czech Republic	67.59	11	79.25	Europe
Austria	66.72	12	77.36	Europe
Finland	66.65	13	75.47	Europe
Portugal	66.13	14	73.58	Europe
Argentina	62.96	16	69.81	Latin America
Norway	61.16	17	67.92	Europe
South Korea	60.73	18	66.04	Asia
Sweden	59.71	19	64.15	Europe
the United Kingdom	59.24	20	62.26	Europe
Japan	59.19	21	60.38	Asia
India	59.00	22	58.49	Asia
Spain	58.30	23	56.60	Europe
Switzerland	57.73	24	54.72	Europe
Poland	57.37	25	52.83	Europe
USA	57.16	26	50.94	North America
Brazil	54.76	27	49.06	Latin America
Indonesia	54.28	28	47.17	Asia
Israel	53.44	29	45.28	the Middle East
Ireland	53.00	30	43.40	Europe
Turkey	52.81	31	41.51	the Middle East
Denmark	52.81	32	39.62	Europe
Canada	52.32	33	37.74	North America
China	**51.21**	**34**	**35.85**	**Asia**
Luxembourg	49.93	36	32.08	Europe
Mexico	49.74	37	30.19	Latin America
Singapore	47.96	38	28.30	Asia
Chile	45.87	40	24.53	Latin America
Taiwan	44.16	41	22.64	Asia
New Zealand	42.93	42	20.75	Oceana
Hong Kong	42.06	43	18.87	Asia
Australia	41.15	44	16.98	Oceana
South Africa	38.32	45	15.09	Africa
Thailand	37.66	46	13.21	Asia
Malaysia	29.89	48	9.43	Asia
Peru	27.83	50	5.66	Latin America
Philippines	17.53	52	1.89	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Total Liabilities
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total liabilities & equity = 100)	Rank	Percentile
Seychelles	72.86	1	96.15
Sri Lanka	63.84	2	92.31
Macau	62.03	3	88.46
South Korea	60.73	4	84.62
Japan	59.19	5	80.77
India	59.00	6	76.92
Indonesia	54.28	7	73.08
Brunei	52.13	8	69.23
China	**51.21**	**9**	**65.38**
Maldives	49.49	10	61.54
Singapore	47.96	11	57.69
Cambodia	44.77	12	53.85
Taiwan	44.16	13	50.00
Laos	43.17	14	46.15
Hong Kong	42.06	15	42.31
Vietnam	39.18	16	38.46
Thailand	37.66	17	34.62
Mongolia	33.60	18	30.77
Bangladesh	33.58	19	26.92
Bhutan	31.98	20	23.08
Malaysia	29.89	21	19.23
Nepal	28.62	22	15.38
North Korea	27.01	23	11.54
Papua New Guinea	23.38	24	7.69
Burma	17.59	25	3.85
Philippines	17.53	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Common Equity

Countries	Value (total liabilities & equity = 100)	Rank	Percentile	Region
Philippines	82.47	1	98.11	Asia
Malaysia	63.76	3	94.34	Asia
Thailand	61.44	4	92.45	Asia
South Africa	58.76	5	90.57	Africa
Australia	58.35	6	88.68	Oceana
New Zealand	56.76	7	86.79	Oceana
Hong Kong	55.62	8	84.91	Asia
Chile	53.67	9	83.02	Latin America
Singapore	48.98	11	79.25	Asia
Denmark	47.19	13	75.47	Europe
Canada	46.12	14	73.58	North America
Indonesia	45.72	15	71.70	Asia
Peru	45.40	16	69.81	Latin America
Mexico	44.90	17	67.92	Latin America
China	**44.74**	**18**	**66.04**	**Asia**
Brazil	44.63	19	64.15	Latin America
Turkey	42.95	21	60.38	the Middle East
USA	41.83	23	56.60	North America
India	40.89	25	52.83	Asia
Spain	40.02	26	50.94	Europe
Switzerland	39.27	27	49.06	Europe
Sweden	39.08	28	47.17	Europe
Japan	39.02	29	45.28	Asia
the United Kingdom	37.74	30	43.40	Europe
Norway	36.87	31	41.51	Europe
Israel	36.68	32	39.62	the Middle East
South Korea	36.55	33	37.74	Asia
Ireland	36.38	34	35.85	Europe
Luxembourg	33.96	36	32.08	Europe
Finland	32.92	37	30.19	Europe
Portugal	32.58	38	28.30	Europe
Pakistan	30.99	39	26.42	the Middle East
Taiwan	30.31	40	24.53	Asia
Austria	29.24	41	22.64	Europe
France	28.60	42	20.75	Europe
Germany	25.81	43	18.87	Europe
Belgium	25.55	44	16.98	Europe
Netherlands	24.38	45	15.09	Europe
Greece	22.94	46	13.21	Europe
Italy	22.82	47	11.32	Europe
Czech Republic	20.42	49	7.55	Europe
Russian Federation	20.08	50	5.66	Europe
Argentina	19.03	51	3.77	Latin America
Hungary	18.05	52	1.89	Europe
Poland	14.76	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Common Equity
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total liabilities & equity = 100)	Rank	Percentile
Burma	82.76	1	96.15
Philippines	82.47	2	92.31
Malaysia	63.76	3	88.46
Thailand	61.44	4	84.62
Hong Kong	55.62	5	80.77
Mongolia	54.81	6	76.92
Singapore	48.98	7	73.08
Indonesia	45.72	8	69.23
China	**44.74**	**9**	**65.38**
North Korea	44.07	10	61.54
Maldives	41.69	11	57.69
India	40.89	12	53.85
Papua New Guinea	39.30	13	50.00
Japan	39.02	14	46.15
South Korea	36.55	15	42.31
Sri Lanka	35.99	16	38.46
Brunei	35.47	17	34.62
Cambodia	31.03	18	30.77
Taiwan	30.31	19	26.92
Laos	29.92	20	23.08
Vietnam	27.15	21	19.23
Bangladesh	23.27	22	15.38
Bhutan	22.16	23	11.54
Nepal	19.84	24	7.69
Macau	18.75	25	3.85
Seychelles	18.74	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Retained Earnings

Countries	Value (total liabilities & equity = 100)	Rank	Percentile	Region
South Africa	41.47	1	97.87	Africa
New Zealand	36.86	2	95.74	Oceana
Hong Kong	36.12	3	93.62	Asia
Malaysia	28.05	4	91.49	Asia
Denmark	27.70	5	89.36	Europe
USA	27.62	6	87.23	North America
Canada	25.97	7	85.11	North America
Mexico	22.90	9	80.85	Latin America
Japan	22.59	10	78.72	Asia
Singapore	22.23	11	76.60	Asia
the United Kingdom	17.45	13	72.34	Europe
Philippines	17.32	14	70.21	Asia
Finland	16.40	15	68.09	Europe
Chile	15.89	16	65.96	Latin America
Australia	15.63	17	63.83	Oceana
Germany	12.76	19	59.57	Europe
Sweden	12.35	20	57.45	Europe
Austria	10.20	21	55.32	Europe
Indonesia	8.33	22	53.19	Asia
Turkey	7.02	25	46.81	the Middle East
South Korea	6.59	26	44.68	Asia
France	5.52	27	42.55	Europe
Brazil	3.90	28	40.43	Latin America
Italy	3.49	29	38.30	Europe
Spain	3.34	30	36.17	Europe
China	**3.24**	**31**	**34.04**	**Asia**
Switzerland	3.10	32	31.91	Europe
Israel	3.07	33	29.79	the Middle East
Ireland	3.04	34	27.66	Europe
Luxembourg	2.68	35	25.53	Europe
Taiwan	2.53	36	23.40	Asia
Greece	2.26	37	21.28	Europe
India	2.18	38	19.15	Asia
Czech Republic	2.01	39	17.02	Europe
Argentina	1.87	40	14.89	Latin America
Portugal	0.02	41	12.77	Europe
Pakistan	0.00	42	10.64	the Middle East
Netherlands	-1.31	43	8.51	Europe
Poland	-7.06	44	6.38	Europe
Hungary	-8.64	45	4.26	Europe
Russian Federation	-9.61	46	2.13	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Retained Earnings
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total liabilities & equity = 100)	Rank	Percentile
Hong Kong	36.12	1	95.65
Malaysia	28.05	2	91.30
Sri Lanka	23.28	3	86.96
Japan	22.59	4	82.61
Singapore	22.23	5	78.26
Burma	17.38	6	73.91
Philippines	17.32	7	69.57
Indonesia	8.33	8	65.22
Maldives	7.59	9	60.87
Papua New Guinea	6.91	10	56.52
South Korea	6.59	11	52.17
China	**3.24**	**12**	**47.83**
Brunei	2.80	13	43.48
Taiwan	2.53	14	39.13
India	2.18	15	34.78
Macau	1.85	16	30.43
Cambodia	1.65	17	26.09
Laos	1.59	18	21.74
Vietnam	1.45	19	17.39
Bangladesh	1.24	20	13.04
Bhutan	1.18	21	8.70
Nepal	1.06	22	4.35
Seychelles	-8.97	23	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

3.4 FINANCIAL RETURNS IN CHINA: INCOME STRUCTURE RATIOS

3.4.1 Overview

In this chapter we consider the income structure of companies operating in China benchmarked against global averages. The chapter begins by defining relevant terms. A common-size statement, or vertical analysis of income is then presented for the proto-typical firm involved in motor vehicle parts and accessories manufacturing operating in China and the average global benchmarks (total revenue = 100 percent). For ratios where there are large deviations between China and the benchmarks, graphics are provided. Then the distribution of ratios is presented in the form of ranks and percentiles. Certain key vertical analysis income ratios are highlighted across countries in the comparison group.

3.4.2 Income Statements – Definitions of Terms

The following definitions are provided for those less familiar with the income-side of financial statement analysis. As this chapter deals with the vertical analysis and global benchmarking of income, only definitions covering certain terms used in this chapter's tables and graphs are provided here. The glossary below reflects commonly accepted definitions across various countries and official sources.

- **Amortization.** Amortization generally refers to the depreciation, depletion, or charge-off to expense of intangible and tangible assets over a period of time. Amortization is commonly understood to be the taking as an expense (writing off) of the loss of value of an intangible asset such as a copyright, a patent, or a mailing list, in an accounting period.

- **Cost of Goods Sold (excluding depreciation).** For retail companies, cost of goods sold is generally defined as the equivalent of starting inventory plus purchases minus ending inventory. In manufacturing, cost of goods sold is defined to equal the starting inventory plus the cost of goods manufactured minus ending inventory. Most pure service firms do not generally have cost of goods sold.

- **Current Domestic Income Tax.** Current domestic income taxes are commonly defined as compulsory charges levied by the government where the company is located on current income.

- **Deferred Domestic Income Tax.** Deferred domestic income tax is defined as a compulsory charge from a previous accounting period which is yet unpaid to the government where the company is located on current income.

- **Depletion.** Depletion is commonly defined to be included as one of the elements of amortization, and is understood to be the portion of the carrying value (other than the portion associated with tangible assets) prorated in each accounting period for financial reporting purposes.

- **Depreciation.** Depreciation generally is defined as the expiration in the service life of fixed assets, other than depletable assets, attributable to wear and tear, deterioration, action of the physical elements, inadequacy and obsolescence. Depreciation is commonly defined as the portion of the cost of a fixed asset charged as an expense during a particular period. In accounting for depreciation, the cost of a fixed asset, less any salvage value, is prorated over the estimated service life of such an asset, and each period is charged with a portion of such cost. Through this process, the cost of the asset is ultimately charged off as an expense.

- **Earnings Before Interest and Taxes (EBIT).** EBIT is a financial measure defined as revenues less cost of goods sold and selling, general, and administrative expenses. In other words, operating and non-operating profit before the deduction of interest and income taxes.

- **Extraordinary Items.** Extraordinary items are defined to include income and expense items associated with events and transactions that possess a high degree of abnormality and are of a type that would not reasonably be expected to recur in the foreseeable future.

- **Gain/Loss Sale of Assets.** Gains or losses associated with the sale of assets are defined as increases or decreases in equity (net assets) resulting from the sale of assets.

- **Gross Income.** Gross income is commonly defined as all the money, goods, and property received by the company that must be included as taxable income.

- **Income Taxes.** Income taxes are defined to include those taxes levied by state, federal, and local governments on the company's reported accounting profit. Income taxes generally include both deferred and paid taxes. They are generally determined after the interest expense has been deducted.

- **Interest Expense on Debt.** Interest expenses on debt are those which are spent on current debt and added to the net income so avoid underestimating interest coverage.

- **Minority Interest.** Minority interest is the proportional share of the minority ownership's interest (less than 50 percent) in the earnings or losses.

- **Net Income Available to Common.** Net income available to common is defined as the net income available to common stockholders.

- **Net Income Before Preferred Dividends.** Net income before preferred dividends is generally calculated as the difference between total revenues and total expense prior to the granting of preferred dividends.

- **Net Sales or Revenues.** Revenues or net sales are defined as payments made to and received by an entity. May take the form of taxes, user fees, fines, fees for service, and so on.

- **Non-Operating Interest Income.** Non-operating interest income is generally understood to be any interest received (e.g., royalty, production payment, net profits interest) that does not involve the operation of the company.

- **Operating Expenses.** Operating expenses are generally defined as those incurred in paying for the company’s day-to-day activities.

- **Operating Income.** Operating income is generally defined to equal operating revenues less operating expenses. It typically excludes items of other revenue and expense such as equity in earnings of unconsolidated companies, dividends, interest income and expense, income taxes, extraordinary items, and cumulative effect of accounting changes.

- **Pretax Equity In Earnings.** Pretax equity in earnings is generally defined to equal a company's proportional share (based on ownership) of the gross earnings or losses of an unconsolidated company.

- **Pretax Income.** Pretax income is generally defined as income before tax deductions.

- **Selling, General & Administrative Expenses.** Selling, general and administrative expenses are expenses independent from cost of sales for the purpose of illustrating the amount of the company's selling and

administrative costs. Generally included in this figure are the costs of employees' salaries, commissions, and travel expenses; company payroll and office costs; and advertising and promotion.

3.4.3 Income Structure: Outlook

Using the methodology described in the introduction, the following table summarizes income structure benchmarks for firms involved in motor vehicle parts and accessories manufacturing in China. To allow comparable benchmarking, a common index of Net Sales or Revenues = 100 is used. All figures are current-year projections for companies operating in China based on latest financial results available.

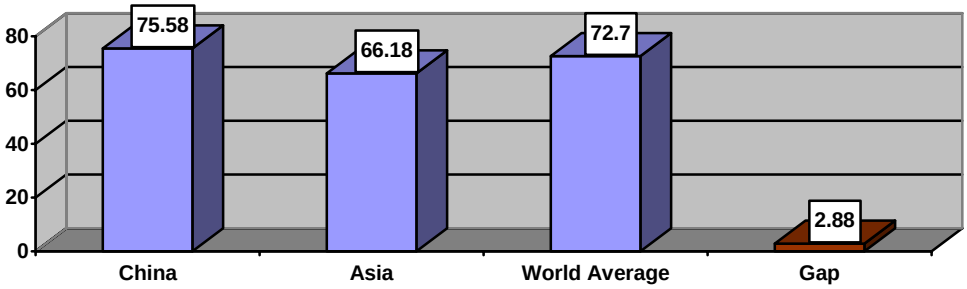
Income Structure	China	Asia	World Avg.
Net Sales or Revenues	100.00	100.00	100.00
Cost of Goods Sold (Excluding Depreciation)	75.58	66.18	72.70
Depreciation, Depletion & Amortization	3.93	5.05	4.74
Gross Income	**20.49**	**15.90**	**16.12**
Selling, General & Administrative Expenses	14.39	11.84	7.40
Other Operating Expenses	94.68	80.25	85.34
Operating Expenses - Total	1.51	3.78	2.80
Operating Income	**6.70**	**6.56**	**6.90**
Extraordinary Credit - Pretax	0.00	0.11	0.09
Extraordinary Charge - Pretax	0.13	0.32	0.35
Non-Operating Interest Income	0.76	0.61	0.90
Other Income/Expense Net	0.53	2.72	1.82
Earnings Before Interest and Taxes (EBIT)	**7.58**	**9.64**	**9.26**
Interest Expense on Debt	1.27	1.49	2.29
Pretax Income	**6.31**	**8.15**	**6.98**
Income Taxes	1.39	1.87	2.03
Current Domestic Income Tax	1.35	1.46	1.51
Deferred Domestic Income Tax	-0.50	0.02	-0.10
Minority Interest	0.45	0.46	0.21
Net Income Before Extra Items/Prefer Dividends	4.47	6.09	4.92
Extraordinary Items & Gain/Loss Sale Of Assets	-0.03	-0.11	-0.19
Net Income Before Preferred Dividends	4.44	5.98	4.73
Net Income Available to Common	**4.47**	**6.09**	**4.91**

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

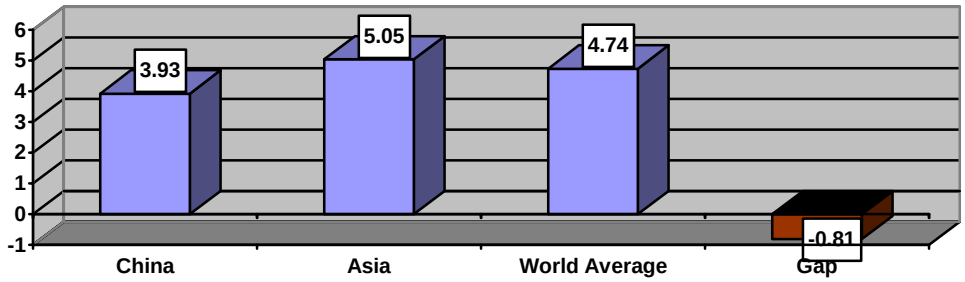
3.4.4 Large Variances: Income

The following graphics summarize for motor vehicle parts and accessories manufacturing the large income structure gaps between firms operating in China and the world average. A gap cannot necessarily be interpreted as a positive or negative reflection on performance. Gaps may signal areas of specialization, market focus, or expertise. More contextual information is required to fully interpret these gaps. The gaps highlighted here are simply those that are large.

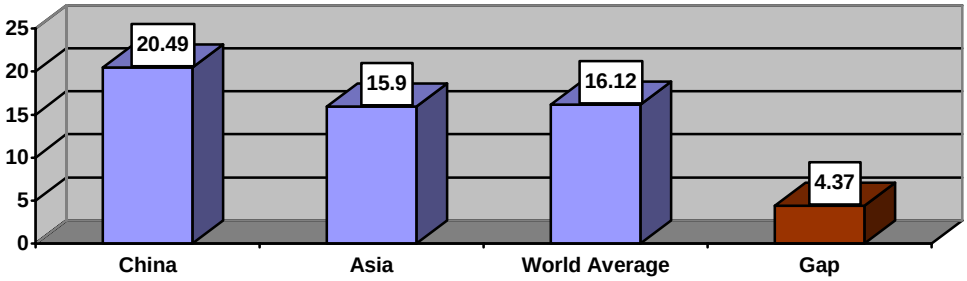
Gap: Cost of Goods Sold (Excluding Depreciation)



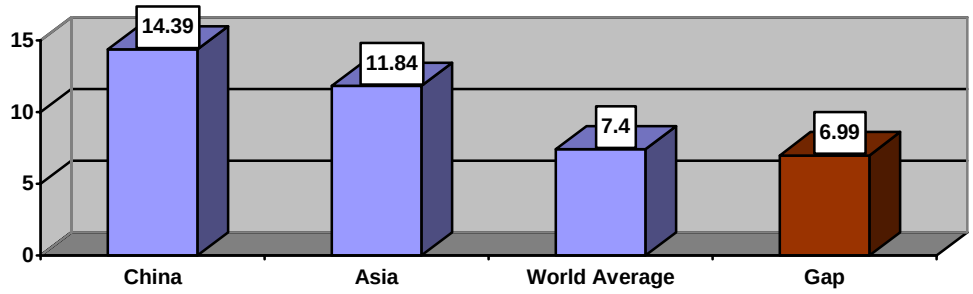
Gap: Depreciation, Depletion & Amortization



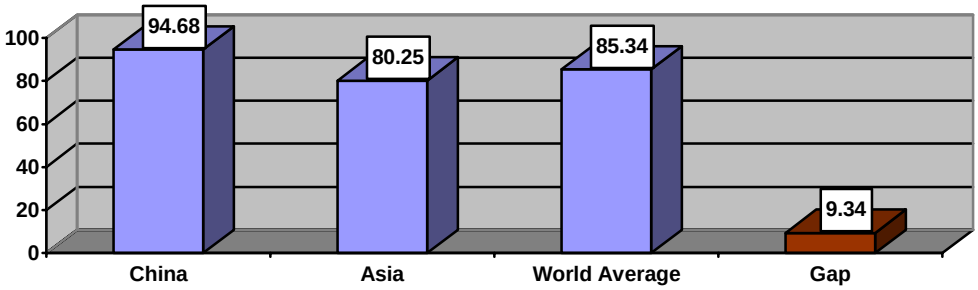
Gap: Gross Income



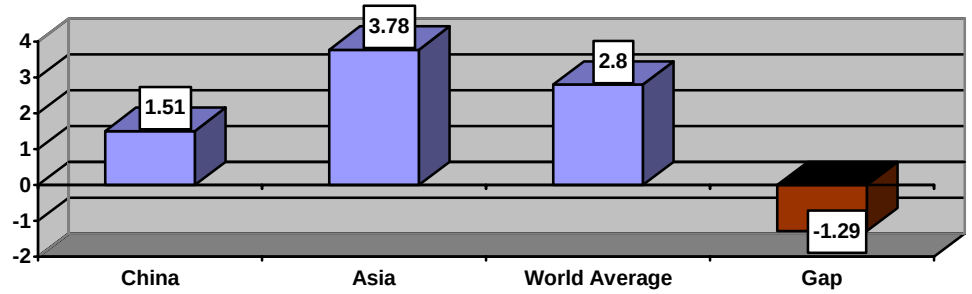
Gap: Selling, General & Administrative Expenses



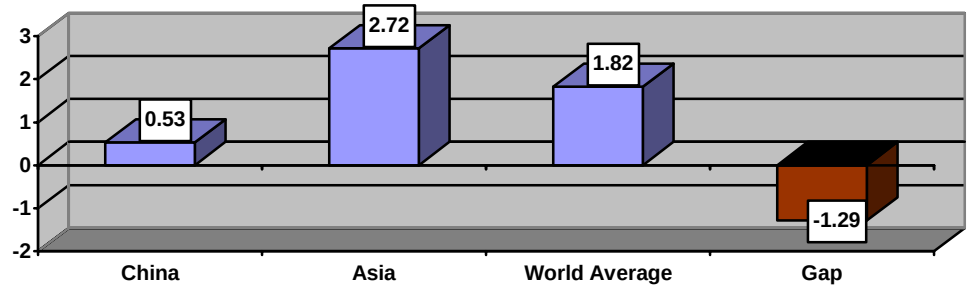
Gap: Other Operating Expenses



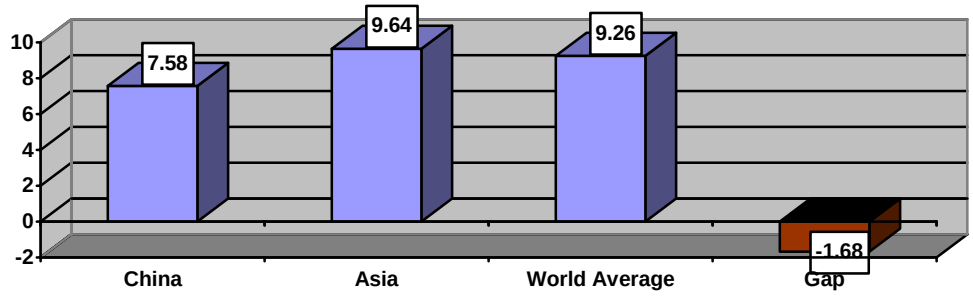
Gap: Operating Expenses - Total



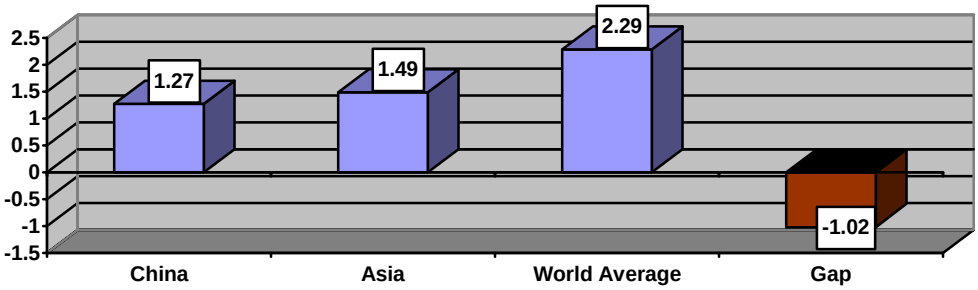
Gap: Other Income/Expense Net



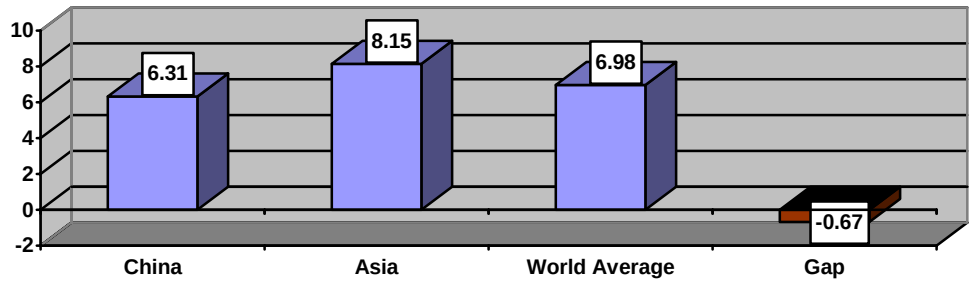
Gap: Earnings Before Interest and Taxes (EBIT)



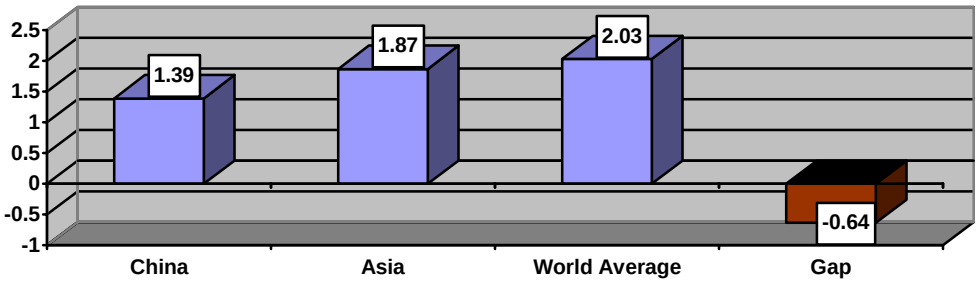
Gap: Interest Expense on Debt



Gap: Pretax Income



Gap: Income Taxes



3.4.5 Key Percentiles and Rankings

We now consider the distribution of income ratios for motor vehicle parts and accessories manufacturing using ranks and percentiles. What percent of countries have a value lower or higher than China (what is the ratio's rank or percentile)? The table below answers this question with respect to the vertical analysis of income structure. The ranks and percentiles indicate, from highest to lowest, where a value falls within the distribution of all countries considered in the global benchmark (the number of countries in the benchmark per line item may vary, as indicated in the Rank). Again, a high or low figure does not necessarily indicate good or bad performance. After the summary table below, a few key vertical income ratios are highlighted in additional tables.

Income Structure	China	Rank of Total	Percentile
Net Sales or Revenues	100.00		
Cost of Goods Sold (Excluding Depreciation)	75.58	27 of 53	49.06
Depreciation, Depletion & Amortization	3.93	25 of 53	52.83
Gross Income	**20.49**	**21 of 53**	**60.38**
Selling, General & Administrative Expenses	14.39	13 of 36	63.89
Other Operating Expenses	94.68	17 of 52	67.31
Operating Expenses - Total	1.51	24 of 41	41.46
Operating Income	**6.70**	**21 of 53**	**60.38**
Extraordinary Credit - Pretax	0.00	27 of 28	3.57
Extraordinary Charge - Pretax	0.13	23 of 31	25.81
Non-Operating Interest Income	0.76	20 of 47	57.45
Other Income/Expense Net	**0.53**	**38 of 53**	**28.30**
Earnings Before Interest and Taxes (EBIT)	**7.58**	**25 of 53**	**52.83**
Interest Expense on Debt	1.27	32 of 53	39.62
Pretax Income	**6.31**	**22 of 53**	**58.49**
Income Taxes	1.39	30 of 53	43.40
Current Domestic Income Tax	1.35	19 of 29	34.48
Deferred Domestic Income Tax	-0.50	26 of 30	13.33
Minority Interest	0.45	7 of 43	83.72
Net Income Before Extra Items/Prefer Dividends	4.47	18 of 53	66.04
Extraordinary Items & Gain/Loss Sale Of Assets	-0.03	7 of 12	41.67
Net Income Before Preferred Dividends	4.44	23 of 53	56.60
Net Income Available to Common	**4.47**	**18 of 53**	**66.04**

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Cost of Goods Sold (Excluding Depreciation)

Countries	Value (total revenue = 100)	Rank	Percentile	Region
Russian Federation	92.29	2	96.23	Europe
Spain	90.21	3	94.34	Europe
Indonesia	89.98	4	92.45	Asia
South Africa	89.37	5	90.57	Africa
Portugal	87.75	6	88.68	Europe
Pakistan	86.00	7	86.79	the Middle East
Belgium	85.84	8	84.91	Europe
Denmark	85.57	9	83.02	Europe
South Korea	83.33	11	79.25	Asia
Netherlands	82.99	12	77.36	Europe
Hungary	82.92	13	75.47	Europe
Israel	82.69	14	73.58	the Middle East
France	82.42	15	71.70	Europe
Australia	82.31	16	69.81	Oceana
Ireland	82.00	17	67.92	Europe
India	81.62	18	66.04	Asia
Norway	79.82	19	64.15	Europe
Singapore	79.65	21	60.38	Asia
Canada	78.81	22	58.49	North America
Japan	78.70	23	56.60	Asia
Finland	78.17	24	54.72	Europe
Germany	77.40	25	52.83	Europe
Austria	76.31	26	50.94	Europe
China	**75.58**	**27**	**49.06**	**Asia**
Greece	75.45	28	47.17	Europe
USA	75.34	29	45.28	North America
the United Kingdom	74.73	30	43.40	Europe
Switzerland	74.71	31	41.51	Europe
Chile	73.87	32	39.62	Latin America
Turkey	72.62	33	37.74	the Middle East
Mexico	72.28	34	35.85	Latin America
Malaysia	71.60	35	33.96	Asia
Sweden	71.10	36	32.08	Europe
Italy	69.76	37	30.19	Europe
Taiwan	68.34	38	28.30	Asia
Poland	67.81	39	26.42	Europe
New Zealand	67.40	40	24.53	Oceana
Czech Republic	67.17	41	22.64	Europe
Hong Kong	66.04	44	16.98	Asia
Luxembourg	64.61	45	15.09	Europe
Brazil	63.64	46	13.21	Latin America
Argentina	62.57	47	11.32	Latin America
Philippines	61.18	48	9.43	Asia
Thailand	61.14	49	7.55	Asia
Peru	45.17	53	0.00	Latin America

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Cost of Goods Sold (Excluding Depreciation) (Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total revenue = 100)	Rank	Percentile
Indonesia	89.98	1	96.15
Seychelles	86.12	2	92.31
South Korea	83.33	3	88.46
Maldives	82.04	4	84.62
India	81.62	5	80.77
Sri Lanka	79.66	6	76.92
Singapore	79.65	7	73.08
Japan	78.70	8	69.23
China	**75.58**	**9**	**65.38**
Malaysia	71.60	10	61.54
Taiwan	68.34	11	57.69
Brunei	67.46	12	53.85
Hong Kong	66.04	13	50.00
Cambodia	61.94	14	46.15
Macau	61.65	15	42.31
Burma	61.39	16	38.46
Philippines	61.18	17	34.62
Thailand	61.14	18	30.77
Papua New Guinea	60.79	19	26.92
Laos	59.72	20	23.08
Mongolia	54.54	21	19.23
Vietnam	54.19	22	15.38
Bangladesh	46.45	23	11.54
Bhutan	44.24	24	7.69
North Korea	43.85	25	3.85
Nepal	39.59	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Selling, General & Administrative Expenses

Countries	Value (total revenue = 100)	Rank	Percentile	Region
Thailand	22.15	1	97.22	Asia
Italy	19.73	2	94.44	Europe
New Zealand	19.57	3	91.67	Oceana
Hong Kong	19.17	4	88.89	Asia
Sweden	18.74	5	86.11	Europe
Belgium	18.39	7	80.56	Europe
Turkey	18.23	8	77.78	the Middle East
the United Kingdom	18.01	9	75.00	Europe
Peru	16.36	11	69.44	Latin America
Brazil	14.91	12	66.67	Latin America
China	**14.39**	**13**	**63.89**	**Asia**
Chile	14.30	14	61.11	Latin America
USA	13.67	15	58.33	North America
Mexico	13.35	16	55.56	Latin America
Austria	13.06	17	52.78	Europe
Germany	12.79	18	50.00	Europe
Japan	12.62	19	47.22	Asia
Netherlands	12.45	20	44.44	Europe
France	12.42	21	41.67	Europe
Norway	11.50	23	36.11	Europe
Greece	11.08	24	33.33	Europe
Canada	10.26	26	27.78	North America
Czech Republic	9.87	27	25.00	Europe
Malaysia	9.76	28	22.22	Asia
Argentina	9.19	29	19.44	Latin America
Singapore	8.65	30	16.67	Asia
South Korea	7.34	31	13.89	Asia
South Africa	6.02	32	11.11	Africa
Australia	3.62	33	8.33	Oceana
Pakistan	2.92	34	5.56	the Middle East
Indonesia	2.48	35	2.78	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Selling, General & Administrative Expenses (Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total revenue = 100)	Rank	Percentile
Thailand	22.15	1	92.31
Mongolia	19.76	2	84.62
Hong Kong	19.17	3	76.92
North Korea	15.88	4	69.23
China	**14.39**	**5**	**61.54**
Japan	12.62	6	53.85
Sri Lanka	10.37	7	46.15
Malaysia	9.76	8	38.46
Macau	9.06	9	30.77
Singapore	8.65	10	23.08
South Korea	7.34	11	15.38
Indonesia	2.48	12	7.69
Maldives	2.27	13	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Operating Expenses - Total

Countries	Value (total revenue = 100)	Rank	Percentile	Region
Australia	27.41	1	97.56	Oceana
Philippines	21.11	2	95.12	Asia
Finland	16.48	4	90.24	Europe
Switzerland	14.47	5	87.80	Europe
Denmark	13.72	6	85.37	Europe
Germany	13.41	7	82.93	Europe
Luxembourg	12.52	8	80.49	Europe
Austria	12.14	9	78.05	Europe
Portugal	10.67	10	75.61	Europe
Spain	9.14	11	73.17	Europe
Israel	8.38	12	70.73	the Middle East
Ireland	8.31	13	68.29	Europe
Italy	7.93	15	63.41	Europe
Taiwan	6.93	16	60.98	Asia
France	6.32	17	58.54	Europe
Netherlands	5.61	18	56.10	Europe
India	3.95	19	53.66	Asia
Singapore	3.17	20	51.22	Asia
Brazil	3.03	21	48.78	Latin America
Malaysia	2.15	22	46.34	Asia
Sweden	1.91	23	43.90	Europe
China	**1.51**	**24**	**41.46**	**Asia**
Belgium	1.18	25	39.02	Europe
Pakistan	0.98	26	36.59	the Middle East
the United Kingdom	0.79	27	34.15	Europe
New Zealand	0.69	28	31.71	Oceana
Hong Kong	0.67	29	29.27	Asia
South Korea	0.26	30	26.83	Asia
Greece	0.24	31	24.39	Europe
Czech Republic	0.21	32	21.95	Europe
Argentina	0.20	33	19.51	Latin America
USA	0.16	34	17.07	North America
South Africa	0.11	35	14.63	Africa
Japan	0.08	36	12.20	Asia
Canada	0.06	37	9.76	North America
Poland	-1.81	38	7.32	Europe
Hungary	-2.21	39	4.88	Europe
Russian Federation	-2.46	40	2.44	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Operating Expenses - Total
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total revenue = 100)	Rank	Percentile
Burma	21.18	1	95.00
Philippines	21.11	2	90.00
Brunei	13.07	3	85.00
Papua New Guinea	7.60	4	80.00
Taiwan	6.93	5	75.00
India	3.95	6	70.00
Singapore	3.17	7	65.00
Cambodia	3.00	8	60.00
Laos	2.89	9	55.00
Vietnam	2.62	10	50.00
Bangladesh	2.25	11	45.00
Malaysia	2.15	12	40.00
Bhutan	2.14	13	35.00
Nepal	1.92	14	30.00
China	**1.51**	**15**	**25.00**
Hong Kong	0.67	16	20.00
South Korea	0.26	17	15.00
Macau	0.19	18	10.00
Japan	0.08	19	5.00
Seychelles	-2.29	20	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Operating Income

Countries	Value (total revenue = 100)	Rank	Percentile	Region
Brazil	14.98	2	96.23	Latin America
Malaysia	11.46	3	94.34	Asia
New Zealand	11.20	4	92.45	Oceana
Hong Kong	10.97	5	90.57	Asia
India	9.50	6	88.68	Asia
Thailand	9.27	7	86.79	Asia
Canada	9.05	8	84.91	North America
Pakistan	8.62	9	83.02	the Middle East
Singapore	7.72	11	79.25	Asia
Chile	7.49	12	77.36	Latin America
Australia	7.42	13	75.47	Oceana
the United Kingdom	7.37	14	73.58	Europe
USA	7.23	15	71.70	North America
Mexico	7.11	17	67.92	Latin America
France	6.98	18	66.04	Europe
Peru	6.85	19	64.15	Latin America
China	**6.70**	**21**	**60.38**	**Asia**
Switzerland	6.70	22	58.49	Europe
Greece	6.54	24	54.72	Europe
South Africa	5.99	26	50.94	Africa
Sweden	5.98	27	49.06	Europe
Russian Federation	5.91	28	47.17	Europe
Czech Republic	5.82	29	45.28	Europe
Luxembourg	5.79	30	43.40	Europe
Argentina	5.42	31	41.51	Latin America
Norway	5.37	32	39.62	Europe
Hungary	5.31	33	37.74	Europe
Denmark	5.05	34	35.85	Europe
Philippines	4.80	35	33.96	Asia
South Korea	4.76	36	32.08	Asia
Poland	4.34	37	30.19	Europe
Indonesia	4.14	38	28.30	Asia
Turkey	3.99	40	24.53	the Middle East
Austria	3.77	42	20.75	Europe
Japan	3.62	43	18.87	Asia
Italy	3.07	44	16.98	Europe
Germany	2.21	45	15.09	Europe
Belgium	2.08	46	13.21	Europe
Netherlands	1.56	47	11.32	Europe
Spain	0.67	48	9.43	Europe
Israel	0.61	49	7.55	the Middle East
Ireland	0.61	50	5.66	Europe
Finland	0.59	51	3.77	Europe
Taiwan	0.51	52	1.89	Asia
Portugal	-3.28	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Operating Income
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total revenue = 100)	Rank	Percentile
Papua New Guinea	14.15	1	96.15
Malaysia	11.46	2	92.31
Hong Kong	10.97	3	88.46
India	9.50	4	84.62
Thailand	9.27	5	80.77
Mongolia	8.27	6	76.92
Singapore	7.72	7	73.08
Cambodia	7.21	8	69.23
Laos	6.95	9	65.38
Sri Lanka	6.81	10	61.54
China	**6.70**	**11**	**57.69**
North Korea	6.65	12	53.85
Vietnam	6.30	13	50.00
Brunei	6.05	14	46.15
Seychelles	5.51	15	42.31
Bangladesh	5.40	16	38.46
Macau	5.34	17	34.62
Bhutan	5.15	18	30.77
Burma	4.81	19	26.92
Philippines	4.80	20	23.08
South Korea	4.76	21	19.23
Nepal	4.61	22	15.38
Indonesia	4.14	23	11.54
Maldives	3.78	24	7.69
Japan	3.62	25	3.85
Taiwan	0.51	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Earnings Before Interest and Taxes (EBIT)

Countries	Value (total revenue = 100)	Rank	Percentile	Region
Thailand	26.08	1	98.11	Asia
Chile	25.42	2	96.23	Latin America
Brazil	21.98	3	94.34	Latin America
Peru	19.27	7	86.79	Latin America
Malaysia	13.00	8	84.91	Asia
India	12.86	9	83.02	Asia
Turkey	12.84	10	81.13	the Middle East
New Zealand	12.42	11	79.25	Oceana
Hong Kong	12.17	12	77.36	Asia
Singapore	9.75	13	75.47	Asia
Pakistan	9.56	14	73.58	the Middle East
Mexico	9.10	15	71.70	Latin America
Greece	8.77	16	69.81	Europe
Sweden	8.40	18	66.04	Europe
France	8.14	19	64.15	Europe
Canada	8.05	20	62.26	North America
Philippines	7.81	22	58.49	Asia
Czech Republic	7.80	23	56.60	Europe
Australia	7.78	24	54.72	Oceana
China	**7.58**	**25**	**52.83**	**Asia**
the United Kingdom	7.49	26	50.94	Europe
Argentina	7.27	27	49.06	Latin America
Austria	7.21	28	47.17	Europe
South Korea	6.87	29	45.28	Asia
Denmark	6.84	30	43.40	Europe
Norway	6.81	31	41.51	Europe
USA	6.78	32	39.62	North America
South Africa	6.44	34	35.85	Africa
Switzerland	6.03	35	33.96	Europe
Indonesia	5.86	36	32.08	Asia
Luxembourg	5.21	38	28.30	Europe
Germany	5.04	39	26.42	Europe
Italy	4.63	40	24.53	Europe
Belgium	3.78	41	22.64	Europe
Japan	2.89	42	20.75	Asia
Portugal	2.39	43	18.87	Europe
Spain	2.36	44	16.98	Europe
Israel	2.17	45	15.09	the Middle East
Ireland	2.15	46	13.21	Europe
Taiwan	1.79	47	11.32	Asia
Netherlands	1.19	48	9.43	Europe
Finland	0.80	49	7.55	Europe
Russian Federation	0.78	51	3.77	Europe
Hungary	0.70	52	1.89	Europe
Poland	0.57	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Earnings Before Interest and Taxes (EBIT) (Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total revenue = 100)	Rank	Percentile
Thailand	26.08	1	96.15
Mongolia	23.27	2	92.31
Papua New Guinea	19.37	3	88.46
North Korea	18.71	4	84.62
Malaysia	13.00	5	80.77
India	12.86	6	76.92
Hong Kong	12.17	7	73.08
Cambodia	9.76	8	69.23
Singapore	9.75	9	65.38
Laos	9.41	10	61.54
Vietnam	8.54	11	57.69
Sri Lanka	7.88	12	53.85
Burma	7.84	13	50.00
Philippines	7.81	14	46.15
China	**7.58**	**15**	**42.31**
Bangladesh	7.32	16	38.46
Macau	7.16	17	34.62
Bhutan	6.97	18	30.77
South Korea	6.87	19	26.92
Nepal	6.24	20	23.08
Indonesia	5.86	21	19.23
Brunei	5.44	22	15.38
Maldives	5.34	23	11.54
Japan	2.89	24	7.69
Taiwan	1.79	25	3.85
Seychelles	0.73	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Pretax Income

Countries	Value (total revenue = 100)	Rank	Percentile	Region
Thailand	23.45	1	98.11	Asia
Peru	17.33	5	90.57	Latin America
Malaysia	11.81	6	88.68	Asia
Chile	11.54	7	86.79	Latin America
New Zealand	11.27	8	84.91	Oceana
Hong Kong	11.04	9	83.02	Asia
Brazil	10.63	10	81.13	Latin America
India	10.24	11	79.25	Asia
Pakistan	9.25	12	77.36	the Middle East
Singapore	8.90	13	75.47	Asia
Canada	7.13	14	73.58	North America
Greece	7.02	15	71.70	Europe
Mexico	6.88	16	69.81	Latin America
Australia	6.88	17	67.92	Oceana
France	6.65	18	66.04	Europe
Philippines	6.62	19	64.15	Asia
Sweden	6.56	20	62.26	Europe
China	**6.31**	**22**	**58.49**	**Asia**
Czech Republic	6.25	23	56.60	Europe
the United Kingdom	5.96	25	52.83	Europe
Argentina	5.82	26	50.94	Latin America
Indonesia	5.73	27	49.06	Asia
Norway	5.61	29	45.28	Europe
USA	5.19	31	41.51	North America
Switzerland	5.05	32	39.62	Europe
South Africa	5.05	33	37.74	Africa
Austria	4.98	34	35.85	Europe
Denmark	4.83	35	33.96	Europe
Luxembourg	4.37	36	32.08	Europe
South Korea	4.13	37	30.19	Asia
Germany	3.71	38	28.30	Europe
Turkey	3.69	39	26.42	the Middle East
Japan	2.37	40	24.53	Asia
Italy	1.83	41	22.64	Europe
Belgium	1.82	42	20.75	Europe
Spain	1.60	43	18.87	Europe
Israel	1.47	44	16.98	the Middle East
Ireland	1.46	45	15.09	Europe
Taiwan	1.21	46	13.21	Asia
Portugal	0.80	47	11.32	Europe
Finland	-0.11	48	9.43	Europe
Netherlands	-0.97	49	7.55	Europe
Poland	-2.45	50	5.66	Europe
Hungary	-2.99	51	3.77	Europe
Russian Federation	-3.33	52	1.89	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Pretax Income
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total revenue = 100)	Rank	Percentile
Thailand	23.45	1	96.15
Mongolia	20.92	2	92.31
Papua New Guinea	19.00	3	88.46
North Korea	16.82	4	84.62
Malaysia	11.81	5	80.77
Hong Kong	11.04	6	76.92
India	10.24	7	73.08
Singapore	8.90	8	69.23
Cambodia	7.77	9	65.38
Laos	7.50	10	61.54
Vietnam	6.80	11	57.69
Burma	6.64	12	53.85
Philippines	6.62	13	50.00
China	**6.31**	**14**	**46.15**
Sri Lanka	5.99	15	42.31
Bangladesh	5.83	16	38.46
Macau	5.74	17	34.62
Indonesia	5.73	18	30.77
Bhutan	5.55	19	26.92
Maldives	5.22	20	23.08
Nepal	4.97	21	19.23
Brunei	4.56	22	15.38
South Korea	4.13	23	11.54
Japan	2.37	24	7.69
Taiwan	1.21	25	3.85
Seychelles	-3.11	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Income Taxes

Countries	Value (total revenue = 100)	Rank	Percentile	Region
India	3.80	2	96.23	Asia
Greece	3.76	3	94.34	Europe
Czech Republic	3.35	4	92.45	Europe
Pakistan	3.16	5	90.57	the Middle East
Argentina	3.12	6	88.68	Latin America
Brazil	2.82	7	86.79	Latin America
Malaysia	2.65	8	84.91	Asia
Norway	2.43	9	83.02	Europe
Australia	2.41	10	81.13	Oceana
Mexico	2.30	11	79.25	Latin America
Switzerland	2.12	13	75.47	Europe
the United Kingdom	2.08	14	73.58	Europe
Canada	2.02	15	71.70	North America
France	1.97	16	69.81	Europe
Sweden	1.86	17	67.92	Europe
Luxembourg	1.83	18	66.04	Europe
Denmark	1.82	19	64.15	Europe
Philippines	1.81	20	62.26	Asia
USA	1.76	21	60.38	North America
Chile	1.71	22	58.49	Latin America
New Zealand	1.70	23	56.60	Oceana
Hong Kong	1.67	24	54.72	Asia
Germany	1.66	25	52.83	Europe
Thailand	1.46	27	49.06	Asia
Indonesia	1.43	28	47.17	Asia
Italy	1.41	29	45.28	Europe
China	**1.39**	**30**	**43.40**	**Asia**
Finland	1.24	32	39.62	Europe
Austria	1.23	33	37.74	Europe
Singapore	1.22	34	35.85	Asia
Turkey	1.16	36	32.08	the Middle East
Japan	1.15	37	30.19	Asia
Peru	1.08	39	26.42	Latin America
South Korea	0.96	41	22.64	Asia
Belgium	0.90	42	20.75	Europe
Spain	0.83	43	18.87	Europe
Israel	0.76	44	16.98	the Middle East
Ireland	0.76	45	15.09	Europe
Portugal	0.65	46	13.21	Europe
Taiwan	0.63	47	11.32	Asia
South Africa	0.55	48	9.43	Africa
Russian Federation	0.27	50	5.66	Europe
Hungary	0.24	51	3.77	Europe
Poland	0.20	52	1.89	Europe
Netherlands	0.10	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Income Taxes
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value (total revenue = 100)	Rank	Percentile
Papua New Guinea	4.57	1	96.15
India	3.80	2	92.31
Macau	3.07	3	88.46
Cambodia	2.88	4	84.62
Laos	2.78	5	80.77
Malaysia	2.65	6	76.92
Vietnam	2.52	7	73.08
Bangladesh	2.16	8	69.23
Bhutan	2.06	9	65.38
Brunei	1.91	10	61.54
Nepal	1.84	11	57.69
Burma	1.82	12	53.85
Philippines	1.81	13	50.00
Hong Kong	1.67	14	46.15
Thailand	1.46	15	42.31
Indonesia	1.43	16	38.46
China	**1.39**	**17**	**34.62**
Maldives	1.31	18	30.77
Mongolia	1.30	19	26.92
Singapore	1.22	20	23.08
Japan	1.15	21	19.23
North Korea	1.05	22	15.38
Sri Lanka	1.04	23	11.54
South Korea	0.96	24	7.69
Taiwan	0.63	25	3.85
Seychelles	0.25	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

3.5 FINANCIAL RETURNS IN CHINA: PROFITABILITY RATIOS

3.5.1 Overview

In this chapter we consider additional financial ratios estimated for firms involved in motor vehicle parts and accessories manufacturing operating in China benchmarked against global averages. The chapter begins by defining relevant terms. Estimates are then presented for the proto-typical firm operating in China compared to average global benchmarks. For ratios where there are large deviations between the average firm in China and the benchmarks, graphics are provided. Then the distribution of ratios is presented in the form of ranks and percentiles. Certain key ratios are highlighted across countries in the comparison group.

3.5.2 Ratios – Definitions of Terms

The following definitions are provided for those less familiar with financial ratio analysis. As this chapter deals with the global benchmarking of ratios, only definitions covering certain terms used in this chapter's tables and graphs are provided here. The glossary below reflects commonly accepted definitions across various countries and official sources.

- **Accounts Receivables Days.** The number of days' receivable sales generally correlates to the amount of the accounts receivables to the average daily sales on account. Accounts receivables days is often determined by dividing the gross receivables by (net sales/365).

- **Cash Earnings Return On Equity (%).** Cash earnings return on equity generally measures the return of revenues to the shareholders. This ratio is generally calculated by dividing (net income before nonrecurring items minus preferred dividends) by the average common equity.

- **Cash Flow.** Cash flow is generally defined as being equal to the company's net income plus the charge-off amounts for depreciation, depletion, amortization, extraordinary charges to reserves. These are bookkeeping deductions which are not paid out as cash.

- **Current Ratio.** The current ratio is generally defined as a ratio of liquidity measuring the ability of a business to pay its current obligations when due. The current ratio is generally calculated by dividing total current assets by total current liabilities. Managers and lenders often want the current ratio to be 2.00 or greater. This ratio is often seen as an indication of short-term debt-paying ability. The higher the ratio, the more liquid the company.

- **Dividend Payout (% Earnings) - Total Dividends (%).** The dividend payout ratio is generally used to measure the amount of current earnings per common share which are paid out in dividends. This ratio is generally determined by dividing dividends per common share by diluted earnings per share.

- **Fixed Charge Coverage Ratio.** The fixed charge coverage ratio is generally seen as an indication of the company's ability to cover its fixed charges. This ratio is typically determined by dividing recurring earnings excluding interest expense, tax expense, equity earnings, and minority earnings plus interest from rentals by interest expense including capitalized interest and interest from rentals.

- **Gross Profit Margin (%).** The gross profit margin is typically defined to equals the difference, in percent, between net sales revenue and the cost of goods sold.

- **Inventories (# of Days) Held.** Inventory days held is generally determined by dividing the ending inventory by (the cost of goods held/365). The number of days held results in the average daily cost of goods held.

- **Inventory Turnover (%).** Inventory turnover is used as a measure of the balance of inventory. It generally compares the amount of inventory with the total sales for the year. The ratio can reflect both on the quality of the inventory and the efficiency of management. Typically, the higher the turnover rate, the greater the likelihood that profits would be larger and less working capital bound up in inventory.

- **Net Margin (%).** The net margin is the ratio of net income dollars generated by each dollar of sales.

- **Operating Profit Margin (%).** Operating profit margin percent is the ratio of operating profit to net sales. Operating profit (loss) is income or loss before taxes calculated by the difference between total revenues and total expense disregarding the effects of any extraordinary transactions.

- **Quick Ratio.** The quick ratio, also commonly known as the "acid test ratio", is a refined current ratio and is often seen as a more conservative measure of liquidity. The quick ratio is generally determined by dividing cash and equivalents plus trade receivables by total current liabilities. The ratio shows the degree to which a company's current liabilities can be covered by the most liquid current assets. Financial management texts generally conclude that any value of less than 1 to 1 implies a reciprocal dependency on inventory or other current assets to liquidate short-term debt.

- **Reinvestment Rate - Total (%).** The reinvestment rate is typically defined as the rate at which an investor assumes interest payments made on a debt security can be reinvested over the life of that security.

- **Return on Assets (%).** Return on assets is generally used to measure a company's ability to use assets to create profit.

- **Return on Equity - Total (%).** The return on total equity ratio is often seen to reflect the profitability of the company's operations after income taxes. Return on equity is often considered to be a good measure of the company's profitability. Tax laws and tax loss carryovers can affect the net income and therefore can also affect the return on equity.

- **Return on Invested Capital (%).** The ratio of return on invested capital is typically defined as an evaluation of earnings performance without regard to the method of financing. This ratio measures the earnings on investment and is an indication of how well the company utilizes its asset base. Return on investment is a type of return on capital, therefore this ratio can be an indication of the company's ability to reward investors who provide long-term funds and to attract future investors.

- **Tax Rate (%).** The tax rate is typically defined as the average rate of domestic tax owed to government by the company.

- **Working Capital.** Net working capital equals the difference between total current assets and total current liabilities. Working capital often reflects a company's ability to expand volume and meet obligations. Since growth is usually one goal, the amount of working capital on this year's balance sheet should be greater than that of the previous year's. This is an efficiency, or turnover, ratio which benchmarks the rate at which current assets less current liabilities are used by the company in making sales. A low ratio can indicate a less profitable use of working capital in making sales. On the other hand, a very high ratio can indicate the company is wasting current assets which could be more efficiently deployed in production and in increasing sales and profits; or that the company my be undercapitalized, and thus vulnerable to liquidity problems in a period of weak business conditions.

3.5.3 Ratio Structure: Outlook

Using the methodology described in the introduction, the following table summarizes ratio structure benchmarks for firms involved in motor vehicle parts and accessories manufacturing in China. All figures are current-year projections for companies operating in China based on latest financial results available.

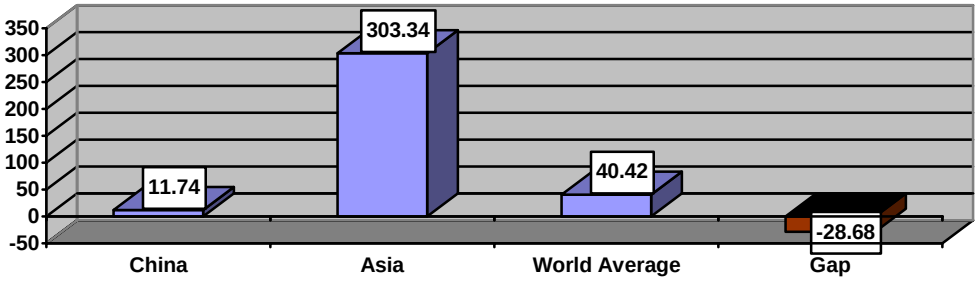
Ratios	China	Asia	World Avg.
Profitability			
Return on Equity - Total (%)	11.74	303.34	40.42
Reinvestment Rate - Total (%)	10.86	298.99	36.21
Return on Assets (%)	6.51	211.64	27.07
Return on Invested Capital (%)	9.87	302.51	39.29
Cash Earnings Return On Equity (%)	25.60	272.17	53.28
Cash Flow % Sales	10.39	10.64	10.48
Cost Goods Sold / Sales (%)	75.58	66.18	72.70
Gross Profit Margin (%)	20.49	15.90	16.12
Selling, General & Administrative Expense/Net Sales (%)	13.36	11.35	6.92
Research & Development / Net Sales (%)	2.58	1.25	1.28
Operating Profit Margin (%)	6.70	6.56	6.90
Operating Inc / Total Capital (%)	12.47	271.62	40.89
Pretax Margin (%)	6.31	8.15	6.98
Tax Rate (%)	23.98	22.21	25.67
Net Margin (%)	4.44	5.98	4.73
Total Asset Turnover (X) th USD	0.89	0.87	1.01
Asset Utilization			
Inventory Turnover (%)	5.09	8.05	11.30
Net Sales % Working Capital	3.69	7.24	40.55
Capital Expenditure % Gross Fixed Assets	9.23	6.72	8.27
Capital Expenditure % Total Assets	3.90	5.26	6.22
Capital Expenditure % Total Sales	4.84	6.11	6.84
Accumulated Depreciation % Gross Fixed Assets	36.22	38.78	42.30
Leverage			
Total Debt % Total Capital	23.43	23.94	29.01
Long Term Debt % Total Capital	5.68	11.37	16.07
Equity % Total Capital	85.55	72.00	73.71
Fixed Charge Coverage Ratio	45.09	145.68	61.38
Dividend Payout (% Earnings) - Total Dividends	18.48	19.13	17.25
Fixed Assets % Common Equity	75.01	103.98	99.97
Working Capital % Total Capital	23.92	17.33	18.19
Liquidity			
Quick Ratio	0.97	1.02	0.90
Current Ratio	1.38	1.48	1.40
Inventories % Total Current Assets	28.29	22.99	28.37
Accounts Receivables Days	63.41	82.13	73.09
Inventories (# of Days) Held	77.00	60.36	68.77

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

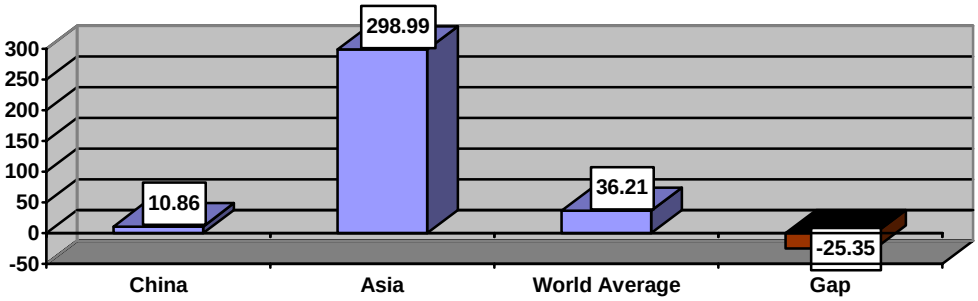
3.5.4 Large Variances: Ratios

The following graphics summarize for motor vehicle parts and accessories manufacturing the large ratio structure gaps between firms operating in China and the world average. A gap cannot necessarily be interpreted as a positive or negative reflection on performance. Gaps may signal areas of specialization, market focus, or expertise. More contextual information is required to fully interpret these gaps. The gaps highlighted here are simply those that are large.

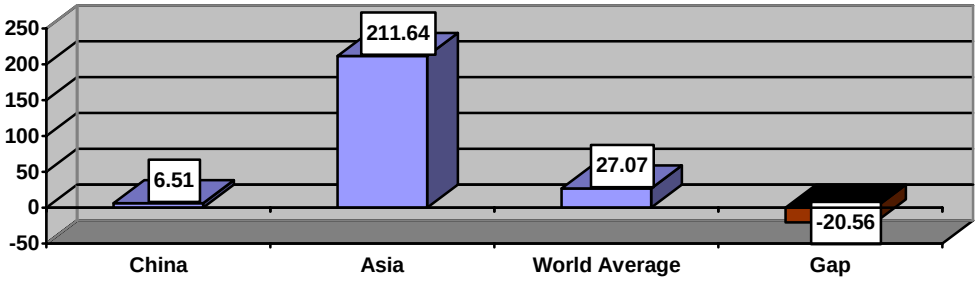
Gap: Return on Equity - Total (%)



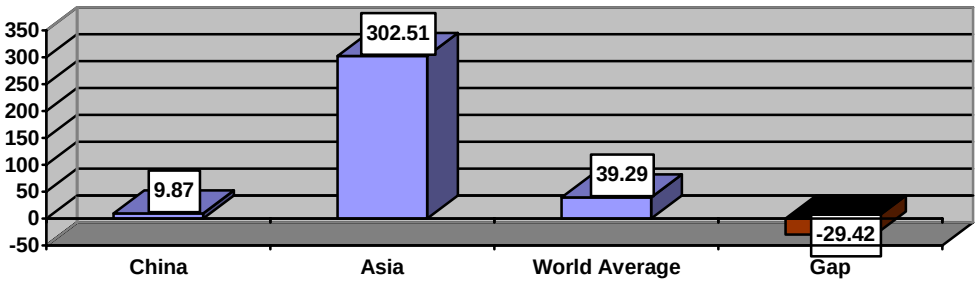
Gap: Reinvestment Rate - Total (%)



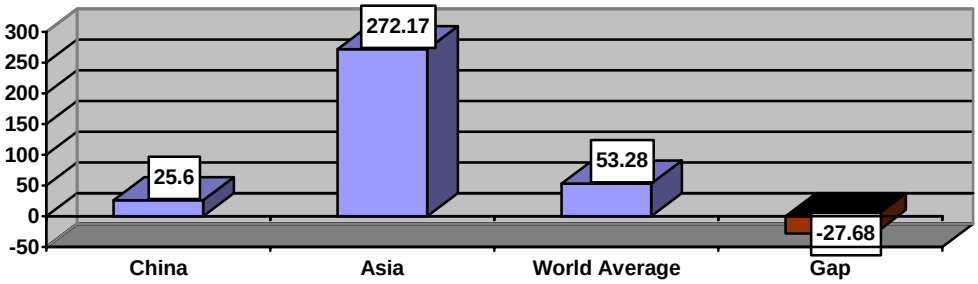
Gap: Return on Assets (%)



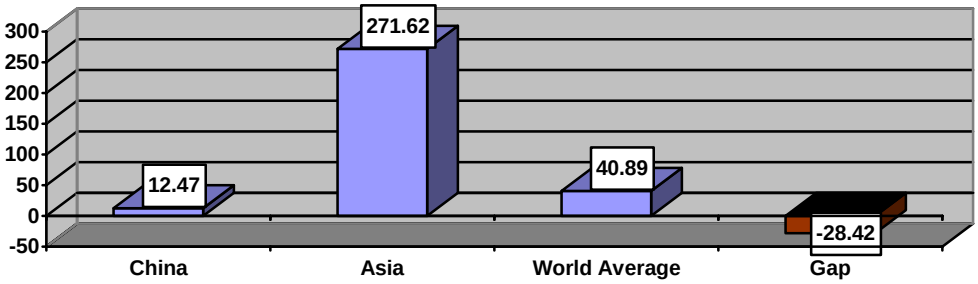
Gap: Return on Invested Capital (%)



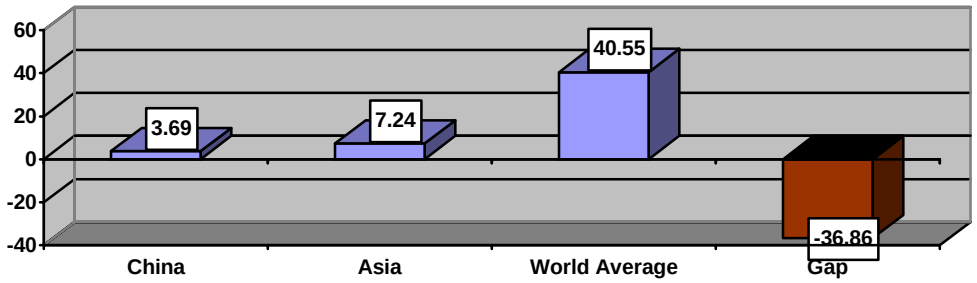
Gap: Cash Earnings Return On Equity (%)



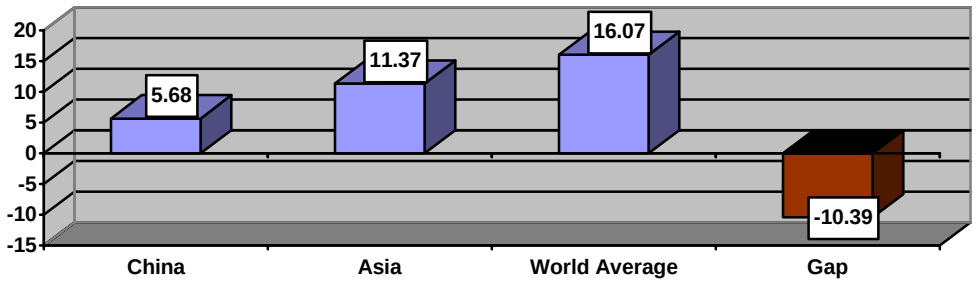
Gap: Operating Inc / Total Capital (%)



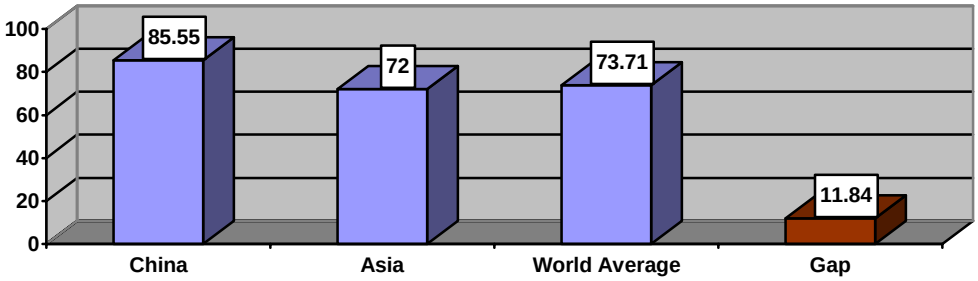
Gap: Net Sales % Working Capital



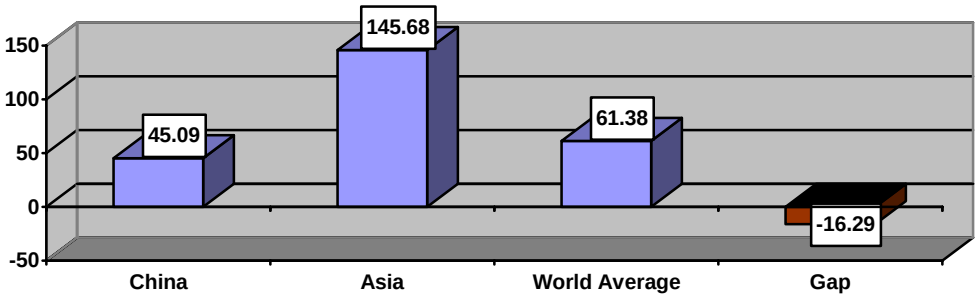
Gap: Long Term Debt % Total Capital



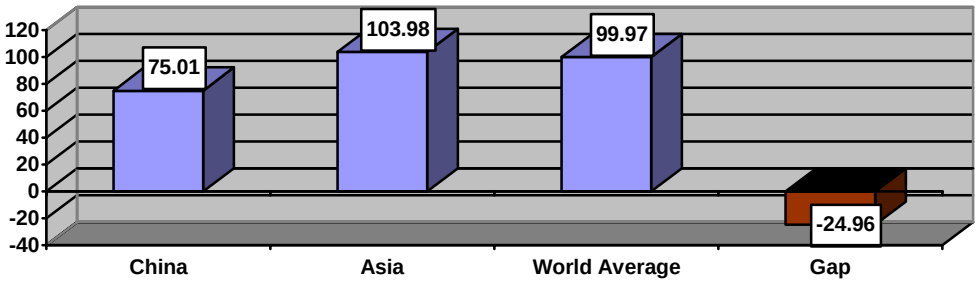
Gap: Equity % Total Capital



Gap: Fixed Charge Coverage Ratio



Gap: Fixed Assets % Common Equity



3.5.5 Key Percentiles and Rankings

We now consider the distribution of financial ratios for motor vehicle parts and accessories manufacturing using ranks and percentiles. What percent of countries have a value lower or higher than China (what is the ratio's rank or percentile)? The table below answers this question with respect to financial ratios. The ranks and percentiles indicate, from highest to lowest, where a value falls within the distribution of all countries considered in the global benchmark (the number of countries in the benchmark per line item may vary, as indicated in the Rank). Again, a high or low figure does not necessarily indicate good or bad performance. After the summary table below, a few key financial ratios are highlighted in additional tables.

Ratios	China	Rank of Total	Percentile
Profitability			
Return on Equity - Total (%)	11.74	26 of 53	50.94
Reinvestment Rate - Total (%)	10.86	18 of 53	66.04
Return on Assets (%)	6.51	24 of 53	54.72
Return on Invested Capital (%)	9.87	26 of 53	50.94
Cash Earnings Return On Equity (%)	25.60	23 of 53	56.60
Cash Flow % Sales	10.39	18 of 53	66.04
Cost Goods Sold / Sales (%)	75.58	27 of 53	49.06
Gross Profit Margin (%)	20.49	21 of 53	60.38
Selling, General & Administrative Expense/Net Sales (%)	13.36	14 of 36	61.11
Research & Development / Net Sales (%)	2.58	10 of 22	54.55
Operating Profit Margin (%)	6.70	21 of 53	60.38
Operating Inc / Total Capital (%)	12.47	29 of 53	45.28
Pretax Margin (%)	6.31	22 of 53	58.49
Tax Rate (%)	23.98	33 of 48	31.25
Net Margin (%)	4.44	23 of 53	56.60
Total Asset Turnover (X) th USD	0.89	38 of 53	28.30
Asset Utilization			
Inventory Turnover (%)	5.09	34 of 53	35.85
Net Sales % Working Capital	3.69	39 of 53	26.42
Capital Expenditure % Gross Fixed Assets	9.23	20 of 53	62.26
Capital Expenditure % Total Assets	3.90	39 of 53	26.42
Capital Expenditure % Total Sales	4.84	23 of 53	56.60
Accumulated Depreciation % Gross Fixed Assets	36.22	40 of 53	24.53
Leverage			
Total Debt % Total Capital	23.43	33 of 53	37.74
Long Term Debt % Total Capital	5.68	37 of 52	28.85
Equity % Total Capital	85.55	10 of 53	81.13
Fixed Charge Coverage Ratio	45.09	12 of 53	77.36
Dividend Payout (% Earnings) - Total Dividends	18.48	24 of 38	36.84
Fixed Assets % Common Equity	75.01	30 of 53	43.40
Working Capital % Total Capital	23.92	31 of 53	41.51
Liquidity			
Quick Ratio	0.97	27 of 53	49.06
Current Ratio	1.38	31 of 53	41.51
Inventories % Total Current Assets	28.29	30 of 53	43.40
Accounts Receivables Days	63.41	40 of 53	24.53
Inventories (# of Days) Held	77.00	22 of 53	58.49

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Gross Profit Margin (%)

Countries	Value	Rank	Percentile	Region
Brazil	32.47	1	98.11	Latin America
New Zealand	31.81	2	96.23	Oceana
Thailand	31.42	3	94.34	Asia
Hong Kong	31.17	4	92.45	Asia
Philippines	25.91	6	88.68	Asia
Italy	24.84	7	86.79	Europe
Sweden	24.60	8	84.91	Europe
Mexico	23.89	10	81.13	Latin America
Peru	23.22	12	77.36	Latin America
Chile	23.09	13	75.47	Latin America
Malaysia	23.05	14	73.58	Asia
Turkey	22.22	15	71.70	the Middle East
Switzerland	21.17	18	66.04	Europe
the United Kingdom	20.96	19	64.15	Europe
USA	20.93	20	62.26	North America
China	**20.49**	**21**	**60.38**	**Asia**
Greece	20.20	22	58.49	Europe
Austria	19.64	23	56.60	Europe
Luxembourg	18.31	24	54.72	Europe
Czech Republic	17.98	25	52.83	Europe
Canada	17.82	26	50.94	North America
Finland	17.08	28	47.17	Europe
Norway	17.05	29	45.28	Europe
Germany	17.05	30	43.40	Europe
Argentina	16.75	31	41.51	Latin America
Japan	16.30	32	39.62	Asia
Singapore	15.98	33	37.74	Asia
Australia	15.32	34	35.85	Oceana
Netherlands	13.41	35	33.96	Europe
India	13.32	36	32.08	Asia
France	12.83	37	30.19	Europe
South Korea	12.62	38	28.30	Asia
Denmark	11.74	39	26.42	Europe
Pakistan	11.07	40	24.53	the Middle East
South Africa	7.67	41	22.64	Africa
Portugal	7.39	42	20.75	Europe
Belgium	7.34	43	18.87	Europe
Indonesia	6.89	44	16.98	Asia
Spain	6.56	45	15.09	Europe
Israel	6.02	47	11.32	the Middle East
Ireland	5.97	48	9.43	Europe
Taiwan	4.97	49	7.55	Asia
Russian Federation	3.45	51	3.77	Europe
Hungary	3.10	52	1.89	Europe
Poland	2.53	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Gross Profit Margin (%)
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value	Rank	Percentile
Thailand	31.42	1	96.15
Hong Kong	31.17	2	92.31
Mongolia	28.03	3	88.46
Burma	26.00	4	84.62
Philippines	25.91	5	80.77
Malaysia	23.05	6	76.92
North Korea	22.53	7	73.08
Papua New Guinea	21.75	8	69.23
China	**20.49**	**9**	**65.38**
Brunei	19.12	10	61.54
Sri Lanka	17.80	11	57.69
Macau	16.50	12	53.85
Japan	16.30	13	50.00
Singapore	15.98	14	46.15
India	13.32	15	42.31
South Korea	12.62	16	38.46
Cambodia	10.11	17	34.62
Laos	9.75	18	30.77
Vietnam	8.84	19	26.92
Bangladesh	7.58	20	23.08
Bhutan	7.22	21	19.23
Indonesia	6.89	22	15.38
Nepal	6.46	23	11.54
Maldives	6.29	24	7.69
Taiwan	4.97	25	3.85
Seychelles	3.22	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Pretax Margin (%)

Countries	Value	Rank	Percentile	Region
Thailand	23.45	1	98.11	Asia
Peru	17.33	5	90.57	Latin America
Malaysia	11.81	6	88.68	Asia
Chile	11.54	7	86.79	Latin America
New Zealand	11.27	8	84.91	Oceana
Hong Kong	11.04	9	83.02	Asia
Brazil	10.63	10	81.13	Latin America
India	10.24	11	79.25	Asia
Pakistan	9.25	12	77.36	the Middle East
Singapore	8.90	13	75.47	Asia
Canada	7.13	14	73.58	North America
Greece	7.02	15	71.70	Europe
Mexico	6.88	16	69.81	Latin America
Australia	6.88	17	67.92	Oceana
France	6.65	18	66.04	Europe
Philippines	6.62	19	64.15	Asia
Sweden	6.56	20	62.26	Europe
China	**6.31**	**22**	**58.49**	**Asia**
Czech Republic	6.25	23	56.60	Europe
the United Kingdom	5.96	25	52.83	Europe
Argentina	5.82	26	50.94	Latin America
Indonesia	5.73	27	49.06	Asia
Norway	5.61	29	45.28	Europe
USA	5.19	31	41.51	North America
Switzerland	5.05	32	39.62	Europe
South Africa	5.05	33	37.74	Africa
Austria	4.98	34	35.85	Europe
Denmark	4.83	35	33.96	Europe
Luxembourg	4.37	36	32.08	Europe
South Korea	4.13	37	30.19	Asia
Germany	3.71	38	28.30	Europe
Turkey	3.69	39	26.42	the Middle East
Japan	2.37	40	24.53	Asia
Italy	1.83	41	22.64	Europe
Belgium	1.82	42	20.75	Europe
Spain	1.60	43	18.87	Europe
Israel	1.47	44	16.98	the Middle East
Ireland	1.46	45	15.09	Europe
Taiwan	1.21	46	13.21	Asia
Portugal	0.80	47	11.32	Europe
Finland	-0.11	48	9.43	Europe
Netherlands	-0.97	49	7.55	Europe
Poland	-2.45	50	5.66	Europe
Hungary	-2.99	51	3.77	Europe
Russian Federation	-3.33	52	1.89	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Pretax Margin (%)
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value	Rank	Percentile
Thailand	23.45	1	96.15
Mongolia	20.92	2	92.31
Papua New Guinea	19.00	3	88.46
North Korea	16.82	4	84.62
Malaysia	11.81	5	80.77
Hong Kong	11.04	6	76.92
India	10.24	7	73.08
Singapore	8.90	8	69.23
Cambodia	7.77	9	65.38
Laos	7.50	10	61.54
Vietnam	6.80	11	57.69
Burma	6.64	12	53.85
Philippines	6.62	13	50.00
China	**6.31**	**14**	**46.15**
Sri Lanka	5.99	15	42.31
Bangladesh	5.83	16	38.46
Macau	5.74	17	34.62
Indonesia	5.73	18	30.77
Bhutan	5.55	19	26.92
Maldives	5.22	20	23.08
Nepal	4.97	21	19.23
Brunei	4.56	22	15.38
South Korea	4.13	23	11.54
Japan	2.37	24	7.69
Taiwan	1.21	25	3.85
Seychelles	-3.11	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Quick Ratio

Countries	Value	Rank	Percentile	Region
Indonesia	2.47	1	98.11	Asia
Malaysia	2.26	3	94.34	Asia
New Zealand	1.59	4	92.45	Oceana
Hong Kong	1.56	5	90.57	Asia
Thailand	1.31	6	88.68	Asia
Chile	1.24	7	86.79	Latin America
Turkey	1.20	8	84.91	the Middle East
Switzerland	1.17	10	81.13	Europe
USA	1.15	11	79.25	North America
Philippines	1.10	12	77.36	Asia
Brazil	1.09	14	73.58	Latin America
Sweden	1.09	15	71.70	Europe
Greece	1.04	16	69.81	Europe
Norway	1.04	17	67.92	Europe
Singapore	1.03	18	66.04	Asia
Luxembourg	1.01	20	62.26	Europe
Canada	1.00	21	60.38	North America
Japan	0.99	22	58.49	Asia
Finland	0.98	24	54.72	Europe
South Korea	0.97	25	52.83	Asia
Peru	0.97	26	50.94	Latin America
China	**0.97**	**27**	**49.06**	**Asia**
Czech Republic	0.93	29	45.28	Europe
South Africa	0.92	30	43.40	Africa
Austria	0.92	31	41.51	Europe
Belgium	0.92	32	39.62	Europe
Denmark	0.91	33	37.74	Europe
Australia	0.90	34	35.85	Oceana
Spain	0.90	35	33.96	Europe
Pakistan	0.88	36	32.08	the Middle East
Argentina	0.86	37	30.19	Latin America
Germany	0.82	38	28.30	Europe
Israel	0.82	39	26.42	the Middle East
Italy	0.82	40	24.53	Europe
Ireland	0.81	41	22.64	Europe
France	0.81	42	20.75	Europe
the United Kingdom	0.76	43	18.87	Europe
India	0.74	44	16.98	Asia
Mexico	0.68	45	15.09	Latin America
Taiwan	0.68	46	13.21	Asia
Netherlands	0.63	48	9.43	Europe
Portugal	0.46	49	7.55	Europe
Russian Federation	0.33	51	3.77	Europe
Hungary	0.30	52	1.89	Europe
Poland	0.24	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Quick Ratio
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value	Rank	Percentile
Indonesia	2.47	1	96.15
Malaysia	2.26	2	92.31
Maldives	2.25	3	88.46
Hong Kong	1.56	4	84.62
Thailand	1.31	5	80.77
Sri Lanka	1.20	6	76.92
Mongolia	1.17	7	73.08
Burma	1.11	8	69.23
Philippines	1.10	9	65.38
Brunei	1.06	10	61.54
Singapore	1.03	11	57.69
Japan	0.99	12	53.85
South Korea	0.97	13	50.00
China	**0.97**	**14**	**46.15**
North Korea	0.94	15	42.31
Papua New Guinea	0.90	16	38.46
Macau	0.85	17	34.62
India	0.74	18	30.77
Taiwan	0.68	19	26.92
Cambodia	0.56	20	23.08
Laos	0.54	21	19.23
Vietnam	0.49	22	15.38
Bangladesh	0.42	23	11.54
Bhutan	0.40	24	7.69
Nepal	0.36	25	3.85
Seychelles	0.31	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Current Ratio

Countries	Value	Rank	Percentile	Region
Indonesia	3.63	1	98.11	Asia
Malaysia	3.38	3	94.34	Asia
Australia	2.23	4	92.45	Oceana
USA	2.14	5	90.57	North America
South Africa	2.05	6	88.68	Africa
Finland	2.04	7	86.79	Europe
New Zealand	1.99	8	84.91	Oceana
Hong Kong	1.95	9	83.02	Asia
Denmark	1.91	10	81.13	Europe
Sweden	1.89	11	79.25	Europe
Chile	1.88	12	77.36	Latin America
Thailand	1.84	13	75.47	Asia
Germany	1.74	14	73.58	Europe
Canada	1.72	15	71.70	North America
Singapore	1.69	16	69.81	Asia
Turkey	1.63	17	67.92	the Middle East
Austria	1.59	18	66.04	Europe
Brazil	1.57	19	64.15	Latin America
Switzerland	1.56	20	62.26	Europe
Greece	1.53	23	56.60	Europe
Belgium	1.43	24	54.72	Europe
Norway	1.43	25	52.83	Europe
France	1.41	27	49.06	Europe
Philippines	1.40	28	47.17	Asia
Japan	1.40	29	45.28	Asia
Netherlands	1.39	30	43.40	Europe
China	**1.38**	**31**	**41.51**	**Asia**
Italy	1.38	32	39.62	Europe
Czech Republic	1.36	33	37.74	Europe
Peru	1.36	34	35.85	Latin America
Luxembourg	1.35	35	33.96	Europe
the United Kingdom	1.35	36	32.08	Europe
India	1.28	38	28.30	Asia
Argentina	1.27	39	26.42	Latin America
Pakistan	1.25	40	24.53	the Middle East
Spain	1.22	41	22.64	Europe
South Korea	1.20	42	20.75	Asia
Mexico	1.18	44	16.98	Latin America
Portugal	1.17	45	15.09	Europe
Israel	1.12	46	13.21	the Middle East
Ireland	1.11	47	11.32	Europe
Taiwan	0.93	49	7.55	Asia
Russian Federation	0.69	51	3.77	Europe
Hungary	0.62	52	1.89	Europe
Poland	0.51	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Current Ratio
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value	Rank	Percentile
Indonesia	3.63	1	96.15
Malaysia	3.38	2	92.31
Maldives	3.31	3	88.46
Hong Kong	1.95	4	84.62
Thailand	1.84	5	80.77
Singapore	1.69	6	76.92
Mongolia	1.64	7	73.08
Brunei	1.41	8	69.23
Papua New Guinea	1.40	9	65.38
Burma	1.40	10	61.54
Philippines	1.40	11	57.69
Japan	1.40	12	53.85
China	**1.38**	**13**	**50.00**
Sri Lanka	1.34	14	46.15
North Korea	1.32	15	42.31
India	1.28	16	38.46
Macau	1.25	17	34.62
South Korea	1.20	18	30.77
Cambodia	0.97	19	26.92
Laos	0.94	20	23.08
Taiwan	0.93	21	19.23
Vietnam	0.85	22	15.38
Bangladesh	0.73	23	11.54
Bhutan	0.69	24	7.69
Seychelles	0.65	25	3.85
Nepal	0.62	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Inventories % Total Current Assets

Countries	Value	Rank	Percentile	Region
Portugal	59.65	1	98.11	Europe
Australia	57.27	2	96.23	Oceana
South Africa	54.46	3	94.34	Africa
Denmark	54.23	4	92.45	Europe
Netherlands	50.06	5	90.57	Europe
Finland	44.15	6	88.68	Europe
Germany	43.68	7	86.79	Europe
Mexico	42.32	8	84.91	Latin America
Austria	40.74	9	83.02	Europe
Canada	40.62	10	81.13	North America
the United Kingdom	39.76	11	79.25	Europe
USA	39.01	13	75.47	North America
Indonesia	38.08	14	73.58	Asia
Sweden	37.57	15	71.70	Europe
Italy	37.03	16	69.81	Europe
Russian Federation	35.87	18	66.04	Europe
France	35.31	21	60.38	Europe
Belgium	33.38	22	58.49	Europe
Hungary	32.22	23	56.60	Europe
Singapore	32.10	24	54.72	Asia
Chile	31.49	25	52.83	Latin America
Greece	31.44	26	50.94	Europe
Brazil	30.65	27	49.06	Latin America
India	30.14	28	47.17	Asia
Pakistan	28.54	29	45.28	the Middle East
China	**28.29**	**30**	**43.40**	**Asia**
Czech Republic	27.99	31	41.51	Europe
Malaysia	27.93	32	39.62	Asia
Norway	27.60	33	37.74	Europe
Spain	26.59	34	35.85	Europe
Poland	26.35	35	33.96	Europe
Thailand	26.29	36	32.08	Asia
Argentina	26.07	37	30.19	Latin America
Switzerland	25.07	38	28.30	Europe
Israel	24.37	39	26.42	the Middle East
Ireland	24.17	40	24.53	Europe
Japan	22.75	41	22.64	Asia
Luxembourg	21.69	43	18.87	Europe
Turkey	21.02	44	16.98	the Middle East
Taiwan	20.14	46	13.21	Asia
Peru	19.42	47	11.32	Latin America
South Korea	18.73	48	9.43	Asia
New Zealand	15.48	49	7.55	Oceana
Hong Kong	15.17	50	5.66	Asia
Philippines	12.13	51	3.77	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Inventories % Total Current Assets
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value	Rank	Percentile
Indonesia	38.08	1	96.15
Maldives	34.72	2	92.31
Seychelles	33.47	3	88.46
Papua New Guinea	32.86	4	84.62
Singapore	32.10	5	80.77
India	30.14	6	76.92
China	**28.29**	**7**	**73.08**
Malaysia	27.93	8	69.23
Thailand	26.29	9	65.38
Macau	25.69	10	61.54
Mongolia	23.45	11	57.69
Cambodia	22.87	12	53.85
Japan	22.75	13	50.00
Brunei	22.64	14	46.15
Laos	22.06	15	42.31
Taiwan	20.14	16	38.46
Vietnam	20.01	17	34.62
North Korea	18.85	18	30.77
South Korea	18.73	19	26.92
Bangladesh	17.16	20	23.08
Bhutan	16.34	21	19.23
Hong Kong	15.17	22	15.38
Nepal	14.62	23	11.54
Burma	12.17	24	7.69
Philippines	12.13	25	3.85
Sri Lanka	9.06	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Accounts Receivables Days

Countries	Value	Rank	Percentile	Region
Chile	340.88	1	98.11	Latin America
Philippines	180.19	2	96.23	Asia
Belgium	169.06	4	92.45	Europe
New Zealand	128.29	7	86.79	Oceana
Hong Kong	125.71	8	84.91	Asia
Italy	124.77	9	83.02	Europe
France	108.78	10	81.13	Europe
Singapore	103.24	11	79.25	Asia
Malaysia	103.09	12	77.36	Asia
Greece	94.97	13	75.47	Europe
Spain	94.97	14	73.58	Europe
Turkey	88.79	15	71.70	the Middle East
Israel	87.05	16	69.81	the Middle East
Ireland	86.33	17	67.92	Europe
Thailand	86.02	18	66.04	Asia
Czech Republic	84.55	19	64.15	Europe
Switzerland	81.00	20	62.26	Europe
Netherlands	80.32	21	60.38	Europe
Austria	78.86	22	58.49	Europe
Argentina	78.76	23	56.60	Latin America
Norway	77.45	24	54.72	Europe
Denmark	75.30	25	52.83	Europe
South Korea	75.22	26	50.94	Asia
Japan	73.13	27	49.06	Asia
Taiwan	71.94	29	45.28	Asia
Brazil	70.74	30	43.40	Latin America
Luxembourg	70.05	31	41.51	Europe
Sweden	69.28	32	39.62	Europe
Finland	68.32	33	37.74	Europe
India	66.58	35	33.96	Asia
Canada	65.55	36	32.08	North America
Portugal	65.49	37	30.19	Europe
the United Kingdom	64.33	38	28.30	Europe
Peru	63.56	39	26.42	Latin America
China	**63.41**	**40**	**24.53**	**Asia**
Mexico	62.36	42	20.75	Latin America
Russian Federation	61.26	43	18.87	Europe
Indonesia	60.81	44	16.98	Asia
Germany	58.59	45	15.09	Europe
Australia	55.43	48	9.43	Oceana
Hungary	55.04	49	7.55	Europe
USA	54.41	50	5.66	North America
South Africa	50.75	51	3.77	Africa
Poland	45.01	52	1.89	Europe
Pakistan	15.32	53	0.00	the Middle East

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Accounts Receivables Days
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value	Rank	Percentile
Burma	180.82	1	96.15
Philippines	180.19	2	92.31
Sri Lanka	173.57	3	88.46
Hong Kong	125.71	4	84.62
Papua New Guinea	120.23	5	80.77
Singapore	103.24	6	76.92
Malaysia	103.09	7	73.08
Thailand	86.02	8	69.23
Macau	77.60	9	65.38
Mongolia	76.74	10	61.54
South Korea	75.22	11	57.69
Brunei	73.15	12	53.85
Japan	73.13	13	50.00
Taiwan	71.94	14	46.15
India	66.58	15	42.31
China	**63.41**	**16**	**38.46**
North Korea	61.70	17	34.62
Indonesia	60.81	18	30.77
Seychelles	57.16	19	26.92
Maldives	55.44	20	23.08
Cambodia	50.52	21	19.23
Laos	48.71	22	15.38
Vietnam	44.20	23	11.54
Bangladesh	37.89	24	7.69
Bhutan	36.08	25	3.85
Nepal	32.30	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Inventories (# of Days) Held

Countries	Value	Rank	Percentile	Region
Italy	244.64	1	98.11	Europe
Chile	167.14	2	96.23	Latin America
Greece	115.62	3	94.34	Europe
Denmark	113.64	4	92.45	Europe
France	112.38	5	90.57	Europe
Australia	111.21	6	88.68	Oceana
Singapore	110.84	7	86.79	Asia
Belgium	110.66	8	84.91	Europe
Portugal	110.31	9	83.02	Europe
Sweden	106.67	10	81.13	Europe
Czech Republic	102.93	11	79.25	Europe
Netherlands	98.93	12	77.36	Europe
Austria	98.79	13	75.47	Europe
Argentina	95.88	14	73.58	Latin America
Malaysia	92.94	15	71.70	Asia
Germany	87.43	16	69.81	Europe
Finland	85.30	17	67.92	Europe
Thailand	83.87	19	64.15	Asia
the United Kingdom	80.93	20	62.26	Europe
USA	80.10	21	60.38	North America
China	**77.00**	**22**	**58.49**	**Asia**
Indonesia	76.69	23	56.60	Asia
Brazil	76.14	24	54.72	Latin America
Canada	73.35	25	52.83	North America
Mexico	70.00	28	47.17	Latin America
Pakistan	69.94	29	45.28	the Middle East
New Zealand	68.52	30	43.40	Oceana
Hong Kong	67.14	31	41.51	Asia
India	66.78	32	39.62	Asia
South Africa	65.73	33	37.74	Africa
Peru	61.97	36	32.08	Latin America
Philippines	55.01	37	30.19	Asia
Switzerland	51.72	39	26.42	Europe
Japan	50.57	40	24.53	Asia
Turkey	47.08	41	22.64	the Middle East
Russian Federation	45.29	44	16.98	Europe
Luxembourg	44.73	45	15.09	Europe
Norway	43.34	46	13.21	Europe
Hungary	40.69	47	11.32	Europe
Spain	39.34	48	9.43	Europe
Israel	36.06	49	7.55	the Middle East
Ireland	35.76	50	5.66	Europe
South Korea	33.60	51	3.77	Asia
Poland	33.28	52	1.89	Europe
Taiwan	29.80	53	0.00	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Inventories (# of Days) Held
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value	Rank	Percentile
Singapore	110.84	1	96.15
Macau	94.47	2	92.31
Malaysia	92.94	3	88.46
Thailand	83.87	4	84.62
Papua New Guinea	77.12	5	80.77
China	**77.00**	**6**	**76.92**
Indonesia	76.69	7	73.08
Mongolia	74.83	8	69.23
Maldives	69.93	9	65.38
Hong Kong	67.14	10	61.54
India	66.78	11	57.69
North Korea	60.16	12	53.85
Burma	55.20	13	50.00
Philippines	55.01	14	46.15
Sri Lanka	53.91	15	42.31
Cambodia	50.67	16	38.46
Japan	50.57	17	34.62
Laos	48.86	18	30.77
Brunei	46.71	19	26.92
Vietnam	44.34	20	23.08
Seychelles	42.27	21	19.23
Bangladesh	38.00	22	15.38
Bhutan	36.19	23	11.54
South Korea	33.60	24	7.69
Nepal	32.39	25	3.85
Taiwan	29.80	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

3.6 PRODUCTIVITY IN CHINA: ASSET-LABOR RATIOS

3.6.1 Overview

In this chapter, we consider numerous asset-labor ratios for motor vehicle parts and accessories manufacturing in China benchmarked against global averages. Productivity and utilization ratios are presented for companies oprating in China and the average global benchmarks for motor vehicle parts and accessories manufacturing. For ratios where there are large deviations between China and the benchmarks, graphics are provided (sometimes referred to as a "gap" analysis). Then the distribution of ratios is presented in the form of ranks and percentiles. Certain asset-labor ratios are highlighted across countries in the comparison group.

In the case of asset-labor ratios, this report maintains comparability over time and across countries by using a common currency (the US dollar) and relates each measure to a "per employee basis". Ratios are projected using raw financial statistics and, as ratios, are therefore comparable. Given a country's human resource ratios, the resulting figures are benchmarked across regional and global averages.

We then report the larger asset-labor ratio gaps for motor vehicle parts and accessories manufacturing that China has vis-à-vis the worldwide average. Again, a gap need not be a bad sign. Rather, it is simply a substantial difference that might merit further attention or signal a firm's relative incentive to invest locally. All figures are projections, so due caution is required.

3.6.2 Asset to Labor: Outlook

The following tables and graphs are prepared using the methodology described at the beginning of this section. All units are in thousands of US dollars per employee. All figures are current-year projections for motor vehicle parts and accessories manufacturing in China based on latest financial results available.

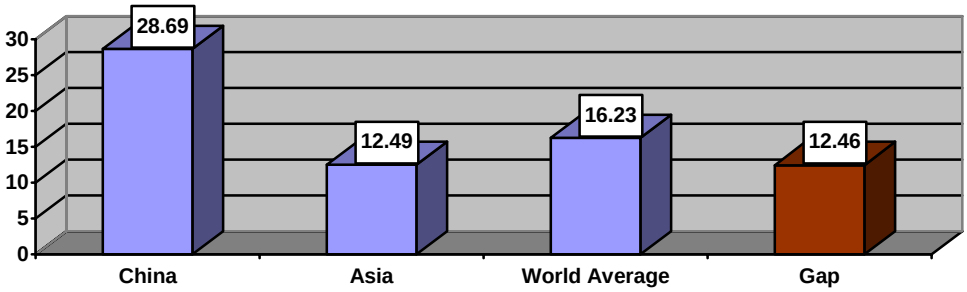
Labor-asset Ratios ($k/employee)	**China**	**Asia**	**World Avg.**
Cash & Short Term Investments	28.69	12.49	16.23
Cash	16.23	5.58	6.47
Short Term Investments	18.34	9.04	11.76
Receivables (Net)	17.47	21.14	20.61
Total Inventories	18.84	11.21	17.03
Raw Materials	5.22	2.84	4.99
Work in Process	1.04	2.48	2.94
Finished Goods	9.83	7.33	6.65
Progress Payments & Other	1.03	0.97	1.33
Prepaid Expenses	0.22	2.41	2.10
Other Current Assets	1.30	1.44	1.73
Current Assets - Total	**66.38**	**47.25**	**56.71**
Long Term Receivables	1.98	1.27	1.89
Investments in Unconsolidated Subsidiaries	2.24	4.59	3.08
Other Investments	0.17	5.73	4.75
Property Plant and Equipment - Net	31.64	32.97	34.62
Property Plant and Equipment - Gross	56.57	56.71	57.19
Buildings	13.91	12.85	11.68
Machinery & Equipment	26.64	25.94	28.94
Transportation Equipment	0.73	3.97	1.93
Other Property Plant & Equipment	15.09	9.44	9.89
Property Plant & Equipment Under Capitalized Leases	0.37	2.74	1.24
Accumulated Depreciation - Total	20.56	25.64	25.88
Accumulated Depreciation - Buildings	2.26	4.33	3.21
Accumulated Depreciation -Machinery & Equipment	13.07	17.21	15.74
Accumulated Depreciation - Transportation Equipment	0.36	1.33	0.62
Accumulated Depreciation - Other Prop & Equip	5.70	4.04	4.13
Other Assets	4.62	5.03	7.76
Deferred Charges	0.54	1.21	1.12
Tangible Other Assets	0.09	0.48	0.59
Intangible Other Assets	2.07	1.25	3.43
Total Assets	**105.57**	**93.70**	**106.29**

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

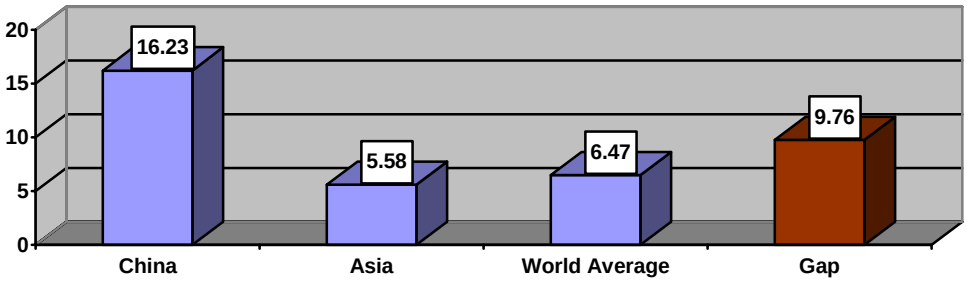
3.6.3 Asset to Labor: International Gaps

The following graphics summarize for motor vehicle parts and accessories manufacturing the large labor-asset gaps between firms operating in China and the world average. A gap cannot necessarily be interpreted as a positive or negative reflection on performance. Gaps may signal areas of specialization, market focus, or expertise. More contextual information is required to fully interpret these gaps. The gaps highlighted here are simply those that are large.

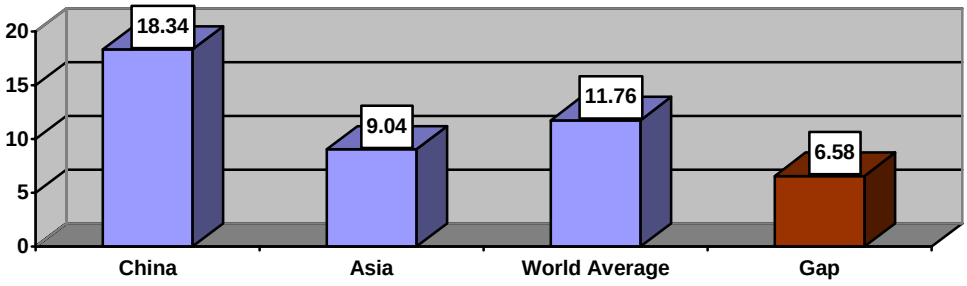
Gap: Cash & Short Term Investments ($k/employee)



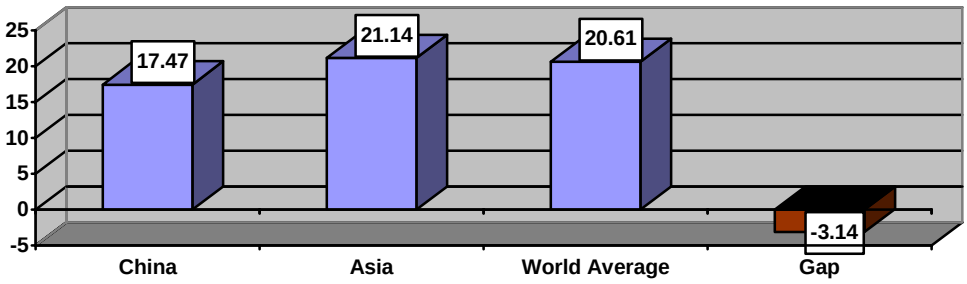
Gap: Cash ($k/employee)



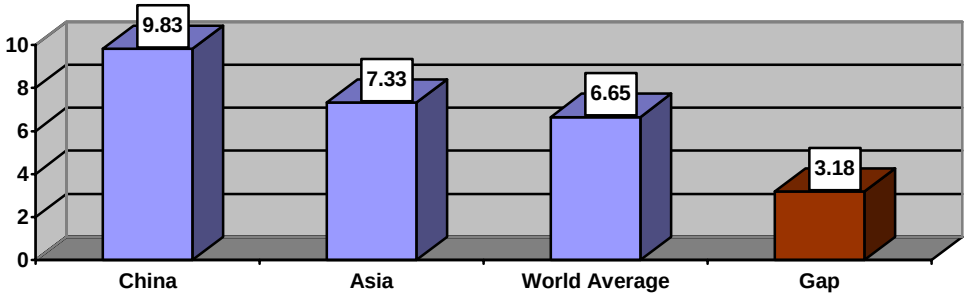
Gap: Short Term Investments ($k/employee)



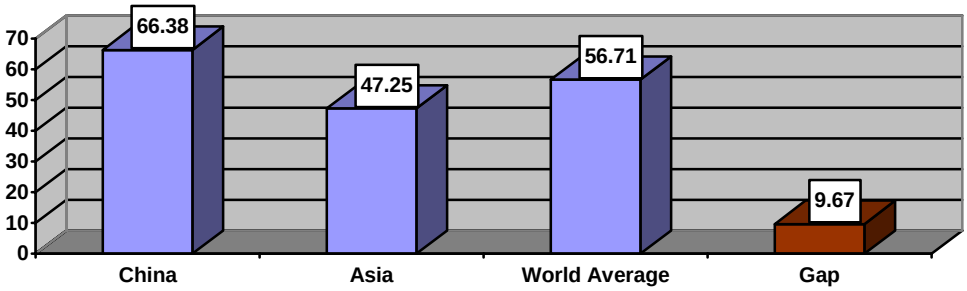
Gap: Receivables (Net) ($k/employee)



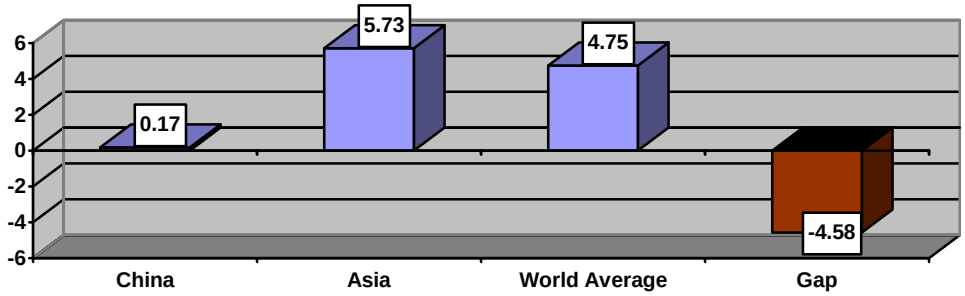
Gap: Finished Goods ($k/employee)



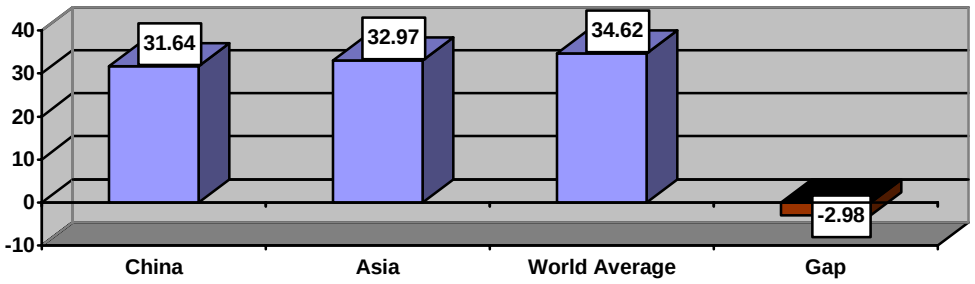
Gap: Current Assets - Total ($k/employee)



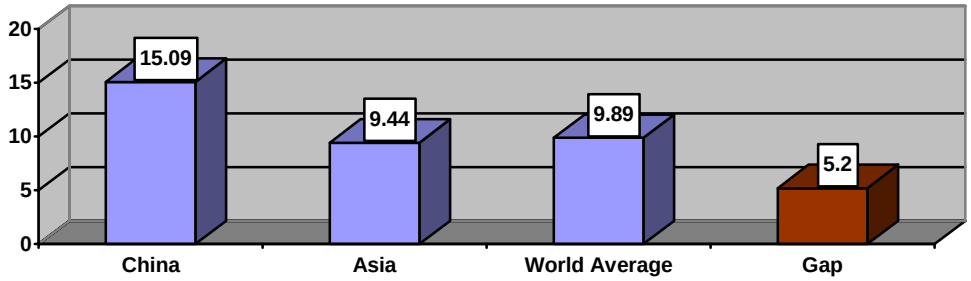
Gap: Other Investments ($k/employee)



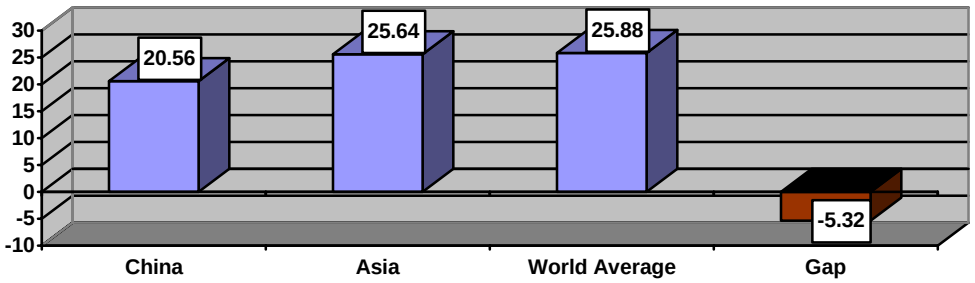
Gap: Property Plant and Equipment - Net ($k/employee)



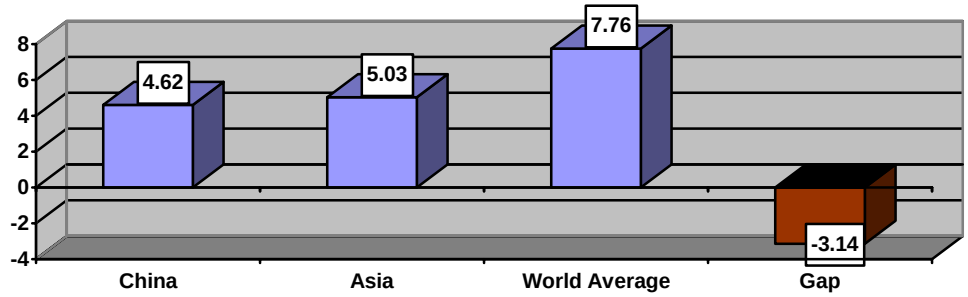
Gap: Other Property Plant & Equipment ($k/employee)



Gap: Accumulated Depreciation - Total ($k/employee)



Gap: Other Assets ($k/employee)



3.6.4 Key Percentiles and Rankings

We now consider the distribution of asset-labor ratios using ranks and percentiles across . What percent of countries have a productivity indicator lower or higher than China (what is the indicator's rank or percentile)? The table below answers this question with respect to asset-labor structure. The ranks and percentiles indicate, from highest to lowest, where a value falls within the distribution of all countries considered in the global benchmark (the number of countries in the benchmark per line item may vary, as indicated in the Rank). Again, a high or low figure does not necessarily indicate good or bad performance or productivity. After the summary table below, a few key asset-labor ratios are highlighted in additional tables.

Asset Structure ($k/employee)	China	Rank of Total	Percentile
Cash & Short Term Investments	28.69	10 of 53	81.13
Cash	16.23	7 of 49	85.71
Short Term Investments	18.34	6 of 41	85.37
Receivables (Net)	17.47	36 of 53	32.08
Total Inventories	18.84	29 of 53	45.28
Raw Materials	5.22	18 of 48	62.50
Work in Process	1.04	35 of 44	20.45
Finished Goods	9.83	27 of 44	38.64
Progress Payments & Other	1.03	20 of 45	55.56
Prepaid Expenses	0.22	27 of 34	20.59
Other Current Assets	1.30	16 of 46	65.22
Current Assets - Total	**66.38**	**30 of 53**	**43.40**
Long Term Receivables	1.98	15 of 32	53.13
Investments in Unconsolidated Subsidiaries	2.24	30 of 44	31.82
Other Investments	0.17	26 of 36	27.78
Property Plant and Equipment - Net	31.64	28 of 53	47.17
Property Plant and Equipment - Gross	56.57	28 of 53	47.17
Buildings	13.91	29 of 51	43.14
Machinery & Equipment	26.64	27 of 51	47.06
Transportation Equipment	0.73	25 of 34	26.47
Other Property Plant & Equipment	15.09	16 of 48	66.67
Property Plant & Equipment Under Capitalized Leases	0.37	18 of 20	10.00
Accumulated Depreciation - Total	20.56	30 of 53	43.40
Accumulated Depreciation - Buildings	2.26	37 of 49	24.49
Accumulated Depreciation -Machinery & Equipment	13.07	28 of 48	41.67
Accumulated Depreciation - Transportation Equipment	0.36	24 of 31	22.58
Accumulated Depreciation - Other Prop & Equip	5.70	17 of 40	57.50
Other Assets	4.62	27 of 52	48.08
Deferred Charges	0.54	14 of 27	48.15
Tangible Other Assets	0.09	21 of 25	16.00
Intangible Other Assets	2.07	22 of 48	54.17
Total Assets	**105.57**	**33 of 53**	**37.74**

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Cash & Short Term Investments

Countries	Value ($K/employee)	Rank	Percentile	Region
Pakistan	112.97	1	98.11	the Middle East
Singapore	50.34	2	96.23	Asia
South Korea	42.63	3	94.34	Asia
New Zealand	34.60	4	92.45	Oceana
Hong Kong	33.90	5	90.57	Asia
Greece	31.58	6	88.68	Europe
Italy	31.12	7	86.79	Europe
France	29.77	8	84.91	Europe
Japan	29.76	9	83.02	Asia
China	**28.69**	**10**	**81.13**	**Asia**
Czech Republic	28.12	11	79.25	Europe
Argentina	26.19	12	77.36	Latin America
Sweden	22.08	13	75.47	Europe
Belgium	20.40	14	73.58	Europe
Malaysia	17.51	15	71.70	Asia
Switzerland	16.29	16	69.81	Europe
Germany	15.76	17	67.92	Europe
Austria	15.69	18	66.04	Europe
Mexico	15.50	19	64.15	Latin America
Luxembourg	14.09	21	60.38	Europe
Brazil	13.26	22	58.49	Latin America
USA	13.17	23	56.60	North America
Spain	10.93	24	54.72	Europe
Israel	10.02	25	52.83	the Middle East
Ireland	9.94	26	50.94	Europe
Turkey	9.89	27	49.06	the Middle East
Canada	8.56	28	47.17	North America
Taiwan	8.28	29	45.28	Asia
the United Kingdom	7.90	30	43.40	Europe
India	7.48	31	41.51	Asia
Thailand	6.39	32	39.62	Asia
Denmark	5.84	33	37.74	Europe
Norway	5.83	34	35.85	Europe
Peru	4.72	38	28.30	Latin America
Indonesia	4.52	39	26.42	Asia
Australia	3.29	41	22.64	Oceana
Finland	3.03	42	20.75	Europe
Chile	2.52	44	16.98	Latin America
Portugal	2.18	45	15.09	Europe
Philippines	1.59	47	11.32	Asia
Russian Federation	1.58	48	9.43	Europe
Hungary	1.42	49	7.55	Europe
Poland	1.16	51	3.77	Europe
Netherlands	0.88	52	1.89	Europe
South Africa	0.20	53	0.00	Africa

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Cash & Short Term Investments
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
Singapore	50.34	1	96.15
South Korea	42.63	2	92.31
Hong Kong	33.90	3	88.46
Japan	29.76	4	84.62
China	**28.69**	**5**	**80.77**
Macau	25.81	6	76.92
Malaysia	17.51	7	73.08
Brunei	14.71	8	69.23
Taiwan	8.28	9	65.38
India	7.48	10	61.54
Thailand	6.39	11	57.69
Mongolia	5.70	12	53.85
Cambodia	5.68	13	50.00
Laos	5.47	14	46.15
Papua New Guinea	5.01	15	42.31
Vietnam	4.97	16	38.46
North Korea	4.58	17	34.62
Indonesia	4.52	18	30.77
Bangladesh	4.26	19	26.92
Maldives	4.12	20	23.08
Bhutan	4.05	21	19.23
Nepal	3.63	22	15.38
Sri Lanka	2.63	23	11.54
Burma	1.59	24	7.69
Philippines	1.59	25	3.85
Seychelles	1.48	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Receivables (Net)

Countries	Value ($K/employee)	Rank	Percentile	Region
Belgium	178.26	1	98.11	Europe
South Korea	111.25	2	96.23	Asia
Greece	80.17	3	94.34	Europe
Czech Republic	71.37	4	92.45	Europe
Argentina	66.48	5	90.57	Latin America
Chile	63.88	6	88.68	Latin America
Spain	58.05	7	86.79	Europe
Italy	57.41	8	84.91	Europe
Japan	53.21	9	83.02	Asia
Israel	53.21	10	81.13	the Middle East
Ireland	52.77	11	79.25	Europe
France	52.24	12	77.36	Europe
Mexico	51.81	13	75.47	Latin America
Norway	48.08	15	71.70	Europe
Taiwan	43.98	16	69.81	Asia
Netherlands	40.65	17	67.92	Europe
Germany	39.19	18	66.04	Europe
Finland	38.98	19	64.15	Europe
Austria	38.79	20	62.26	Europe
Sweden	36.35	21	60.38	Europe
New Zealand	34.95	22	58.49	Oceana
Switzerland	34.68	23	56.60	Europe
Hong Kong	34.24	24	54.72	Asia
Turkey	33.79	25	52.83	the Middle East
Denmark	33.25	26	50.94	Europe
Luxembourg	29.99	27	49.06	Europe
Malaysia	29.89	28	47.17	Asia
USA	29.74	29	45.28	North America
Singapore	27.10	30	43.40	Asia
Canada	26.81	31	41.51	North America
the United Kingdom	25.06	32	39.62	Europe
Portugal	24.33	33	37.74	Europe
Brazil	20.18	34	35.85	Latin America
China	**17.47**	**36**	**32.08**	**Asia**
Australia	14.77	37	30.19	Oceana
South Africa	11.62	39	26.42	Africa
Philippines	11.01	40	24.53	Asia
Indonesia	10.25	41	22.64	Asia
India	9.69	42	20.75	Asia
Pakistan	7.80	45	15.09	the Middle East
Thailand	5.89	46	13.21	Asia
Peru	4.35	49	7.55	Latin America
Russian Federation	4.06	51	3.77	Europe
Hungary	3.64	52	1.89	Europe
Poland	2.98	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Receivables (Net)
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	111.25	1	96.15
Macau	65.51	2	92.31
Japan	53.21	3	88.46
Taiwan	43.98	4	84.62
Hong Kong	34.24	5	80.77
Brunei	31.32	6	76.92
Malaysia	29.89	7	73.08
Singapore	27.10	8	69.23
Sri Lanka	17.59	9	65.38
China	**17.47**	**10**	**61.54**
Papua New Guinea	11.11	11	57.69
Burma	11.05	12	53.85
Philippines	11.01	13	50.00
Indonesia	10.25	14	46.15
India	9.69	15	42.31
Maldives	9.35	16	38.46
Cambodia	7.36	17	34.62
Laos	7.09	18	30.77
Vietnam	6.44	19	26.92
Thailand	5.89	20	23.08
Bangladesh	5.52	21	19.23
Mongolia	5.26	22	15.38
Bhutan	5.25	23	11.54
Nepal	4.70	24	7.69
North Korea	4.22	25	3.85
Seychelles	3.79	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Total Inventories

Countries	Value ($K/employee)	Rank	Percentile	Region
Italy	75.91	1	98.11	Europe
Mexico	61.38	2	96.23	Latin America
Belgium	57.09	3	94.34	Europe
Greece	50.55	5	90.57	Europe
France	49.63	6	88.68	Europe
Pakistan	47.48	7	86.79	the Middle East
Czech Republic	45.00	8	84.91	Europe
Denmark	44.09	9	83.02	Europe
Germany	42.03	10	81.13	Europe
Argentina	41.92	11	79.25	Latin America
Portugal	40.21	12	77.36	Europe
Austria	38.76	13	75.47	Europe
Finland	38.57	14	73.58	Europe
Netherlands	38.31	15	71.70	Europe
Sweden	36.03	16	69.81	Europe
Singapore	32.65	17	67.92	Asia
Canada	29.08	18	66.04	North America
Chile	28.87	19	64.15	Latin America
USA	28.85	20	62.26	North America
Japan	28.25	21	60.38	Asia
the United Kingdom	25.39	22	58.49	Europe
South Korea	25.20	23	56.60	Asia
Australia	24.99	24	54.72	Oceana
Spain	23.94	25	52.83	Europe
Israel	21.94	26	50.94	the Middle East
Ireland	21.76	27	49.06	Europe
Norway	20.16	28	47.17	Europe
China	**18.84**	**29**	**45.28**	**Asia**
Taiwan	18.13	30	43.40	Asia
Switzerland	17.06	31	41.51	Europe
Brazil	16.39	32	39.62	Latin America
South Africa	15.17	33	37.74	Africa
Luxembourg	14.75	34	35.85	Europe
Malaysia	14.69	35	33.96	Asia
Indonesia	12.34	36	32.08	Asia
Turkey	11.48	38	28.30	the Middle East
New Zealand	8.62	40	24.53	Oceana
Hong Kong	8.45	41	22.64	Asia
India	7.17	42	20.75	Asia
Thailand	4.60	43	18.87	Asia
Russian Federation	4.33	45	15.09	Europe
Hungary	3.89	46	13.21	Europe
Peru	3.40	49	7.55	Latin America
Poland	3.18	50	5.66	Europe
Philippines	1.94	52	1.89	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Total Inventories
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
Macau	41.31	1	96.15
Singapore	32.65	2	92.31
Japan	28.25	3	88.46
South Korea	25.20	4	84.62
China	**18.84**	**5**	**80.77**
Taiwan	18.13	6	76.92
Brunei	15.41	7	73.08
Malaysia	14.69	8	69.23
Indonesia	12.34	9	65.38
Maldives	11.25	10	61.54
Papua New Guinea	9.01	11	57.69
Hong Kong	8.45	12	53.85
India	7.17	13	50.00
Cambodia	5.44	14	46.15
Laos	5.25	15	42.31
Vietnam	4.76	16	38.46
Thailand	4.60	17	34.62
Mongolia	4.10	18	30.77
Bangladesh	4.08	19	26.92
Seychelles	4.04	20	23.08
Bhutan	3.89	21	19.23
Nepal	3.48	22	15.38
North Korea	3.30	23	11.54
Sri Lanka	2.05	24	7.69
Burma	1.95	25	3.85
Philippines	1.94	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Current Assets - Total

Countries	Value ($K/employee)	Rank	Percentile	Region
Belgium	255.76	1	98.11	Europe
South Korea	192.40	2	96.23	Asia
Italy	174.01	3	94.34	Europe
Pakistan	169.97	4	92.45	the Middle East
Greece	162.65	5	90.57	Europe
Czech Republic	144.80	6	88.68	Europe
Argentina	134.88	7	86.79	Latin America
France	132.57	8	84.91	Europe
Mexico	128.79	9	83.02	Latin America
Japan	120.26	10	81.13	Asia
Singapore	111.31	12	77.36	Asia
Germany	105.48	13	75.47	Europe
Sweden	97.53	14	73.58	Europe
Chile	96.56	15	71.70	Latin America
Austria	94.67	16	69.81	Europe
Spain	93.24	17	67.92	Europe
Finland	87.37	18	66.04	Europe
Israel	85.47	19	64.15	the Middle East
Ireland	84.77	20	62.26	Europe
New Zealand	83.94	21	60.38	Oceana
Denmark	83.40	22	58.49	Europe
Hong Kong	82.25	23	56.60	Asia
Netherlands	81.41	24	54.72	Europe
USA	78.53	25	52.83	North America
Norway	74.06	26	50.94	Europe
Taiwan	70.64	27	49.06	Asia
Switzerland	68.03	28	47.17	Europe
Portugal	67.41	29	45.28	Europe
China	**66.38**	**30**	**43.40**	**Asia**
Canada	66.26	31	41.51	North America
Malaysia	62.61	32	39.62	Asia
the United Kingdom	60.52	33	37.74	Europe
Luxembourg	58.84	34	35.85	Europe
Turkey	57.04	35	33.96	the Middle East
Brazil	51.74	36	32.08	Latin America
Australia	44.23	37	30.19	Oceana
India	28.96	38	28.30	Asia
Indonesia	28.94	39	26.42	Asia
South Africa	27.09	42	20.75	Africa
Thailand	17.07	44	16.98	Asia
Philippines	15.98	45	15.09	Asia
Peru	12.61	49	7.55	Latin America
Russian Federation	11.86	51	3.77	Europe
Hungary	10.66	52	1.89	Europe
Poland	8.72	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Current Assets - Total
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	192.40	1	96.15
Macau	132.90	2	92.31
Japan	120.26	3	88.46
Singapore	111.31	4	84.62
Hong Kong	82.25	5	80.77
Taiwan	70.64	6	76.92
China	**66.38**	**7**	**73.08**
Malaysia	62.61	8	69.23
Brunei	61.44	9	65.38
India	28.96	10	61.54
Indonesia	28.94	11	57.69
Maldives	26.39	12	53.85
Papua New Guinea	25.13	13	50.00
Sri Lanka	22.65	14	46.15
Cambodia	21.98	15	42.31
Laos	21.19	16	38.46
Vietnam	19.23	17	34.62
Thailand	17.07	18	30.77
Bangladesh	16.48	19	26.92
Burma	16.03	20	23.08
Philippines	15.98	21	19.23
Bhutan	15.70	22	15.38
Mongolia	15.23	23	11.54
Nepal	14.05	24	7.69
North Korea	12.24	25	3.85
Seychelles	11.07	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Property Plant and Equipment - Net

Countries	Value ($K/employee)	Rank	Percentile	Region
South Korea	203.39	1	98.11	Asia
Japan	96.95	2	96.23	Asia
Mexico	96.01	3	94.34	Latin America
Belgium	79.46	5	90.57	Europe
Germany	54.08	6	88.68	Europe
Sweden	52.87	7	86.79	Europe
Italy	51.87	8	84.91	Europe
Greece	51.31	9	83.02	Europe
Netherlands	50.12	10	81.13	Europe
Portugal	46.49	11	79.25	Europe
USA	45.85	12	77.36	North America
Czech Republic	45.68	13	75.47	Europe
Canada	43.87	14	73.58	North America
Argentina	42.55	15	71.70	Latin America
Spain	41.35	16	69.81	Europe
Chile	39.97	17	67.92	Latin America
Israel	37.91	18	66.04	the Middle East
Ireland	37.59	19	64.15	Europe
Turkey	37.06	20	62.26	the Middle East
Singapore	36.02	21	60.38	Asia
Switzerland	35.29	22	58.49	Europe
Philippines	34.72	23	56.60	Asia
France	34.22	24	54.72	Europe
the United Kingdom	33.38	25	52.83	Europe
Malaysia	32.77	26	50.94	Asia
Austria	31.69	27	49.06	Europe
China	**31.64**	**28**	**47.17**	**Asia**
Taiwan	31.33	29	45.28	Asia
Luxembourg	30.52	30	43.40	Europe
India	29.79	32	39.62	Asia
Norway	29.49	33	37.74	Europe
Australia	28.06	35	33.96	Oceana
Denmark	27.79	36	32.08	Europe
Pakistan	26.03	37	30.19	the Middle East
New Zealand	22.11	38	28.30	Oceana
Brazil	21.75	39	26.42	Latin America
Hong Kong	21.67	40	24.53	Asia
Indonesia	18.08	41	22.64	Asia
Thailand	15.74	43	18.87	Asia
South Africa	13.53	44	16.98	Africa
Peru	11.63	47	11.32	Latin America
Finland	8.79	48	9.43	Europe
Russian Federation	8.03	50	5.66	Europe
Hungary	7.22	52	1.89	Europe
Poland	5.90	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Property Plant and Equipment - Net
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	203.39	1	96.15
Japan	96.95	2	92.31
Macau	41.93	3	88.46
Singapore	36.02	4	84.62
Burma	34.84	5	80.77
Philippines	34.72	6	76.92
Malaysia	32.77	7	73.08
Brunei	31.87	8	69.23
China	**31.64**	**9**	**65.38**
Taiwan	31.33	10	61.54
India	29.79	11	57.69
Papua New Guinea	27.74	12	53.85
Cambodia	22.61	13	50.00
Laos	21.80	14	46.15
Hong Kong	21.67	15	42.31
Vietnam	19.78	16	38.46
Indonesia	18.08	17	34.62
Bangladesh	16.96	18	30.77
Maldives	16.49	19	26.92
Bhutan	16.15	20	23.08
Thailand	15.74	21	19.23
Nepal	14.45	22	15.38
Mongolia	14.04	23	11.54
North Korea	11.29	24	7.69
Sri Lanka	7.69	25	3.85
Seychelles	7.49	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Accumulated Depreciation - Total

Countries	Value ($K/employee)	Rank	Percentile	Region
Japan	152.94	1	98.11	Asia
Belgium	84.83	2	96.23	Europe
South Korea	82.20	3	94.34	Asia
Germany	81.03	4	92.45	Europe
Spain	73.35	5	90.57	Europe
Israel	67.24	6	88.68	the Middle East
Ireland	66.68	7	86.79	Europe
Switzerland	66.57	8	84.91	Europe
Italy	62.71	9	83.02	Europe
Luxembourg	57.57	10	81.13	Europe
Taiwan	55.57	11	79.25	Asia
Netherlands	54.70	12	77.36	Europe
Sweden	47.82	13	75.47	Europe
Pakistan	47.76	14	73.58	the Middle East
France	44.66	15	71.70	Europe
Denmark	39.73	16	69.81	Europe
Turkey	39.73	17	67.92	the Middle East
Mexico	39.68	18	66.04	Latin America
Portugal	37.77	20	62.26	Europe
Austria	37.28	21	60.38	Europe
USA	35.34	23	56.60	North America
Canada	32.10	24	54.72	North America
Brazil	26.78	25	52.83	Latin America
the United Kingdom	26.32	26	50.94	Europe
Singapore	24.96	27	49.06	Asia
Norway	24.71	28	47.17	Europe
Finland	23.65	29	45.28	Europe
China	**20.56**	**30**	**43.40**	**Asia**
Greece	20.51	31	41.51	Europe
Malaysia	19.09	32	39.62	Asia
India	18.99	33	37.74	Asia
Philippines	18.28	34	35.85	Asia
Czech Republic	18.25	35	33.96	Europe
Argentina	17.00	36	32.08	Latin America
Thailand	15.83	37	30.19	Asia
Australia	14.02	39	26.42	Oceana
Chile	13.96	40	24.53	Latin America
South Africa	13.23	42	20.75	Africa
Peru	11.70	44	16.98	Latin America
Russian Federation	7.84	47	11.32	Europe
New Zealand	7.74	48	9.43	Oceana
Hong Kong	7.58	49	7.55	Asia
Hungary	7.04	50	5.66	Europe
Poland	5.76	51	3.77	Europe
Indonesia	3.15	52	1.89	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Accumulated Depreciation - Total
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
Japan	152.94	1	96.15
South Korea	82.20	2	92.31
Brunei	60.11	3	88.46
Taiwan	55.57	4	84.62
Papua New Guinea	35.43	5	80.77
Singapore	24.96	6	76.92
China	**20.56**	**7**	**73.08**
Malaysia	19.09	8	69.23
India	18.99	9	65.38
Burma	18.34	10	61.54
Philippines	18.28	11	57.69
Macau	16.75	12	53.85
Thailand	15.83	13	50.00
Cambodia	14.41	14	46.15
Mongolia	14.12	15	42.31
Laos	13.90	16	38.46
Vietnam	12.61	17	34.62
North Korea	11.36	18	30.77
Bangladesh	10.81	19	26.92
Bhutan	10.29	20	23.08
Sri Lanka	9.97	21	19.23
Nepal	9.21	22	15.38
Hong Kong	7.58	23	11.54
Seychelles	7.31	24	7.69
Indonesia	3.15	25	3.85
Maldives	2.87	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Intangible Other Assets

Countries	Value ($K/employee)	Rank	Percentile	Region
the United Kingdom	30.64	1	97.92	Europe
Belgium	26.81	2	95.83	Europe
USA	26.25	3	93.75	North America
Italy	24.15	4	91.67	Europe
Norway	22.34	5	89.58	Europe
Mexico	21.11	6	87.50	Latin America
Denmark	10.02	8	83.33	Europe
Sweden	9.76	9	81.25	Europe
Germany	9.40	10	79.17	Europe
Switzerland	8.80	11	77.08	Europe
Luxembourg	7.61	12	75.00	Europe
Canada	7.09	13	72.92	North America
France	6.83	14	70.83	Europe
South Korea	6.36	15	68.75	Asia
Austria	5.37	16	66.67	Europe
Finland	4.26	18	62.50	Europe
New Zealand	3.57	19	60.42	Oceana
Hong Kong	3.50	20	58.33	Asia
Australia	2.81	21	56.25	Oceana
China	**2.07**	**22**	**54.17**	**Asia**
Japan	1.98	23	52.08	Asia
Spain	1.69	24	50.00	Europe
Israel	1.55	25	47.92	the Middle East
Ireland	1.54	26	45.83	Europe
Taiwan	1.28	27	43.75	Asia
Turkey	1.24	28	41.67	the Middle East
Philippines	0.80	29	39.58	Asia
Malaysia	0.75	30	37.50	Asia
Greece	0.54	32	33.33	Europe
Singapore	0.52	34	29.17	Asia
Russian Federation	0.51	35	27.08	Europe
Czech Republic	0.48	36	25.00	Europe
Hungary	0.46	37	22.92	Europe
Argentina	0.45	38	20.83	Latin America
Netherlands	0.40	39	18.75	Europe
Poland	0.38	40	16.67	Europe
Chile	0.37	41	14.58	Latin America
Portugal	0.33	42	12.50	Europe
Thailand	0.17	43	10.42	Asia
Peru	0.13	46	4.17	Latin America
India	0.13	47	2.08	Asia
South Africa	0.03	48	0.00	Africa

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Intangible Other Assets
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
Brunei	7.94	1	95.65
South Korea	6.36	2	91.30
Papua New Guinea	4.61	3	86.96
Hong Kong	3.50	4	82.61
China	**2.07**	**5**	**78.26**
Japan	1.98	6	73.91
Taiwan	1.28	7	69.57
Burma	0.80	8	65.22
Philippines	0.80	9	60.87
Malaysia	0.75	10	56.52
Singapore	0.52	11	52.17
Seychelles	0.48	12	47.83
Macau	0.44	13	43.48
Thailand	0.17	14	39.13
Mongolia	0.15	15	34.78
India	0.13	16	30.43
North Korea	0.12	17	26.09
Cambodia	0.10	18	21.74
Laos	0.09	19	17.39
Vietnam	0.08	20	13.04
Bangladesh	0.07	21	8.70
Bhutan	0.07	22	4.35
Nepal	0.06	23	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

3.7 PRODUCTIVITY IN CHINA: LIABILITY-LABOR RATIOS

3.7.1 Overview

In this chapter we consider the liability-labor ratios of companies operating in China benchmarked against global averages for motor vehicle parts and accessories manufacturing. For ratios where there are large deviations between China and the benchmarks, graphics are provided (sometimes referred to as a "gap" analysis). Then the distribution of productivity ratios is presented in the form of ranks and percentiles. Certain key liability-labor ratios are highlighted for motor vehicle parts and accessories manufacturing across countries in the comparison group. Definitions of liability statement terms are given in Chapter 3.

In the case of liability-labor ratios, this report maintains comparability over time and across countries by using a common currency (the US dollar) and relates each measure to a "per employee basis". Ratios are projected using raw financial statistics and, as ratios, are therefore comparable. Given a country's human resource ratios, the resulting figures are benchmarked across regional and global averages.

I then report the larger liability-labor ratio gaps for motor vehicle parts and accessories manufacturing that China has vis-à-vis the worldwide average. Again, a gap need not be a bad sign. Rather, it is simply a substantial difference that might merit further attention or signal a firm's relative incentive to invest locally. All figures are projections, so due caution is required.

3.7.2 Liability to Labor: Outlook

The following tables and graphs are prepared using the methodology described at the beginning of this section. All units are in thousands of US dollars per employee. All figures are current-year projections for motor vehicle parts and accessories manufacturing in China based on latest financial results available.

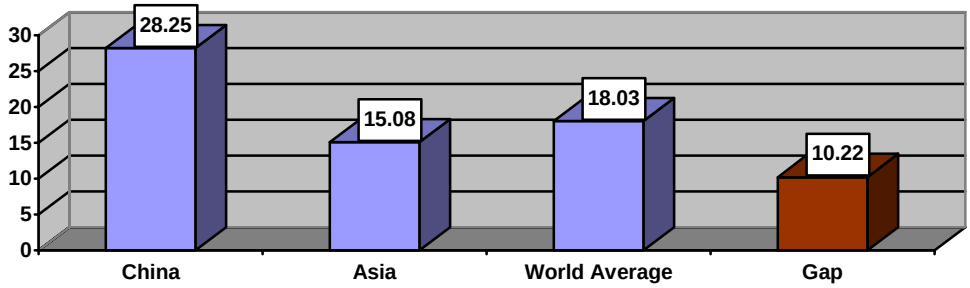
Labor-liability Ratios ($k/employee)	**China**	**Asia**	**World Avg.**
Accounts Payable	28.25	15.08	18.03
Short Term Debt & Current Portion of Long Term Debt	14.77	11.30	13.42
Accrued Payroll	0.83	1.39	0.78
Income Taxes Payable	1.62	2.66	2.76
Dividends Payable	1.87	2.25	1.58
Other Current Liabilities	11.47	10.84	13.67
Current Liabilities - Total	**52.36**	**37.62**	**45.35**
Long Term Debt	2.50	8.68	11.96
Long Term Debt Excluding Capitalized Leases	2.50	7.93	10.87
Provision For Risks and Charges	1.00	4.19	3.33
Deferred Taxes	-0.35	0.51	0.40
Other Liabilities	0.25	3.21	2.39
Total Liabilities	**55.10**	**52.28**	**62.67**
Non-Equity Reserves	0.05	0.12	0.08
Minority Interest	6.01	2.34	2.19
Common Equity	44.41	38.95	41.25
Common Stock	19.02	13.97	12.21
Capital Surplus	17.11	9.22	10.22
Revaluation Reserves	0.75	1.02	1.25
Other Appropriated Reserves	6.27	4.21	3.05
Unappropriated Reserves	4.75	10.09	9.58
Retained Earnings	3.15	10.17	8.57
Unrealized Foreign Exchange Gain/Loss	0.00	-0.10	-0.07
Unrealized Gain/Loss on Marketable Securities	-0.26	0.18	0.04
Total Liabilities & Shareholders Equity	**105.57**	**93.70**	**106.29**

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

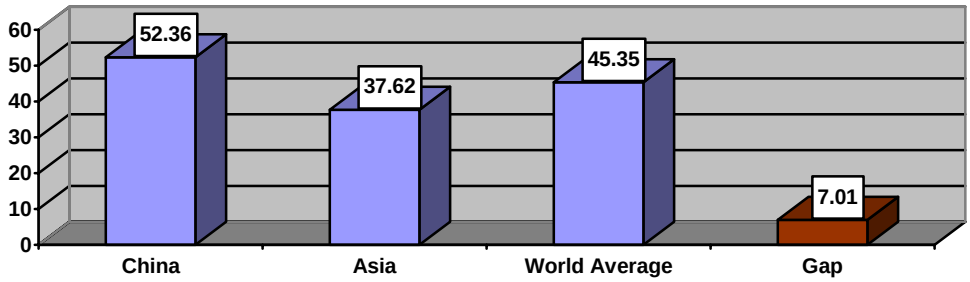
3.7.3 Liability and Equity to Labor: International Gaps

The following graphics summarize for motor vehicle parts and accessories manufacturing the large labor-liability gaps between firms operating in China and the world average. A gap cannot necessarily be interpreted as a positive or negative reflection on performance. Gaps may signal areas of specialization, market focus, or expertise. More contextual information is required to fully interpret these gaps. The gaps highlighted here are simply those that are large.

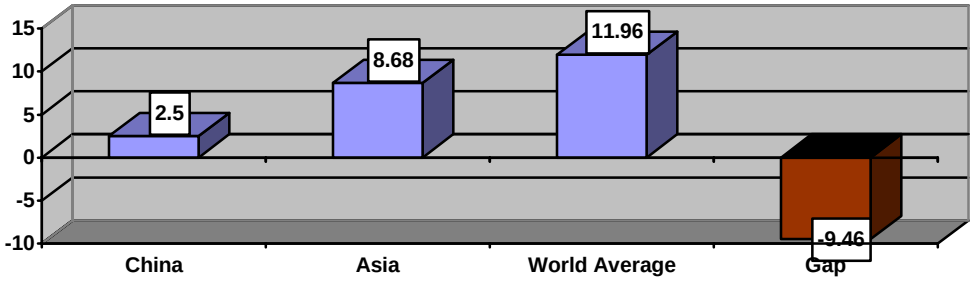
Gap: Accounts Payable ($k/employee)



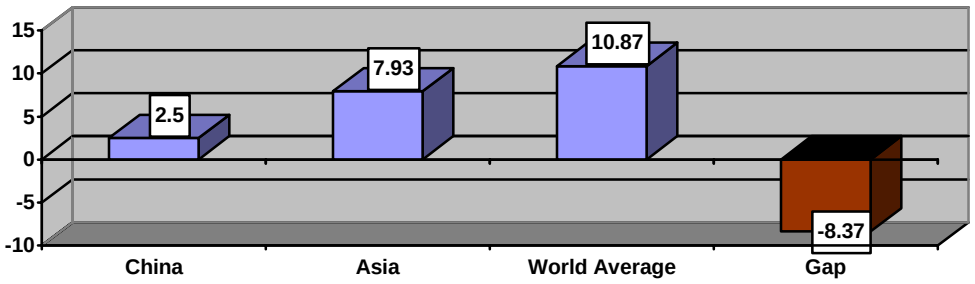
Gap: Current Liabilities - Total ($k/employee)



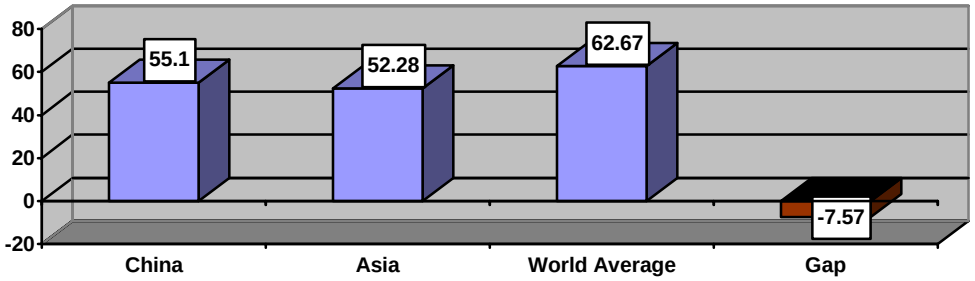
Gap: Long Term Debt ($k/employee)



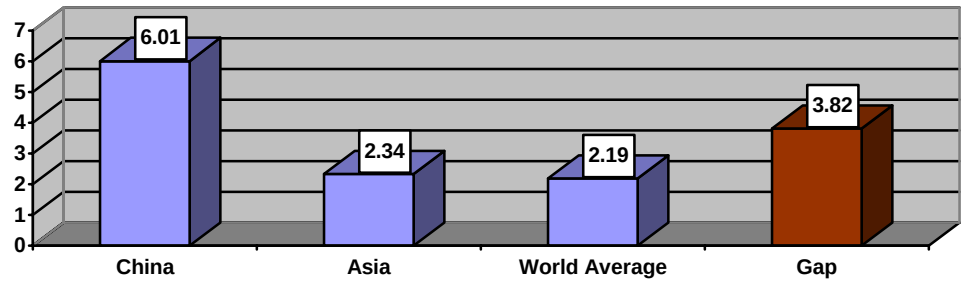
Gap: Long Term Debt Excluding Capitalized Leases ($k/employee)



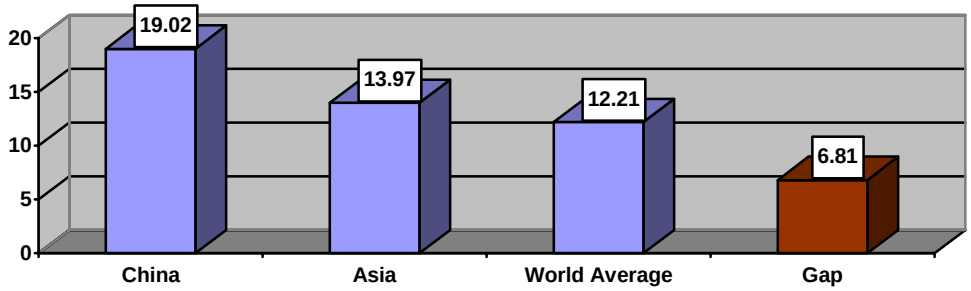
Gap: Total Liabilities ($k/employee)



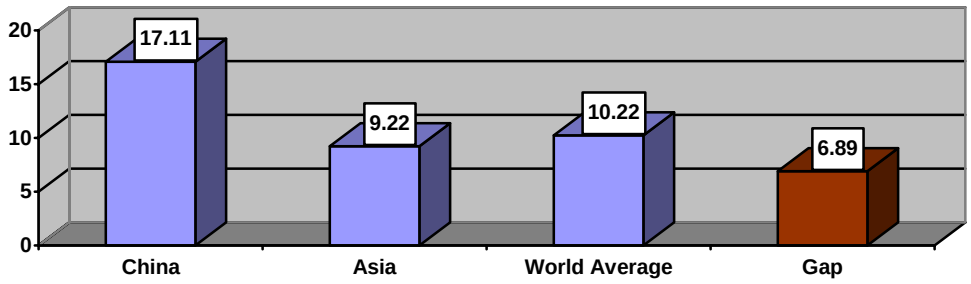
Gap: Minority Interest ($k/employee)



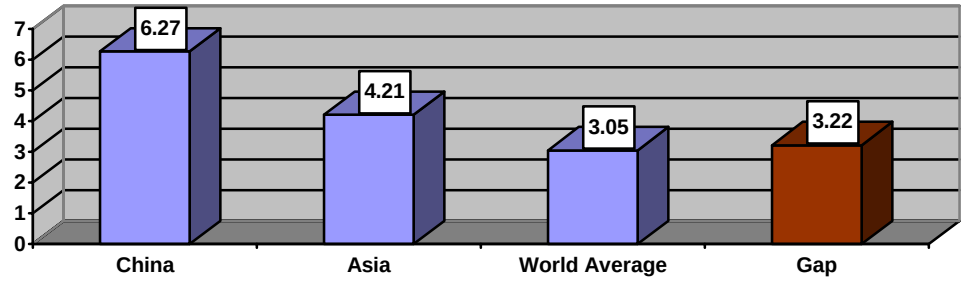
Gap: Common Stock ($k/employee)



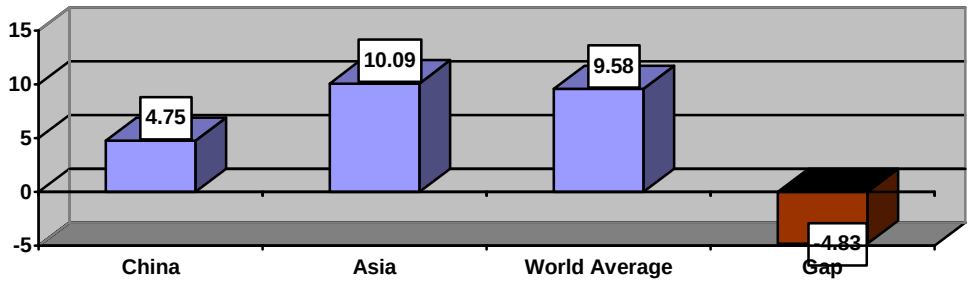
Gap: Capital Surplus ($k/employee)



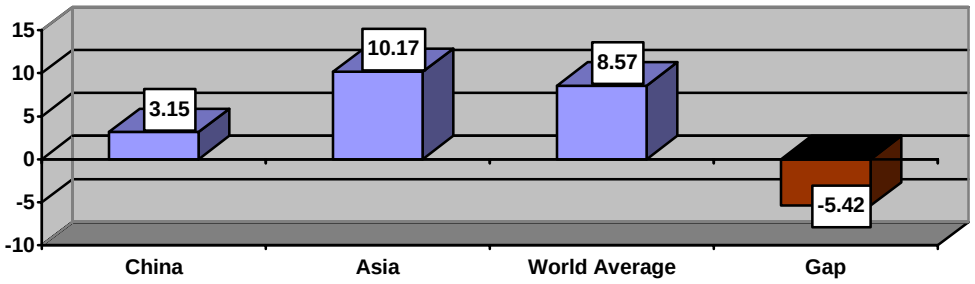
Gap: Other Appropriated Reserves ($k/employee)



Gap: Unappropriated Reserves ($k/employee)



Gap: Retained Earnings ($k/employee)



3.7.4 Key Percentiles and Rankings

We now consider the distribution of liability-labor ratios using ranks and percentiles across . What percent of countries have a value lower or higher than China (what is the indicator's rank or percentile)? The table below answers this question with respect to liability-labor ratios. The ranks and percentiles indicate, from highest to lowest, where a value falls within the distribution of all countries considered in the global benchmark (the number of countries in the benchmark per line item may vary, as indicated in the Rank). Again, a high or low figure does not necessarily indicate good or bad performance or productivity. After the summary table below, a few key liability-labor ratios are highlighted in additional tables.

Liability Structure ($k/employee)	**China**	**Rank of Total**	**Percentile**
Accounts Payable	28.25	14 of 53	73.58
Short Term Debt & Current Portion of Long Term Debt	14.77	21 of 53	60.38
Accrued Payroll	0.83	17 of 21	19.05
Income Taxes Payable	1.62	22 of 46	52.17
Dividends Payable	1.87	12 of 23	47.83
Other Current Liabilities	11.47	26 of 53	50.94
Current Liabilities - Total	**52.36**	**25 of 53**	**52.83**
Long Term Debt	2.50	33 of 52	36.54
Long Term Debt Excluding Capitalized Leases	2.50	33 of 46	28.26
Provision For Risks and Charges	1.00	25 of 36	30.56
Deferred Taxes	-0.35	32 of 41	21.95
Other Liabilities	0.25	30 of 42	28.57
Total Liabilities	**55.10**	**34 of 53**	**35.85**
Non-Equity Reserves	0.05	16 of 20	20.00
Minority Interest	6.01	4 of 43	90.70
Common Equity	44.41	30 of 53	43.40
Common Stock	19.02	15 of 52	71.15
Capital Surplus	17.11	11 of 36	69.44
Revaluation Reserves	0.75	20 of 27	25.93
Other Appropriated Reserves	6.27	15 of 45	66.67
Unappropriated Reserves	4.75	19 of 31	38.71
Retained Earnings	3.15	33 of 47	29.79
Unrealized Foreign Exchange Gain/Loss	0.00	15 of 24	37.50
Unrealized Gain/Loss on Marketable Securities	-0.26	10 of 11	9.09
Total Liabilities & Shareholders Equity	**105.57**	**33 of 53**	**37.74**

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Accounts Payable

Countries	Value ($K/employee)	Rank	Percentile	Region
Belgium	97.10	1	98.11	Europe
Spain	54.92	2	96.23	Europe
South Korea	54.11	3	94.34	Asia
Italy	50.39	4	92.45	Europe
Israel	50.34	5	90.57	the Middle East
Ireland	49.92	6	88.68	Europe
Japan	42.90	7	86.79	Asia
Taiwan	41.60	8	84.91	Asia
France	37.93	9	83.02	Europe
Canada	36.42	10	81.13	North America
Greece	33.50	11	79.25	Europe
Czech Republic	29.82	12	77.36	Europe
Pakistan	29.27	13	75.47	the Middle East
China	**28.25**	**14**	**73.58**	**Asia**
Argentina	27.78	15	71.70	Latin America
Turkey	22.72	16	69.81	the Middle East
New Zealand	21.84	17	67.92	Oceana
Hong Kong	21.40	18	66.04	Asia
Singapore	19.89	19	64.15	Asia
Switzerland	18.77	20	62.26	Europe
Indonesia	18.60	21	60.38	Asia
the United Kingdom	18.20	22	58.49	Europe
Luxembourg	16.24	24	54.72	Europe
Sweden	15.98	25	52.83	Europe
Denmark	15.90	26	50.94	Europe
USA	15.76	27	49.06	North America
Norway	15.69	28	47.17	Europe
Germany	15.58	29	45.28	Europe
Netherlands	14.76	30	43.40	Europe
Austria	14.33	31	41.51	Europe
India	14.08	32	39.62	Asia
Finland	13.25	33	37.74	Europe
Portugal	11.63	34	35.85	Europe
Chile	10.77	35	33.96	Latin America
Australia	10.01	36	32.08	Oceana
South Africa	9.39	37	30.19	Africa
Russian Federation	8.93	39	26.42	Europe
Hungary	8.03	40	24.53	Europe
Brazil	7.98	41	22.64	Latin America
Malaysia	7.89	42	20.75	Asia
Poland	6.57	43	18.87	Europe
Mexico	5.61	45	15.09	Latin America
Thailand	3.15	48	9.43	Asia
Peru	2.33	51	3.77	Latin America
Philippines	1.56	52	1.89	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Accounts Payable
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	54.11	1	96.15
Japan	42.90	2	92.31
Taiwan	41.60	3	88.46
China	**28.25**	**4**	**84.62**
Macau	27.37	5	80.77
Hong Kong	21.40	6	76.92
Singapore	19.89	7	73.08
Indonesia	18.60	8	69.23
Maldives	16.96	9	65.38
Brunei	16.95	10	61.54
India	14.08	11	57.69
Cambodia	10.69	12	53.85
Laos	10.31	13	50.00
Vietnam	9.35	14	46.15
Seychelles	8.34	15	42.31
Bangladesh	8.02	16	38.46
Malaysia	7.89	17	34.62
Bhutan	7.63	18	30.77
Nepal	6.83	19	26.92
Papua New Guinea	5.25	20	23.08
Sri Lanka	4.39	21	19.23
Thailand	3.15	22	15.38
Mongolia	2.81	23	11.54
North Korea	2.26	24	7.69
Burma	1.57	25	3.85
Philippines	1.56	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Current Liabilities - Total

Countries	Value ($K/employee)	Rank	Percentile	Region
Belgium	210.67	1	98.11	Europe
South Korea	187.95	2	96.23	Asia
Pakistan	134.84	3	94.34	the Middle East
Italy	133.35	4	92.45	Europe
Mexico	124.62	5	90.57	Latin America
Greece	122.37	6	88.68	Europe
Czech Republic	108.94	8	84.91	Europe
Japan	101.59	9	83.02	Asia
Argentina	101.48	10	81.13	Latin America
France	98.62	11	79.25	Europe
Singapore	84.44	12	77.36	Asia
Spain	76.05	13	75.47	Europe
Germany	73.52	14	73.58	Europe
Israel	69.72	15	71.70	the Middle East
Ireland	69.14	16	69.81	Europe
Netherlands	68.84	17	67.92	Europe
Austria	63.09	18	66.04	Europe
Sweden	59.93	19	64.15	Europe
Portugal	57.76	20	62.26	Europe
Taiwan	57.62	21	60.38	Asia
New Zealand	56.84	22	58.49	Oceana
Hong Kong	55.69	23	56.60	Asia
Norway	55.24	24	54.72	Europe
China	**52.36**	**25**	**52.83**	**Asia**
the United Kingdom	52.33	26	50.94	Europe
USA	47.99	27	49.06	North America
Denmark	47.48	28	47.17	Europe
Turkey	45.50	29	45.28	the Middle East
Canada	44.54	30	43.40	North America
Switzerland	43.52	31	41.51	Europe
Finland	42.92	32	39.62	Europe
Chile	42.08	33	37.74	Latin America
Luxembourg	37.63	34	35.85	Europe
Brazil	33.79	35	33.96	Latin America
Malaysia	29.99	36	32.08	Asia
India	26.39	37	30.19	Asia
Australia	22.87	38	28.30	Oceana
Indonesia	21.54	39	26.42	Asia
Russian Federation	16.78	44	16.98	Europe
Hungary	15.08	45	15.09	Europe
South Africa	13.83	46	13.21	Africa
Poland	12.33	47	11.32	Europe
Thailand	11.83	48	9.43	Asia
Philippines	11.42	49	7.55	Asia
Peru	8.74	53	0.00	Latin America

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Current Liabilities - Total
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	187.95	1	96.15
Japan	101.59	2	92.31
Macau	99.98	3	88.46
Singapore	84.44	4	84.62
Taiwan	57.62	5	80.77
Hong Kong	55.69	6	76.92
China	**52.36**	**7**	**73.08**
Brunei	39.30	8	69.23
Malaysia	29.99	9	65.38
India	26.39	10	61.54
Indonesia	21.54	11	57.69
Cambodia	20.02	12	53.85
Maldives	19.64	13	50.00
Laos	19.31	14	46.15
Vietnam	17.52	15	42.31
Sri Lanka	16.92	16	38.46
Papua New Guinea	16.40	17	34.62
Seychelles	15.66	18	30.77
Bangladesh	15.02	19	26.92
Bhutan	14.30	20	23.08
Nepal	12.80	21	19.23
Thailand	11.83	22	15.38
Burma	11.46	23	11.54
Philippines	11.42	24	7.69
Mongolia	10.55	25	3.85
North Korea	8.48	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Long Term Debt

Countries	Value ($K/employee)	Rank	Percentile	Region
South Korea	55.54	1	98.08	Asia
Italy	45.27	2	96.15	Europe
Mexico	44.17	3	94.23	Latin America
Belgium	41.20	4	92.31	Europe
Greece	40.63	6	88.46	Europe
Chile	37.13	7	86.54	Latin America
USA	36.30	8	84.62	North America
Czech Republic	36.17	9	82.69	Europe
Argentina	33.69	10	80.77	Latin America
Japan	31.26	11	78.85	Asia
Sweden	30.39	12	76.92	Europe
Netherlands	27.67	13	75.00	Europe
Finland	26.33	14	73.08	Europe
Germany	25.08	15	71.15	Europe
Norway	22.70	16	69.23	Europe
Portugal	21.10	17	67.31	Europe
France	20.37	18	65.38	Europe
the United Kingdom	19.10	19	63.46	Europe
Canada	15.08	20	61.54	North America
Switzerland	14.52	21	59.62	Europe
India	14.40	22	57.69	Asia
Luxembourg	12.56	23	55.77	Europe
Denmark	12.51	24	53.85	Europe
Austria	11.58	25	51.92	Europe
Turkey	8.86	26	50.00	the Middle East
Brazil	8.19	27	48.08	Latin America
Singapore	8.04	28	46.15	Asia
Australia	6.75	29	44.23	Oceana
Malaysia	3.58	30	42.31	Asia
South Africa	3.41	31	40.38	Africa
China	**2.50**	**33**	**36.54**	**Asia**
Russian Federation	2.50	34	34.62	Europe
Hungary	2.24	35	32.69	Europe
New Zealand	1.90	37	28.85	Oceana
Hong Kong	1.86	38	26.92	Asia
Poland	1.83	39	25.00	Europe
Spain	1.23	41	21.15	Europe
Israel	1.13	42	19.23	the Middle East
Ireland	1.12	43	17.31	Europe
Taiwan	0.93	44	15.38	Asia
Philippines	0.87	45	13.46	Asia
Indonesia	0.07	47	9.62	Asia
Thailand	0.03	49	5.77	Asia
Peru	0.02	52	0.00	Latin America

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Long Term Debt
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	55.54	1	96.15
Macau	33.20	2	92.31
Japan	31.26	3	88.46
India	14.40	4	84.62
Brunei	13.11	5	80.77
Cambodia	10.93	6	76.92
Laos	10.54	7	73.08
Vietnam	9.56	8	69.23
Bangladesh	8.20	9	65.38
Singapore	8.04	10	61.54
Bhutan	7.81	11	57.69
Nepal	6.99	12	53.85
Malaysia	3.58	13	50.00
China	**2.50**	**14**	**46.15**
Seychelles	2.33	15	42.31
Hong Kong	1.86	16	38.46
Papua New Guinea	1.76	17	34.62
Sri Lanka	1.30	18	30.77
Taiwan	0.93	19	26.92
Burma	0.87	20	23.08
Philippines	0.87	21	19.23
Indonesia	0.07	22	15.38
Maldives	0.07	23	11.54
Thailand	0.03	24	7.69
Mongolia	0.02	25	3.85
North Korea	0.02	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Total Liabilities

Countries	Value ($K/employee)	Rank	Percentile	Region
South Korea	288.04	1	98.11	Asia
Belgium	280.15	2	96.23	Europe
Italy	220.97	3	94.34	Europe
Greece	200.73	4	92.45	Europe
Czech Republic	178.70	5	90.57	Europe
Argentina	166.46	6	88.68	Latin America
Mexico	160.38	7	86.79	Latin America
Japan	150.38	8	84.91	Asia
Germany	145.93	10	81.13	Europe
Pakistan	135.09	11	79.25	the Middle East
France	129.86	12	77.36	Europe
Sweden	111.05	13	75.47	Europe
Netherlands	102.13	14	73.58	Europe
USA	100.98	15	71.70	North America
Singapore	98.02	16	69.81	Asia
Austria	91.78	17	67.92	Europe
Norway	89.34	18	66.04	Europe
Spain	82.88	19	64.15	Europe
Portugal	80.51	20	62.26	Europe
Chile	79.28	21	60.38	Latin America
the United Kingdom	78.72	22	58.49	Europe
Israel	75.97	23	56.60	the Middle East
Ireland	75.34	24	54.72	Europe
Switzerland	70.80	25	52.83	Europe
Finland	70.04	26	50.94	Europe
Canada	64.80	27	49.06	North America
Denmark	63.72	28	47.17	Europe
Taiwan	62.78	29	45.28	Asia
Luxembourg	61.23	30	43.40	Europe
Turkey	61.13	31	41.51	the Middle East
New Zealand	58.44	32	39.62	Oceana
Hong Kong	57.27	33	37.74	Asia
China	**55.10**	**34**	**35.85**	**Asia**
Brazil	50.79	35	33.96	Latin America
India	43.72	36	32.08	Asia
Malaysia	34.35	37	30.19	Asia
Indonesia	33.58	38	28.30	Asia
Australia	31.03	40	24.53	Oceana
Russian Federation	19.52	43	18.87	Europe
Hungary	17.54	45	15.09	Europe
South Africa	17.46	46	13.21	Africa
Poland	14.35	47	11.32	Europe
Philippines	13.08	48	9.43	Asia
Thailand	11.85	49	7.55	Asia
Peru	8.76	53	0.00	Latin America

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Total Liabilities
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	288.04	1	96.15
Macau	164.01	2	92.31
Japan	150.38	3	88.46
Singapore	98.02	4	84.62
Brunei	63.94	5	80.77
Taiwan	62.78	6	76.92
Hong Kong	57.27	7	73.08
China	**55.10**	**8**	**69.23**
India	43.72	9	65.38
Malaysia	34.35	10	61.54
Indonesia	33.58	11	57.69
Cambodia	33.18	12	53.85
Laos	31.99	13	50.00
Maldives	30.62	14	46.15
Vietnam	29.03	15	42.31
Bangladesh	24.88	16	38.46
Bhutan	23.70	17	34.62
Nepal	21.21	18	30.77
Sri Lanka	19.37	19	26.92
Papua New Guinea	18.82	20	23.08
Seychelles	18.22	21	19.23
Burma	13.12	22	15.38
Philippines	13.08	23	11.54
Thailand	11.85	24	7.69
Mongolia	10.57	25	3.85
North Korea	8.50	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Common Equity

Countries	Value ($K/employee)	Rank	Percentile	Region
South Korea	154.09	1	98.11	Asia
Chile	117.16	2	96.23	Latin America
Belgium	116.44	3	94.34	Europe
Japan	95.49	4	92.45	Asia
Singapore	74.15	5	90.57	Asia
Mexico	73.21	6	88.68	Latin America
Sweden	66.99	8	84.91	Europe
USA	64.29	9	83.02	North America
Malaysia	64.18	10	81.13	Asia
Pakistan	61.56	11	79.25	the Middle East
Philippines	61.53	12	77.36	Asia
Denmark	57.54	13	75.47	Europe
Spain	56.27	14	73.58	Europe
New Zealand	53.58	15	71.70	Oceana
Canada	53.55	16	69.81	North America
Norway	52.64	17	67.92	Europe
Hong Kong	52.50	18	66.04	Asia
Israel	51.58	20	62.26	the Middle East
Greece	51.35	21	60.38	Europe
Ireland	51.16	22	58.49	Europe
France	50.64	23	56.60	Europe
Italy	49.57	24	54.72	Europe
the United Kingdom	49.03	25	52.83	Europe
Switzerland	48.17	26	50.94	Europe
Germany	48.16	27	49.06	Europe
Australia	46.78	28	47.17	Oceana
Czech Republic	45.71	29	45.28	Europe
China	**44.41**	**30**	**43.40**	**Asia**
Austria	44.11	31	41.51	Europe
Taiwan	42.63	32	39.62	Asia
Argentina	42.58	33	37.74	Latin America
Luxembourg	41.65	34	35.85	Europe
Turkey	40.74	35	33.96	the Middle East
Portugal	39.66	36	32.08	Europe
Finland	34.59	37	30.19	Europe
Brazil	32.47	39	26.42	Latin America
Netherlands	31.46	40	24.53	Europe
India	30.80	41	22.64	Asia
South Africa	27.05	42	20.75	Africa
Thailand	21.59	43	18.87	Asia
Peru	15.95	46	13.21	Latin America
Indonesia	13.89	47	11.32	Asia
Russian Federation	5.02	51	3.77	Europe
Hungary	4.51	52	1.89	Europe
Poland	3.69	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Common Equity
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	154.09	1	96.15
Japan	95.49	2	92.31
Singapore	74.15	3	88.46
Malaysia	64.18	4	84.62
Burma	61.74	5	80.77
Philippines	61.53	6	76.92
Hong Kong	52.50	7	73.08
China	**44.41**	**8**	**69.23**
Brunei	43.50	9	65.38
Taiwan	42.63	10	61.54
Macau	41.95	11	57.69
Papua New Guinea	31.63	12	53.85
India	30.80	13	50.00
Cambodia	23.37	14	46.15
Laos	22.54	15	42.31
Thailand	21.59	16	38.46
Vietnam	20.45	17	34.62
Mongolia	19.26	18	30.77
Bangladesh	17.53	19	26.92
Bhutan	16.70	20	23.08
North Korea	15.48	21	19.23
Nepal	14.94	22	15.38
Indonesia	13.89	23	11.54
Maldives	12.67	24	7.69
Sri Lanka	10.92	25	3.85
Seychelles	4.69	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Retained Earnings

Countries	Value ($K/employee)	Rank	Percentile	Region
Japan	55.03	1	97.87	Asia
USA	42.85	2	95.74	North America
Mexico	42.63	3	93.62	Latin America
Chile	39.39	5	89.36	Latin America
New Zealand	34.58	6	87.23	Oceana
Denmark	34.19	7	85.11	Europe
Hong Kong	33.89	8	82.98	Asia
Singapore	33.48	9	80.85	Asia
Malaysia	31.08	10	78.72	Asia
Canada	30.16	11	76.60	North America
Germany	29.50	12	74.47	Europe
South Korea	22.31	13	72.34	Asia
the United Kingdom	21.66	14	70.21	Europe
Sweden	18.67	15	68.09	Europe
South Africa	18.64	16	65.96	Africa
Finland	17.24	17	63.83	Europe
Austria	15.88	18	61.70	Europe
Philippines	12.92	19	59.57	Asia
Australia	12.21	20	57.45	Oceana
France	10.01	22	53.19	Europe
Italy	8.49	23	51.06	Europe
Spain	4.84	26	44.68	Europe
Israel	4.43	27	42.55	the Middle East
Turkey	4.40	28	40.43	the Middle East
Ireland	4.40	29	38.30	Europe
Switzerland	3.81	30	36.17	Europe
Taiwan	3.66	31	34.04	Asia
Luxembourg	3.29	32	31.91	Europe
China	**3.15**	**33**	**29.79**	**Asia**
Greece	2.77	34	27.66	Europe
Indonesia	2.53	35	25.53	Asia
Czech Republic	2.46	36	23.40	Europe
Argentina	2.30	38	19.15	Latin America
Brazil	1.83	39	17.02	Latin America
India	0.93	40	14.89	Asia
Portugal	0.02	41	12.77	Europe
Pakistan	0.00	42	10.64	the Middle East
Poland	-1.77	43	8.51	Europe
Hungary	-2.16	44	6.38	Europe
Russian Federation	-2.40	45	4.26	Europe
Netherlands	-3.96	47	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Retained Earnings
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
Japan	55.03	1	95.65
Hong Kong	33.89	2	91.30
Singapore	33.48	3	86.96
Malaysia	31.08	4	82.61
South Korea	22.31	5	78.26
Burma	12.97	6	73.91
Philippines	12.92	7	69.57
Sri Lanka	7.06	8	65.22
Papua New Guinea	5.56	9	60.87
Taiwan	3.66	10	56.52
Brunei	3.44	11	52.17
China	**3.15**	**12**	**47.83**
Indonesia	2.53	13	43.48
Maldives	2.31	14	39.13
Macau	2.26	15	34.78
India	0.93	16	30.43
Cambodia	0.71	17	26.09
Laos	0.68	18	21.74
Vietnam	0.62	19	17.39
Bangladesh	0.53	20	13.04
Bhutan	0.51	21	8.70
Nepal	0.45	22	4.35
Seychelles	-2.24	23	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

3.8 PRODUCTIVITY IN CHINA: INCOME-LABOR RATIOS

3.8.1 Overview

In this chapter we consider the income-labor ratios for motor vehicle parts and accessories manufacturing in China benchmarked against global averages. For ratios where there are large deviations between the average firm operating in China and the benchmarks, graphics are provided (sometimes referred to as a "gap" analysis). Then the distribution of ratios is presented in the form of ranks and percentiles. Certain key income-labor ratios are highlighted across countries in the comparison group.

In the case of income-labor ratios, this report maintains comparability over time and across countries by using a common currency (the US dollar) and relates each measure to a "per employee basis". Ratios are projected using raw financial statistics and, as ratios, are therefore comparable. Given a country's human resource ratios, the resulting figures are benchmarked across regional and global averages.

We then report the larger income-labor ratio gaps for motor vehicle parts and accessories manufacturing that China has vis-à-vis the worldwide average. Again, a gap need not be a bad sign. Rather, it is simply a substantial difference that might merit further attention or signal a firm's relative incentive to invest locally. All figures are projections, so due caution is required.

3.8.2 Income to Labor: Outlook

The following tables and graphs are prepared using the methodology described at the beginning of this section. All units are in thousands of US dollars per employee. All figures are current-year projections for motor vehicle parts and accessories manufacturing in China based on latest financial results available.

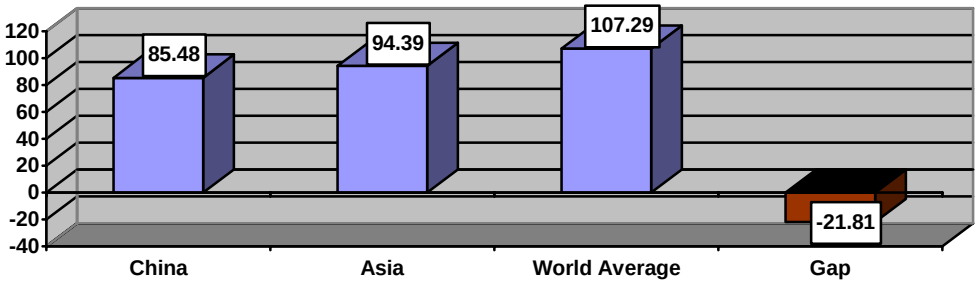
Labor-income Ratios ($k/employee)	**China**	**Asia**	**World Avg.**
Net Sales or Revenues	85.48	94.39	107.29
Cost of Goods Sold (Excluding Depreciation)	63.22	74.04	80.21
Depreciation, Depletion & Amortization	3.44	3.96	4.60
Gross Income	**18.82**	**14.62**	**17.46**
Selling, General & Administrative Expenses	13.55	11.51	9.17
Other Operating Expenses	91.06	98.63	101.73
Operating Expenses - Total	1.12	3.65	2.85
Operating Income	**6.39**	**5.94**	**7.49**
Extraordinary Credit - Pretax	0.00	0.30	0.21
Extraordinary Charge - Pretax	0.11	0.71	0.57
Non-Operating Interest Income	0.75	0.62	0.93
Pretax Equity In Earnings	-0.15	0.06	0.04
Other Income/Expense Net	0.46	1.75	1.60
Earnings Before Interest and Taxes (EBIT)	**7.14**	**7.84**	**9.51**
Interest Expense on Debt	0.97	1.52	2.26
Pretax Income	**6.17**	**6.32**	**7.30**
Income Taxes	1.20	1.81	2.28
Current Domestic Income Tax	1.95	1.67	2.23
Deferred Domestic Income Tax	-0.52	0.02	-0.09
Minority Interest	0.46	0.33	0.19
Net Income Before Extra Items/Prefer Dividends	4.50	4.43	5.00
Extraordinary Items & Gain/Loss Sale Of Assets	-0.02	-0.04	-0.11
Net Income Before Preferred Dividends	4.48	4.39	4.88
Net Income Available to Common	**4.50**	**4.42**	**4.99**

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

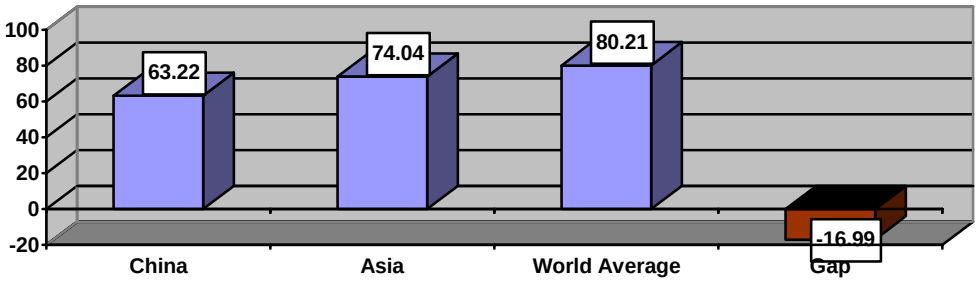
3.8.3 Income to Labor: Gaps

The following graphics summarize for motor vehicle parts and accessories manufacturing the large labor-income gaps between firms operating in China and the world average. A gap cannot necessarily be interpreted as a positive or negative reflection on performance. Gaps may signal areas of specialization, market focus, or expertise. More contextual information is required to fully interpret these gaps. The gaps highlighted here are simply those that are large.

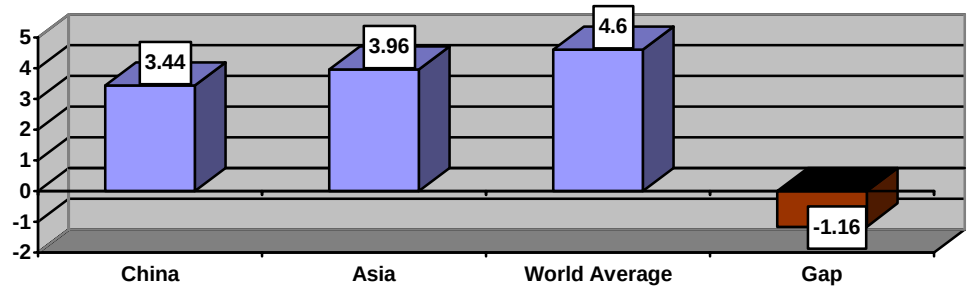
Gap: Net Sales or Revenues ($k/employee)



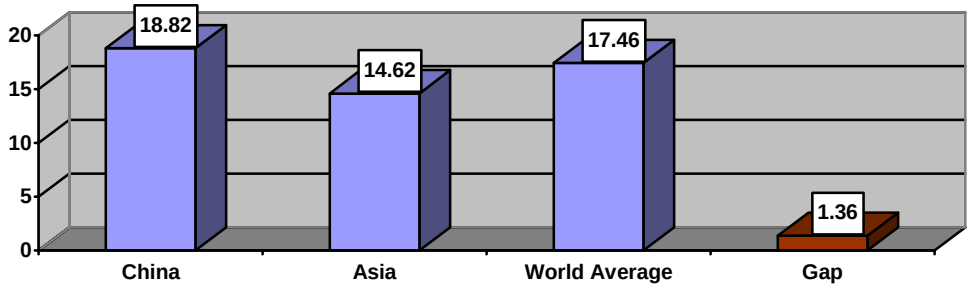
Gap: Cost of Goods Sold (Excluding Depreciation) ($k/employee)



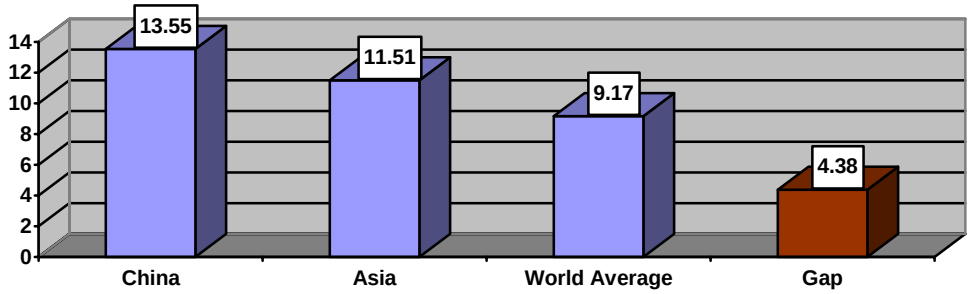
Gap: Depreciation, Depletion & Amortization ($k/employee)



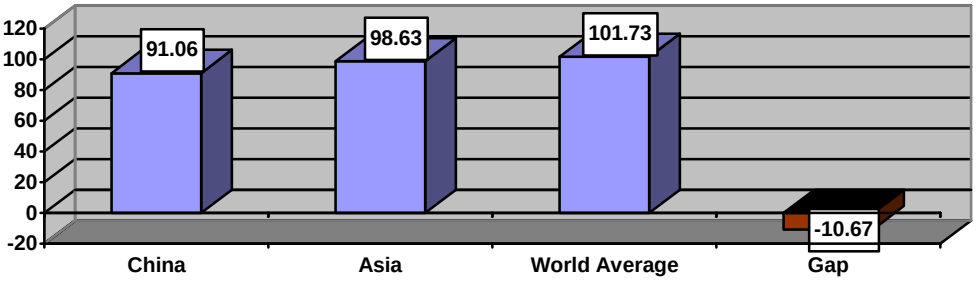
Gap: Gross Income ($k/employee)



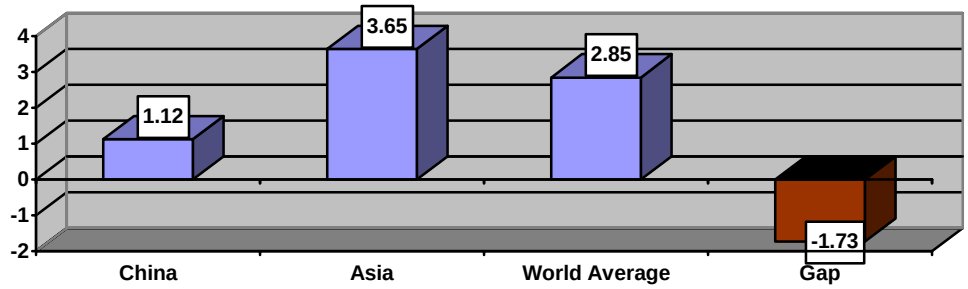
Gap: Selling, General & Administrative Expenses ($k/employee)



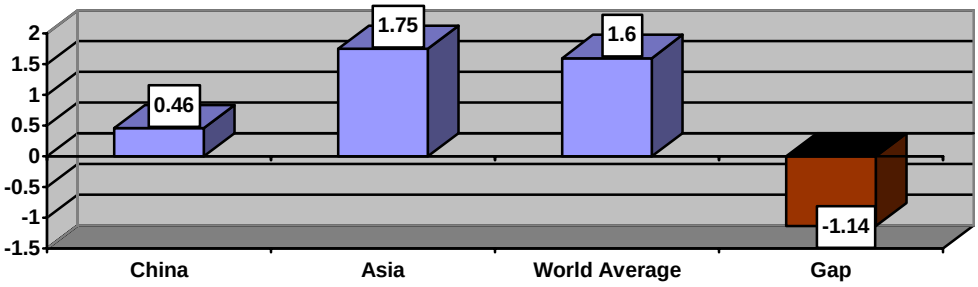
Gap: Other Operating Expenses ($k/employee)



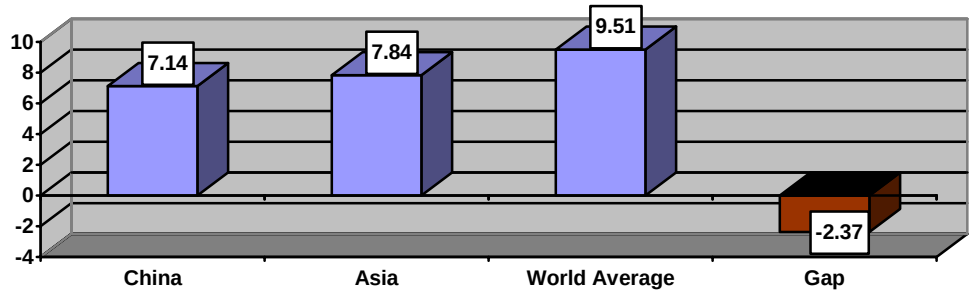
Gap: Operating Expenses - Total ($k/employee)



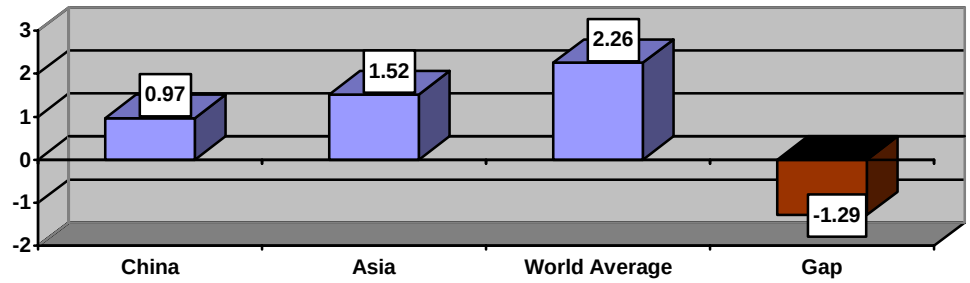
Gap: Other Income/Expense Net ($k/employee)



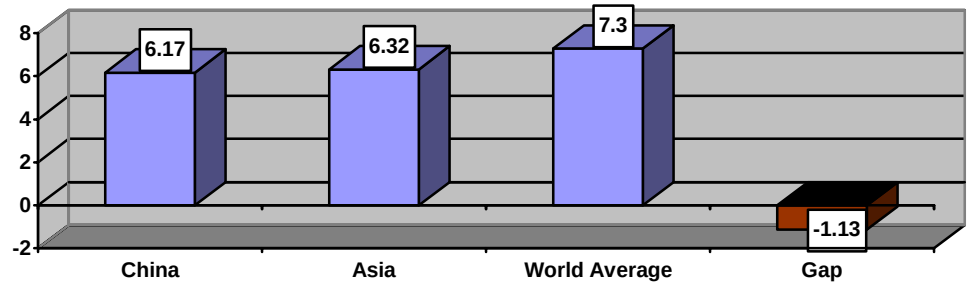
Gap: Earnings Before Interest and Taxes (EBIT) ($k/employee)



Gap: Interest Expense on Debt ($k/employee)



Gap: Pretax Income ($k/employee)



3.8.4 Key Percentiles and Rankings

We now consider the distribution of income-labor ratios using ranks and percentiles across . What percent of countries have a value lower or higher than China (what is the ratio's rank or percentile)? The table below answers this question with respect to income-labor ratios. The ranks and percentiles indicate, from highest to lowest, where a value falls within the distribution of all countries considered in the global benchmark (the number of countries in the benchmark per line item may vary, as indicated in the Rank). Again, a high or low figure does not necessarily indicate good or bad performance or productivity. After the summary table below, a few key income-labor ratios are highlighted in additional tables.

Income Structure ($k/employee)	**China**	**Rank of Total**	**Percentile**
Net Sales or Revenues	85.48	36 of 53	32.08
Cost of Goods Sold (Excluding Depreciation)	63.22	35 of 53	33.96
Depreciation, Depletion & Amortization	3.44	33 of 53	37.74
Gross Income	**18.82**	**31 of 53**	**41.51**
Selling, General & Administrative Expenses	13.55	21 of 36	41.67
Other Operating Expenses	91.06	33 of 52	36.54
Operating Expenses - Total	1.12	29 of 41	29.27
Operating Income	**6.39**	**27 of 53**	**49.06**
Extraordinary Credit - Pretax	0.00	27 of 28	3.57
Extraordinary Charge - Pretax	0.11	27 of 31	12.90
Non-Operating Interest Income	0.75	23 of 47	51.06
Pretax Equity In Earnings	-0.15	23 of 24	4.17
Other Income/Expense Net	**0.46**	**33 of 53**	**37.74**
Earnings Before Interest and Taxes (EBIT)	**7.14**	**32 of 53**	**39.62**
Interest Expense on Debt	0.97	39 of 53	26.42
Pretax Income	**6.17**	**30 of 53**	**43.40**
Income Taxes	1.20	36 of 53	32.08
Current Domestic Income Tax	1.95	19 of 29	34.48
Deferred Domestic Income Tax	-0.52	25 of 30	16.67
Minority Interest	0.46	9 of 43	79.07
Net Income Before Extra Items/Prefer Dividends	4.50	26 of 53	50.94
Extraordinary Items & Gain/Loss Sale Of Assets	-0.02	7 of 12	41.67
Net Income Before Preferred Dividends	4.48	28 of 53	47.17
Net Income Available to Common	**4.50**	**26 of 53**	**50.94**

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Cost of Goods Sold (Excluding Depreciation)

Countries	Value ($K/employee)	Rank	Percentile	Region
South Korea	407.84	1	98.11	Asia
Belgium	317.71	2	96.23	Europe
Spain	293.11	3	94.34	Europe
Israel	268.69	4	92.45	the Middle East
Ireland	266.46	5	90.57	Europe
Pakistan	222.65	6	88.68	the Middle East
Taiwan	222.05	7	86.79	Asia
Japan	221.52	8	84.91	Asia
Canada	189.31	9	83.02	North America
Norway	174.25	10	81.13	Europe
Germany	163.81	11	79.25	Europe
Finland	158.34	12	77.36	Europe
Netherlands	155.40	13	75.47	Europe
Greece	148.80	14	73.58	Europe
Denmark	145.09	15	71.70	Europe
France	142.89	16	69.81	Europe
Italy	141.25	17	67.92	Europe
Austria	140.93	18	66.04	Europe
USA	139.93	19	64.15	North America
Sweden	136.46	20	62.26	Europe
Portugal	135.39	21	60.38	Europe
Czech Republic	132.47	22	58.49	Europe
Argentina	123.39	23	56.60	Latin America
Switzerland	117.84	24	54.72	Europe
the United Kingdom	116.32	25	52.83	Europe
Luxembourg	101.91	26	50.94	Europe
South Africa	96.47	27	49.06	Africa
Turkey	93.96	28	47.17	the Middle East
Singapore	91.85	29	45.28	Asia
Australia	90.35	30	43.40	Oceana
Malaysia	67.11	31	41.51	Asia
New Zealand	66.13	32	39.62	Oceana
India	64.85	33	37.74	Asia
Hong Kong	64.80	34	35.85	Asia
China	**63.22**	**35**	**33.96**	**Asia**
Chile	60.97	36	32.08	Latin America
Brazil	52.47	37	30.19	Latin America
Indonesia	47.16	38	28.30	Asia
Mexico	45.51	39	26.42	Latin America
Russian Federation	31.61	44	16.98	Europe
Hungary	28.40	45	15.09	Europe
Poland	23.23	47	11.32	Europe
Thailand	16.99	48	9.43	Asia
Philippines	12.79	51	3.77	Asia
Peru	12.56	52	1.89	Latin America

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Cost of Goods Sold (Excluding Depreciation)
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	407.84	1	96.15
Taiwan	222.05	2	92.31
Japan	221.52	3	88.46
Macau	121.58	4	84.62
Brunei	106.41	5	80.77
Singapore	91.85	6	76.92
Malaysia	67.11	7	73.08
India	64.85	8	69.23
Hong Kong	64.80	9	65.38
China	**63.22**	**10**	**61.54**
Cambodia	49.21	11	57.69
Laos	47.45	12	53.85
Indonesia	47.16	13	50.00
Vietnam	43.06	14	46.15
Maldives	43.00	15	42.31
Papua New Guinea	37.52	16	38.46
Bangladesh	36.91	17	34.62
Bhutan	35.15	18	30.77
Nepal	31.46	19	26.92
Seychelles	29.50	20	23.08
Sri Lanka	23.29	21	19.23
Thailand	16.99	22	15.38
Mongolia	15.16	23	11.54
Burma	12.84	24	7.69
Philippines	12.79	25	3.85
North Korea	12.19	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Selling, General & Administrative Expenses

Countries	Value ($K/employee)	Rank	Percentile	Region
Belgium	79.48	1	97.22	Europe
Italy	51.63	2	94.44	Europe
Germany	38.20	3	91.67	Europe
Sweden	35.52	4	88.89	Europe
Japan	33.78	5	86.11	Asia
France	33.28	6	83.33	Europe
South Korea	32.91	7	80.56	Asia
the United Kingdom	29.43	8	77.78	Europe
Norway	25.89	9	75.00	Europe
Netherlands	25.51	10	72.22	Europe
USA	23.93	11	69.44	North America
Greece	23.91	12	66.67	Europe
Austria	22.10	13	63.89	Europe
Czech Republic	21.29	14	61.11	Europe
Turkey	20.38	15	58.33	the Middle East
Argentina	19.83	16	55.56	Latin America
Canada	17.14	17	52.78	North America
New Zealand	14.83	18	50.00	Oceana
Hong Kong	14.53	19	47.22	Asia
Chile	14.17	20	44.44	Latin America
China	**13.55**	**21**	**41.67**	**Asia**
Brazil	10.58	22	38.89	Latin America
South Africa	8.71	23	36.11	Africa
Mexico	8.40	24	33.33	Latin America
Malaysia	8.03	25	30.56	Asia
Singapore	6.90	27	25.00	Asia
Thailand	5.85	28	22.22	Asia
Pakistan	5.61	29	19.44	the Middle East
Australia	4.98	30	16.67	Oceana
Peru	4.32	33	8.33	Latin America
Indonesia	1.12	35	2.78	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Selling, General & Administrative Expenses (Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
Japan	33.78	1	92.31
South Korea	32.91	2	84.62
Macau	19.54	3	76.92
Hong Kong	14.53	4	69.23
China	**13.55**	**5**	**61.54**
Malaysia	8.03	6	53.85
Singapore	6.90	7	46.15
Thailand	5.85	8	38.46
Mongolia	5.22	9	30.77
North Korea	4.20	10	23.08
Sri Lanka	3.03	11	15.38
Indonesia	1.12	12	7.69
Maldives	1.02	13	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Operating Expenses - Total

Countries	Value ($K/employee)	Rank	Percentile	Region
Spain	36.57	1	97.56	Europe
Israel	33.52	2	95.12	the Middle East
Finland	33.39	3	92.68	Europe
Ireland	33.25	4	90.24	Europe
Taiwan	27.70	5	87.80	Asia
Denmark	27.00	6	85.37	Europe
Switzerland	22.83	7	82.93	Europe
Australia	22.36	8	80.49	Oceana
Austria	21.42	9	78.05	Europe
Germany	20.05	10	75.61	Europe
Luxembourg	19.74	11	73.17	Europe
Italy	16.73	12	70.73	Europe
Portugal	16.46	13	68.29	Europe
France	11.59	14	65.85	Europe
Netherlands	7.81	15	63.41	Europe
Singapore	5.14	16	60.98	Asia
Philippines	4.41	18	56.10	Asia
India	4.10	19	53.66	Asia
Belgium	4.10	20	51.22	Europe
Sweden	3.64	22	46.34	Europe
Pakistan	3.22	23	43.90	the Middle East
Brazil	2.62	24	41.46	Latin America
Malaysia	1.35	25	39.02	Asia
South Korea	1.30	26	36.59	Asia
New Zealand	1.24	27	34.15	Oceana
Hong Kong	1.22	28	31.71	Asia
China	**1.12**	**29**	**29.27**	**Asia**
the United Kingdom	0.97	30	26.83	Europe
USA	0.45	31	24.39	North America
Japan	0.35	32	21.95	Asia
Canada	0.30	33	19.51	North America
Greece	0.18	34	17.07	Europe
Czech Republic	0.16	35	14.63	Europe
South Africa	0.16	36	12.20	Africa
Argentina	0.15	37	9.76	Latin America
Poland	-0.62	38	7.32	Europe
Hungary	-0.76	39	4.88	Europe
Russian Federation	-0.84	40	2.44	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Operating Expenses - Total
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
Taiwan	27.70	1	95.00
Brunei	20.61	2	90.00
Singapore	5.14	3	85.00
Papua New Guinea	4.69	4	80.00
Burma	4.43	5	75.00
Philippines	4.41	6	70.00
India	4.10	7	65.00
Cambodia	3.11	8	60.00
Laos	3.00	9	55.00
Vietnam	2.72	10	50.00
Bangladesh	2.33	11	45.00
Bhutan	2.22	12	40.00
Nepal	1.99	13	35.00
Malaysia	1.35	14	30.00
South Korea	1.30	15	25.00
Hong Kong	1.22	16	20.00
China	**1.12**	**17**	**15.00**
Japan	0.35	18	10.00
Macau	0.15	19	5.00
Seychelles	-0.79	20	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Operating Income

Countries	Value ($K/employee)	Rank	Percentile	Region
Pakistan	23.94	1	98.11	the Middle East
South Korea	21.31	2	96.23	Asia
USA	14.17	3	94.34	North America
Brazil	13.94	4	92.45	Latin America
Canada	12.37	5	90.57	North America
New Zealand	12.02	6	88.68	Oceana
Hong Kong	11.78	7	86.79	Asia
France	11.74	8	84.91	Europe
Sweden	10.84	9	83.02	Europe
Greece	10.62	10	81.13	Europe
Switzerland	10.57	11	79.25	Europe
Mexico	10.50	12	77.36	Latin America
Norway	10.30	13	75.47	Europe
Belgium	10.08	14	73.58	Europe
the United Kingdom	10.08	15	71.70	Europe
Japan	9.69	17	67.92	Asia
Czech Republic	9.46	19	64.15	Europe
India	9.44	20	62.26	Asia
Malaysia	9.18	21	60.38	Asia
Luxembourg	9.14	22	58.49	Europe
Argentina	8.81	23	56.60	Latin America
Singapore	8.04	24	54.72	Asia
Australia	7.95	25	52.83	Oceana
Denmark	7.86	26	50.94	Europe
China	**6.39**	**27**	**49.06**	**Asia**
Germany	6.32	28	47.17	Europe
Chile	6.24	29	45.28	Latin America
Austria	5.84	30	43.40	Europe
Italy	4.71	31	41.51	Europe
Turkey	3.24	32	39.62	the Middle East
South Africa	3.23	33	37.74	Africa
Thailand	3.18	34	35.85	Asia
Netherlands	3.12	35	33.96	Europe
Peru	2.35	38	28.30	Latin America
Russian Federation	2.02	40	24.53	Europe
Hungary	1.82	42	20.75	Europe
Poland	1.49	43	18.87	Europe
Finland	1.20	44	16.98	Europe
Philippines	1.00	45	15.09	Asia
Indonesia	0.88	46	13.21	Asia
Spain	0.66	49	7.55	Europe
Israel	0.60	50	5.66	the Middle East
Ireland	0.60	51	3.77	Europe
Taiwan	0.50	52	1.89	Asia
Portugal	-5.06	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Operating Income
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	21.31	1	96.15
Hong Kong	11.78	2	92.31
Japan	9.69	3	88.46
Brunei	9.54	4	84.62
India	9.44	5	80.77
Malaysia	9.18	6	76.92
Papua New Guinea	8.73	7	73.08
Macau	8.68	8	69.23
Singapore	8.04	9	65.38
Cambodia	7.16	10	61.54
Laos	6.90	11	57.69
China	**6.39**	**12**	**53.85**
Vietnam	6.27	13	50.00
Bangladesh	5.37	14	46.15
Bhutan	5.11	15	42.31
Nepal	4.58	16	38.46
Thailand	3.18	17	34.62
Mongolia	2.84	18	30.77
North Korea	2.28	19	26.92
Sri Lanka	1.99	20	23.08
Seychelles	1.89	21	19.23
Burma	1.01	22	15.38
Philippines	1.00	23	11.54
Indonesia	0.88	24	7.69
Maldives	0.80	25	3.85
Taiwan	0.50	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Earnings Before Interest and Taxes (EBIT)

Countries	Value ($K/employee)	Rank	Percentile	Region
South Korea	36.44	1	98.11	Asia
Pakistan	26.67	2	96.23	the Middle East
Chile	18.35	3	94.34	Latin America
Brazil	17.15	4	92.45	Latin America
Mexico	16.27	5	90.57	Latin America
Greece	16.17	6	88.68	Europe
Sweden	15.15	7	86.79	Europe
Czech Republic	14.40	9	83.02	Europe
France	14.35	10	81.13	Europe
Belgium	14.33	11	79.25	Europe
Argentina	13.41	12	77.36	Latin America
USA	13.19	13	75.47	North America
Germany	13.10	14	73.58	Europe
Norway	12.98	16	69.81	Europe
New Zealand	12.59	17	67.92	Oceana
Hong Kong	12.34	18	66.04	Asia
Turkey	11.99	19	64.15	the Middle East
India	11.87	20	62.26	Asia
Austria	11.75	21	60.38	Europe
Denmark	11.30	22	58.49	Europe
Singapore	10.71	23	56.60	Asia
the United Kingdom	10.67	24	54.72	Europe
Canada	10.26	25	52.83	North America
Malaysia	10.07	26	50.94	Asia
Switzerland	9.51	27	49.06	Europe
Australia	8.53	28	47.17	Oceana
Italy	8.38	29	45.28	Europe
Luxembourg	8.22	30	43.40	Europe
Japan	8.03	31	41.51	Asia
China	**7.14**	**32**	**39.62**	**Asia**
Thailand	6.35	33	37.74	Asia
Spain	5.18	35	33.96	Europe
Israel	4.75	37	30.19	the Middle East
Ireland	4.71	38	28.30	Europe
Peru	4.69	39	26.42	Latin America
Taiwan	3.92	40	24.53	Asia
South Africa	3.89	41	22.64	Africa
Portugal	3.69	42	20.75	Europe
Netherlands	2.38	43	18.87	Europe
Philippines	1.63	45	15.09	Asia
Finland	1.62	46	13.21	Europe
Indonesia	1.37	48	9.43	Asia
Russian Federation	0.27	51	3.77	Europe
Hungary	0.24	52	1.89	Europe
Poland	0.20	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Earnings Before Interest and Taxes (EBIT) (Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	36.44	1	96.15
Macau	13.22	2	92.31
Hong Kong	12.34	3	88.46
Papua New Guinea	11.95	4	84.62
India	11.87	5	80.77
Singapore	10.71	6	76.92
Malaysia	10.07	7	73.08
Cambodia	9.01	8	69.23
Laos	8.68	9	65.38
Brunei	8.59	10	61.54
Japan	8.03	11	57.69
Vietnam	7.88	12	53.85
China	**7.14**	**13**	**50.00**
Bangladesh	6.75	14	46.15
Bhutan	6.43	15	42.31
Thailand	6.35	16	38.46
Nepal	5.76	17	34.62
Mongolia	5.67	18	30.77
North Korea	4.55	19	26.92
Taiwan	3.92	20	23.08
Sri Lanka	2.30	21	19.23
Burma	1.64	22	15.38
Philippines	1.63	23	11.54
Indonesia	1.37	24	7.69
Maldives	1.25	25	3.85
Seychelles	0.25	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Pretax Income

Countries	Value ($K/employee)	Rank	Percentile	Region
Pakistan	25.95	1	98.11	the Middle East
South Korea	21.96	2	96.23	Asia
France	12.27	4	92.45	Europe
Sweden	11.93	5	90.57	Europe
New Zealand	11.58	6	88.68	Oceana
Hong Kong	11.34	7	86.79	Asia
Greece	11.10	8	84.91	Europe
USA	10.81	9	83.02	North America
Norway	10.68	10	81.13	Europe
Germany	10.47	11	79.25	Europe
Singapore	9.99	12	77.36	Asia
Czech Republic	9.89	13	75.47	Europe
India	9.80	14	73.58	Asia
Brazil	9.51	15	71.70	Latin America
Malaysia	9.40	16	69.81	Asia
Argentina	9.21	17	67.92	Latin America
Mexico	9.03	18	66.04	Latin America
Chile	8.70	19	64.15	Latin America
Belgium	8.66	20	62.26	Europe
Canada	8.59	21	60.38	North America
the United Kingdom	8.49	22	58.49	Europe
Denmark	8.13	24	54.72	Europe
Switzerland	7.96	25	52.83	Europe
Austria	7.95	26	50.94	Europe
Australia	7.68	27	49.06	Oceana
Luxembourg	6.89	28	47.17	Europe
Japan	6.67	29	45.28	Asia
China	**6.17**	**30**	**43.40**	**Asia**
Thailand	5.89	31	41.51	Asia
Peru	4.35	34	35.85	Latin America
Spain	3.80	35	33.96	Europe
Israel	3.48	36	32.08	the Middle East
Ireland	3.45	37	30.19	Europe
Italy	3.43	38	28.30	Europe
Taiwan	2.88	39	26.42	Asia
South Africa	2.63	40	24.53	Africa
Turkey	2.37	41	22.64	the Middle East
Philippines	1.38	43	18.87	Asia
Indonesia	1.33	44	16.98	Asia
Portugal	1.23	46	13.21	Europe
Finland	-0.23	48	9.43	Europe
Poland	-0.84	49	7.55	Europe
Hungary	-1.02	50	5.66	Europe
Russian Federation	-1.14	51	3.77	Europe
Netherlands	-1.52	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Pretax Income
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	21.96	1	96.15
Papua New Guinea	11.73	2	92.31
Hong Kong	11.34	3	88.46
Singapore	9.99	4	84.62
India	9.80	5	80.77
Malaysia	9.40	6	76.92
Macau	9.07	7	73.08
Cambodia	7.44	8	69.23
Brunei	7.19	9	65.38
Laos	7.17	10	61.54
Japan	6.67	11	57.69
Vietnam	6.51	12	53.85
China	**6.17**	**13**	**50.00**
Thailand	5.89	14	46.15
Bangladesh	5.58	15	42.31
Bhutan	5.31	16	38.46
Mongolia	5.25	17	34.62
Nepal	4.75	18	30.77
North Korea	4.22	19	26.92
Taiwan	2.88	20	23.08
Sri Lanka	1.75	21	19.23
Burma	1.39	22	15.38
Philippines	1.38	23	11.54
Indonesia	1.33	24	7.69
Maldives	1.22	25	3.85
Seychelles	-1.06	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Income Taxes

Countries	Value ($K/employee)	Rank	Percentile	Region
Pakistan	8.97	1	98.11	the Middle East
Greece	6.08	2	96.23	Europe
South Korea	5.73	3	94.34	Asia
Czech Republic	5.42	4	92.45	Europe
Norway	5.11	5	90.57	Europe
Argentina	5.05	6	88.68	Latin America
Germany	4.18	7	86.79	Europe
France	3.78	8	84.91	Europe
USA	3.60	9	83.02	North America
India	3.46	10	81.13	Asia
Sweden	3.45	11	79.25	Europe
Denmark	3.35	12	77.36	Europe
Switzerland	3.34	13	75.47	Europe
the United Kingdom	3.13	14	73.58	Europe
Brazil	3.12	15	71.70	Latin America
Japan	3.07	16	69.81	Asia
Mexico	3.04	18	66.04	Latin America
Luxembourg	2.89	19	64.15	Europe
Italy	2.79	21	60.38	Europe
Australia	2.65	22	58.49	Oceana
Finland	2.51	23	56.60	Europe
Canada	2.50	24	54.72	North America
Malaysia	2.37	25	52.83	Asia
Austria	2.03	26	50.94	Europe
Singapore	1.72	27	49.06	Asia
Belgium	1.61	28	47.17	Europe
New Zealand	1.51	29	45.28	Oceana
Hong Kong	1.48	30	43.40	Asia
Chile	1.47	31	41.51	Latin America
Spain	1.36	32	39.62	Europe
Turkey	1.28	33	37.74	the Middle East
Israel	1.24	34	35.85	the Middle East
Ireland	1.23	35	33.96	Europe
China	**1.20**	**36**	**32.08**	**Asia**
Taiwan	1.03	37	30.19	Asia
Portugal	1.00	38	28.30	Europe
Thailand	0.57	39	26.42	Asia
Peru	0.42	42	20.75	Latin America
Philippines	0.38	43	18.87	Asia
Indonesia	0.33	44	16.98	Asia
Netherlands	0.28	48	9.43	Europe
South Africa	0.27	49	7.55	Africa
Russian Federation	0.09	51	3.77	Europe
Hungary	0.08	52	1.89	Europe
Poland	0.07	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

Income Taxes
(Motor Vehicle Parts and Accessories Manufacturing)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	5.73	1	96.15
Macau	4.97	2	92.31
India	3.46	3	88.46
Japan	3.07	4	84.62
Brunei	3.02	5	80.77
Papua New Guinea	2.82	6	76.92
Cambodia	2.63	7	73.08
Laos	2.53	8	69.23
Malaysia	2.37	9	65.38
Vietnam	2.30	10	61.54
Bangladesh	1.97	11	57.69
Bhutan	1.88	12	53.85
Singapore	1.72	13	50.00
Nepal	1.68	14	46.15
Hong Kong	1.48	15	42.31
China	**1.20**	**16**	**38.46**
Taiwan	1.03	17	34.62
Thailand	0.57	18	30.77
Mongolia	0.51	19	26.92
North Korea	0.41	20	23.08
Burma	0.38	21	19.23
Philippines	0.38	22	15.38
Indonesia	0.33	23	11.54
Sri Lanka	0.30	24	7.69
Maldives	0.30	25	3.85
Seychelles	0.09	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2004

4 MACRO-ACCESSIBILITY IN CHINA

4.1 EXECUTIVE SUMMARY

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

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

- China often lacks predictability in its business environment. Predictability can be provided by a transparent and consistent body of laws and regulations. China lacks both. Its current legal and regulatory system can be opaque, inconsistent, and often arbitrary.
- China has a government that tends to be mercantilist. China has made significant progress toward a market-oriented economy, but parts of its bureaucracy still tend to protect local firms and state-owned firms from imports, while encouraging exports. WTO accession will certainly help in this area as well.
- China has the remnants of a planned economy. In many sectors of the Chinese business community, the understanding of free enterprise and competition is incomplete. The Chinese economy is often prone to over-investment and over-production, for reasons not related to supply and demand.
- Foreign businesses have tended to underestimate the challenges of establishing operations in China. Encouraged by a government eager for foreign capital and technology, and entranced by the prospect of 1.3 billion consumers, thousands of foreign firms have charged into the Chinese market. These companies often do not fully investigate the market situation, don't perform the necessary risk assessment, and fail to get counsel. Without the necessary preparation, these companies often stumble into bad business deals, resulting in trade complaints and lost investments.

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

4.2 GOVERNMENT INTERVENTION RISKS

Although China's private sector has grown tremendously since economic reforms began in 1979, state-owned or state-controlled entities continue to play the leading role in the Chinese economy. For example, traditional state-owned enterprises and corporations with majority of shares held by the state accounted for just under 42 percent of gross industrial output for the year. In addition, the Chinese Communist Party maintains its authority to oversee economic policies as well as managerial appointments in all financial institutions and major industrial enterprises. Although the authorities' long-term plan is to sell all or part of the government share in most state-owned enterprises and financial institutions to the public, ultimate control over managers of these assets will remain in the hands of the Party. Leading officials and bureaucratic institutions also maintain substantial authority to approve or deny investment decisions by enterprises and individuals.

Although direct price controls on most commodities have been eliminated, prices for thirteen broad categories of items, including electric power, transportation, telecommunications, and some services, remain subject to varying degrees of government "guidance." Petroleum prices have generally been allowed to fluctuate in accord with the international market. The government sets all interest rates and fees at financial institutions, distorting the cost of capital and preventing banks and other institutions from using interest rates as a way to adjust for risk.

4.3 INFRASTRUCTURE INVESTMENT

Although the government is no longer explicitly pursuing a tight credit policy to quell inflation, its efforts to improve the asset quality of the state-owned banking system effectively limits the kinds of projects which receive official approval and which the banks will finance. Private firms, in particular, still have serious difficulties in raising capital. State-sponsored infrastructure projects are seen as "safe" investments for domestic financial organs. Financing for key projects comes from an increasing variety of sources, including special construction funds, surcharges on power and other utilities, provincial and local government budgets, as well as domestic loans from the China Development Bank and other banks.

Chinese officials have said they would prefer roughly 15-20 percent of infrastructure investment to come from foreign sources, but shifting foreign investment away from export-oriented industries presents some difficulties. Infrastructure investments have long payback periods, with no ready source of foreign exchange. Policies designed to attract foreign investment, notably those inspired by the central government's "Great Western Development Strategy," have tended to emphasize land-use and tax incentives without addressing more fundamental problems in the investment environment. China's weak legal structure, failure to enforce contracts and court decisions, restricted access to foreign exchange, and the cumbersome approval process work against foreign participation in infrastructure projects, particularly in the road, rail and power sectors. The regulatory impediments to foreign involvement in infrastructure projects are gradually disappearing. For example, changes in rules governing current account transactions have gone a long way toward solving the problem of guaranteeing foreign exchange convertibility.

Infrastructure development in the telecommunications sector remains strong and China now boasts the largest wireline and wireless networks in the world. The Chinese Government's policies have contributed to this growth. They have made telecom and IT development a national priority and enacted preferential policy initiatives to promote telecommunications modernization throughout the country. In addition, technological advances have contributed to network expansion by making better equipment available at lower prices.

4.4 POLITICAL RISKS

Although there has been considerable reform of China's economic model - from a centrally planned economy to a market-oriented one - the same is far less true of the PRC's (People's Republic of China) political system. The Chinese Communist Party (CCP) still dominates the entire political apparatus, and its leaders make all major policy decisions. Party members hold most senior government positions at all levels of administration. Ultimate authority rests with the 24 members of the CCP Politburo and, in particular, its nine-member Standing Committee. Ministries and lower-level counterparts implement policy on a day-to-day basis, and China's parliament, the National People's Congress (NPC), reviews and approves legislation and nominees for government offices. Many provincial governments - especially those in fast-growing coastal regions - actively adapt central government policy decisions to suit local needs. Senior leaders generally agree on the need for further economic reform, but stability remains the paramount concern, and differences exist within the leadership over the content, pace, and goals of both economic and political reform.

China faces a growing disconnect between the demands of its reforming economy and society and a political system that is largely ill-suited to meet their needs. The growing disparity between urban and rural incomes, income gaps between the wealthy coastal regions and the poor interior, a large "floating population" of itinerant workers, mounting unemployment created as State-Owned Enterprises restructure and downsize, and official corruption are the chief potential threats to stability. So far, none has prompted the kind of mass protest movement that erupted in Beijing in the spring of 1989, although a number of localized large-scale labor protests occurred in 2002. The central authorities prefer to minimize tensions through the implementation of pragmatic policies. They also recognize that moves to reduce personal and economic freedoms would harm China's long-term interests. Nonetheless, the national leadership would respond forcefully if confronted with what it regarded as another serious threat to its monopoly on political power, as it did after approximately 10,000 members of the Falun Gong spiritual movement appeared outside the leadership compound in Beijing in April 1999. As evidenced by harsh sentences handed down to labor activists and Internet dissidents in May and June 2003, the new leadership appears to be placing a strong emphasis on stability and perceived threats to power.

Political relations with the U.S. temporarily deteriorated following the accidental bombing of the Chinese Embassy in Belgrade, Yugoslavia, in May 1999 and again following the collision of a U.S. EP-3 reconnaissance aircraft and a Chinese fighter in international airspace in April 2001. Bilateral relations have gradually recovered from both incidents. China came out firmly in support of the United States following the September 11 terrorist attacks. Relations further improved with the October 2001 and February 2002 visits by President Bush to China and the October 2002 visit of then President Jiang Zemin to the United States. Differences, however, remain between the U.S. and Chinese governments on some political issues, such as nonproliferation and human rights, and these will continue to color the relationship.

4.5 MARKETING STRATEGIES

4.5.1 Distribution Channel Options

Before China's accession to the WTO, China prohibited foreign companies from distributing imported products or providing repair and maintenance services. Since WTO implementation, China has worked towards liberalizing its distribution system to provide full distribution rights for U.S. firms. However, this is an issue still very much in debate and with much improvement to be made. Current restrictions for most distribution related services are to be phased-out within three years from the date of accession, although the schedule of commitment until that time remains according to the service, (for more information on China's commitments on the WTO, please refer to the U.S. Embassy Web site links to the Economic Section and Trade and Commerce at: **www.usembassy-china.org.cn**).

Trading and distribution are two separate issues and are, accordingly, covered separately by the WTO implementation documents. Trading simply covers the rights to import and export product into and from China. Distribution, on the other hand, covers the sale/resale of products once the products are in China.

Trading Companies

One of the legal changes as a result of WTO was the release in July of 2001 of the Expanding Import and Export Management Rights of Foreign Invested Enterprises (FIEs) rule. Prior to WTO accession, FIEs always had the rights to import materials needed for production and export the products they produced. The rule was designed to allow manufacturing FIEs to become export trading companies, purchasing and exporting any products free from quotas, license control and government monopoly. This is the first step towards implementing China's commitment to liberalize trading rights. FIEs in foreign trade zones are now allowed to establish offices outside the zones, which will enable FIEs to establish distribution networks across the country before the phase-in of the distribution rights. China's WTO implementing documents state that 3 years after China's WTO accession, all Chinese companies that have RMB 1 million in capitalization and are registered, can obtain an import/export license.

The law was to cover the establishment of FIE service suppliers (distribution companies) on December 11, 2002, but then only through joint ventures in which an FIE has a minority stake. However, this did not happen. The Chinese government maintains that as FIEs can set up wholesaling and retailing companies that they meet their requirements. It is unclear at this time whether FIEs will be able to distribute products they do not manufacture in China or whether the foreign invested would need to establish a minority foreign-owned distributor.

Distribution

As we continue to wait for distribution rights to become more liberalized as per the WTO implementation documents, business remains in a similar state. Distribution covers:

- Commission agent services,
- Wholesale services, and
- Retailing.

Regarding FIEs, the WTO implementation documents state that FIES can distribute products they produce/manufacture as well as related subordinate services.

Given the complexities of the markets in China it is advised that foreign companies use a domestic Chinese agent for both importing into China and marketing within China.

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

Local Agents

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

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

The U.S. Commercial Service (USCS) assists new-to-market firms. The International Partner Search (IPS) will locate, screen, and assess potential qualified overseas sales representatives, agents, distributors, joint venture partners, licensees, franchisees or strategic partners for your products or services. The IPS program locates up to six potential agents or distributors, screened from a large pool of candidate firms. Normal turnaround time is around 30 calendar days after each post receives USD 450 for each product line and the company's product literature. A report is developed from on-the-spot research by U.S. Embassy staff and provides the contacts needed to launch marketing efforts in China. As a next step, a visit to China can be supported by our Gold Key Service (GKS), which is designed to set-up appointments with prospective agents and distributors, and key government officials responsible for an industry (USD 600 per location). IPS clients can upgrade their existing IPS to meet one-on-one with those identified companies (i.e, GKS) for USD 150 if done within 6 months upon completion of the IPS. Regional IPSs and GKSs are available from the USCS offices in Beijing, Shanghai, Guangzhou, Shenyang, and Chengdu, but nation-wide searches are not available.

For those firms unable to travel and seeking potential partners, USCS continues to offer BuyUSA.com as a user-supported "B2B" Web site. Companies seeking foreign partners may list their firm's information, and foreign buyers are enlisted worldwide

Establishing a Presence in China (Representative Office, Wholly Foreign Owed Enterprise, or Joint Venture)

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

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

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

Establishing a Chinese Subsidiary

A locally-incorporated equity or cooperative joint venture with one or more Chinese partners, or a wholly foreign-owned enterprise (WFOE, often pronounced "woofy"), may be the final step in developing markets for a company's products. In-country production avoids import restrictions - including relatively high tariffs - and provides U.S. firms with greater control over both intellectual property and marketing. The establishment of a WFOE in China has gained in popularity among U.S. firms as a result of an easing of restrictions, directly attributed to China's accession to the WTO.

The role of the Chinese partner in the success or failure of a joint venture cannot be over-emphasized. A good Chinese partner will have the connections to help smooth over red tape and obstructive bureaucrats; a bad partner, on the other hand, can make even the most promising venture fail. Common investor complaints concern conflicts of interest (e.g., the partner setting up competing businesses), bureaucracy and violations of confidentiality). The protection of intellectual property, no matter the form of cooperation, is one of the most pressing matters for U.S. firms doing business in China. American companies should bear in mind that joint ventures are time-consuming and resource demanding, and will involve constant and prudent monitoring of critical areas such as finance, personnel and basic operations in order for them to be a success.

Licensing

Technology transfer is another initial market entry approach used by many companies. It offers short-term profits but runs the risk of creating long-term competitors. Due to this concern, as well as intellectual property considerations and the lower technical level prevailing in the China market, some firms attempt to license older technology, promising higher-level access at some future date or in the context of a future joint venture arrangement.

Licensing contracts must be approved by and registered with the Ministry of Commerce (formally, the Ministry of Foreign Trade and Economic Cooperation (MOFTEC)). A tax of 10-20 percent (depending on the technology involved and the existing applicable bilateral tax treaty) is withheld on royalty payments.

Franchising

Many foreign companies are beginning to establish multiple retail outlets under a variety of creative arrangements, including some which for all practical purposes function like franchises. Virtually all of the foreign companies who operate multiple-outlet retail venues in China either manage the retail operations themselves with Chinese partners (typically establishing a different partner in each major city) or sell to a master franchisee, which then leases out and oversees several franchise areas within the territory. Within three years of WTO accession, restrictions on equity share, number of outlets and geographical area are to be eliminated.

Direct Selling

Major U.S. direct selling companies entered the China market in the early- to mid-1990's, when China's legal and regulatory framework for this industry was not very clear. Direct selling was quickly modeled after by domestic Chinese companies, some of whom abused this legitimate format of doing business and operated scams to cheat consumers and evade taxes. In early 1998, the Chinese Government started implementing a series of strict controls over this industry, culminating in the re-licensing of all direct selling companies. Although a few major U.S direct selling companies were re-issued business licenses, restrictions are severe and requirements many, resulting in difficult a business environment.

E-Commerce

The Chinese Government has adopted an open attitude towards the advent of electronic commerce in China. Interest among both Chinese and international businesses focuses on investing and on establishing vertical integration and sales channels on-line. Investment is risky, however, due to the lack of clearly defined regulatory powers over the industry, an effective Chinese certificate authentication system, secure and reliable on-line settlement system, and an efficient physical delivery system. Many U.S. IT sector companies have been actively engaged in jointly developing these systems in China, and WTO accession will increase the speed of these developments. E-commerce in China has great potential, but first must overcome three major impediments:

- China is still a cash-based society and use of credit cards is not widely adopted;
- Channels of distribution in China are not well developed for the delivery of items purchased over the Internet;
- Internet security.

There are several Chinese Internet companies that have been very successful in a cash-on-delivery e-commerce model in the major cities. The recent SARS epidemic proved that China is ready to adopt greater e-commerce technology.

4.5.2 Selling Strategies

Relationships

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

Foreign Currency

In general, Chinese companies are not permitted to retain foreign exchange. In business deals with Chinese companies, U.S. companies have been asked to keep a portion of the Chinese companies' hard currency earnings in foreign bank accounts to avoid reporting and turning it over to the foreign exchange control authorities. As part of an effort to clamp down on corruption and tighten foreign exchange control, the Chinese Government is coming down hard on such practices. In September 1997, China issued a new rule allowing some Chinese enterprises that meet a

certain criteria to establish a foreign currency account in a designated bank, thus retaining a limited amount of foreign currency earnings. In November 2001, the State Administration of Foreign Exchange adjusted the administration policy of Chinese enterprises' foreign currency accounts and further lowered the criteria for establishing such foreign currency accounts.

In contrast, FIEs are permitted to retain foreign exchange contributed to or earned by the enterprise. On December 1, 1996, China made its currency convertible on the current trade account. However, foreign exchange balancing requirements remain in effect in other Chinese laws and regulations and in joint venture contractual arrangements.

Chinese companies are, however, able to purchase the foreign currency necessary for authorized imports and foreign currency obligations such as licensing fees, royalties, and loans by authorized entities.

The banking sector is one area that has benefited from WTO accession. The Ministry of Finance has moved very quickly to implement its WTO commitments. Client restriction on foreign banks' foreign currency services was one of the areas immediately removed upon China's WTO accession, which meant foreign banks could offer foreign currency services to corporate and individual clients. On March 19, 2002, Citibank announced that it had become the first bank to receive a license to provide foreign currency services to local domestic customers.

4.5.3 Advertising and Trade Promotion

Advertising

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

China's retail boom and increasing competition among retailers is making China's advertising industry grow even faster than the economy as a whole. According to China's National Advertising Association (under the State Administration for Industry and Commerce, or SAIC), over-all advertising spending reached USD 10.92 billion in 2002, a 13.6 percent growth over 2001's volume. China has about 89,552 advertising businesses, including more than 385 foreign joint ventures. Foreign service suppliers are permitted to establish advertising enterprises in China only in the form of joint ventures with foreign investment no more than 49 percent. Within two years after China's accession to the WTO, foreign majority ownership will be permitted and within four years after China's accession, wholly foreign-owned subsidiaries will be permitted. All of the major international advertising firms are present in China.

Television advertising takes up the largest single portion of the Chinese advertising market. China's regular television viewing population is 84 percent of China's 1.3 billion people. Major articles sold on television include toiletries, foodstuffs, pharmaceuticals, liquor, and home electronics. Television stations in big markets (Beijing, Guangzhou, Shanghai) require advertisers to book and pay for specific spots two to ten months in advance.

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

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

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.

Trade Shows and Missions

Hundreds of exhibitions are now held annually in China. Most are sponsored or co-sponsored by government agencies, professional societies, or the China Council for the Promotion of International Trade (CCPIT). Shows are also organized by U.S., Hong Kong and state trade departments, and other professional show organizers. Show participation costs are sometimes high and may only reach a local audience, so companies are advised to scrutinize shows.

Electronic Commerce and the Internet

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

4.5.4 Pricing Issues

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

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

4.5.5 Sales to the Government

In 1999, the Chinese State Development Planning Commission (SDPC, which was restructured into the current National Development and Reform Commission (NDRC) in early 2003) issued new regulations controlling government procurement. While ostensibly making the system more transparent and open, it also centralizes the procedure much more. In the past, government procurement was conducted through state-owned/controlled companies affiliated with a particular ministry. Since these entities will remain the main end-users of the purchases, their participation in the process will probably continue.

China's government procurement practices have often been inconsistent with open and competitive bidding and, for the most part, non-transparent. It is still unclear at this point how or whether the new regulations will streamline a system that previously was subject to at least one, and usually several approvals from governments at various levels. While tenders for projects funded by international organizations are usually openly announced, most government

procurement is by invitation only. Competition is by direct negotiation rather than by competitive bid, but that is supposed to change under the new regulations. Goods and vendors for large projects that are covered in the annual State plan have frequently been designated during the planning process. All information, from solicitation to award, remains secret and is known only to those companies involved or to officials in the planning and industrial ministries.

Direct sales to the Chinese military are a possibility. However, restrictions on this type of business exist both in the United States and in China. U.S. manufacturers should contact the Department of Commerce's Bureau of Industry and Security and the U.S. State Department Office of Defense Trade Controls for guidance before selling goods or technology to the Chinese military.

4.6 INTELLECTUAL PROPERTY PROTECTION AND ENFORCEMENT

As China liberalizes its trade regime and continues to further open its markets under its WTO commitments, new products and industries are increasingly present. While this has many positive effects for the Chinese economy, one ancillary effect of the growing trade and investment has been the simultaneous growth in counterfeiting and pirating. The rule of law, including the application and enforcement of IPR, is key to promoting healthy economic growth and attracting further investment in China.

In spite of progress towards improving its intellectual property legal and regulatory regime, China continues to be a challenging environment for IPR protection and enforcement. Criminal penalties are seldom applied, while administrative sanctions are typically non-transparent and so weak as to lack deterrent effect. Trademark and copyright violations are blatant and widespread. Significant regional differences exist as well, with some areas showing higher levels of protection of IPR, while others apparently afford local counterfeiters and pirates a degree of safe harbor. While Chinese officials are increasing enforcement efforts, violations continue to outpace enforcement. Lack of coordination among various government agencies also continues to hamper many enforcement efforts.

4.6.1 China's IPR Commitments

As part of its Protocol on Accession to the WTO, China has committed to full compliance with the WTO Agreement on Trade-Related Aspects of Intellectual Property (TRIPS), as well as other TRIPS-related commitments. During the lead-up to WTO accession as well as during the year following, China adopted revised patent, trademark and copyright laws, as well as implementing regulations, in addition to numerous other ministerial or local rules and regulations, including rules on semiconductor layout design and software protection. The Supreme People's Court has also issued many judicial interpretations, while the Supreme People's Procuratorate, the Ministry of Public Security and lower courts have issued interpretations to improve criminal enforcement.

Apart from China's WTO commitments, China has signed a number of international and bilateral agreements regarding IPR. China is a member of the World Intellectual Property Organization (WIPO), the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the Madrid Protocol, the Universal Copyright Convention, and the Geneva Phonogram Convention and Patent Cooperation Treaty.

In 1992, China signed an IPR Memorandum of Understanding (MOU) with the United States, pursuant to which China improved its laws governing IPR protection and joined the Berne Copyright and Geneva Phonograms Conventions. The March 1995 extension of the IPR MOU sets out a plan for enforcing IPR, and grants market access to certain products. The two countries also have cooperative programs on technology and criminal justice, and continue to discuss IPR issues in bilateral as well as multilateral forums.

4.6.2 IPR Climate

Large-scale violations of intellectual property rights in China, including counterfeiting and smuggling, often overwhelm under funded or understaffed Chinese enforcement efforts. Industry associations representing computer software, entertainment, and consumer goods industries report high levels of piracy and counterfeiting of all types of products. The Business Software Alliance estimates that more than 90 percent of business software used in China is pirated. Consumer goods companies report that, on average, 20 percent of their products in the Chinese market are counterfeit. Chinese companies experience similar, or even greater, problems with piracy and counterfeits in their home markets.

Inadequate enforcement of IPR laws and regulations, through either judicial or administrative means, remains a serious problem. Enforcement of IPR regulations is uneven and is sometimes impeded by local interests. Administrative penalties for IPR violations, often no more than confiscation of the counterfeit products, are generally insufficient to deter counterfeiters. Chinese law does not currently criminalize the import and export of IPR-infringing goods, and thus lacks sufficient deterrent force to stop this illegal activity.

In recent years, China has had some success in closing down factories that produce illegal optical disks (CDs, VCDs, and CD-ROMs) and computer software products, only to see an increase in such products smuggled across its borders. Limited market access for products such as foreign movies and computer software provides an additional incentive for smugglers and counterfeiters. The authorities have also conducted thousands of raids at both the manufacturing and the retail level, resulting in the confiscation of counterfeit or smuggled products. Nonetheless, large markets continue to openly sell pirated and counterfeit products despite repeated U.S. Government requests to shut down and prosecute vendors selling infringing goods, with many such markets located in prominent areas of major Chinese cities or at border crossings, such as Silk Alley in Beijing or at the border with Hong Kong.

4.6.3 IPR Enforcement Strategies

Combating IPR violations in China is a long-term, multi-faceted undertaking, which is also linked to general rule of law developments in Chinese society. Different industries have typically pursued different strategies based on a variety of factors: the pervasive nature of the IPR violation, the sophistication of the pirate or counterfeiter, difficulties in delivering the legitimate product through legitimate channels, the nature of the right being infringed and the effect of the violation on public health, safety or business interests, the familiarity of Chinese administrative or judicial organs with the type of violation, and budget and marketing constraints. The United States looks forward to a day when China engages in fair, robust and deterrent IPR enforcement as the first course of action for aggrieved rights holders. However, in certain instances, U.S. companies may also be able to obtain some measure of relief for export-oriented infringement activities by bringing litigation or seeking Customs enforcement outside of China.

In 1998, foreign companies in China formed a coalition -- now called the Quality Brands Protection Committee (QBPC) -- to draw attention to the trademark counterfeiting problem and to propose ways of strengthening enforcement. QBPC has gained recognition from Chinese authorities as an organization authorized to protect their products, and has been recognized internationally for its enforcement efforts. QBPC has expanded its membership and offers technical and financial support for trademark enforcement in China. Many international organizations involved in intellectual property matters also have a presence in China, such as the Research and Development Pharmaceutical Association of China (RDPAC), the Business Software Alliance, Motion Pictures Association, and International Trademark Association, although the scope of such organizations' work may be constrained by Chinese regulations.

Chinese authorities are attempting to address the need for increased education on IPR matters by establishing IPR law centers at Beijing University, Tsinghua University and People's University. Chinese IPR professionals are also studying in foreign countries, frequently with the assistance of international organizations such as WIPO. During the

past years, the United States and other foreign governments, as well as private organizations, have also conducted numerous national and local training efforts focused on China's WTO obligations, including civil, criminal and administrative and Customs enforcement.

4.6.4 IPR Enforcement System

Initial recourse in countering infringements is frequently sought through the intervention of local administrative enforcement agencies. A disadvantage to administrative action is that administrative authorities, unlike courts, lack nationwide jurisdiction and can thus only provide a local remedy. Their decision making process often lacks transparency. Also, these administrative agencies need assistance from law enforcement authorities to conduct raids, requiring yet unattainably high levels of cooperation and coordination in many instances.

The Chinese government agencies most often involved in administrative enforcement actions are the General Administration of the PRC for Quality Supervision, Inspection, and Quarantine (AQSIQ) (formerly the Quality and Technical Supervision Bureau), various divisions of SAIC, the National Copyright Administration, Ministry of Culture, and the General Administration for Customs. Administrative enforcement of patents by the State Intellectual Property Office (SIPO) and Customs is also possible, with design patents being the most frequently enforced by Customs. Customs can confiscate products that infringe registered patents trademarks or copyright, upon either import or export. Many other national and local Chinese government agencies are also involved in IPR policy and enforcement, some of which have overlapping responsibility with other organizations and/or concurrent enforcement authorities. Jurisdiction on key issues is often fragmented, making coordination of enforcement efforts difficult.

China's revised IPR laws now generally require referral for criminal prosecution when criminal IPR violations are uncovered by administrative agencies. Such measures become increasingly important in order to bring down high piracy and counterfeiting rates, and as organized crime has become involved in various forms of IPR piracy and counterfeiting. However, thresholds for criminal prosecution are high, police and prosecutors lack familiarity with IPR criminal matters, and the relationship between criminal and administrative actions, including handling of recidivists and preserving evidence, is still developing. China continues to determine the magnitude of certain IPR violations and penalties by calculating the value of infringing goods using the sale price of the illegitimate product; this standard is flawed because it does not reflect the actual value of the genuine goods in question or the harm caused, does not take into account stockpiles of infringing goods that have not been sold, and ultimately reduces the administrative penalty to a cost of doing business. As a result of this relatively low standard, most cases do not meet the criminal threshold for prosecution. The United States has actively sought to assist China as it develops a more effective civil and criminal intellectual property enforcement system, through bilateral consultations and training initiatives.

China has established special IPR courts, frequently as part of its civil litigation panels, in all provinces, major cities, and at the Supreme People's Court. China lacks specialized criminal IPR prosecutors, such as the U.S. Computer Crimes and Intellectual Property Section of the U.S. Department of Justice, nor are there specialized intellectual property investigators. As part of its TRIPS obligations, China also provides for rights of appeal, of final decisions by SIPO and the Chinese Trademark Office, regarding the validity of a patent or trademark. In general, Chinese judges are charged with fact-finding and have greater discretion in case adjudication than judges in the United States. The Supreme People's Procuratorate, which is similar to our U.S. Attorney General, operates independently and as a co-equal branch of government with the courts and executive branch (State Council). Many Chinese judges, prosecutors and police lack adequate legal training, and the effectiveness of criminal procedures is thereby undermined. The Supreme People's Court has issued interpretations of Chinese laws addressing many of China's international IPR obligations, including Internet related copyright and domain name disputes. The Supreme People's Court also has issued certain interpretations to implement China's TRIPS obligations to provide preliminary injunctive relief for various IPR matters as well as to implement amendments to its IPR laws. Copyright preliminary injunction interpretations have not, however, been issued. Since the revision of China's Trademark Law and recent issuance of

new ministerial rules on well known marks, the courts, prosecutors and/or police have also not yet issued a decision to clarify how well-known mark cases should be prosecuted by law enforcement agencies.

Patents

In 1998, China reorganized its patent office as the State Intellectual Property Office in an effort to improve IPR coordination and enforcement. Since China's Patent Law was first enacted in 1984, domestic and foreign patent applications have increased steadily. Patent protection was extended in January 1993 to pharmaceutical and chemical products, as well as processes; the period of protection was lengthened to 20 years. The amendments also provide the patent-holder the right to exclude others from importing infringing products and expand the scope of patent infringement to include unauthorized sale or importation of products manufactured with the use of patented processes. China does not yet provide a similar scope of protection to certain biotechnology and business method patents as in the United States. American companies may also need to make certain that they obtain any necessary consents in exploiting Chinese genetic resources. China acceded to the Patent Cooperation Treaty on January 1, 1994, and will perform international patent searches and preliminary examinations of patent applications. Under the Patent Law, foreign parties without a business presence in China must utilize the services of a registered Chinese agent to submit the patent application. Initial preparation of the application may be done by foreign attorneys or the Chinese agent.

Copyrights

In March 1992, China established bilateral copyright relations with the United States and in October 1992, acceded to both the Berne Convention and the Universal Copyright Convention. China also joined the Geneva Phonogram Convention in April 1993. Following accession to the Berne Convention, China explicitly recognized computer software as a literary work and extended protection to computer programs for 50 years without mandatory registration requirements for foreign rights holders. In addition to amendments to China's Copyright Law, China's Supreme People's Court has taken steps to address digital and Internet-based copyright issues. China has not acceded to the WIPO Internet Treaties, nor has it formally recognized "temporary copies" over the Internet as implicating Berne Convention reproduction rights. There have been increasing complaints of hacking into U.S. databases or use of stolen passwords from Chinese hosted computers. Internet piracy has become an increasingly widespread phenomenon, particularly as Internet penetration spreads in China. The United States has also asked for increased ministerial coordination, as well as legislative changes, in this area.

Insufficient market access for foreign films, books, and music has led to a large black market for these goods. China does not allow publishing rights for foreign music and book firms, and furthermore may require compulsory licensing of certain books used to implement national education plans. China maintains a ceiling on the number of foreign films allowed to enter the country. In 2003, China authorized a new company, Huaxia, to distribute foreign films, thus breaking the China Film Group's monopoly. However, these two companies do not come close to fulfilling the market's demands, causing consumers to turn to pirated DVDs or VCDs in order to watch films that are not legally available.

Trademarks

China's trademark regime generally comports with international standards, with the principal exception being China's historical lack of equal recognition accorded to foreign well-known trademarks. Such recognition may be especially important in light of enhanced enforcement that may be accorded to well-known marks under various rules and regulations regarding criminal enforcement of IPR. In 2003, China revised its ministerial regulations for well-known marks. The new regulations require companies alleging infringement to prove that their marks are well known within China based on sales, marketing, and advertising figures.

In October 1989, China joined the Madrid Protocol for reciprocal trademark registration to member countries. The United States has also recently acceded to the Madrid Protocol. China has a "first-to-register" system, leaving registration of popular foreign marks potentially vulnerable to third parties. Foreigners seeking to distribute their products in China should consider registering their foreign mark and/or logo, any Chinese language translations, as well as appropriate Internet domains. The Chinese trademark office has on occasion cancelled marks held by Chinese

agents of U.S. distributors who without authorization registered such marks in their own name. Registration of company names is handled by a separate division of SAIC.

Under China's trademark law, foreign companies without a presence in China must utilize the services of registered Chinese agents to submit the trademark application. Preparation of the application may be done by foreign attorneys or the Chinese agent.

Trade Secrets

Trade secret protection is widely pursued by Chinese and foreign companies in China, with a relatively large volume of trade secret litigation being handled by Chinese courts. The Law To Counter Unfair Competition (1993) defines unfair competition to include conduct that infringes the "lawful rights" of another "business operator," including acts that violate "commercial secrets" rights. Commercial secrets are defined as information which can bring economic benefits to the authorized users, and which is protected by taking appropriate security measures, including technical and operational information not available to the public. Sanctions under the law include civil remedies such as damages, administrative sanctions such as fines, and criminal penalties for "serious violations." A law specifically addressing protection of business secrets was under consideration for several years in China but has not been enacted. China is further obligated to protect trade secrets under the TRIPS Agreement. Various rules by the Ministry of Labor and Social Security and other ministries on a national or local level also provide for enforcement of non-compete provisions with employees based on their access to business secret information. In order for such non-compete provisions to be effective, reasonable compensation must be provided to the employee. China is also required by the TRIPS Agreement to provide protection for certain non-disclosed clinical data used in securing regulatory approvals. The Ministry of Agriculture has adopted implementing rules for this TRIPS obligation. In 2002, China also passed Article 35 of the Implementing Regulations of the Drug Registration Law to provide implementing regulations for data exclusivity. Additionally in 2002, China passed Articles 11 and 12 of the Drug Registration Regulations that included "patent linkage" provisions which, in theory, would require the State Food and Drug Administration to verify that patents are not violated before granting registrations and clinical trial permissions.

Semiconductor Layout Designs

China adopted regulations for the protection of semiconductor layout designs as part of its WTO accession. Registration is handled by SIPO. Protection of discrete elements remains unclear under these rules.

Regulation of Technology Licensing: The Chinese Government continues to seek introduction of new technology through foreign investment and technology transfer. China has also promoted development of research and development facilities. Contracts transferring intellectual property as part of the foreign equity contribution by foreign-invested enterprises are generally regulated by laws concerning foreign investment. China's 1985 regulations on technology import contracts as well as subsequent regulations on technology export, which included contract-licensing, patents, trademarks, know-how, trade secrets, and contracts for technical services have been replaced by a new regime. Among the principal relaxation in controls on technology licensing contracts is that such contracts are now submitted to the Ministry of Commerce or its provincial commissions for filing, rather than for substantive review. In addition, the former restriction that most technology contracts are not to extend beyond 10 years has been removed. The current regime, however, requires that any improvements in technology licensed by foreigners to a Chinese entity belongs to the licensee. China also imposes other controls on exports of technology to address its own commercial and national security concerns.

Although the pace of filing has been increasing, Chinese companies have not aggressively pursued registration of their patents or trademarks in the United States, nor has there been significant intellectual property related litigation involving Chinese-owned U.S. patents or trademarks.

4.6.5 Local Professional Services

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

Accountants

Chinese law requires representative offices and foreign-invested enterprises to engage the services of accountants registered in China to prepare 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 the Big Five accounting firms (KPMG Peat Marwick, Pricewaterhouse Coopers, Deloitte Touche Tohmatsu, Ernst & Young, and Arthur Andersen) have established offices in China and provide services ranging from providing advice on taxation matters and preparation of investment feasibility studies, to setting up accounting systems that are in compliance with Chinese law.

Attorneys

Prior to 1992, most foreign law firms were registered as consulting firms. More than one hundred foreign law firms currently operate in China, of which nearly thirty are based primarily in the United States. Foreign law firms registered in China are restricted to advising clients on legal matters pertaining to the jurisdiction where they are licensed and general international business practices. Although a foreign lawyer may not offer a legal opinion, clients can obtain assistance with structuring transactions, drafting contracts, and resolving disputes. Only attorneys licensed in China may appear in court and provide legal advice on Chinese legal matters. During the past year, China has removed restrictions on the number of offices that may be opened by a particular law firm. Chinese lawyers are allowed to work at foreign law firms, but they may not practice law as licensed Chinese attorneys. Foreign lawyers are not permitted to qualify to practice law in China and are not allowed to form a joint venture with Chinese lawyers

Management Consultants

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

Advertising

Approximately 89,000 advertising firms exist in China, of which more than 385 are foreign invested enterprises. Foreign advertising firms are limited to a 49 percent maximum equity stake. Many major international advertising firms have established a presence in China. Companies new to market can gain valuable advice from top-notch advertising firms on how to effectively craft an effective advertising strategy that is responsive to Chinese consumer preferences and cultural differences. Advertising is strictly regulated in China, and penalties for violation of the law through misleading advertisements, unauthorized use of national symbols, or other prohibited forms of advertising are subject to fines of 100,000 RMB (USD 12,500).

U.S. Commercial Service offices in China maintain lists of U.S. law, accounting, and consulting firms with offices in China, as well as lists of Chinese firms that the Commercial Office or its customers have had favorable dealings.

4.6.6 Due Diligence

Undertaking a due diligence investigation prior to engaging in a trade or investment transaction can minimize risk of encountering commercial disputes. The primary causes of commercial disputes between Chinese and American companies concern breach of contractual payment obligations, irregularities in accounting practices, financial mismanagement, undisclosed debt, and struggle for control within joint ventures. These problems can be minimized by investigating the financial standing and reputation of local companies before signing contracts with them. Both U.S. and Chinese firms with offices in China conduct due diligence investigations; the former include Dun & Bradstreet, Kroll Associates, PricewaterhouseCoopers and Pinkerton Consulting Services. The fees charged by these companies may be considered a useful investment to ensure that the local customer or partner is financially sound and reliable. The U.S. Commercial Service's International Company Profile (ICP) service is now offered in China.

4.7 IMPORT AND EXPORT REGULATION RISKS

China's December 11, 2001 WTO accession represents a major victory in the United States' ongoing effort to open China's market to U.S. goods and services. China's final package of commitments codifies the bilateral concessions China made to the United States in the Market Access Agreement of November 15, 1999. China's accession to the WTO will encourage China's domestic reform process and further open its market to U.S. goods and services.

China has traditionally restricted imports through high tariffs and taxes, non-tariff measures, trading rights restrictions, and other barriers. Chinese officials are increasingly aware, however, that such protective measures contribute to endemic economic inefficiencies and encourage smuggling. To address these problems, the Chinese Government agreed to dramatically reduce many barriers as part of its WTO accession. In January 2002, China made the tariff cuts required under its WTO Accession Agreement and greatly expanded access to trading rights. In January 2003, China again lowered tariffs, as required by its WTO Accession Agreement. China also has reformed its tax system to minimize distinctions between domestic and foreign entities according to the principle of national treatment. In addition, China has substantially reduced the number of goods subject to import quotas. China has clarified its licensing procedures in accordance with the WTO's transparency requirement.

4.7.1 Import Tariffs and Customs Regulations

The most comprehensive guide to Chinese customs regulations is The Customs Clearance Handbook (2002), compiled by the General Administration of Customs (China Customs). This guide contains the tariff schedule and national customs rules and regulations. It may be obtained for 240 RMB plus shipping and handling from:

China Customs Publishing House,
No. 9A, Dong Tu Cheng Street,
Chaoyang District
Beijing, China 100013
Phone: (86-10) 6519-5616

Tariff Rates

China Customs assesses and collects tariffs. Import tariff rates are divided into three categories: general rates, most-favored-nation rates, and Bangkok Agreement rates. Imports from the United States are assessed at the most-favored-nation 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 in the case of 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 that benefit key economic sectors, in particular the automobile industry, steel, and chemical products. In the past, foreign firms have sometimes benefited from policies aimed at attracting foreign investment into key sectors, such as high technology. For example, foreign-invested firms that produced certain types of high technology goods, or who were export-oriented, did not pay duty on imported manufacturing equipment.

Customs Valuation

The dutiable value of an imported good is its CIF price, which includes the normal transaction price of the good, plus the cost of packing, freight, insurance, and seller's commission. Just prior to its WTO accession, China released new valuation regulations. Under the regulations, China Customs has been tasked with assessing a fair valuation to all imports. To tackle this task, all Customs officers now have access to a valuation database that lists appropriate valuations for various imports, based on international market prices, foreign market prices and domestic prices. Customs officers check the price reported by the importer against this database. Normally, Customs officers will accept the importer's price. However, if the reported value is too far out of line with the database, the Customs officer will estimate the value of the goods based on methods listed in Article 7 of the PRC Measures for the Determination of Customs Values for Imported and Exported Goods.

Tariff Classification

China Customs only uses an eight-digit harmonized tariff system, as opposed to the more detailed ten-digit codes. Customs officers have wide discretion to classify in what general category to place each import.

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 provision of 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 now bound by WTO rules to offer identical tax treatment for domestic and imported products. VAT is collected regularly on imports at the border, although importers note that their domestic competitors often fail to pay taxes.

China offers a variety of tax incentives and concessions. The general VAT rate is 17 percent but necessities, such as agricultural products, fuel and utility items, are taxed at 13 percent. Enterprises regarded as small businesses (those engaged principally in production of taxable goods or services with annual taxable sales of less than RMB 1 million or those engaged in wholesaling or retailing of goods with annual sales of less than RMB 1.8 million) are subject to VAT at the rate of 4 percent or 6 percent, depending on the nature of the business. Unlike other VAT payers, small businesses are not entitled to claim input tax credits for VAT paid on their purchases. Certain limited categories of goods are exempt from VAT. Likewise, many foreign-invested processing enterprises are exempt from taxes if they export their products.

VAT rebates up to 17 percent (a full rebate) are available for processed exports. Exporters complain that it takes months to obtain the rebates and amounts are often miscalculated. Also, rebates are limited by the 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 and is a function of the establishment date of the enterprise.

China intends to eventually phase out its two-tier income tax system for domestic and foreign enterprises. Domestic enterprises have long resented rebates and other tax benefits enjoyed by foreign-invested firms. The move towards national treatment will mean the gradual elimination of special tax breaks enjoyed by many foreign investors. However, in some cases Chinese authorities have promised to grandfather existing foreign investments with current tax incentive deals for at least a certain period of time.

4.7.2 Trade Barrier Risks

The Chinese Government has recognized for years that economic reform and market opening are essential components of sustainable and balanced economic growth. The Chinese Government in 2001 and 2002 undertook a massive effort to revise its laws and regulations in a manner consistent with WTO rules. Import barriers, an opaque and inconsistent legal system, and limitations on market access combine to make it difficult for foreign firms to operate in China.

Some of the current trade barriers that U.S. firms face are:

Import Quotas

WTO rules bar quotas and other quantitative restrictions. China has been gradually eliminating them and will continue this process after accession over a multi-year phase-in period. The bilateral agreement with the United States required China to eliminate existing quotas for the top U.S. priority products upon accession and phase out remaining quotas, generally by two years but no later than five years after accession. After two rounds of quota elimination, quotas limit eight categories of imports, including automobiles, motorcycles, oil, rubber, and tires. Bureaucratic delays in allocating quotas have disrupted imports of many products such as passenger cars.

Tariff-Rate Quotas (TRQs)

China applies TRQs to imports of wheat, corn, rice, soy oil, cotton, barley, vegetable oils, and fertilizer. With its WTO accession, China for the first time published TRQ levels and the regulations governing TRQ administration. China will gradually increase these already-large TRQ levels. A growing portion of each TRQ will be reserved for importation through firms other than state trading entities. To ensure full use of the TRQs, China agreed to specific rules for administration of the TRQs, including increased transparency and reallocation to importers of any unused quota. In China's first year as a WTO member, TRQ allocation, like quota allocation, was plagued by official delays.

The National Development and Reform Commission (NDRC) refuses to publish the names of or answer inquiries about agricultural quota recipients. The NDRC also reserves a portion of TRQs - over 60 percent for some commodities - for the processing trade, requiring quota recipients to process and re-export the products they import or face stiff penalties. In addition, licensing requirements for TRQ recipients are burdensome and many firms have been given quota allocations far below commercially viable levels.

Import Licensing

Products subject to import quotas or TRQs also require import licenses, including some wool, grains, oilseeds and oilseed products, cotton, iron and steel products, commercial aircraft, passenger vehicles, fertilizer, hauling trucks, and rubber products. China has also added license requirements to some products in an effort to combat smuggling; for example, China requires licenses for meat traders. The Ministry of Commerce (MOFCOM) administers the licensing system, but has given primary authority for approval and import of some agricultural items to the General Administration of the PRC for Quality Supervision, Inspection, and Quarantine (AQSIQ). Import licenses are not always easy to obtain, and importers frequently report long delays.

Export Licenses

Fifty-two categories of Chinese exports require licenses. Garment and textile exports - which are strictly limited by importing countries and require quota visas to enter foreign markets such as the United States - make up the bulk of these exports. Beyond textiles, products requiring licenses include some raw materials and metals, lethal chemicals, and food products. China also requires export licenses on products that are the subject of countervailing duties in a foreign market. MOFCOM is responsible for the enactment of general policy on export licenses, but local-level Economic and Trade Commissions are beginning to take charge of issuing specific export licenses. Currently, many quasi-governmental chambers of commerce, such as the China Chamber of Commerce for Import and Export of Machinery and Electronic Products (CCCME) and the China Chamber of Commerce of Metals, Minerals &

Chemicals Importers and Exporters (CCCMC) have been tasked by the Government to coordinate applications for licenses. The licenses are issued by local Economic and Trade Commissions, which report to MOFCOM.

Transparency

China publishes laws and regulations relating to international trade in the China Foreign Trade and Economic Cooperation Gazette, published by MOFCOM and available by subscription. Most government ministries also publish the texts of related laws and regulations on their Web sites. Economic newspapers routinely carry the texts of government circulars, announcements and regulations. In addition, there has been a proliferation of online news and information services such as chinaonline.com, sinolaw.com, and sohu.com that offer up-to-date news about and texts of new laws and regulations. As a WTO member, China has committed to publishing for comment all measures that could affect trade in goods, services, TRIPS or the control of foreign exchange, and to providing a translated copy of new laws, regulations, and other measures to the WTO Secretariat in Geneva no later than 90 days after promulgation. MOFCOM has established an "Enquiry Center" to provide information on commercial, investment, and trade laws and regulations. Despite this progress, transparency remains a problem for foreign companies. Many new regulations and rules have been promulgated without adequate comment periods. Chinese ministries often implement policies based on internal "guidance" or "opinions" that are not available to foreign firms. Experimental or informal policies and draft regulations are regarded as internal matters and public access is tightly controlled. Drafts are sometimes given to domestic companies but not foreign-invested enterprises for comment. The rule-making process remains secretive and opaque. Furthermore, because laws and regulations are often very general, many decisions are left to the discretion of the implementing bureaucrats, who can make decisions without resorting to public comment or open procedures.

Legal Framework

Laws and regulations in China tend to be far more general than in most OECD countries, thus usually requiring more specific implementing rules and measures. This vagueness allows Chinese courts and officials to apply them flexibly, which results in inconsistencies. Companies sometimes have difficulty determining precisely whether or not their activities contravene a particular regulation. Agencies at all levels of government have rulemaking authority, resulting in regulations that are frequently contradictory despite China's commitment to ensure that these measures conform with its WTO obligations. Finally, while there seems to be no shortage of rules and regulations, there are few procedures in place to appeal regulatory decisions.

Trading Rights

China restricts the types and numbers of entities with the right to trade. Only those firms with trading rights may import goods into or export goods out of China. As part of its WTO Accession Agreement, China committed to phase out restrictions on trading rights within three years of its accession. Currently, firms with a presence in China and annual export volumes valued in excess of USD 10 million may register for export privileges for most products. Research and development centers in China may also now import small quantities from their parent companies for test marketing. Firms with trading rights must undergo an annual qualifications test and certification process. China has not yet issued regulations to implement its WTO obligation to extend full trading rights to minority-owned FIEs, as it committed to do one year after WTO accession. Firms without a presence in China must use a domestic agent with trading rights to import and distribute goods.

Distribution Rights

In general, foreign firms have only been allowed to distribute products that they manufacture in China. Foreign firms were forced to engage local agents to distribute imported goods. China's WTO accession should improve the ability of foreign firms to distribute their products effectively. As part of its WTO Accession Agreement, China agreed to phase out distribution restrictions for most products within three years of accession. It remains to be seen, however, how China will implement this commitment and whether it will require FIEs to establish new joint ventures to act as distributors, since rules implementing the first phase - the granting of distribution rights to minority owned FIEs - still have not been published.

Import Substitution Policies

China committed to eliminate all import substitution policies and regulations, but the Central and local governments periodically continue to issue regulations and "guidance" intended to encourage use of domestically produced substitutes. Recent examples include telecom equipment and autos. As part of its accession to the WTO, China eliminated local content and performance requirements for foreign investors and said it will not condition import or investment approvals on whether there are competing domestic suppliers or requirements.

Standards and Testing

For many products China requires strict conformity assessment licenses, quality and safety licenses, sanitary and phytosanitary testing, and labeling verifications. In an attempt to eliminate some double testing and multiple fees for imports, in 2001 China merged its domestic and quarantine testing agencies into one new organization - the State General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ). AQSIQ has issued regulations establishing a new compulsory product certification system that applies to 132 product categories. At the Local level quarantine and domestic testing agencies remain separate. Importers complain that it is often difficult to ascertain what inspection and/or certification requirements apply to a particular import, as products requiring the CCC Mark are often defined in terms of sub-categories of the HS code, making it difficult for importers and China Customs to determine which products require this certification. In addition, the United States and other countries have complained that safety and inspection procedures applied to imports are more rigorous and expensive than those applied to domestic products. In some sectors, particularly cellular phones, telecommunications, and medical equipment, companies also face duplicative certification and testing requirements.

Anti-Competitive Practices

China continues to struggle with economic inefficiencies and investment disincentives created by local protectionism, predatory pricing, preservation of industry-wide monopolies, and monopolistic practices designed to protect the state-owned sector. In certain areas, industrial conglomerates operating as monopolies or near monopolies (such as China Telecom) have been authorized to fix prices, allocate contracts, and in other ways restrict competition among domestic and foreign suppliers. Regional protectionism by provincial or local authorities often blocks efficient distribution of goods and services inside of China. Such practices may restrict market access for certain imported products, raise production costs, and restrict market opportunities for foreign-invested enterprises in China.

Trade Remedy Regime

Since its accession to the WTO in December 2001, China has made increasing use of its antidumping law, initiating eleven new antidumping investigations, six of which are against U.S. exports. More than three-quarters of the aforementioned total cases are against chemical products. Cases are most often brought by state-owned enterprises finding it difficult to compete as tariff barriers are removed. Foreign companies involved in the investigations complain that the process lacks transparency, pricing methodologies used in making the determinations are flawed, and Chinese investigators rely excessively on data provided by the Chinese petitioners. Further, China conducted its first-ever safeguard investigation against steel products in 2002 following on the heels of similar actions in the United States and Europe, putting definitive measures in place against five categories of steel products in November 2002. The measures are widely regarded to have had disastrous results for Chinese steel consumers, and the Chinese Government has subsequently issued two lists of exclusions from the definitive measures. Regardless of the outcome, continued competitive pressure on China's state-owned enterprises suggests there will be more, not less, reliance on trade remedy measures.

Services Barriers

China's service sector has been one of the most heavily regulated parts of the national economy - and one of the most protected. The service sector liberalizations included in the bilateral WTO agreement are beginning to improve foreign access to this sector, including increased foreign participation in financial, insurance, telecommunications, distribution and professional services, after sales service and repair businesses. However, many of the regulations implementing these commitments impose high capital requirements and limitations on expansions that seem to

effectively limit market access. The services market, though currently underdeveloped due to historical attitudes and policies, has significant growth potential in both the short and long terms.

4.7.3 Import Documentation Requirements

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 can 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 the PRC for Quality Supervision, Inspection, and Quarantine (AQSIQ) or its local bureau (where applicable), and other safety and/or quality licenses.

4.7.4 Controls on Exports

In April 2002, the Bureau of Export Administration changed its name to the Bureau of Industry and Security (BIS). The contact numbers remain the same, but the new Web site address is **www.bis.doc.gov**.

The Tiananmen Sanctions of 1990 are still in effect and sharply curtail U.S. exporter opportunities to sell crime control equipment to China's police agencies and defense electronics equipment to the Chinese military. The Tiananmen Sanctions prohibit the export of items listed on the U.S. Munitions List and crime controlled items listed in the Export Administration Regulations (EAR).

The United States Government's Enhanced Proliferation Control Initiative (EPCI), requires the U.S. Department of Commerce (USDOC) and exporters to scrutinize end-users of U.S. exports of all kinds. This regulation requires a Validated License application if the exporter has "reason to know" that the end-users might be involved in missile, nuclear or chemical weapons proliferation. Periodically, both the State Department and U.S. Department of Commerce (USDOC) identify sensitive end-users and add them to the USDOC Entity List. For such identified firms, U.S. exports and U.S. origin re-exports require an individual validated license for virtually all shipments to these entities. The Entity List can be viewed at the USDOC Bureau of Industry and Security Web site at **www.bis.doc.gov**.

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

On January 24 and on May 16, 2002, the U.S. State Department published in the federal register, sanctions against a total of 11 Chinese entities for violating the Iran Nonproliferation Act of 2000. These sanctions prohibit the sale of any item on the U.S. Munitions List, defense articles, defense services, or design and construction services controlled under the Arms Export Control Act to the listed entities. They also require a denial of new licenses and the suspension of existing licenses for the sale items controlled under the Export Administration Act (EAA) or the EAR to the listed entities. A list of the sanctioned entities can be found in the federal register publications.

On May 23, 2003, the U.S. State Department published in the federal register sanctions against the North China Industries Corporation (NORINCO) for engaging in missile technology proliferation activities that required the imposition of measures under Executive Order 12938, as amended by Executive Order 13094 (Proliferation of

Weapons of Mass Destruction). This sanction prohibits the importation into the United Sates of any goods, technology, or services, produced or provided by this entity, its subunits, and successors, other than information or information materials as defined in the International Emergency Economic Powers Act (IEEPA). The sanction also prohibits the export of defense articles and services from the United States and of United States origin defense articles and services from foreign to this entity, its subunits, and successors. The sanction is in effect for two years.

A law passed by Congress in late 1997 requires that the U.S. Government do PSVs on all High Performance Computers (HPC) shipped to one of 50 countries including China. As of March 8, 2002, the definition of a HPC with respect to China is any computer with a MTOPS (million theoretical operations per second) level of 190,000 or greater. There is a USDOC requirement that a MOFCOM issued end-user certificate (EUC) must be obtained by the exporter before the computer is shipped to China. Ordinarily the computer importer or re-seller in China applies for this document and passes it to the exporter. For information on this regulation see the BIS Web page at **www.bis.doc.gov/HPCs**.

USDOC Dual-Use Export Applications

A USDOC dual-use export license application that does not present to the USDOC reviewers serious Chinese end-user concerns is usually approved by the USDOC in about one week. In the case of a PLC requirement, USDOC requests MOFCOM's permission for a Commercial Officer from the U.S. Embassy to visit the site of an end-user to determine the bona fides of the end-user for the actual end-use of the product. This must be done before USDOC will act further on the export license application. The amount of time needed to complete the entire PLC process is usually two to three months. If the U.S. Government is not permitted to conduct a PLC by the Chinese Government, an export license may not be issued.

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

BIS Exporter Services Division:

- Washington, D.C. -- Tel: 202-482-4811; Fax: 202-482-3322
- Western Regional Office -- Tel: 949-660-0144; Fax: 949-660-9347

U.S. Embassy-Beijing, Commercial Section

- John Larkin, BIS Officer -- Tel: (86-10) 8529-6655 x811; Fax: (86-10) 8529-6558

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

4.7.5 Chinese Export Controls

Prohibited Exports

China maintains export bans and restrictive licensing procedures on certain items. Products banned from export include musk, copper, platinum, specified chemical compounds, and products whose export is banned under international treaties. Products subject to strict licensing controls include dual-use chemicals, chemical precursors,

heavy water, and exports of fish, fresh vegetables and fruits to Hong Kong and Macao. Foreign-invested enterprises are restricted to exporting out of China only the products they manufacture.

The export licensing system is administered by MOFCOM and designated local offices. An export tendering system for a limited but growing number of products has also been introduced. Most licenses are valid for a single use within three months after issuance. For certain items, including 26 categories of agricultural and petroleum products, licenses are granted for six months with multiple use up to 12 times.

Other items that may not leave China include all items that are prohibited from being imported. In addition, manuscripts, printed matter, magnetic media, photographs, films or other articles, which involve state secrets; valuable cultural relics; and endangered animals and plants may not be exported.

On June 10, 1998 China promulgated Regulations on the Administration of the export of dual-use (military and civil) Nuclear Facilities and related technologies of the People's Republic of China. The export licenses required under these regulations are issued by MOFCOM.

On August 22, 2002, China promulgated Regulations on the export control of missiles and missile related items and technologies. The export licenses required under these regulations are issued by MOFCOM.

On October 14, 2002, China promulgated Regulations on the export control of dual-use biological agents and related equipment and technologies. The export licenses required under these regulations are issued by MOFCOM.

On October 18, 2002, China promulgated Regulations on the export control of certain chemicals and related equipment and technologies. The export licenses required under these regulations are issued by MOFCOM.

Prohibited Imports

The following items are prohibited from entering China:

- 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;
- RMB;
- Food items containing certain food colorings and additives deemed harmful to human health by the Ministry of Health are also barred entry.

4.7.6 Inspection Standards

Import Commodity Inspection

Chinese law provides that all goods included on a published Inspection List, or subject to inspection pursuant to other laws and regulations, or subject to the terms of the foreign trade contract, must be inspected prior to importation,

sale, or use in China. In addition, safety license and other regulations also apply to importation of medicines, foodstuffs, animal and plant products, and mechanical and electronic products.

Chinese buyers or their purchase agents must register for inspection at the port of arrival. The scope of inspection undertaken by local commodity-inspection authorities entails product quality, technical specifications, quantity, weight, packaging, and safety requirements. The standard of inspection is based upon compulsory Chinese national standards, domestic trade standards or, in their absence, the standards stipulated in the purchase or sale contract.

To meet the arrival inspection requirements, it is advisable that Chinese quality certification be obtained from Chinese authorities prior to shipment of goods to China. The quality and safety certification process appears to require extensive investigation and may be time-consuming. If your products are required to have this certification, contact the State General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ) at 15 Fangcaodi Xijie, Chaoyang District, Beijing 100020 China; Tel: (86-10) 6599-4328 or fax: (86-10) 6599-4306. AQSIQ is a new ministry-level entity whose creation was announced on April 17, 2001. AQSIQ is the result of a merger of the State Administration for Entry and Exit Quarantine and Inspection (SAIQ) and the China State Bureau of Quality and Technical Supervision (CSBTS). AQSIQ's new structure was published by AQSIQ in August 2001. AQSIQ has a Web site at **www.aqsiq.gov.cn**. The Web site gives a wealth of information on China's import safety certification news, regulations, procedures, policies including reference to WTO accession, and a China AQSIQ organization chart. Under AQSIQ, two commissions have been created which report to the State Council on standards issues. These two commissions are the China National Certification Administration (CNCA), which oversees certification and the China Compulsory Certification Marl (CCC Mark), and State Standardization Administration (SSA). AQSIQ is the primary Chinese government agency responsible for implementing and enforcing standards. However, since this is a new organization, AQSIQ is still in the process of formulating its procedures and methods. The U.S. Embassy will continue to follow this process.

A point-of-contact in the USDOC on standards is at the:

National Institute of Standards and Technology's Global Standards Program
Mary H. Saunders, Director
100 Bureau Drive, MS 2100
Gaithersburg, Maryland 20899-2100
Tel: 301-975-6094
Fax: 301-975-4715
E-mail: **gsp@nist.govm**
Web site: **http://www.ts.nist.gov/gsp**.

The point-of-contact at USCS Beijing:

John Larkin
Tel: 86-10-8529-6655 x811
Fax: 86-10-8529-6558.

Security Software Certification

Hardware and software used for data security or encryption require special security software certification before they can be sold in China. This is separate from the AQSIQ quality assurance procedures. USCS has an International Marketing Insight (IMI) on this matter, published in June 1999, under the title "Security Software Certification."

The office that does this certification is the:

China National Information Security Testing Evaluation and Certification Center (CNISTEC).
No. 36 Xinjiang Gongmen
Hai Dian District
Beijing 100091
Tel: 86-10-6879-6484
Fax: 86-10-6288-0411

Quarantine Inspection

A 1992 quarantine law provides the legal basis for the quarantine inspection of animals, plants and their products, as well as the containers and packaging materials used for transporting these items. The law also establishes the Chinese Animal and Plant Quarantine Administration (CAPQ), since folded into the General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ), which is a ministry-level agency created April 17, 2001, which reports to the State Council. AQSIQ has the responsibility to carry out import and export inspections.

The importer must submit an application in advance and the products must undergo the required inspections upon arrival in China. Contracts must specify the requirements for inspection under China's law, as well as indicate the necessary quarantine certificates to be issued by the appropriate agency in the exporting country. Catalogues of the Class A and B infectious or parasitic diseases of animals and the catalogues of the diseases, pests and weeds dangerous to plants are determined and announced by the AQSIQ. The U.S. Department of Agriculture maintains an office of the Animal and Plant Health Inspection Service (APHIS) in Beijing. The office is able to answer questions about Chinese quarantine laws and is the equivalent of AQSIQ. Contact Dale Maki, Tel: (86-10) 6505-4575, Fax: (86-10) 6505-4574. The APHIS Web site is **http://www.aphis.usda.gov**.

4.7.7 Labeling Issues

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

All products sold in China must be marked - in the Chinese language - with the relevant information. The State Administration for Quality Supervision, Inspection, and Quarantine requires imported and exported (but not domestic) food items such as candy, wine, nuts, canned food and cheese to have labels verified and products tested for quality before a good can be imported or exported. According to the Food Labeling Standards of China, imported foods shall have clear markings that indicate the country of origin in addition to the name and address of the general distributor that is registered in the country.

Import-Export Food Labeling Management Regulation

On April 1, 2000, a new national Chinese Import-Export Food Labeling Management Regulation that was announced on February 15, 2000, was put into effect for the implementation of food label standards. The law supersedes both the Regulation on Management of Import-Export Food Labeling, announced on May 24, 1994, and the Regulation on Management of Labeling Inspection Attached to Import and Export Food, announced on April 21, 1994. This Chinese law requires that all packaged food products (except bulk) must have Chinese labels clearly stating the type of food, brand name, trademark, manufacturer's name and address, country of origin, ingredients, date of production and sell-by date. This law applies to imported as well as locally packaged products. English-language versions of the new regulations and other rules about food additives, such as Food Laws, Labeling Requirements, Food Additives Regulations, Pesticides and other Contaminants, Organic "Green" Food Standards, and Copyright/Trademark, will be obtained in the Food & Agricultural Import Regulations & Standards Report (FAIRS). This report can be accessed

by going to **http://www.fas.usda.gov**, or contact Audrey Talley, USDA/Foreign Agricultural Service, Tel: (202) 720-9408; fax: (202) 690-0677.

4.7.8 Additional Trade Issues

Firms seeking the following exemptions should consult with Customs authorities for information on the procedures and to obtain copies of appropriate forms.

Representative Offices

Resident 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.

Foreign-Invested Enterprises (FIEs)

China permits four types of FIEs:

- Equity joint ventures (EJVs),
- Cooperative (contractual) joint ventures (CJVs),
- Wholly foreign-owned enterprises (WFOEs), and
- Foreign-invested joint stock companies.

A complicated set of rules exempts selected FIEs from some Customs duties and VAT. Companies should consult the relevant regulations.

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 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. 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.

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.

For more information on agricultural trade policy, go to **http://www.fas.usda.gov** to access the latest China Annual Trade Policy Report.

4.7.9 Restrictions on 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 RMB. Food items containing certain food colorings and additives deemed harmful to human health by the Ministry of Health are also barred entry.

In addition, rules went into effect in June 1999, which further restrict or prohibit the importation of certain commodities related to the processing trade. Jointly issued by the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and the State Economic and Trade Commission (MOFTEC and parts of SETC were restructured in 2003 to form MOFCOM), 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. U.S. firms should contact the China General Administration of Customs for guidance regarding the import of any of these types of products.

On November 1, 1999, China's State General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ), the General Administration of Customs, and MOFTEC jointly issued a circular announcing new requirements for wood packaging materials used to ship goods to China from the United States and Japan. The new requirements apply to all shipments departing from the US or Japan beginning January 1, 2000, and target the elimination of pinewood nematodes, softwood pests that can destroy trees. Some 25-30 percent of US exports to China could be affected. The new requirements also call for a certification from Animal and Plant Quarantine Service (APHIS) that conifer softwood packaging has been heat-treated, or a label that the shipment contains non-conifer wood packaging, or non-wood packaging.

4.7.10 Customs Contact Information

Beijing:

General Administration of Customs
Foreign Affairs Division
6 Jianguomenwai DaJie
Tel: 86-10-6519-5243 or 6519-5399
Fax: 86-10-6519-5394
General Administration of Customs Web site: http: // **www.customs.gov.cn**
Shanghai Customs Web site: **http://www.shcus.gov.cn/apec/index.jsp**
Tianjin Customs Web site: **http://tjc.online.tj.cn/**
Guangzhou Customs Web site: **http://haiguan.gzfeihua.com/customs.htm**

4.8 OPENNESS TO FOREIGN INVESTMENT

China's investment climate has changed dramatically in 24 years of reform and opening. In the early 1980's, China restricted foreign investments to export-oriented operations and required foreign investors to form joint venture partnerships with Chinese firms in order to enter the market. Since the early 1990's, however, China has allowed foreign investors to manufacture and sell a wide variety of goods on the domestic market. In the mid-1990's, China authorized the establishment of wholly foreign-owned enterprises (WFOEs), now the preferred form of FDI.

However, the Chinese Government's emphasis on guiding FDI into manufacturing has led to market saturation and over-capacity of some industries in that sector, while leaving China's service sector highly underdeveloped.

China became a member of the World Trade Organization (WTO) on December 11, 2001. Although the WTO is primarily concerned with trade, China also took on obligations to eliminate certain trade-related investment measures and to open gradually opportunities for foreign investment in specified sectors that had previously been off limits. New laws, regulations, and administrative measures aimed at implementing these general and sector-specific commitments are being issued at a rapid pace. Even so, issuance of some measures has been behind schedule. Prospective U.S. investors will want to examine carefully the particulars of these new measures as they emerge. The relaxation of absolute barriers to entry has not led to a rush of foreign investment in telecommunications service and banking, for example, due to remaining regulatory restrictions, high capital requirements, and foreign firms' judgments about market conditions.

Prior to China's WTO entry, many international firms allied with Hong Kong companies to gain access to the China market. As a result, Hong Kong is the largest "foreign" investor in Mainland China. In part, Hong Kong's investments in China outpaced investments by other economies because Hong Kong's entrepreneurs were willing to accept the risks of investing in developing China before other investors. As China's WTO entry makes the operating environment more transparent and predictable, however, Hong Kong's role will change. Shanghai is emerging as a major alternative to Hong Kong, although the limitations on convertibility of the Chinese currency will impede Shanghai's ability to supplant Hong Kong.

A growing number of firms are opting to channel their China investments through vehicles registered in the freeports of British Virgin Islands, the Cayman Islands, and Western Samoa. In 2002, new FDI nominally from these three tax haven economies accounted for 15.5 percent of total new FDI. The ultimate origin of this FDI is unclear, but anecdotal information suggests that it includes investments from corporations headquartered in OECD economies, Taiwan, and even China itself. The rise in investment from these freeports correlates closely with the decline in investments from Hong Kong, suggesting that some firms are shifting the nominal origin of their investments.

Encouraged versus Restricted Investment

China attempts to guide new foreign investment towards "encouraged" industries and regions. China has implemented new policies introducing new incentives for investments in high-tech industries and in the central and western parts of the country in order to stimulate development in less developed areas. A new catalogue took effect April 1, 2002, replacing the December 1997 list and designating sectors in which foreign investment would be encouraged, restricted or prohibited. Unlisted sectors are considered to be permitted.

Among other things, the new catalogue aims to implement sectoral openings that China promised in its WTO accession agreement, including banking, insurance, petroleum extraction, and distribution. According to an accompanying regulation, projects in "encouraged" sectors benefit from duty-free import of capital equipment and value-added tax rebates on inputs. The same regulation states that approval authority for "restricted" investments rests with the relevant central government ministry and may not be delegated to the local level. For a number of restricted industries, a Chinese controlling or majority stake is required. Industries in which foreign investment is prohibited include national defense, firearms manufacturing, most media content sectors, and biotechnology seed production.

Regulations governing foreign investment in specific industries have been issued in large numbers over the past few years, spurred by WTO obligations to open these sectors. Prospective investors should examine these regulations carefully.

Mergers and Acquisitions (M&A)

China recently issued new regulations governing foreign purchase of stakes in domestic enterprises. Regulations issued in November 2002 permit foreign purchase of traded and non-traded (designated state) shares of Chinese enterprises. In addition, China issued regulations that took effect in April 2003, specified procedures for foreign

acquisition of and merger with domestic enterprises. These regulations require pre-merger notification and allow for examination of antitrust considerations in some cases. By requiring approval of all owners of the domestic enterprise, the regulation implicitly prohibits hostile takeovers. Because the enterprise resulting from the M&A will be foreign-invested, the procedures require approval of both the M&A and of the registration of the resulting enterprise, in accordance with the general rules governing approval of foreign investment.

Mergers and spin-offs involving only foreign-invested firms are governed by the Regulations on the Merger and Division of FIEs, which were amended in November 2001 to improve the conditions for M&A activity among such enterprises.

Investment Incentives

China has developed and expanded a complex system of investment incentives over the last twenty years. The Special Economic Zones (SEZs) of Shenzhen, Shantou, Zhuhai, Xiamen and Hainan, 14 coastal cities, hundreds of development zones and designated inland cities all promote investment with unique packages of investment and tax incentives. Chinese authorities have also established a number of free ports and bonded zones. In recent years, SEZs have sought to enhance their autonomy while officials from inland China have pressed the central government to reduce SEZ privileges. To make progress toward a consistent (and required) national trade regime as part of its WTO accession, China has indicated that it will not introduce any new SEZ investment incentives and will decrease existing incentives over time.

Western China continues to struggle to attract significant amounts of FDI. China has touted a high-visibility "Great Western Development" campaign and included a variety of western development provisions in its 10th five-year plan. However, provincial and local governments in the western areas have generally tried to steer prospective investors to invest in failing state-owned enterprises (SOEs) in hopes of saving jobs at these large employers. Prospective foreign investors have found these SOEs to be almost uniformly unattractive business propositions. Governments have not been as willing to promote some of the very promising private enterprises to foreign investors. The investment climate and business environment are also significantly less sophisticated and transparent than in the coastal areas, making it difficult for foreign investors to assess prospective investments. Finally, the most attractive export routes and domestic consumer market segments are concentrated in the East. As a result of these limitations, few foreign investors have made significant moves in China's west.

In the electronics sector, in particular, industrial clusters are starting to crop up in China, adding momentum to the shift by major manufacturers and their suppliers of production from other Asian locations to China. Nokia, for example, established the Xingwang Industrial Park in Beijing in 2001 in an attempt to draw in its suppliers. Other clusters have grown up naturally, such as the laptop manufacturing cluster in and near Shanghai.

Incentive Programs

Foreign investors sometimes have to negotiate incentives and benefits directly with the relevant government authorities. Some incentives and benefits may not be conferred automatically. The incentives available include significant reductions in national and local income taxes, land use fees, import and export duties, and priority treatment in obtaining basic infrastructure services. Chinese authorities have also established special preferences for projects involving high-tech and export-oriented investments. Priority sectors include transportation, communications, energy, metallurgy, construction materials, machinery, chemicals, pharmaceuticals, medical equipment, environmental protection and electronics. However, new regulations effective in 2002 provide that state-owned land use rights may be awarded only through tender.

China encourages reinvestment of profits. A foreign investor may obtain a refund of 40 percent of taxes paid on its share of income if those profits are reinvested in China for at least five years. Where profits are reinvested in high technology or export-oriented enterprises, the foreign investor may receive a full tax rebate. Many foreign companies invested in China have adopted a strategic plan that reinvests profits for growth and expansion.

As part of a national campaign to standardize tax treatment and increase collection rates, the State Administration of Taxation began work in 1998 on a planned unification of tax treatment for foreign and domestic firms. Concerns over the impact of the Asian financial crisis and, later, China's accession to the WTO led officials to delay the process. On several occasions in recent years, senior officials have announced the imminent reunification of tax rates or elimination of preferential tax treatment of foreign firms. Due to the need for National People's Congress approval, which takes a minimum of three months, there would be some advance warning of a unification of the tax rates, and any such unification would likely grandfather previously issued incentives.

China's tax incentive system is complicated and difficult to implement. Discrepancies between central, provincial and local government tax regulations hamper foreign investment, and these problems are particularly acute in remote and impoverished areas. Still, initial efforts at reform are beginning to take effect. Collection efforts have been centralized and the responsibility for assessment and filing of returns was shifted to the taxed enterprise in late 1999. A computerized standard reporting and payment procedure has been progressively expanded nationwide to reduce overpayments and loopholes.

National Treatment

China has committed to grant national treatment as part of its accession to the WTO. Not all of the thousands of government officials understand this concept, however, and implementation is likely to pose periodic problems. China is conducting training programs to educate central and local government officials on China's WTO obligations. In addition, WTO national treatment rules aim to eliminate discrimination against imported goods and do not apply fully to investment.

Basic Laws and Regulations Covering or Affecting FDI

The basic laws and regulations governing FDI in China are complex. A summary of some of the most important of those currently in effect is provided below.

Chinese laws are typically drafted broadly, requiring reference to regulations and even more detailed implementing rules for practical application. Under the terms of its WTO accession agreement, China obligated itself to publish all trade related laws, regulations, and other measures in advance for comment prior to implementation, and this obligation should encompass many regulations affecting foreign investment.

4.8.1 Laws Affecting Foreign Enterprise Establishment

Forms of Foreign Ownership

In most sectors where foreign investment has been allowed, FIEs can exist as WFOEs, equity joint ventures (EJVs), cooperative (or contractual) joint ventures (CJVs), or foreign-invested companies limited by shares (FICLS). Under China's Company Law, foreign firms theoretically can now also open branches in China, but in practice only foreign financial institutions, namely commercial banks and non-life insurance companies, can establish branches. Foreign investors with multiple investments may also be eligible to establish holding (investment) companies.

Investment in WFOEs is now the most popular FDI vehicle in China. The WFOE Law was originally promulgated in 1986, and the law and implementing regulations have been amended five times. The WFOE Law was amended most recently in October 2000 and amended implementing regulations were promulgated in April 2001. The 2001 revisions of the WFOE Law and implementing regulations (State Council Order No. 301) amended or deleted sixteen articles. The revisions eliminated requirements for foreign exchange balancing, struck requirements for domestic sales ratios, removed or adjusted technology transfer and export performance requirements, and modified provisions on domestic procurement of raw materials. Several former requirements remain "encouraged," however.

Under the amended WFOE Law, China may reject an application to establish a WFOE for five reasons: (1) danger to China's national security, (2) violation of China's laws and regulations, (3) detriment to China's sovereignty or public

interest; (4) nonconformity with the requirements of the development of China's national economy; and (5) danger of environmental pollution.

The "Law on EJVs" was amended in March 2001, and implementing regulations were amended in July 2001. EJVs had historically been the main organizational form of FIEs in China but have fallen out of favor as dissatisfaction grew with respect to choice of local partners and with board decisions, capital formation, dividend distributions and other matters. EJVs declined further as restrictions on WFOEs loosened. China had traditionally favored investment in JVs, in hopes of rescuing poorly performing domestic SOEs. The March 2001 amendments remove the requirements that FIEs balance their foreign exchange receipts and expenditures. Many joint-venture contracts still contain a clause requiring such balancing, but under the terms of China's WTO accession such clauses are not to be enforced.

CJVs

The Law on CJVs was amended in October 2000. Although not requiring strict proportionality with respect to investment terms, return on capital, governance and dividend distribution, and thus more clearly resembling partnerships in the United States sense, CJVs have never been as popular as EJVs, in part because of investors' unfamiliarity with CJVs. The principal exception has involved infrastructure projects in which the foreign investor is allowed an early return on capital in consideration for relinquishing any claim to residual assets upon expiration of the CJV's term.

FICLS

FICLS are organized as shareholding companies in which foreign investors hold at least 25 percent of equity. They have been difficult to organize because of demanding regulatory preconditions and requirements for Ministry of Commerce approval. They should become more popular as more Chinese companies organized as share companies establish market presence, reducing the benefit of forming joint ventures.

Branches

As stated above, branches in practice are permitted only in certain financial industries.

Representative Offices

Foreign firms may also establish representative offices in China, but these are prohibited from engaging in any profit-making activities. Foreign law firms, however, are allowed to operate only through representative offices and are an exception to the prohibition on profit-making activities.

Holding Companies

There has been some relaxation of the restrictions on business scope and operations of holding companies, although minimum capital requirements normally make them suitable only for corporations with several sizeable investments to manage. A new regulation that took effect in April 2003 made it possible for holding companies to manage human resources across their affiliated companies and provide certain market research and other services to their affiliates. Distribution and trading functions of holding companies are scheduled to be phased in over a five-year period under China's WTO commitments. Profit and loss consolidation within holding companies is still prohibited.

Regulations and periodic updates on China's investment projects and conditions can be found on MOFCOM's Web site: **www.mofcom.gov.cn** and its affiliated Web site **www.fdi.gov.cn**.

4.8.2 Other Laws Relating to Investment

Contract Law

China's Contract Law went into effect on October 1, 1999. The NPC passed the law to unify three earlier laws covering domestic economic contracts, foreign-related economic contracts, and technology contracts, and to address the rising use and complexity of contracts in China.

The new Contract Law moves China closer to international legal norms and to greater legal transparency. It encourages stronger contractual compliance by providing legal recourse - although enforcement of judgments will continue to be a problem. Certain contracts involving foreign firms (including those involved in establishing a FIE, many technology import contracts, and infrastructure project contracts) are still subject to government approval. Certain contracts, such as foreign loan contracts, other technology import contracts, and real estate contracts, must be registered but are not subject to approval requirements.

Securities Law

The Securities Law, effective on July 1, 1999, codifies and strengthens the administrative regulations that govern the underwriting and trading of corporate shares, as well as the activities of China's stock exchanges in Shanghai and Shenzhen. The Securities Law does not distinguish between SOEs and non-SOEs. In practice, however, few non-SOEs have been allowed to sell "A" shares. "A" shares are local currency shares. "B" shares, denominated in foreign currency, were originally for sale only to foreign legal persons and continue to be subject to separate administrative regulations. In February 2001, the authorities opened the "B" share market to Chinese citizens with legally obtained foreign currency holdings. Despite press reports indicating the "A" and "B" share markets will gradually be integrated, the exact timing of this move - which would be closely linked to changes in China's foreign exchange regime - remains unclear.

In December 2002, the People's Bank of China and the China Securities Regulatory Commission implemented new joint regulations for "qualified foreign institutional investors" (QFII) that gave eligible foreign firms conditional access to the country's domestic equity markets, including "A" shares and traded government and corporate bonds. The State Administration of Foreign Exchange also issued supplementary regulations on the use of foreign exchange for investment by QFIIs.

Foreign-Invested Venture Capital Firms

A new regulation that took effect March 1, 2003, replaced earlier provisional regulations permitting the establishment of foreign-invested venture capital firms, including WFOEs, aimed at funding high-technology and new technology startups in industries open to foreign investment. The new regulation lowers capital requirements, allows these firms to manage funds directly invested from overseas, and offers the option of establishing venture capital firms under an organizational form similar to the limited partnerships used elsewhere. An April 2001 regulation barred securities firms (including foreign-invested firms) from the private equity business. Chinese laws concerning foreign private equity firms set limits on corporate structure, share issuance and transfers, and investment exit options. Investment exit problems, especially the difficulty of listing on China's stock exchanges, coupled with the bureaucratic approvals required to list overseas, have limited interest in establishing China-based venture capital and private equity investment. As a result, most foreign venture capital and private equity investments in China are actually housed in offshore investment entities, which, as with other offshore FDI, can be transferred without Chinese Government approval.

Tendering and Government Procurement Laws

Concerns over the WTO consistency of the draft tendering law led the National People's Congress, on April 9, 1999, to make a surprise announcement that it had decided to move key sections relating to government procurement into a separate law. The tendering law (which now governs only state administered capital construction and infrastructure projects) was finalized in 1999, and the State Council issued "Provisions for the Administration of Government

Purchases." The NPC approved the new government procurement law in June 2002; the law took effect January 1, 2003, replacing the "Provisions."

The new Government Procurement Law (like its interim predecessor) establishes rudimentary criteria for the qualification of domestic and foreign suppliers and various categories of procurement, as well as broad standards for publicity, notification, bid scheduling, sealed bidding and bid evaluation. Initial foreign reactions to the new law have been mixed. The law is aimed at implementing one of China's WTO entry commitments by clarifying that purchases by SOEs do not constitute government procurement, thereby removing the bulk of commercial value from this procurement system. However, the legislation mandates domestic procurement unless the goods or services cannot be procured on reasonable commercial terms within China.

Investment Screening Procedures

Potential investment projects usually go through a multi-tiered screening process involving the foreign investment department at MOFCOM or a provincial equivalent. The process frequently also involves the development planning department (the NDRC, or a provincial equivalent) and the department responsible for the industrial sector of the project.

The first step is approval of the project proposal. The central government has delegated varying levels of approval authority to local governments. Until a few years ago, only the Special Economic Zones and open cities could approve projects valued at up to USD 30 million. Such approval authority has now been extended to all provincial capitals and a number of other cities throughout China. Most other cities and regions are limited to approving projects valued below USD 10 million. With certain exceptions involving areas such as municipal infrastructure projects, FDI exceeding these limits must be approved by MOFCOM and the NDRC. If an investment involves USD 100 million or more, it must also obtain State Council approval. The approval process for projects over USD 30 million has become less of an obstacle than in the past. Sometimes the political relationship between China and the home country of the foreign investor influences the approval process.

Research and Development

Poor links among government, university and industry researchers make it very difficult for China to efficiently utilize its many brilliant scientists and engineers. Much of China's top scientific talent is not in universities but in a government bureaucracy (the Chinese Academy of Sciences) modeled after the USSR Academy of Sciences. Young scientific and engineering talent often flows to the information industry and biotechnology sectors. Since the late 1980's, China has directed an increasing proportion of government research funds through peer review mechanisms at the National Natural Science Foundation of China (**www.nsfc.gov.cn**) and the Ministry of Science and Technology (**www.most.gov.cn**) in order to achieve better results from research funding. Some Chinese Government programs such as "Torch" promote scientific research and its commercial applications, yet the investment return on research and development, especially in the state sector, remains low. The central and local Chinese governments have also strongly promoted science parks, which, in actuality, often just serve as low-tech assembly centers.

Despite efforts since the early 1990's to push technical institutes towards the market, the political and economic structures of the old "planned economy" are still important obstacles. Lack of familiarity with intellectual property protections discourages Chinese companies from investing in research. Patent, copyright, and trademark infringement often prevent companies from recapturing their investment in product research and development. Furthermore, technology utilized by state-owned enterprises (SOEs) tends to lag far behind that of the growing private sector, in part because SOEs lack incentives to conduct research and development activities. There is a broad consensus among Chinese scientists and Chinese leaders that more reform and greater IPR protection are needed. China continues to reform its science and technology system in order to create incentives for innovation and to link science and technology research work more closely to the needs of the market.

Foreign companies' research and development centers in China have often focused on product localization or development of new products for the Chinese market. More recently, several companies, including Microsoft, Motorola, and Intel, have established research centers in China aimed at product development for regional or global

markets. The Chinese Government has welcomed the establishment of these centers although some Chinese critics worry that the centers will create an "internal brain drain" of talent away from Chinese companies and research institutions to foreign companies.

4.8.3 Conversion and Transfer Policies

In periods when foreign currency was relatively scarce in China, profits that were not generated in foreign exchange could only be repatriated with great difficulty. On December 1, 1996, China announced the full convertibility of its currency on the current account (for trade in goods, services and remittance transactions, including profits). To prevent rampant fraud, in 1998 China tightened the scrutiny of underlying documentation. Bureaucratic procedures as authorities implemented the new regulations created difficulties for many foreign and domestic companies requiring hard currency to complete their transactions. Foreign bank branches are allowed to engage in foreign currency business according to the same rules as Chinese banks.

All FIEs in China are entitled to open and maintain foreign exchange accounts for current account and capital account transactions. In order to do so, an FIE must first apply to China's State Administration of Foreign Exchange (SAFE) for permission. After SAFE grants permission for the account, it establishes a limit, based on the FIE's anticipated foreign exchange operational needs, beyond which foreign exchange must be converted to local currency.

4.8.4 Expropriation and Compensation

Chinese law prohibits nationalization of FIEs, including investments from Hong Kong, Taiwan, and Macau, except under "special" circumstances. The Chinese Government has not defined "special" circumstances although officials claim that "special" circumstances include national security considerations and obstacles to large civil engineering projects. Chinese law calls for compensation of expropriated foreign investments but does not define the terms of compensation.

There have been no cases of outright expropriation of foreign investment since China opened to the outside in 1979. However, the Department of State believes that there are several cases that may qualify as expropriations under Section 527 of the FY94-95 Foreign Relations Authorization Act.

4.8.5 Dispute Settlement

Arbitration

Although 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 (a.k.a. the New York Convention), it places strong emphasis on resolving disputes through informal conciliation and mediation. If it is necessary to employ a formal mechanism, most parties prefer arbitration to litigation. The authorities greatly prefer arbitration through institutions in China. Most foreign investors consider arbitration as a last resort and have found it to be time-consuming and unreliable.

Most Chinese parties and form contracts propose arbitration by the China International Economic and Trade Arbitration Commission (CIETAC). During the past few years, some foreign parties have expressed satisfaction with and obtained favorable rulings from CIETAC. Difficulties in other cases have led several Western participants and panel members in CIETAC proceedings to raise concerns about CIETAC's procedures and effectiveness. In one instance, a respected American member of an arbitration panel threatened to resign from CIETAC over alleged procedural irregularities during consideration of a case. For contracts that involve a purely foreign party (i.e., not an

FIE), offshore arbitration may be adopted. If CIETAC arbitration is chosen, a panel with a foreign arbitrator is also possible, although not for FIEs. Provinces and municipalities also have their own arbitration institutions. Some foreign investors have been favorably impressed with the Beijing Commission despite its lack of foreign arbitrators.

Enforcement of arbitral awards is sporadic. Sometimes, even when a foreign company wins in arbitration in China, the local court may delay or fail to enforce the decision. Even when the courts do attempt to enforce a decision, local officials often ignore court decisions with impunity.

There have also been investment dispute cases in which local authorities have intervened on the part of a Chinese company in a manner considered unfair and capricious by the foreign investor. For example, local courts have occasionally intervened to prevent the sale or transfer of foreign-owned assets, pending resolution of a commercial dispute between a foreign company and a Chinese company. In general, most cases have been resolved through negotiation between the commercial parties and/or intervention of central authorities.

Legal System

Chinese society is in transition from rule by man, to rule of law. Most laws are general; details are specified in implementing regulations. Many foreign businesses report that Communist Party and government officials at times interfere in court decisions. China's top leaders undoubtedly play a major role in deciding sensitive political cases. China's legal system is civil law in origin but now includes some common law elements, although it places relatively less emphasis on legal precedent.

The 1979 "Organic Law of the People's Courts of the People's Republic of China" authorized establishment of economic courts at China's National Supreme People's Court and three levels of provincial courts. The economic courts are given jurisdiction over contract and commercial disputes between Chinese entities; trade, maritime, intellectual property and insurance; other business disputes involving foreign parties; and various economic crimes including theft, bribery, and tax evasion. In 1994, the lowest level of provincial courts started to try economic cases involving foreign parties. Foreign lawyers cannot act as attorneys in Chinese courts, but may observe proceedings informally. Over the past four years, the United States has been working with China on projects relating to commercial and economic law under the umbrella of the U.S.-China Joint Committee on Commerce and Trade.

Bankruptcy and Creditors' Rights

China's provisional bankruptcy law, passed in December 1986 and applicable only to SOEs, provides for creditors' meetings to discuss and adopt plans for the distribution of bankrupt property. The resolutions of creditors' meetings, which are binding on all creditors, are adopted by a majority of the attending creditors, who must account for more than half of the total amount of unsecured credit. Other laws govern bankruptcy by non-SOEs, but bankruptcy law, as a whole is incomplete, inefficient, unprofessional, and subject to gross inequities.

Even Chinese officials contemplating broad enterprise reforms recognize the inadequacy of China's current provisional bankruptcy law. A unified enterprise "Bankruptcy Law" is in draft but is still in relatively rough form, in part because the authorities remain reluctant to address the social consequences of bankruptcy.

In October 1995, China put into effect a "Security Law," the first national legislation covering mortgages, liens, pledges, and guaranties. The Law defines debtor and guarantor rights and provides for mortgaging of property, including land and buildings, as well as other tangible assets such as machinery, aircraft, and other types of vehicles. While some areas of the Law remain unclear -- such as how the transfer of property under foreclosure is effected -- the law represents an important step forward. Chinese commercial banks have successfully repossessed vehicles from delinquent borrowers. Although mechanisms have been created for foreign investors to take over non-performing debt from the domestic banking system (generally through the asset management companies established by the major state-owned banks in 1999), numerous bureaucratic hurdles remain in the process of acquiring and liquidating these assets.

4.8.6 Performance Requirements and Incentives

China agreed to implement the WTO Agreement on Trade-Related Investment Measures (TRIMs) upon WTO accession. China has committed to eliminate and cease enforcing trade and foreign exchange balancing requirements and local content and performance requirements. It has also agreed not to enforce contracts imposing these requirements. China has also committed to enforce laws or provisions relating to the transfer of technology or other know-how only if they are in accordance with WTO rules on protection of intellectual property rights (IPR) and TRIMs.

Export Performance Requirements

Export performance requirements are inconsistent with WTO principles. China has said it will not enforce export performance requirements in private contracts. However, in the past, MOFCOM's predecessor, the Ministry of Foreign Trade and Economic Cooperation, and the State Development Planning Commission (now the National Development and Reform Commission, NDRC) have strongly encouraged contractual clauses stipulating export requirements.

Local Content

Chinese regulations grant FIEs freedom to source inputs both in China and abroad, though priority is given to Chinese products when conditions are equal. Chinese regulations forbid "unreasonable" geographical, price, or quantity restrictions on the marketing of a licensed product. FIEs thus retain the right to purchase equipment, parts, and raw materials from any source. Chinese officials, however, still encourage localization of production.

Technology Transfer

FIEs often involve the transfer of technology through a licensing agreement, the transfer of technology from a third party, or the transfer from the foreign partner as part of its capital contribution. China has committed to enforce only those laws or other provisions relating to the transfer of technology or other know-how if they are in accordance with WTO provisions on protection of IPR and TRIMS, including a prohibition on technology transfer as a condition to approval. Regulations promulgated in 2001 have generally improved the regulatory environment for foreign technology providers. Despite these commitments, foreign investors may still encounter pressure to transfer technology.

Employment of Host-Country Nationals

Rules for hiring Chinese nationals depend on the type of establishment. Although FIEs are not required to nominate Chinese nationals to their upper management, in practice, expatriate personnel normally occupy only a small number of managerial and technical slots. In some ventures, there are no foreign personnel at all.

The amended EJV Law provides that the joint venture partners will determine, by consultation, the Chairman and Vice-Chairman. If the foreign side assumes the chairmanship, the Chinese party must have the vice-chairmanship, and vice-versa.

While FIEs are free to recruit employees directly or through agencies, representative offices of foreign companies must hire all local employees under contract with approved "labor services companies." These foreign companies pay the contracted local employees' salary directly to the "labor services companies" that, in turn, give only a portion of the salary to the contracted employees. The employees remain technically employed by the labor services company.

4.8.7 Right to Private Ownership and Establishment

In the past, China restricted private ownership and establishment of business enterprises, particularly in the service sector. In 1999, China amended its constitution to provide a legal basis for private sector development. Upon

accession to the WTO, China committed to reduce over time many restrictions on the private sector. Nevertheless, some sectors -- insurance, for example -- will retain many restrictions, and some of these discriminate against foreign legal and natural persons.

Land

Chinese law provides that all land is owned by "the public," and individuals cannot own land. However, consistent with the policies of reform and opening to the outside, legal and natural persons, including foreigners, can hold long-term leases for land use. They can also own buildings, apartments, and other structures on land, as well as own personal property.

4.8.8 Intellectual Property Risks

Chinese leaders have acknowledged that protection of patents, copyrights, trademarks, and specialized intellectual property such as domain names and plant variety rights is needed to promote a "knowledge-based economy" in China. China committed to full compliance with the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) upon accession to the WTO. China's legal framework is increasingly compliant with the TRIPS Agreement and international standards, although in some key areas such as implementing enforcement procedures and legal remedies that have a deterrent effect, as required by TRIPS, China's performance is not adequate. In spite of significant progress in improving its intellectual property legal and regulatory regime, IPR protection in China remains weak. Trademark, patent, and copyright violations are blatant and widespread. While Chinese officials are increasing enforcement efforts, IPR violations, including growing exports of counterfeit products, continue to outpace enforcement.

4.8.9 Membership in International IPR Organizations

China is a member of the World Intellectual Property Organization (WIPO), Paris Convention for the Protection of Industrial Property, Berne Convention, Madrid Trademark Convention, Universal Copyright Convention, and Geneva Phonogram Convention. China's amended copyright law is not fully consistent with the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty.

4.8.10 IPR Enforcement

The United States Government recognizes the enforcement efforts that China has made to date, but the continuation of unacceptably high levels of piracy and counterfeiting require more effective and coordinated action. Enforcement of existing IPR regulations is uneven and is sometimes impeded by local interests. Some of China's largest markets openly sell pirated and counterfeit goods, despite repeated U.S. Government requests that China shut down and prosecute vendors of infringing goods.

Industry associations representing computer software, entertainment, and consumer goods industries report high levels of piracy and counterfeiting of all types of products. The Business Software Alliance estimates that more than 90 percent of business software used in China is pirated. Consumer goods companies report that, on average, 20 percent of their products in the Chinese marketplace are counterfeits. Chinese companies experience similar, or greater, problems with piracy and counterfeits.

Pirated products are still being produced locally and imports of pirated products from other economies continue to flood the Chinese market. The levels of optical media piracy (CDs, VCDs, and DVDs) in China remain at extremely high levels in the domestic market, and China remains a center for entertainment software piracy and the production

of pirated cartridge-based video game products. The black market for audiovisual products is due in part to excessive market access restrictions, as China tightly controls the distribution of films, books, and music. End-user piracy of business software within the government remains largely unabated despite issuance of directives to government ministries to use only legitimate software. In addition, the piracy of journals and books is a significant problem that has only now begun to show some improvement. The counterfeiting of goods bearing American trademarks, including some well-known marks, by Chinese companies remains a major problem. Despite some enforcement efforts against such activities, large volumes of counterfeit goods, often of well-known products, continue to be produced and sold in China and to be exported to many other countries. Counterfeit medicines are common and pose a health threat to consumers in China. Companies registering legitimate medicines and other patented products in China often find the that confidential data they are required to submit to the relevant government agencies is compromised, leading unscrupulous local generic producers to produce unauthorized imitations, sometimes with poor quality or content standards, resulting in unhealthful products.

While industries report improved cooperation with administrative enforcement agencies in regard to raids, the administrative penalties for IPR violations, often no more than confiscation of the counterfeit products or nominal fines, are generally insufficient to deter counterfeiters. Very few cases are referred to criminal prosecution because the threshold for initiating criminal cases for IPR infringements remain very high. China's criminal sanctions against IPR violations are seldom used, in part because of restrictions on types of admissible evidence and unclear mandates for law enforcement authorities with little experience in prosecuting IPR violations.

Combating IPR violations in China is a long-term, multifaceted undertaking. China has established special IPR courts in all provinces and major cities. Judges in Chinese courts are charged with fact-finding and have greater discretion in the adjudication of cases than those in the United States. However, the lack of legal training of many trial court judges undermines the effectiveness of these courts. The U.S. Government and U.S. companies have provided resources for training judges and other enforcement officials. Chinese authorities are attempting to address the lack of training of enforcement officials by establishing IPR law centers at Beijing University, Qinqhua University, and People's University. Chinese IPR professionals are also studying in foreign countries. The United States and the European Union have made IPR -- and commercial dispute resolution -- a key feature of "Rule of Law" discussions with Chinese authorities.

4.9 TRANSPARENCY OF THE REGULATORY SYSTEM

China's legal and regulatory system lacks transparency and consistent enforcement despite the promulgation of thousands of regulations, opinions, and notices affecting foreign investment. Although the Chinese Government has simplified the legal and regulatory environment for foreign investors in recent years, China's laws and regulations are still often ambiguous. Foreign investors continue to rank the inconsistent and arbitrary enforcement of regulations and the lack of transparency as two major problems in China's investment climate. No prospective foreign investor should venture into the China market without due diligence and professional advice.

In accordance with China's WTO commitments, the State Council's Legislative Affairs Office has stated that all of China's foreign trade-related and foreign-investment related laws, regulations, rules, and policy measures will be published. It further announced that China would use "proper ways and means" to help other WTO members and other pertinent individuals and enterprises understand those rules and regulations. The Legislative Affairs Office acknowledged that, in the past, some departments and localities relied on their own internal documents to conduct business. Some even issued documents under their own "internal control" and resorted to "disguised forms of market blockades" and local protectionism. The State Council has announced that it is committed to stopping such practices in order to avoid international disputes.

Chinese Government agencies have also begun to publish some trade-related regulations in draft for public comment, including comments from foreign parties. This process, required by China's WTO accession agreement, is still in its early stages. Comment periods are sometimes extremely brief, and it is not always clear how much impact public

comments have on the final regulations. Indeed, many regulations are published in final form, making any comments made by interested parties ineffective in altering their contents. Moreover, China still lacks a single source, along the lines of the U.S. Federal Register, for public releases of draft documents. Some government agencies have released draft regulations in advance only to certain favored enterprises (usually domestic enterprises) or have allowed enterprises only to read but not retain drafts. Also, comments by interested parties do not become part of a public record.

The official Web site **www.fdi.gov.cn** contains many investment-related laws and regulations in both the original Chinese and English translation as well as research reports and statistics on inward FDI.

4.9.1 Capital Market Risks

The development of China's domestic capital markets has not kept pace with economic needs. Two stock exchanges have been established in Shanghai (in November 1990) and in Shenzhen in southern China's booming Guangdong Province (July 1991). Other regional "securities exchange centers" have been closed by the China Securities Regulatory Commission (CSRC). The Securities Law took effect in June 1999. The Law includes tougher penalties for insider trading, falsifying prospectuses and financial reports, and other forms of fraud. The CSRC lacks experienced personnel and has turned to the United Kingdom and other countries for more training. China's stock markets are gradually adopting accounting standards closer to those in use in other markets.

Although FIEs, in theory, may apply for permission to raise capital directly on China's stock and bond markets, the approval process is difficult. In the case of shares, the CSRC has indicated that it plans to treat FIEs the same as domestic firms.

The state banking sector dominates China's capital markets and in the past, generally channeled funds to SOEs on the basis of Communist Party policy rather than market considerations. Other domestic firms must find different sources of financing, including direct investment, gray-market sales of stock, and borrowing from other firms or non-bank institutions.

China's progress in reducing political interference in the banking system has been mixed. The authorities have encouraged China's commercial banks, all of which are wholly or partially state-owned, to improve their loan portfolios by increasing the proportion of their lending to small and medium-sized enterprises, including private firms. Lending to individuals for housing mortgages, purchase of consumer durables, and education expenses has also increased. The government has also maintained three "policy banks" to lend to commercially unattractive endeavors such as infrastructure development and government agricultural procurement. Nevertheless, China's commercial banks still carry a heavy percentage of non-performing loans. Authoritative estimates of the total stock of bad debt in China's financial system range from 45 percent to 75 percent of the country's annual gross domestic product. Large SOEs continue to receive the bulk of commercial bank lending, although local financing of FIEs is becoming more widely available.

In 1998, the authorities - alarmed by the Asian financial crisis - took steps to reduce financial risk in the banking system. The People's Bank of China (China's central bank) reorganized its structure along regional lines similar to that of the U.S. Federal Reserve System, and the Communist Party created its Central Financial Work Commission to oversee the selection of senior managers in the country's financial institutions. Both measures aimed at reducing the influence of local political leaders over credit decisions, a major cause of China's abundance of non-performing loans. In 2003, the authorities took a further step toward stronger regulation of the financial system by merging the Party's Financial Work Commission with the departments of the People's Bank charged with supervising China's financial institutions to create a new China Banking Regulatory Commission (CBRC) independent of the central bank.

Foreign firms that need working capital, whether foreign exchange or local currency, may obtain short-term loans from China's state-owned commercial banks. However, priority lending is often given to investments that bring in advanced technology or produce goods for export. Since 1998, Chinese interest rates have generally been lower than those overseas, making it more attractive to explore onshore financing. Foreign-invested firms, like domestic firms, must register all foreign loans with the State Administration for Foreign Exchange (SAFE). Along with the People's Bank of China, SAFE regulates the flow of foreign exchange into and out of China.

4.9.2 Political Violence

Corruption, SOE layoffs, and economic disparities between rural and urban areas and between coastal and interior regions have fueled resentment among segments of the Chinese populace. As China continues to restructure SOEs and makes the difficult and still incomplete transition to an entirely new social security system, unemployment and other social pressures have risen. As a result, urban worker protests have increased. Most of these have been fairly small and resolved peacefully. However, some protests have been large and persistent, such as those by thousands of workers in China's northeastern provinces in March and April 2002. In recent years, there have been isolated violent actions by disgruntled individuals - in some cases motivated by personal rather than political reasons - who damaged public buses, markets, and railroad tracks. More worrisome, though still relatively rare, were incidents of worker violence against owners or managers. Declining rural incomes have contributed to protests by farmers in rural areas. Local authorities have generally dealt with urban and rural protests in a peaceful manner and have not resorted to violence.

Following NATO's mistaken bombing of China's Embassy in Belgrade in 1999, violent protests erupted at U.S. diplomatic facilities and a few American fast-food franchises throughout China. Soon after the bombing, government-controlled media discouraged protests or acts of violence against foreign investors. Most foreign investors in China believe that the chances of political violence are low because the government is able and willing to repress any sizeable anti-government protests.

4.9.3 Corruption

Corruption remains widespread in China. Although the government launched a high profile anti-corruption campaign, these efforts are hampered by the lack of truly independent investigative bodies. Numerous senior provincial and municipal officials came under scrutiny, but there are widespread reports that more senior officials and their family members used their connections to avoid prosecution. Banking and finance are among the sectors most afflicted by corruption, as are government procurement and construction projects. Zhu Rongji, China's Premier until March 2003, has criticized corruption in the construction industry because of the safety hazards created by shoddy construction.

Offering and receiving bribes are both crimes under Chinese law. Bribes cannot be deducted from taxes. Based on surveys reported in the Western media and views expressed by foreign business people and lawyers in China, it is clear that U.S. firms consider corruption in China a hindrance to FDI.

Three different government bodies and one Communist Party organ are responsible for combating corruption in China: the Supreme People's Procuratorate, the Ministry of Supervision, the Ministry of Public Security, and the Communist Party Committee for Discipline Inspection. The Procuratorate and the Ministry of Public Security are responsible for investigating criminal violations of China's anti-corruption laws, while the Ministry of Supervision and the Party Discipline Inspection Committee enforce Government ethics and Party discipline.

The United States has provided some enforcement-related anti-corruption training to Ministry of Public Security, Ministry of Supervision, and Supreme People's Procuratorate officials. NGOs such as Transparency International are also exploring opportunities for cooperative programs to reduce corruption.

4.9.4 Bilateral Investment Agreements

China has entered into bilateral investment agreements with 107 countries, more than any other developing economy, according to the UN Conference on Trade and Development. Agreements have been signed with Japan, Germany, the United Kingdom, France, Italy, Thailand, Romania, Sweden, the Belgium-Luxembourg Economic Union, Finland, Norway, Spain, Austria, and others. The provisions of these agreements cover such issues as expropriation, arbitration, most-favored-nation treatment, and transfer or repatriation of proceeds.

The United States does not have a bilateral investment agreement with China, although the two governments did sign an agreement on investment guaranties that entered into force October 30, 1980. Any American investor investing in China should make sure that expropriation and arbitration are covered in the terms of the contract.

China has also signed treaties on avoidance of double taxation with dozens of economies, including the United States.

4.9.5 OPIC and Other Investment Insurance

In the past, the Overseas Private Investment Corporation (OPIC) had a very active program in China. The United States has suspended OPIC's program in China since the Tiananmen Incident in June 1989, first by Executive Order, and then by the legislative sanctions that took effect in February 1990. OPIC continues to honor outstanding political risk insurance contracts. At the end of 1990, 31 U.S. investments with approximately USD 300 million had OPIC political risk insurance. OPIC programs remain suspended in China due to U.S. foreign policy concerns, the terms of the sanctions legislation enacted, and the need for improved worker rights.

Although OPIC insurance is unavailable, the Multilateral Investment Guarantee Agency (MIGA), an organization affiliated with the World Bank, can provide political risk insurance for investors interested in investing in China. Some foreign commercial insurance companies also offer political risk insurance, as does the People's Insurance Company of China (PICC). Foreign political risk insurers have noted a decline in the past couple of years in new business in China. One possible explanation is that the political turmoil elsewhere in the region in the wake of the Asian financial crisis reduced the perception of risk with respect to China.

4.9.6 Labor

Labor Availability

FIEs can integrate a joint venture partner's work force, hire through a local labor bureau or job fair, advertise in newspapers, or rely on word of mouth. Representative offices must hire their local employees through a labor services agency.

Skilled managers, especially those with marketing skills, are often in short supply although many companies have found an abundance of talented and highly-motivated recent university graduates. Experienced managers in FIEs command salaries far greater than their counterparts in Chinese enterprises, making localization an increasingly expensive proposition for many companies. Finding and keeping engineers and technicians can also be difficult. Shortages of skilled labor are, at times, especially acute in south China due to the relative dearth of higher learning

institutions in that region. Many Chinese workers move rapidly from job to job within the foreign-invested and growing private sectors.

Compensation

Workers are paid a salary, hourly wages, or piecework wages. The provision of subsidized services, such as housing and medical care, is common, and compensation beyond the basic wage constitutes a large portion of a venture's labor expenses. With recent moves by China to reform the housing system and promote home purchases through a mortgage system, employer-provided housing has been decreasing. However, enterprises that merge with existing SOEs may still be required to provide workers dormitory housing. New enterprises, rather than providing housing, pay into a housing fund that may amount to as much as 10 percent of payroll. Because regulations on non-wage compensation differ by locality, investors should check the regulations in the relevant locality.

Local governments also require enterprise and worker contributions to pension and unemployment insurance funds. Tax rates for pension funds may run as high as 20 percent of an enterprise's total wage bill. Employees must also contribute between 3 percent and 8 percent of their salary, depending on the locale. In general, FIEs are free to pay whatever wage rates they choose as long as it is above the locally designated minimum wage. In practice, income tax laws often make it desirable to provide greater subsidies and services rather than higher wage rates. Most FIES determine their methods and calculations of salaries and benefits after observing local practice. China's national labor law also requires compensation for overtime work.

Termination of Employment

The ability to terminate workers varies widely based on location, type, and size of enterprise. Terminating individual workers for cause is legally possible, but may require prior notification/consultation with the local labor bureau and labor union. In general, it is easier to fire in southern China than in the northeast, and in smaller enterprises than in larger ones. FIEs generally do not encounter problems letting workers hired on short-term contract go at the end of the contract period. However, enterprises that take on workers from SOEs usually find it difficult to terminate these workers. Investors should be aware that large-scale layoffs from long-established SOEs have created some tension, and prompted some demonstrations by Chinese workers, and even led to violence in a few cases, though not to a degree that threatens social stability.

Worker Rights

It is illegal under Chinese law to oppose efforts to establish officially sanctioned unions. Amendments to the Trade Union Law, passed in 2001, provide tougher legal sanctions for anti-union activity. The amendments are widely perceived as strengthening unions' organizing activities in the private sector, including FIEs, where they have been underrepresented. However, these amendments do not require establishment of unions in these enterprises. The Communist Party controls the country's sole officially recognized workers' organization, the All-China Federation of Trade Unions (ACFTU). Independent trade unions are illegal. FIEs without unions often have worker organizations that perform functions similar to Chinese unions, such as organizing social and charitable activities.

China's Labor Law provides for collective labor contracts to specify wage levels, working hours, working conditions, and insurance and welfare. Most collective negotiations, however, appear to be pro-forma in nature. This is because local Communist party committees, rather than the workers themselves, control the selection of the union leaders who conduct collective bargaining.

Although China is a signatory to several ILO conventions, it has not signed key ILO conventions on freedom of association and collective bargaining. In 2001, China ratified the International Covenant on Economic, Social and Cultural Rights, but reserved on the issue of freedom of association.

4.9.7 Free Trade Zone Options

China's principal duty-free import/export zones are located in Dalian, Tianjin, Shanghai, Guangzhou, and Hainan. In addition to these officially designated zones, many other free trade zones offering similar privileges exist and are incorporated into economic development zones and open cities throughout China. However, restrictions and charges often apply and can affect venture operations and business in the latter zones.

China's General Administration of Customs claims success in controlling the duty-free importation of production inputs into the zones, but the lack of physical barriers makes it difficult to control the flow of non-duty items out of the zones.

4.10 TRADE AND PROJECT FINANCING

4.10.1 Banking System

China's banking system has undergone significant changes in the last two decades: banks are now functioning more like banks than before. Nevertheless, China's banking industry has remained in the government's hands even though banks have gained more autonomy.

Central Bank and Banking Regulatory Commission

The People's Bank of China (PBOC) is China's central bank, which formulates and implements monetary policy. (The State Council, however, continues to make all final decisions on major financial and monetary policy issues.) The PBOC maintains the banking sector's payment, clearing and settlement systems, and manages official foreign exchange and gold reserves. It oversees the State Administration of Foreign Exchange (SAFE) for setting foreign-exchange policies.

According to the 1995 Central Bank Law, PBOC has full autonomy in applying the monetary instruments, including setting interest rate for commercial banks and trading in government bonds. The State Council maintains oversight of PBOC policies.

China Banking Regulatory Commission (CBRC) was officially launched on April 28, 2003 to take over the supervisory role of the PBOC. The goal of the reform is to improve the efficiency of bank supervision and to help the PBOC to further focus on the macro economy and currency policy.

According to the official announcement by CBRC posted on its Web site, the CBRC is responsible for "the regulation and supervision of banks, asset management companies, trust and investment companies as well as other deposit-taking financial institutions. Its mission is to maintain a safe and sound banking system in China."

State-Owned Commercial Banks - The ‘Big Four’

In 1995, the government introduced the Commercial Bank Law to standardize the operations of China's commercial banking institutions. At present four major state-owned banks dominate the banking system and together account for well over half of all loans and deposits in China's banks:

- Bank of China (BOC),
- China Construction Bank (CCB),
- Agricultural Bank of China (ABC), and
- Industrial and Commercial Bank of China (ICBC)

The Industrial & Commerce Bank of China (ICBC) is the largest bank in China by total assets, total employees and total customers. ICBC differentiates itself from the other state-owned commercial banks by being second in foreign exchange business and first in RMB clearing business. It previously was the major supplier of funds to China's urban areas and manufacturing sector.

The Bank of China (BOC) specializes in foreign-exchange transactions and trade finance. In 2002, BOC Hong Kong (Holdings) was successfully listed on the Hong Kong Stock Exchange. The USD 2.8 billion offering was over-subscribed by 7.5 fold. The deal was a significant move in the reform of China's banking industry.

The China Construction Bank (CCB) specializes in medium to long-term credit for long-term specialized projects, such as infrastructure projects and urban housing development.

The Agriculture Bank of China (ABC) specializes in providing financing to China's agricultural sector and offers wholesale and retail banking services to farmers, township and village enterprises (TVEs) and other rural institutions.

Policy Banks

Three "policy" banks-the Agricultural Development Bank of China (ADBC), China Development Bank (CDB), and the Export-Import Bank of China (Chexim) - were established in 1994 to take over the government-directed spending functions of the four state-owned commercial banks. These banks are responsible for financing economic and trade development and state-invested projects.

CDB specializes in infrastructure financing; ADBC provides funds for agricultural development projects in rural areas; and Chexim specializes in trade financing.

Second Tier Commercial Banks

In addition to the big four state-owned commercial banks, there are smaller commercial banks. The largest ones in this group include the Bank of Communication, CITIC Industrial Bank, China Everbright Bank, Hua Xia Bank, China Minsheng Bank, Guangdong Development Bank, Shenzhen Development Bank, China Merchants Bank, Shanghai Pudong development bank and Fujian Industrial Bank. The second tier bankshave, on the whole, tended to adhere more closely to commercial principles in their operations but, nevertheless, have also encountered problems with respect to asset quality.

Trust and Investment Corporations

In the midst of the reforms of the 1980s, the government established some new investment banks that engaged in various forms of merchant and investment banking activities. Many of the 240 or so international trust and investment corporations (ITICs) established by government agencies and provincial authorities, however, experienced severe liquidity problems after the bankruptcy of the Guangdong International Trust and Investment Corporation (GITIC) in late 1998. The largest surviving ITIC is China International Trust and Investment Corporation (CITIC), which has a banking subsidiary known as CITIC Industrial Bank.

Years of government-directed lending have burdened these banks with large amounts of non-performing loans. According to theofficial data from the People's Bank of China, non-performing loans accounted for 21.4 percent to 26.1 percent of total lending of China's four big banks in 2002. In 1999, four asset management companies (AMC) were established to transfer the non-performing assets from the banks. The AMCs plan to repackage the non-performing loans into viable assets and sell them off to the investors.

PBOC has encouraged banks to diversify their portfolios by increasing their services to the private sector and individuals. In July 2000, an experimental personal credit rating system was launched in Shanghai Municipality to be used to assess consumer credit risk and set ratings standards. This is an important move in developing China's consumer credit industry, and increase bank loans to individuals.

The central government has allowed several small banks to raise capital through bonds or stock issues. Followed the stock exchange listings of Shenzhen Development Bank and Pudong Development Bank, China Minsheng Bank (was listed on the Shanghai (A-Share) Stock Exchange in December 2000.

The reform of the banking system has been accompanied by the Chinese leadership's decision to decontrol interest rates gradually over an indefinite period of time. In his report to the Sixteenth National Congress of the Chinese Communist Party in November 2002, then-CCP General Secretary Jiang Zemin reaffirmed the authorities' intention to deregulate interest rates "steadily" and to allow them to be determined by market forces. Market-based interest rate reform aims at establishing the pricing mechanism of deposit and lending rate based on market supply and demand. The central bank would continue to adjust and guide the interest rate development which allowing the market mechanism to play a dominant role in financial resource allocation.

The sequence of the reform, as outlined by the PBOC, is to liberalize the interest rate of foreign currency before that of domestic currency, lending before deposit, large amount and long term before small amount and short term. As a first step, the PBOC liberalized the interest rates for large deposits (USD 3 million and over) and loans in foreign currency in September 2000. Rates for deposits below USD 3 million remains subject to PBOC control. In March 2002, the PBOC unified foreign currency interest rate policies for Chinese and foreign financial institutions in China. Small foreign exchange deposits of Chinese residents with foreign banks in China were included in the PBOC interest rate administration of small foreign exchange deposits, so that domestic and foreign financial institutions are treated fairly with regard to the interest rate policy of foreign exchange deposits.

As interest rate liberalization progressed, the PBOC has liberalized, simplified or abandoned 114 categories of interest rates initially under control since 1996. At present, 34 categories of interest rates remain subject to PBOC control. The full liberalization of interest rates on other deposit accounts, including checking and saving accounts, is expected to take much longer. On the lending side, market-determined interest rates on loans will first be introduced in the rural areas and then followed by rate liberalization in the cities.

As a milestone move to honor its WTO commitments, China released the Rules for Implementing the Regulations Governing Foreign Financial Institutions in the People's Republic of China in January 2002. The rules provide detailed regulations for implementing the administration of the establishment, registration, scope of business, qualification, supervision, dissolution and liquidation of foreign financial institutions. They also stipulate that foreign bank branches conducting full aspects of foreign-currency business and full aspects of RMB business to all categories of clients are required to have operating capital of at least USD 72.3 million, of which at least USD 48.2 million must be held in RMB (RMB 400 million) and at least USD 24.1 million in freely convertible currency.

Client restriction on foreign currency business was lifted immediately after China's entry into the WTO on December 11, 2001. For local currencies, geographic restriction will be phased out beginning with four major cities--Shanghai, Shenzhen, Tianjin and Dalian being open upon China's WTO accession. Foreign-funded banks were further allowed to do RMB business in Guangzhou, Zhuhai, Qingdao, Nanjing and Wuhan from December 1, 2002. With respect to the client restriction, foreign financial institutions have been permitted to provide foreign currency services to Chinese enterprises and individuals.

4.10.2 Foreign Exchange Control Risks

The PBOC and SAFE regulate the flow of foreign exchange in and out of the country, and set exchange rates through a "managed float" system. To better control this flow, almost all Chinese enterprises and agencies are required to turn over their foreign currency earnings to the banks in exchange for RMB. (Large exporters were allowed to retain up to 15 percent of their earnings beginning in late 1997.) When foreign exchange is required for import and other authorized transactions, they then apply to designated banks that are members of the interbank foreign-exchange market.

The Chinese Government has eliminated the foreign-exchange swap centers on which FIEs used to trade among themselves, and all FIEs have been integrated into the formal banking system. Foreign-invested enterprises (FIEs) are permitted to keep foreign exchange in foreign exchange accounts at commercial banks. Since 1995 China has required that FIEs submit an annual report on their foreign-currency transactions, known as the Foreign-Exchange Examination Report. This report must be prepared by a certified public accountant registered in China and approved by SAFE and is necessary to qualify for foreign-exchange privileges. The purpose of the report is to ensure that FIEs' foreign-exchange earnings from exports are sufficient to meet their own requirements as well as any obligation to repatriate profits. Once the report is approved, firms receive a stamped Foreign Exchange Registration Certificate that enables them to obtain foreign exchange.

On July 1, 1996, China began to allow all FIEs in China to buy and sell foreign currency and exchange RMB in authorized banks for trade and services, debt payment and profit repatriation. The PBOC has lifted limits on exchanging and remitting currency for non-trade purposes and raised the ceilings for the amount of foreign exchange for private use. In mid-1998, however, SAFE cracked down on many of the loopholes used to get around the controls on capital account transactions. Many FIEs complained that delays occurred when SAFE screened their documentation more closely. SAFE has streamlined its system, but the requirement for proof that all relevant local taxes have been paid is a burden for many offshore service providers. In June 2002, SAFE authorized FIEs to draw on foreign exchange in their capital fund accounts for transaction settlements without prior SAFE approval. SAFE has also authorized designated Chinese commercial banks to change domestic currency needed by Chinese citizens for educational or travel expenses within specified limits, thus streamlining access to foreign currency for many individuals. Nevertheless, China's stated goal of achieving a fully convertible currency remains distant because of political concerns over the potential impact to the Chinese economy, and the authorities refuse to commit to a specific timetable for capital account liberalization.

Foreign banks, their branches and foreign joint-venture banks are authorized to buy or sell foreign exchange from or to foreign-funded ventures. Foreign-funded banks or branches are not allowed to accept local currency deposits or to make RMB loans unless they are in certain designated cities and have been specially licensed for domestic currency business. Elsewhere, foreign banks and their branches are prohibited from accepting RMB deposits (liabilities) but may establish RMB accounts to convert currencies for their joint venture and foreign customers. China has pledged to eliminate all geographical restrictions within five years of its 2001 entry to he World Trade Organization (WTO) and has subsequently increased the number of cities in which foreign banks may undertake RMB business each year since its WTO accession.

4.10.3 Financing Exports

Sources of financial support available to U.S.-based exporters are:

Export Credits

The U.S. Export-Import 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. 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 to overseas buyers and protects 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 concluded.

Ex-Im Bank has signed master credit agreements with Bank of China and China Development Bank but can work with any Chinese bank that meets its credit guidelines. Ex-Im Bank has worked with China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China and Bank of Communications. For private sector borrowers, Ex-Im Bank will accept financial statements audited according to acceptable accounting practices with notes 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 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 Chinese Government and Chinese borrowers from time to time receive concessional financing terms and conditions designed to support a third country's exporters. The credits can be offered under government-to-government protocols related to a particular sector or project. U.S. firms, otherwise competitive on price and quality, often lose contracts because they are unable to compete with such concessional loans. Ex-Im Bank will, under certain circumstances, consider matching the specific financing terms of a competing government offer. Tied Aid matching funds must be approved by both the Board of Directors of Ex-Im Bank and the President.

For more information concerning Ex-Im Bank programs and application procedures contact Ex-Im Bank in Washington, DC at (800) 565-EXIM or (202) 565-3545. In China, contact Ms. Marilyn Taylor at the U.S. Commercial Service, U.S. Embassy Beijing at Tel: (86-10) 8529-6655, x806, Fax: (86-10) 8529-6558. Exposure fee calculations and applications can be found on-line at **www.exim.gov**.

Direct Grants

U.S. Trade & Development Agency fund feasibility studies, orientation visits, specialized training grants, business workshops and technical assistance worldwide. TDA is active in more than 60 countries and has recently opened its programs in China after a 12-year break in 2001. In order to be eligible for assistance, projects must have a procurement process open to U.S. firms, represent an opportunity for sales of U.S. goods and services and be a development priority of the country where the project is located. Contact Mr. Geoff Jackson, Regional Director for Asia/Pacific, at TDA's Arlington, VA office. Tel: (703) 875-4357, Fax: (703) 875-4009. In China, contact the TDA Representative, Ms. Wan Xiaolei, at the U.S. Commercial Service, U.S. Embassy Beijing at Tel: (86-10) 8529-6655, x839, Fax: (86-10) 8529-6558. Web site: **www.tda.gov**

Multilateral Agencies

The World Bank, based in Washington, D.C., maintains a large loan program in China. The World Bank's purpose is to help borrowers reduce poverty and improve living standards through sustainable growth and investment. China represents the World Bank's second largest commitment worldwide. The Bank's program policies in China continue to shift away from key infrastructure projects in transportation and energy toward environmental and agriculture support. The World Bank publishes bidding opportunities in the United Nations publication "Development Business." This is available by subscription from United Nations, P.O. Box 5850, Grand Central Station New York, New York 10163-5850.

The World Bank conducts procurement by the rules of international competitive bidding through Chinese tendering organizations; nonetheless, successful bidding requires close coordination with the Chinese government entity responsible for developing a project at the consulting stage, when specifications are being established. The World Bank has a local office in China -- Tel: (8610) 6554-3361 Mr. Yukon Huang, Country Director. Web site: **www.worldbank.org**.

As a member of the World Bank, The International Finance Corporation has become increasingly active in China. It is mandated to assist joint venture and share holding companies with substantial non-state ownership to raise capital in the international markets. The IFC takes equity positions in these companies. The IFC's core business is "project finance," and it currently has over USD 1.2 billion invested in "project finance" undertakings in China. The projects have anticipated cash flows that can cover repayments to lenders and dividends to shareholders. They do not enjoy a government guarantee. The IFC can be contacted through its Washington, D.C. Headquarters at (202) 473-0631 or Ms. Karin Finkelfton at the Beijing office, Tel: (8610) 6554-4191, Fax: (8610) 6554-4192. Web site: **www.ifc.org**

The Asian Development Bank is a multilateral development finance institution owned by 61 member countries, including 34 emerging market countries in Asia, provides loans and technical assistance to governments for specific projects and programs.

Once a project is initially approved by the ADB and the Chinese Government, it is included in a monthly publication called "ADB Business Opportunities" which is available by subscription from the Publications Unit, Information Office, ADB, P.O. Box 789, Manila, Philippines, Fax: (632) 632-5122 or 632-5841. The Commerce Department has established a Multilateral Development Bank Operations Office (Fax: (202) 273-0927) which publishes information to assist companies in winning such contracts. The ADB Resident Mission in China is located in Beijing. Contact Bruce Murray, Resident Representative at Tel: (86-10) 6642-6601, Fax: (86-10) 6642-6606. Web site: **www.adb.org**.

4.10.4 Terms of Payment

In China's liberalized economic regime, there are many ways to finance imports. The most commonplace are letter of credits and documentary collections. Under these methods, foreign exchange is allocated by the central government for an approved import.

Letters of Credit

Although the Bank of China dominates China's trade-finance business, most Chinese commercial banks have the authority to issue letters of credit for imports. These include China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China and CITIC Industrial Bank. Foreign banks with branch or representative offices in China can also issue letters of credit.

There are a few peculiarities about letters of credit issued by Chinese banks. First, sometimes local Chinese courts issue administrative orders that bar Chinese banks from clearing letters of credit whose underlying documentation has been challenged. In 1997, the Supreme Court of China issued guidance against this practice, which is gradually disappearing. Second, China, a member of the International Chamber of Commerce since 1995, is subject to the Unified Customs and Practice (UCP) 500 code regarding international trade payments; however, in local Chinese practice, terms and conditions are generally negotiable and set on a transaction-by-transaction basis in the form of a "silent" confirmation.

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 Chinese 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 rather thin 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.

Other Methods

- **Bank or Enterprise Loans:** Many Chinese companies have relationships with local banks or other enterprises that will loan funds for the purchase imports.
- **Foreign Supplier Loan:** The supplier helps to finance, on behalf of the Chinese buyer, the purchase of its equipment.
- **Proceeds Sharing/Cooperative Joint Venture:** Some suppliers will enter into a cooperative joint venture to ensure the sale and financing of their equipment.

4.10.5 Insurance

Congress suspended the China operations of the Overseas Private Investment Corporation (OPIC) in 1989. The U.S. Ex-Im Bank has programs that provide guarantees and export credit insurance covering U.S. content. Some private companies, such as American International Group and Home Life, also offer export credit insurance policies for China. AIG Beijing office Tel: (86-10) 6597-8889, Fax: (86-10) 6597-8878. Home Life Beijing office Tel: (86-10) 6552-0608, Fax: (86-10) 6552-1883

4.10.6 Financing Projects

For several years, China has experimented with limited-recourse project financing schemes. Long-awaited Build-Operate-Transfer (BOT) laws have been delayed, however, and the overall private finance climate has cooled during the past few years. The U.S. Ex-Im Bank is seeking to implement a limited-recourse, project-financing program 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 U.S. One such project, an ethylene cracker plant, was recently approved for financing by Ex-Im Bank under this facility.

4.10.7 Commercial Bank Contacts

Chinese Bank Contacts

Agricultural Bank of China
Mrs. Ma Liqun, Director of Marketing Division of International Department
100 Xi San Huan Bei Lu, Beijing, China 100037
Tel: (86-10) 6842-4524
Fax: (86-10) 6842-4493

Bank Of China
Mr. Xing Ping, Chief of American & Oceanic Affairs Division
#1 Fuxingmennei DaJie
Beijing, China 100818
Tel: (86-10) 6659 2824
Fax: (86-10)6601-4096

China Construction Bank
25 Jinrong Dajie
Beijing, China 100032
Tel: (86-10) 6759-8600 / 6759-8655 (Foreign Affairs Office)
Fax: (86-10) 6759-7153
Contact: Mr. Wan Binjiang / Chief Of Foreign Affairs Division

China Development Bank (Policy Bank)
Mr. Du Runping / Deputy General Manager Of Int'l Finance Department
29 Fuchengmen Wai Dajie
Beijing, China 100037
Tel: (86-10) 6830-6568 / 6581 (Foreign Affairs Office)
Fax: (86-10) 6830-6541

CITIC Industrial Bank
Mr. Liu Yong / GM Of International Business Management Division
Fu Hua Mansion, 8 Chaoyangmen Bei, Chaoyang District
Beijing, China 100027
Tel: (86-10) 6554-1891
Fax: (86-10) 6554-2181

Bank Of Communications
Mr. Hu Rongbing / General Manager Of Foreign Affairs
No. 188 Yin Cheng Mid Road
Shanghai, China 200120
Tel: (86-21) 5878-1234 ext. 2102
Fax: (86-21) 5888-0559

Everbright Bank of China
Mr. Peng Yiping, Office of Foreign Affairs
Everbright Building
No. 6 Fuxingmenwai Dajie
Beijing, China 100045
Tel: (86-10) 6856-1302/03
Fax: (86-10) 6856-1301

Huaxia Bank
Mr. Duan Jianwei / Deputy Director Of Int'l Business Dept.
111 Xidanbeidajie, Xicheng District
Beijing, China 100032
Tel: (86-10) 6615 1199 - 2109
Fax: (86-10) 6618-8333

Industrial & Commercial Bank of China
Ms. Cai Qi / Division Chief Of Foreign Affairs Division
55 Fuxinmennei Dajie, Xicheng District
Beijing, China 100032
Tel: (86-10) 6610-6047
Fax: (86-10) 6610-6044

Merchants Bank (Shenzhen Headquarters)
Ms. Xu Yunxi / Foreign Affair Division
Merchants Bank Building, No. 7088 Shennan Dadao
Shenzhen, Guangdong Province, China 518040
Tel: (86-755) 8319-5652
Fax: (86-755) 8319-5081

Minsheng Bank Of China
Mr. Li Wen / Chief Of Foreign Affair Division
No.4 Zheng Yi Lu, Dongcheng District
Beijing, China 100006
Tel: (86-10) 6522 6699 - 6060
Fax: (86-10) 6559 6883

Bank Of Shanghai
Mr. Zhang Shude / Chief Of International Business
No.585, Zhongshan East Road
Tel:021-6337-0888
Fax:021 6337-0083

Shanghai Pudong Development Bank
Mr. Jin Jialiu / Administration Office
12 Zhongshandongyi Road
Shanghai, China 200002
Tel: (86-21) 6329-6188
Fax: (86-21) 6323-2036

Shenzhen Development Bank
Mr. Ma Limin / General Manager Of Intl. Business
5047 Shennan Dong Lu
Shenzhen, Guangdong Province, China 518001
Tel: (86-755) 8208-1069 / 8208-8888
Fax: (86-755) 8208-1069

Foreign Bank Contacts

ABM-AMRO
Beijing Branch
Suite 2801, 28th Floor
North Tower, Beijing Kerry Center
1 Guanghua Lu, Chaoyang District
Beijing, China 100020
Contact: Mr. Charles Ng, Vice President
Tel: (86-10) 6561-7766, X9001
Fax: (86-10) 8529-8650

Bank Of America
Beijing Branch
China World Tower 1, 26th Floor
1 Jianguomenwai Avenue
Beijing, China 100004
Contact: Ms. Annie Wong, Managing Director
Tel: (86-10) 6505-3508, X628
Fax: (86-10) 6505-3509

Shanghai Branch
18th Floor, South Tower
Shanghai Stock Exchange Building
528 Pudong Road South, Pudong New Area
Shanghai, China 200120
Contact: Ms. Anna Cheung, Vice President
Tel: (86-21) 6881-8686
Fax: (86-21) 6881-8816

Guangzhou Branch
Bank Of America Plaza, 25th Floor
No. 555 Renmin Zhong Road
Guangzhou, China 510180
Contact: Mr. Herman Ng, Vice President
Tel: (86-20) 8130-0888, X238
Fax: (86-20) 8130-0899

Bank One, NA
Beijing Branch
Room 1605, CITIC Building
19 Jianguomenwai Avenue
Beijing, China 100004
Contact: Mr. Kok-Chi Tsim, Managing Director/General Manager
Tel: (86-10) 6500-3281, X228
Fax: (86-10) 6500-3166

BNP Paribas
Beijing Branch
19th Floor, China World Tower
1 Jianguomenwai Avenue
Beijing, China 100004
Contact: Mr. Daniel Gillen, General Manager For Greater China
Tel: (86-10) 6505-0888, X601
Fax: (86-10) 6505-1704

Citibank, NA
Beijing Branch
16/F, Tower 1, Beijing Bright China Chang-An Building
No. 7 Jianguomennei Ave.
Beijing, China 100005
Contact: Ms. Deng Ning, Chief Representative
Tel: (86-10) 6510-2933, X7388
Fax: (86-10) 6510-2932

Shanghai Branch
101 Marine Tower
No. 1 Pudong Ave.
Shanghai, China 200120
Contact: Mr. Huang Xiaoguang, General Manager
Tel: (86-21) 5879-1200
Fax: (86-21) 5879-5933

Guangzhou Representative Office
7201-7202, Office Tower, CITIC Plaza
233 Tian He North Road
Contact: Mr. Tony Luo, Vice President
Tel: (86-20) 3877-1333, 1370
Fax: (86-20) 3877-0990

Shenzhen Branch
37/F., International Financial Building
2022 Jianshe Road
Shenzhen, China 518001
Contact: Ms. Wang Li, General Manager
Tel: (86-755) 8223-2338 Ext. 2328
Fax: (86-755) 8223-1238

Xiamen Representative Office
Room 208, Holiday Inn Crowne Plaza Harbour View,
Xiamen, Fujian Province, China 361001
Contact: Ms. Xie Lin, Chief Representative
Tel: (86-592) 213-3751
Fax: (86-592) 213-3752

Credit Lyonnais
Beijing Representative Office
China World Trade Center, China World Tower 2, 35F, Unit 06-07
1 Jianguomenwai Avenue
Beijing, China 100004
Contact: Mr. Remy Yao, Chief Representative
Tel.: (86 10) 6500 4562
Fax: (86 10) 6500 4479

Deutshe Bank
Beijing Representative Office
China World Trade Center, Room 908
1 Jianguomenwai Avenue
Beijing, China 100004
Tel: (86-10) 6505-2305, ~~X113~~
Fax: (86-10) 6505-2304

Shanghai Branch
29th Floor, Shanghai Senmao Int'l Bldg.
101 Yin Cheng East Road
Pudong, Shanghai, China 200120
Tel: (86-21) 6841-0266
Fax: (86-21) 6841-2277

HSBC (Hong Kong & Shanghai Banking Corp Ltd)
Beijing Branch
COFCO Plaza, Block A, Ground Floor
8 Jianguomenwai Avenue
Beijing, China 100005
Contact: Mr. Ding Guoliang, Manager
Tel: (86-10) 6526-0668
Fax: (86-10) 6526-0669

JP Morgan Chase
Beijing Branch
25th Floor, South Tower
Beijing Kerry Center
Beijing, China 100020
Contact: Mr. Dennis Zhu, Chief Representative
Tel: (86-10) 8529-6333
Fax: (86-10) 8529-6322

Rabobank
Beijing Representative Office
Kempinski Tower C, Room 213B
Chaoyang District, Beijing China 100016
Contact: Ms. Dao Hui, Chief Representative
Tel: (86-10) 6461-5552
Fax: (86-10) 8451-2980

Scotiabank
Beijing Representative Office
Unit 503, China Resources Building
No.8 Jianguomenbei Avenue, Dongcheng District
Beijing, China 100005
Contact: Ms. June Q. Fu, Chief Representative
Phone: (86-10) 8519-2050
Fax: (86-10) 8519-2055

Societe Generale
Beijing Representative Office
Beijing China Resources Building, 1707
8 Jianguomen North Avenue
Beijing, China 100005
Contact: Ms. Charlotte Baubion
Tel: 8519-2810
Fax: 8519-2819

4.11 TRAVEL ISSUES

Before traveling to any foreign country, consult updated travel information available on the State Department's Web site: **http://travel.state.gov**. It is further advised that American citizens register with the U.S. Embassy to prevent unwanted delays in case of any unforeseen events, such as the loss or theft of a U.S. passport. This can be done easily online at: **www.usembassy-china.org.cn**.

4.11.1 Planning and Logistics

Visa

U.S. citizens traveling to China must obtain a Chinese visa before embarking on the trip. A few different types of visas are issued to visitors, including the tourist visa (Type L) that allows the bearer one to two entries, and to stay for up to one month each time. Short-term business visas (Type F) are issued to travelers who are invited to visit for business or research purposes and require a formal invitation from a Chinese host organization. The U.S. Embassy

and Consulates can only issue such invitations to U.S. Government employees on official business. Business travelers on short-term excursions for meeting or site-visit purposes, generally apply for either the Type L or Type F visa. Consult the Chinese Embassy or Consulate General on obtaining the right type of visa, or apply through a travel agency.

Those who wish to work and stay in China for extended periods of time need to apply for an employment visa (Type Z), which can allow multiple entries into China, may be valid for up to one year, and affords the visa-holder foreign residency application rights. The application process is long and bothersome and requirements many, including a complete physical check-up. Upon expiration, the Type Z visa can be renewed with reasonable amount of effort and paperwork.

Holidays

Normal business operations in China are slowed or cease during the three "golden week"

Chinese holidays:

- Spring Festival (Chinese Lunar New Year);
- Labor Day (May 1); and
- National Day (October 1).

Business travelers will find all government agencies, schools and most businesses (aside from the exceptionally crowded and busy tourism services venues) closed during these holidays; and due to vacationing workers, business meetings may be difficult to secure in the weeks just prior to and after, these week-long holidays. Travel within China is furthermore logistically more difficult to manage as millions of Chinese take to the various modes of long-distance travel. It is advised that domestic transportation and hotel reservations during these holidays be booked well in advance.

Transportation

Several international airlines offer direct flights into major cities such as Beijing, Shanghai and Guangzhou. Once in-country, domestic and international airlines fly to most cities, and reservations can be made through travel agents (in the U.S and in China) or directly with the carriers. Ground transportation (taxis) in major cities is easily accessible and relatively inexpensive by international standards. Some cities have developing subway systems and extensive public bus systems, however crowds and communication differences can lead to considerable confusion. Car rental services with or without a chauffeur is also available in these cities, however the latter option requires international driving qualifications, understanding of local traffic regulations, and a great deal of courage. Most travel agencies can also arrange for personal car service with a driver during the duration of each stay.

Accommodations

There are currently more than 3,000 internationally star-rated hotels in China. In May 2003, China began lifting dwelling restrictions (but only in Beijing), which generally prohibit non-rated hotels from accommodating foreign citizens. Instead of having to pick from among the 300 designated hotels in Beijing, foreign citizens can now stay in almost any hotel or guesthouse (a leased dormitory facility) they choose. While considerably less expensive, these new alternatives often provide very poor quality security, sanitation and service.

Communication

Spoken English proficiency among Chinese professionals can vary from very little to superior fluency. If needed, translation services can be found through local business service providers. Ask your local host, travel agency or consulting firm for recommendations, or consult the U.S. Commercial Service business service providers Web page at **www.buyusa.gov/china/en/bsp.html**.

As all four and five-star hotels are required to be able to provide foreign/English language services, assistance from hotel personnel can often be extremely helpful for giving directions or delivering messages for those who do not speak the local Chinese dialect. Most travel agencies, including local operators, can also arrange for English-speaking guides with varying degrees of fluency, if you request this service in advance.

Health Care

Major cities afford relatively good access to quality medical care through select hospitals and clinics and/or internationally owned or operated clinics. Before coming to China, you may want to verify the scope of international coverage provided by your health insurance carrier. If coverage is inadequate for your needs, an Internet search will reveal that there are several good international programs available with worldwide SOS and routine coverage; travelers insurance can also be purchased for the short-term, to provide illness and medical evacuation coverage under limited circumstances. The American Chambers of Commerce in Beijing and Shanghai also offer annual health care packages to expatriate members.

4.11.2 Temporary Entry of Materials and Personal Belongings

Trade Shows & Exhibitions

Participants can come into China on tourist visas and travel in-country. Notebook computers, cameras, portable printers, VCRs can be brought into China as personal belongings.

Business firms seeking to bring in exhibits and items for display should consult with Customs authorities 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 three months. The exhibition organizer must obtain advance approval from the Customs, provide certain shipping documents and a list of items to be exhibited, and coordinate with Customs officials. 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 500 square meters in exhibition space, without first seeking approval from MOFCOM. 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 not clearly defined and appear capriciously applied. U.S. exhibitors should contact the exhibition organizers to determine their liabilities regarding sample entries for such events before registering to participate, to obtain a clearer understanding of exhibition-related expenses.

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 the Customs.

Passenger Baggage

Reasonable quantities of items for personal use by short-term visitors may be imported duty-free. Other items such as cameras, televisions, stereo equipment, computers, and tape recorders must be declared and may be assessed a duty depending upon the item's value.

Advertising Materials and Trade Samples
Samples and advertising materials are exempt from customs duty and Value-Added Tax (VAT) if the item's value does not exceed RMB 200. Samples and advertising materials concerning certain electronic products, however, are subject to customs duty and VAT regardless of value.

Representative Offices
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.

Overseas Assignment to China
Expatriate managers who are assigned to work in China need to apply for employment visas. On their first trip into China on the Z visa, they are entitled to bring duty-free reasonable and personal- and household- use items including the otherwise dutiable items such as VCRs, PCs, and video cameras.

4.12 ECONOMIC AND TRADE STATISTICS

4.12.1 Country Data and Domestic Economy

Population

	2000	2001	2002	2003	2004
Population (in millions)	1,267	1,276	1,285	1,293	1,301
Population Growth Rate	1.0%	1.0%	1.0%	1.0%	1.0%

Official growth rate for 2002 is assumed for 2002 forward and is used to produce population estimates for those years.

Religion
Officially atheist, but traditionally pragmatic and eclectic; most important religions are Taoism and Buddhism, followed by Islam and Christianity.

Languages
Standard Mandarin Chinese is generally spoken by educated people throughout China, but there are dozens of major local dialects such as Cantonese, Shanghainese, Minbei, Minnan, Xiang, Gan, and Hakka.

Workweek
Official workweek is 40 hours per week.

Domestic Economy

	2001	2002	2003	2004
GDP (RMB trillions)/2	9.731	10.240	10.906	11.724
GDP Growth (percent)/3	7.3	8.0	8.0	8.0
GDP Per Capita (USD)	925	967	1020	1090
Government Spending (percent GDP)	13.2	13.0	13.0	12.8
Retail Price Inflation (percent)	-0.8	-1.3	-1.5	-0.5
Unemployment (percent)/4	3.6	4.0	4.5	4.5
Total For. Ex. Reserves (USDBn)	212	286	350	400
Avg. Exchange Rate (RMB/USD)	8.27	8.27	8.27	8.27
Foreign Debt (USD Bn)/5	170.1	168.5	165.0	167.0
Debt Service Ratio	7.5	7.9	8.0	8.0

Notes:
1/ 2001 and 2002 are officially reported Chinese Government statistics. Figures for 2003 and 2004 are Embassy estimates.
2/ At current prices.
3/ At constant prices.
4/ Official Chinese estimate of urban unemployment. Unofficial estimates range from 8-15 percent.
5/ The Chinese Government changed its official methodology for calculating its foreign debt in 2001 to conform with internationally accepted standards. As a result, the figures given here are not comparable with those from years prior to 2001.

4.12.2 Trade Data

	1999	2000	2001	2002	2003
Total PRC exports /1	195	249	266	284	355
Total PRC imports /1	165	225	244	295	335
U.S. exports to PRC /2	13	16	19	22	24
PRC imports from U.S. /3	19	22	26	27	30
U.S. imports from PRC /2	81	100	102	125	132
PRC exports to U.S. /3	41	52	54	70	74
Total US ag. exp. to PRC/4	.85	1.72	1.94	2.1	2.7
Total US ag. imp. from PRC/4	.77	.81	.82	1.0	1.2

1/ China Customs data; China Academy of International Trade and Economic Cooperation estimates for 2003.
2/ U.S. Custom's data; U.S. Embassy estimates for 2003.
3/ China Customs data; U.S. Embassy estimates for 2003.
4/ U.S. Department of Agriculture; U.S. Embassy estimates for 2003.

4.12.3 Investment Statistics

The Ministry of Commerce produced the data below. The statistics on utilized investment are based on required reporting by FIEs of committed capital. Cumulative values are simple totals of data collected each year. As such, they do not accurately reflect true investment stock, for they are based on historical costs, are not adjusted for inflation, and do not take into account disinvestment. In addition, MOFCOM does not publish data on the

components of inward FDI (equity, reinvested profits, and intercompany debt), nor do its statistics reflect repayments of intercompany debt or disinvestment. More sophisticated and detailed data on foreign investment are not currently available in China.

MOFCOM has been working with the Organization for Economic Cooperation and Development, the International Monetary Fund, and the UN Conference on Trade and Development (UNCTAD) on ways to improve statistical gathering and computation. One result of these efforts has been a correction of the treatment of foreign debt used to finance foreign-invested projects, in keeping with the requirements of the International Monetary Fund's Balance of Payments Manual, 5th ed. This has resulted in unannounced adjustments to some previously published statistics for FDI in 2002.

China's FDI data include investment from Hong Kong and Macau, which are special administrative regions (SARs) of China, as well as from Taiwan. Many mainland companies invest via Hong Kong and Macau subsidiaries in order to obtain investment incentives, such as tax breaks, which are available only to foreign investors. Analysts estimate that Mainland Chinese funds flowing through Hong Kong account for 10-30 percent of Hong Kong's total realized FDI in China. Further skewing Hong Kong and Macau statistics, many Taiwan firms invest in the mainland via these SARs in order to avoid the scrutiny of the Taiwan authorities. Indeed, some observers estimate actual FDI cumulative inflows from Taiwan at two to three times the USD 33.1 billion formally recorded by China. A recent loosening of restrictions on investment in the Mainland by Taiwan authorities should result in more Taiwan investment being formally recorded as such, as reflected in the 25 percent increase in FDI from Taiwan in 2002.

China records the value of FDI deals approved and reports these data regularly. This "contracted FDI" correlates only very weakly with FDI actually utilized and has proven a misleading indicator of future FDI inflows. Contracted FDI is also not comparable with data from other major developed and developing economies, which generally do not collect or publish such data. Consequently, figures for contracted FDI are not reported here.

Utilized Foreign Direct Investment in China from All Sources, 1979-2001

(In USD Millions)

Year	Utilized FDI
1979-82	1,769
1983	916
1984	1,419
1985	1,956
1986	2,244
1987	2,314
1988	3,194
1989	3,393
1990	3,487
1991	4,366
1992	11,008
1993	27,515
1994	33,767
1995	37,521
1996	41,726
1997	45,257
1998	45,463
1999	40,319
2000	40,714
2001	46,878
2002	52,743
Total	447,966

Source: Ministry of Commerce,
National Bureau of Statistics.
Note: Yearly figures do not sum exactly to total due to rounding.

U.S. Utilized Foreign Direct Investment in China, 1979-2001

(In USD Millions)

Year	Utilized FDI
1979-82	13
1983	5
1984	256
1985	357
1986	326
1987	263
1988	236
1989	284
199O	456
1991	323
1992	511
1993	2,063
1994	2,491
1995	3,083
1996	3,443
1997	3,239
1998	3,898
1999	4,216
2000	4,384
2001	4,433
2002	5,424
Total	39,889

Source: Ministry of Commerce;
National Bureau of Statistics
Note: Yearly figures do not sum exactly to total due to rounding.

China's Utilized and Cumulative Foreign Direct Investment by Top 10 Source Economies for 2002 and as of 2002

(In USD millions)

	Utilized FDI	Cumulative FDI
Hong Kong	17861	204,875
Virgin Islands	6,117	24,387
United States	5,424	39,889
Japan	4,190	36,340
Taiwan	3,971	33,111
European Union	3,710	33,290
Korea	2,721	15,199
Singapore	2,337	21,473
Cayman Islands	1,180	3,804
Germany	928	7,994
United Kingdom	896	10,696
Total (All Sources)	52,743	447,966

Source: Ministry of Commerce.
Note: Cumulative figure for the European Union reflects 1986-2002 data only and includes German and United Kingdom investments.

China's Utilized Foreign Direct Investment by Sector, 2002

(In USD Millions)

	Utilized FDI 2002	Change from 2001 (percent)
Agriculture, Forestry, Animal Husbandry, and Fisheries	1,028	14.3
Mining	811	-28.4
Manufacturing	36,800	19.1
Utilities	1,375	-39.5
Construction	709	-12.1
Management	7	-30
Transport, Warehouse, Postal and Telecom Services	913	0.4
Wholesale and Retail Trade and Food Services	933	-20.2
Banking and Insurance	107	206
Real Estate	5,663	10.2
Social Services	2,943	13.4
Health Care, Sports and Social Welfare	128	7.6
Education, Culture, Arts, Radio, Film and TV Industry	38	5.6
Scientific Research and Computer Technical Services	198	65
Others	1,321	25.7
Total	52,743	12.5

(Percentages and totals may not be exact due to rounding.)
Source: Ministry of Commerce
Note: MOFCOM's FDI statistics do not fully capture financial services investment.

Foreign Investment Role in China's Economy

(In USD millions)

	2001	Percent Change	Percent of National Figures
2001 FIE Share of Fixed Asset Investment	46,878	15.1	10.5
2001 FIE-Generated Industrial Value Added	8,007	24.2	24.6
2001 FIE-Generated Tax Revenues	34,861	30.0	19.0
2002 FIE-Generated Exports	169,927	27.6	52.2
2002 FIE-Generated Imports	160,286	27.4	54.3
2002 FDI inflows/GDP	-	-	4.3
2002 FDI stock/GDP	-	-	36.3

Source: Ministry of Commerce.
National Bureau of Statistics
Notes: "Stock" is actually a cumulative total of historical inflows, not necessarily current stocks. RMB figures converted to USD at current exchange rates.

Chinese FDI Outward Flows and Stock, 1997-2001

(In USD billions)

Year	Outflow	Outward Stock
1998	2.6	23.1
1999	1.8	24.9
2000	0.9	25.8
2001	6.9	32.7
2002	2.5	35.2

Source: State Administration of Foreign Exchange (SAFE).
"Stock" is estimated by summing annual outflows.

4.12.4 Major U.S. Investors in China

Motorola ($3.7 billion) -- Motorola is the largest U.S. investor in China. Facilities include a $1.9 billion semiconductor plant in Tianjin and a telecom equipment manufacturing facility in Hangzhou.

General Motors ($2 billion) -- includes $1.6 billion Shanghai GM joint venture, $135 million Jinbei GM joint venture (Liaoning), $100 million SAIC-Wuling joint venture (Liuzhou), and other ventures.

GE ($1.5 billion) -- GE's China operations include medical equipment, plastics, lighting, power generation, silicones, special materials, industrial equipment, aircraft engines, airplane leasing, capital services and transportation systems. GE recently opened a new research and development center in Shanghai.

ExxonMobil (over $1.2 billion) - Exxon Mobil has total investments in mainland China of over $1.2 billion. The bulk of this investment is in production-sharing contracts for upstream oil exploration, as well as chemical and lubricant blending plants. In 2002, ExxonMobil signed an agreement for potential participation in the West-East gas pipeline project. ExxonMobil also invested in Sinopec's IPO in 2000, thus forming strategic partnership with Sinopec, and is evaluating several large joint ventures under this alliance.

Kodak ($1.2 billion) -- Kodak opened sensitizing facilities in Xiamen and Shantou in June 2000. Other Kodak investments include equipment manufacturing including digital cameras and photochemicals.

Coca-Cola ($1.1 billion) -- Coca-Cola operates 28 bottling plants throughout China. In April 2000, the Coca-Cola Company and the China National Cereals, Oils, and Foodstuffs Import and Export Corp. (COFCO) signed a joint venture agreement to establish COFCO Coca-Cola Beverages Ltd., the first Chinese majority-owned bottling operation in Coca-Cola (China). The joint venture plans to invest $150 million in China within the next five years.

DuPont ($700 million) -- DuPont has seven wholly owned manufacturing facilities and fifteen joint ventures throughout China. Its facilities manufacture a wide range of products including nylon, polyester, fibers, nonwoven fabrics, etc.

United Technologies Corporation ($450 million) -- Several of UTC's subsidiaries have established operations in China, including Otis Elevator, Carrier, UT Automotive, Turbo Power Systems, Pratt and Whitney, and New Training Center near Beijing Capital International Airport.

Intel ($500 million) -- Includes $198 million in assembly/testing facility in Pudong and another $302 million in 2001 to expand facility.

IBM ($420 million) -- Includes $300 million organic chip packaging base in Shanghai and $17.5 million in Beijing Jinchangke International Electronics Co. with Great Wall Computer Shareholding Corp.

Pepsi ($800 million) -- Pepsi has established some 40 JV plants in China.

Alcoa ($300 million) -- Alcoa currently has invested in five JVs in China. Also, Alcoa is currently in negotiations to invest $250 million in an aluminium hot rolling mill project, $500 million in Guangxi Province for alumina and electrolytic aluminium production project and mine exploitation project, and $400 million in power industry in Guangxi Province.

Ford ($250 million) -- Ford has several facilities in China producing auto parts, light vehicles, and trucks.

Wal-Mart ($150 million) - Wal-Mart has thus far opened 28 stores in China. It plans to open 3 more in the second half of 2003.

Cummins ($140 million) -- Cummins has established six factories with Cummins ownership producing eight engine families, turbochargers, filters, generators, and gensets. Cummins moved its East Asia regional headquarters to Beijing in 1997 to manage Cummins business operations in Taiwan, Hong Kong and Mainland China.

Hewlett-Packard ($100 million) -- Hewlett-Packard has established manufacturing facilities for personal computers and printers in Shanghai and elsewhere in China.

Note: A significant portion of the USD 39.9 billion in cumulative FDI inflows from the United States was made by firms that have since changed hands through corporate M&A outside of China. Motorola surpassed BP as the largest foreign investor this year. BP holds $3.5 billion in FDI and $1 billion in portfolio investments in Petrochina and Sinopec. BP and its heritage companies have been in China since the 1970's. BP is a UK-US invested company.

4.13 CONTACTS

4.13.1 State Commissions

State Commission of Science, Technology, and Industry for National Defense
A8 Fucheng Lu, Haidian District, Beijing 100037, China
Beijing 2940 Post Box
Minister: Zhang Yunchuan
Tel: (86-10) 6851-6733
Fax: (86-10) 6851-6732
Web site: **www.costind.gov.cn**

State Development and Reform Commission (or National Development and Reform Commission)
38 Yuetannanjie, Xicheng District, Beijing 100824, China
Minister: Ma Kai
Tel: (86-10) 6850-2000
Fax: (86-10) 6850-1090
Web site: **www.sdpc.gov.cn**

4.13.2 Chinese Ministries

Ministry of Agriculture
11 Nongzhanguan Nanli, Chaoyang District, Beijing 100026, China
Minister: Du Qinglin
Tel: (86-10) 6419-3366
Fax: (86-10) 6500-1869
Web site: **www.agri.gov.cn**

Ministry of Communications
11 Jianguomennei Dajie, Dongcheng District, Beijing 100736, China
Minister: Zhang Chunxian
Tel: (86-10) 6529-2114
Fax: (86-10) 6529-2345
Web site: **www.moc.gov.cn**

Ministry of Construction
9 Sanlihe Lu, Baiwanzhuang, Haidian District, Beijing 100835, China
Minister: Wang Guangtao
Tel: (86-10) 6839-4114
Fax: (86-10) 6833-5878
Web site: **www.cin.gov.cn**

Ministry of Culture
10 Chaoyangmen Beijie, Dongcheng District, Beijing 10020, China
Minister: Sun Jiazheng
Tel: (86-10) 6555-1114
Fax: (86-10) 6555-1433
Web site: **www.ccnt.gov.cn**

Ministry of Education
37 Damucang Hutong, Xidan, Xicheng District, Beijing 100816, China
Minister: Zhou Ji
Tel: (86-10) 6609-6114
Fax: (86-10) 6601-1049
Web site: **www.moe.edu.cn**

Ministry of Finance
3 Nansanxiang, Sanlihe, Xicheng District, Beijing 100820, China
Minister: Jin Renqing
Tel: (86-10) 6855-1114
Fax: (86-10) 6855-1627
Web site: **www.mof.gov.cn**

Ministry of Foreign Affairs
2 Chaoyangmen Nandajie, Chaoyang District, Beijing 100701, China
Minister: li zhoa xing
Tel: (86-10) 6596-1114
Fax: (86-10) 6596-1160
Web site: **www.fmprc.gov.cn**

Ministry of Commerce
2 Dongchang'an Jie, Beijing 100731, China
Minister: Lu Fuyuan
Tel: (86-10) 6519-8114
Fax: (86-10) 6512-9568
Web site: **www.moftec.gov.cn**

Ministry of Health
1 Xizhimenwai Nanlu, Xicheng District, Beijing 100044, China
Minister: Wu Yi (concurrently)
Tel: (86-10) 6879-2114
Fax: (86-10) 6879-2024
Web site: **www.moh.gov.cn**

Ministry of Information Industry
13 Xichang'anjie, Beijing 100804, China
Minister: Wang Xu Dong
Tel: (86-10) 6601-4249
Fax: (86-10) 6201-6362
Web site: **www.mii.gov.cn**

Ministry of Justice
10 Chaoyangmen Nandajie, Chaoyang District, Beijing 100020, China
Minister: Zhang Fusen
Tel: (86-10) 6520-5114
Fax: (86-10) 6520-5345
Web site: **www.legalinfo.gov.cn**

Ministry of Labor and Social Security
12 Hepingli Zhongjie, Dongcheng District, Beijing 100716, China
Minister: Zheng Siling
Tel: (86-10) 8420-1114
Fax: (86-10) 8422-3056
Web site: **www.molss.gov.cn**

Ministry of Land and Resources
No.64 Fu Nei street , Xicheng District, Beijing 100812, China
Minister: Tian Fengshan
Tel: (86-10) 66558001
Fax: (86-10) 66558004
Web site: **www.mlr.gov.cn**

Ministry of Personnel
7 Hepingli Zhongjie, Dongchen District, Beijing 100013, China
Minister: Zhang Bo Lin
Tel: (86-10) 8421-4883
Fax: (86-10) 8422-3240
Web site: **www.mop.gov.cn**

Ministry of Public Security
14 Dongchang'anjie, Beijing 100741, China
Minister: Zhou Yong Kang
Tel: (86-10) 6520-2114
Web site: **www.mps.gov.cn**

Ministry of Railways
10 Fuxing Lu, Haidian District, Beijing 100844, China
Minister: Liu Zhi Jun
Tel: (86-10) 5184-0114
Fax: (86-10) 5184-2150
Web site: **www.chinamor.cn.net**

Ministry of Science and Technology
15 Fuxinglu, Haidian District, Beijing 100038, China
Minister: Xu Guanhua
Tel: (86-10) 6851-5544
Fax: (86-10) 6851-5006
Web site: **www.most.gov.cn**

Ministry of Water Resources
2 Baiguanglu Ertiao, Xuanwu District, Beijing 100053, China
Minister: Wang Shucheng
Tel: (86-10) 6320-2114
Fax: (86-10) 6320-3070
Web site: **www.mwr.gov.cn**

Bureaus and Administrations Directly under State Council

Government Offices Administration of the State Council
22 Xi'anmen Dajie, Beijing 100017, China
Director: Jiao Huancheng
Tel: (86-10) 6603-6447
Fax: (86-10) 6309-6382
Web site: **www.ggj.gov.cn**

General Administration of Civil Aviation of China
155 Dongsi Xidajie, Beijing 100710, China
Director: Yang Yuan Yuan
Tel: (86-10) 6525-2038
Fax: (86-10) 6401-3663
Web site: **www.caac.gov.cn**

General Administration of Customs
6 Jianguomennei Dajie, Beijing 100730, China
Director: Mu Xinsheng
Tel: (86-10) 6519-4114
Fax: (86-10) 6519-4004
Web site: **www.customs.gov.cn**

National Tourism Administration
Jia 9 Jianguomennei Dajie, Beijing 100740, China
Director: He Guangwei
Tel: (86-10) 6520-1114
Fax: (86-10) 6512-2096
Web site: **www.cnta.com**

State Administration for Industry and Commerce
8 Sanlihe Donglu, Xicheng District, Beijing 100820, China
Director: Wang Zhongfu
Tel: (86-10) 6803-2233
Fax: (86-10) 6802-0848
Web site: **www.saic.gov.cn**

State Administration for Religious Affairs
No.44, Hou Hai Bei Yan, Xi Cheng District, Beijing 100009, China
Director: Ye Xiaowen
Tel: (86-10) 6409-5114

State Administration of Radio, Film, and Television
2 Fuxingmenwai Dajie, Beijing 100866, China
Minister: Xu Guangchun
Tel: (86-10) 8609-3114
Fax: (86-10) 8609-2437
Web site: **www.sarft.gov.cn**

State General Administration for Quality Supervision and Inspection and Quarantine
No.9 Ma Dian Bridge East, Hai Dian District, Beijing 100088, China
Director: Li Changjiang
Tel: (86-10) 8226-0114
Fax: (86-10) 8226-0011
Web site: **www.aqsiq.gov.cn**

State Bureau of Taxation
5 Yangfangdian Xilu, Haidian District, Beijing 100038, China
Director: Xie Xu Ren
Tel: (86-10) 6341-7114
Fax: (86-10) 6341-7321
Web site: **www.chinatax.gov.cn**

State Food and Drug Administration
Jia 38 Beilishilu, Xicheng District, Beijing 100810, China
Director: Zheng Xiaoyu
Tel: (86-10) 6831-3344
Fax: (86-10) 6831-0909
Web site: **www.sda.gov.cn**

State Environmental Protection Administration
115 Xizhimennei Nanxiaojie, Beijing 100035, China
Minister: Xie Zhenhua
Tel: (86-10) 6615-3366
Fax: (86-10) 6615-1768
Web site: **www.zhb.gov.cn**

State Forestry Bureau
18 Hepingli Dongjie, Beijing 100714, China
Director: Zhou Shengxian
Tel: (86-10) 8423-9000
Fax: (86-10) 6421-3193
Web site: **www.forestry.gov.cn**

State Intellectual Property Office
6 Xituchenglu, Jimenqiao, Haidian District, Beijing 100088, China
Director: Wang Jingchuan
Tel: (86-10) 6209-3114
Fax: (86-10) 6201-9307
Web site: **www.sipo.gov.cn**

General Administration of Press and Publication
85 Dongsi Nandajie, Dongcheng District, Beijing 100703, China
Director: Shi Zongyuan
Tel: (86-10) 6512-4433
Fax: (86-10) 6512-7805
Web site: **www.ncac.gov.cn**

State Sport General Administration
5 Tiyuguanlu, Chongwen District, Beijing 100763, China
Minister: Yuan Weimin
Tel: (86-10) 6711-2233
Fax: (86-10) 6713-1908
Web site: **www.sport.gov.cn**

National Bureau of Statistics
75 Yuetannanjie, Xi Cheng District , Beijing 100826, China
Director: Li De Shui
Tel: (86-10) 6857-3311
Fax: (86-10) 6853-3618
Web site: **www.stats.gov.cn**

Offices under State Council

General Office of the State Council
Zhongnanhai, Beijing 100017, China
Secretary General: Hua Jian Min
Tel: (86-10) 6309-5756
Fax: (86-10) 6610-6016

Hong Kong and Macau Affairs Office
77 Yuetannanjie, Beijing 100045, China
Director: Liao Hui
Tel: (86-10) 6857-9977
Fax: (86-10) 6857-6639

Information Office
225 Chaoyangmenwai, Dongcheng District, Beijing 100010, China
Director: Zhao Qizheng
Tel: (86-10) 8652-1199
Fax: (86-10) 6559-2364

Legislative Affairs Office
9 Wenjinjie, Beijing 100017, China
Director: Cao Kang Tai
Tel: (86-10) 6309-7599

Office of Overseas Chinese Affairs of State Council
35 Fuwaidajie, Beijing 100037, China
Director: Chen Yujie
Tel: (86-10) 6832-7530
Fax: (86-10) 6832-7538

Research Office
Zhongnanhai, Beijing 100017, China
Director: Wei Liqun
Tel: (86-10) 6309-7785
Fax: (86-10) 6309-7809

Taiwan Affairs Office
Jia 35 , Fuwai Dajie, Beijing 100037, China
Director: Chen Yunlin
Tel: (86-10) 6832-8320
Fax: (86-10) 6832-8321

Institutions

China Meteorological Administration
46 Zhong Guan Cun Street, Haidian District, Beijing 100089, China
Director: Qin Dahe
Tel: (86-10) 6840-6114
Web site: **www.cma.gov.cn**

Chinese Securities Regulatory Commission
16 Jinrongdajie, Xicheng District, Beijing 100032
Director: Shang Fulin
Tel: (86-10) 8066-1000
Web site: **www.csrc.gov.cn**

Chinese Academy of Engineering
3 Fuxinglu, Haidian District, Beijing 100038
President: Xu Kuang Di
Tel: (86-10) 6857-0320
Web site: **www.cae.ac.cn**

Chinese Academy of Sciences
52 Sanlihe, Xicheng District, Beijing 100864
President: Lu Yongxiang
Tel: (86-10) 6859-7114
Web site: **www.cashq.ac.cn**

Chinese Academy of Social Sciences
5 Jiannei Dajie, Beijing 100732, China
President: Chen Kui Yuan
Tel: (86-10) 6513-7744
Web site: **www.cass.net.cn**

Development Research Center
225 Chaoyangmen Dajie, Beijing 100010
Director: Wang Mengkui
Tel: (86-10) 6523-0008
Fax: (86-10) 6523-0070
Web site: **www.drc.gov.cn**

National School of Administration
6 Changchunqiaolu, Haidian District, Beijing 100089
President: Hua Jian Min
Tel: (86-10) 6892-9565
Web site : **www.nsa.gov.cn**

China Seismological Bureau
63 Fuxing Lu, Haidian District, Beijing 100036, China
Director: Song Ruixiang
Tel: (86-10) 6821-9525
Web site: **www.csi.ac.cn**

Bureaus Supervised by Commissions and Ministries

State Administration of Foreign Exchange
18 Fuchenglu, Beijing 100037, China
Director: Mr. Guo Shuqing
Tel: (86-10) 6840-2255
Web site: **www.safe.gov.cn**

State Administration of Traditional Chinese Medicine
Building 13, Bajiazhuang Dongli, Chaoyang District, Beijing 100026
Director: Ms. She Jing
Tel: (86-10) 6506-3322
Web site: **www.satcm.gov.cn**

State of Cultural Relics
10 Chao Yang Men Bei Da Jie, Chaoiyang District, Beijing 100020, China
Director: Shan Ji Xiang
Tel: (86-10) 6555-1572

State Administration of Foreign Experts Affairs
Buld 5 You Yi Hotel, No.1 Zhong guan cun street, Haidian District, Beijing 100873, China
Director: Wan Xueyuan
Tel: (86-10) 6894-8899
Web site: **www.safea.gov.cn**

State Bureau of Surveying & Mapping
9 Sanlihelu, Baiwanzhuang, Beijing 100830, China
Director: Chen Bangzhu
Tel: (86-10) 6832-1893
Web site: **www.sbsm.gov.cn**

State Administration of Grain
11A, Muxudi Belili, Xincheng District, Beijing 100038, China
Director: Nie Zhengbang
Tel: (86-10) 6390-6078
Web site: **www.chinagrain.gov.cn**

China National Light Industry Council
Yi 22 Fuwaidajie, Beijing 100083, China
Director: Chen Shineng
Tel: (86-10) 6839-6328/6327
Fax: (86-10) 6839-6351

China Iron and Steel Association
46 Dongsi Xidajie, Dongcheng District, Beijing 100711, China
Director: Wu Xichun
Tel: (86-10) 6513-3322/1935
Fax: (86-10) 6513-0074

State Oceanic Administration
1 Fuxingmenwai Dajie, Beijing 100860, China
Director: Wang Shuguang
Tel: (86-10) 6803-2211
Web site: **www.soa.gov.cn**

China Petroleum and Chemical Industry Association
Building 16, 4 District, Anhuili, Yayuncun, Chaoyang District, Beijing 100723, China
Director: Tan Zhuzhou
Tel: (86-10) 8488-5100/5430/5098
Fax: (86-10) 8488-5097
Web site: **www.apcia.org.cn**

State Postal Bureau
131 Xuan Wu Men Xi Da Jie District, Beijing 100808, China
Director: Liu An Dong
Tel: (86-10) 6606-9955
Fax: (86-10) 6641-9711
Web site: **www.chinapost.gov.cn**

China National Textile Industry Council
12 Dongchang'anjie, Beijing 100742, China
Director: Du Yuzhou
Tel: (86-10) 8522-9207/9205/9217
Fax:(86-10) 8522-9283

State Tobacco Monopoly Bureau
No2 Building, 26 West Xuanwumen Avenue, Xuanwu District, Beijing 100053, China
Director: Jiang ChenKang
Tel: (86-10) 6360-5852/5782
Fax: (86-10) 6360-5036
Web site: **www.tobacco.gov.cn**

4.13.3 Associations & Corporations

All-China Federation of Industry and Commerce
93 Beiheyan Dajie, Beijing 100006
Chairman: Huang Meng Fu
Tel: (86-10) 6513-6677 Ext. 2233, 2234
Fax: (86-10) 6513-1769
Web site: **www.acfic.org.cn**

China Chamber of International Commerce (co-located with CCPIT, see below)
1 Fuxingmenwai Street
Beijing 100860
Tel: (86-10) 6851-3344
Fax: (86-10) 6851-1370

China Council for the Promotion of International Trade(CCPIT)
1 Fuxingmenwai Street, Beijing 100860
President: Wan Ji Fei
Tel: (86-10) 6801-3344
Fax:(86-10) 6801-1370
Web site: **www.ccpit.org**

China Huaneng Group
40 Xue Yuan Nan Lu, Haidian District Beijing 100088, China
President: Li Xiaopeng
Tel: (86-10) 6229-1535
Fax: (86-10) 6223-0171
Web site: **www.chng.com.cn**

China International Trust and Investment Corporation
Capital Mansion, 6 Xinyuan Nanlu, Chaoyangqu, Beijing 100004 China
President: Wang Jun
Tel: (86-10) 6466-0088 8486-8718
Fax: (86-10) 6466-1186
Web site: **www.citic.com.cn**

China Nonferrous Metals Industry Association
Yi 12 Fuxing Lu, Xicheng, Beijing 100814, China
President: Kang Yi
Tel: (86-10) 6396-6393 6397-1807
Fax: (86-10) 6396-5360

China National Offshore Oil Corp.
P.O. Box 4705, 6 Dongzhimenwai Xiaojie
Beijing 100027
President: Wei Liucheng
Tel: (86-10) 8452-1071/8452-1010
Fax: (86-10) 8452-1080

China National Petroleum Corp.
6 Liupukang, Xicheng District, Beijing 100724, China
President: Ma Fucai
Tel: (86-10) 6209-4798/6209-4114
Fax:(86-10) 6209-4806

China National Tobacco Corporation
#26 B. Xuwumenwai, Xi Da Jie, Xuanwu District, Beijing, 100053
President: Jiang Cheng Kang
Tel: (86-10) 6360-5678
Fax: (86-10) 6360-5681

China North Industries Corp.
Guang An Men Nan Da Jie Jia 12, Beijing 100053, China
President: Li De
Tel: (86-10) 6354-2738
Fax: (86-10) 6354-0398
Web site: **www.norinco.com.cn**

China Petro-Chemical Corporation
6 Hui Xin Dong Jie Jia, Beijing 100029
President: Li Yizong
Tel: (86-10) 6499-9936
Fax:(86-10) 6421-8356

China State Construction Engineering Corporation
15 Sanlihe Rd., Xicheng District, Beijing 100037, China
President: Sun Wenjie
Tel: (86-10) 8808-2958
Fax: (86-10) 8808-2789

China State Shipbuilding Corporation
5 Yuetanbeijie, Xicheng District, Beijing 100861, China
President: Li Changyin
Tel: (86-10) 6803-8833 6803-9205 6803-3947
Fax: (86-10)6803-9205/ 6803-1579
Web site: **www.csic.com.cn**

Everbright Industrial Corp.
6 Fu Xing Men Wai Street, Everbright Building, Beijing 100045, China
President: Wang Minquan
Tel: (86-10) 6856-1226/1206
Fax: (86-10) 6856-1121
Web site: **www.ebchina.com**

People's Insurance Company of China
#69 Xuan Wu Men Dong He Yan Jie, Beijing 100052, China
President: Tang Yunxiang
Tel: (86-10) 6315-2033 / 6303-5376
Fax: (86-10) 6315-2033 / 6303-3589
Web site: **www.piccnet.com.cn**

4.13.4 American Chamber of Commerce

American Association for Manufacturing Technology
Rm. 2507 Silver Tower
2 Dongsanhuan North Road
Chaoyang District
Beijing 100027
Tel: (86-10) 6410-7374, 6410-7375/76
Fax: (86-10) 6410-7334

American Chamber of Commerce in Beijing
Christian Murck, Chairman
Patrick Lin, (Acting) Executive Director
Suite 1903 China Resources Building
8 Jianguomenbei Avenue
Beijing 100005
Tel: (86-10) 8519-1920
Fax: (86-10) 8519-1910
Web site: **www.amcham-china.org.cn**

American Soybean Association
Phillip W. Laney, Representative
China World Tower2, Room 902
Beijing 100004
Tel: (86-10) 6505-1830, 6505-1831, 6505-3533
Fax: (86-10) 6505-2201

Construction Industry Manufacturers Association (CIMA)
No. 6 Southern Capital Gymnasium Road
Room 458, Office Tower New Century Hotel
Beijing 100044
Tel: (86-10) 6849-2403
Fax: (86-10) 6849-2404
Web site: **www.cm-1.com**

U.S.-China Business Council
Patrick J. Powers, Director of China Operations
CITIC Building,Suite 26D
Beijing 100004
Tel: (86-10) 6592-0727
Fax: (86-10) 6512-5854,
Web site: **www.uschina.org**

U.S. Grains Council
Todd Meyer, Director
China World Tower 2, Room 901
Beijing 100004
Tel: (86-10) 6505-1314, 6505-1302
Fax: (86-10) 6505-0236
Web site: **www.grains.org**

U.S. Wheat Associates
Zhao Shipu, Director
China World Tower2, Room 903
Beijing 100004
Tel: (86-10) 6505-1278, 6505-3866
Fax: (86-10) 6505-5138
Web site: **www.uswheat.org**

United States Information Technology Office (USITO)
Jim Gradoville, (Acting) Managing Director
C511B Lufthansa Center Office 50 Liangmaqiao Road
Chaoyang District, Beijing 100016
Tel: (86-10) 6465-1540/41/42
Fax: (86-10) 6465-1543
Web site: **www.usito.org**

4.13.5 U.S. Embassy Contacts

U.S. Embassy Beijing
No. 3 Xiu Shui Beijie
Beijing, China 100600
Tel: (86-10) 6532-3831
Web site: **www.usembassy-china.org.cn**

Mailing Address from U.S.:
U.S. Embassy Beijing
Department of State
Washington, D.C. 20521-7300

Ambassador's Office
Clark T Randt, Jr.
Tel: (86-10) 6532-3831, x 6400
Fax: (86-10) 6532-6422

Economic Section
Minister-Counselor for Economic Affairs: Bob Wang
Tel: (86-10) 6532-3831 x 6999
Fax: (86-10) 6532-6422

U.S. Commercial Service
Minister-Counselor for Commercial Affairs: Craig Allen
Tel: (86-10) 8529-6655 x801
Fax: (86-10) 8529-6558
Deputy : Denny Barnes
Tel: (86-10) 8529-6655 x802
Fax: (86-10) 8529-6558

Foreign Agricultural Service
Agricultural Affairs Office
Minister-Counselor for Agricultural Affairs: Maurice House
Tel: (86-10) 6532-1953
Fax: (86-10) 6532-2962

Beijing Agricultural Trade Office
Director: Laverne Brabant
Tel: (86-10) 8529-6418
Fax: (86-10) 8529-6692

Guangzhou Agricultural Trade Office
Director: Keith Schneller
Tel: (86-20) 8667-7553
Fax: (86-20) 8666-0703

Shanghai Agricultural Trade Office
Director: Ross Kreamer
Tel: (86-21) 6279-8622
Fax: (86-21) 6279-8336

Animal and Plant Health Inspection Service
Director Gary Greene
Tel: (86-10) 6532-3212
Fax: (86-10) 6532-5813

American Consulate General Chengdu
No. 4 Lingshiguan Road, Section 4
Renmin Nanlu, Chengdu China 610041
Consul General: David Bleyle
Tel: (86-28) 8555-3119
Fax:(86-28) 8558-3520
Principal Commercial Officer: Helen Peterson
Tel: (86-28) 8558-3992
Fax: (86-28) 8558-9221

American Consulate General Guangzhou
No. 1 South Shamian Street, Guangzhou China 510133
Consul General: John J. Norris
Tel: (86-20) 8121-8000
Fax: (86-20) 8121-6296
Principal Commercial Officer: Eric Zheng
Tel: (86-20) 8667-4011
Fax: (86-20) 8666-6409

American Consulate General, Shanghai
1469 Huaihai Zhong Lu, Shanghai China 200031
Consul General: Douglas Spelman
Tel: (86-21) 6433-6880
Fax: (86-21) 6433-4122
Principal Commercial Officer: Catherine Houghton
Tel: (86-21) 6279-7630
Fax: (86-21) 6279-7639

American Consulate General Shenyang
No. 52, 14th Wei Road, Heping District
Shenyang China 110003
Consul General: Mark Kennon
Tel: (86-24) 2322-1198
Fax: (86-24) 2322 2374
Principal Commercial Officer: Erin Sullivan
Tel: (86-24) 2322-1198
Fax: (86-24) 2322-2206

4.13.6 Contacts in Washington D.C.

U.S. Department of Commerce
International Trade Administration
Office of China Economic Area
Room 1229
14th & Constitution Avenue
Washington, D.C. 20230
Tel: (202) 482-3583
Fax: (202) 482-1576

Multilateral Development Bank Office
Brenda Ebeling, Director
Tel: (202) 482-3399
Fax: (202) 482-5179

U.S. Trade Promotion Coordinating Committee
Trade Information Center
Tel: 800-USA-TRADE

U.S. Department of State
Office of China and Mongolia
Bureau of East Asia & Pacific Affairs
Room 4318, 2201 C Street, N.W.
Washington, D.C. 20520
Tel: (202) 647-6796
Fax: (202) 647-6820
Office of Business Affairs
Tel: (202) 746-1625
Fax: (202)647-3953

U.S. Department of Agriculture
International Trade Policy
Asia American Division
Foreign Agricultural Service
Stop 1023
14th and Independence SW
Washington, D.C. 20250-1023
Tel: (202) 720-1289
Fax: (202) 690-1093
Email: deatonl@fas.usda.gov

AgExport Services Division
Foreign Agricultural Service
Ag Box 1052
14th and Independence SW
Washington, D.C. 20250-1052
Tel: (202) 720-6343
Fax: (202) 690-4374
Trade Assistance & Promotion Office
Tel: (202) 720-7420

Office of U.S. Trade Representative
China Desk
600 17th Street, NW
Washington, DC 20506
Tel: (202) 395-5050
Fax: (202) 395-3911

U.S. Ex-Im Bank
Business Development Office
Washington, D.C.
Tel: 202-565-3900
Fax: 202-565-3723
Web site: **www.exim.gov**

4.13.7 U.S.-Based Multipliers

U.S.-China Business Council
Robert Kapp, President
1818 N Street, N.W., Suite 500
Washington, D.C. 20036-5559
Tel: (202) 429-0340
Fax: (202) 775-2476

5 DISCLAIMERS, WARRANTEES, AND USER AGREEMENT PROVISIONS

5.1 DISCLAIMERS & SAFE HARBOR

Summary Disclaimer. This publication ("Report") does not constitute legal, valuation, tax, or financial consulting advice. Nor is it a statement on the performance, management capability or future potential (good or bad) of the company(ies), industry(ies), product(s), region(s), city(ies) or country(ies) discussed. It is offered as an information service to clients, associates, and academicians. Those interested in specific guidance for legal, strategic, and/or financial or accounting matters should seek competent professional assistance from their own advisors.

Information was furnished to Icon Group International, Inc. ("Icon Group"), and its subsidiaries (Icon Group International, Inc.), by its internal researchers and/or extracted from public filings, or sources available within the public domain, including other information providers (e.g. EDGAR filings, national organizations and international organizations). Icon Group does not promise or warrant that we will obtain information from any particular independent source. Published regularly by Icon Group, this and similar reports provide analysis on cities, countries, industries, and/or foreign and domestic companies which may or may not be publicly traded. Icon Group reports are used by various companies and persons including consulting firms, investment officers, pension fund managers, registered representatives, and other financial service professionals. Any commentary, observations or discussion by Icon Group about a country, city, region, industry or company does not constitute a recommendation to buy or sell company shares or make investment decisions. Further, the financial condition or outlook for each industry, city, country, or company may change after the date of the publication, and Icon Group does not warrant, promise or represent that it will provide report users with notice of that change, nor will Icon Group promise updates on the information presented.

Safe Harbor for Forward-Looking Statements. Icon Group reports, including the present report, make numerous forward-looking statements which should be treated as such. Forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Reform Act of 1995, and similar local laws. Forward-looking statements involve known and unknown risks and uncertainties, which may cause a company's, city's, country's or industry's actual results or outlook in future periods to differ materially from those forecasted. These risks and uncertainties include, among other things, product price volatility, exchange rate volatility, regulation volatility, product demand volatility, data inaccuracies, computer- or software-generated calculation inaccuracies, market competition, changes in management style, changes in corporate strategy, and risks inherent in international and corporate operations. Forward-looking statements can be identified in statements by the fact that they do not relate strictly to historical or current facts. They use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "feel", "think", "hear," "guess," "forecast," "believe," and other words and terms of similar meaning in connection with any discussion of future operating, economic or financial performance. This equally applies to all statements relating to an industry, city, country, region, economic variable, or company financial situation. Icon Group recommends that the reader follow the advice of Nancy M. Smith, Director of SEC's Office of Investor Education and Assistance, who has been quoted to say, "Never, ever, make an investment based solely on what you read in an online newsletter or Internet bulletin board, especially if the investment involves a small, thinly-traded company that isn't well known … Assume that the information about these companies is not trustworthy unless you can prove otherwise through your own independent research." Similar recommendations apply to decisions relating to industry studies, product category studies, corporate strategies discussions and country evaluations. In the case of Icon Group reports, many factors can affect the actual outcome of the period discussed, including exchange rate volatility, changes in accounting standards, the lack of oversight or comparability in accounting standards, changes in economic conditions, changes in competition, changes in the global economy, changes in source data quality, changes in reported data quality, changes in methodology and similar factors.

Information Accuracy. Although the statements in this report are derived from or based upon various information sources and/or econometric models that Icon Group believes to be reliable, we do not guarantee their accuracy, reliability, quality, and any such information, or resulting analyses, may be incomplete, rounded, inaccurate or condensed. All estimates included in this report are subject to change without notice. This report is for informational purposes only and is not intended as a recommendation to invest in a city, country, industry or product area, or an offer or solicitation with respect to the purchase or sale of a security, stock, or financial instrument. This report does not take into account the investment

objectives, financial situation or particular needs of any particular person or legal entity. With respect to any specific company, city, country, region, or industry that might be discussed in this report, investors should obtain individual financial advice based on their own particular circumstances before making an investment decision on the basis of the information in this report. Investing in either U.S. or non-U.S. securities or markets entails inherent risks. In addition, exchange rate movements may have an effect on the reliability of the estimates provided in this report. Icon Group is not a registered Investment Adviser or a Broker/Dealer.

5.2 ICON GROUP INTERNATIONAL, INC. USER AGREEMENT PROVISIONS

Ownership. User agrees that Icon Group International, Inc. ("Icon Group") and its subsidiaries (Icon Group International, Inc.) retains all rights, title and interests, including copyright and other proprietary rights, in this report and all material, including but not limited to text, images, and other multimedia data, provided or made available as part of this report ("Report").

Restrictions on Use. User agrees that it will not copy nor license, sell, transfer, make available or otherwise distribute the Report to any entity or person, except that User may (a) make available to its employees electronic copies of Report, (b) allow its employees to store, manipulate, and reformat Report, and (c) allow its employees to make paper copies of Report, provided that such electronic and paper copies are used solely internally and are not distributed to any third parties. In all cases the User agrees to fully inform and distribute to other internal users all discussions covering the methodology of this Report and the disclaimers and caveats associated with this Report. User shall use its best efforts to stop any unauthorized copying or distribution immediately after such unauthorized use becomes known. The provisions of this paragraph are for the benefit of Icon Group and its information resellers, each of which shall have the right to enforce its rights hereunder directly and on its own behalf.

No Warranty. The Report is provided on an "AS IS" basis. ICON GROUP DISCLAIMS ANY AND ALL WARRANTIES, INCLUDING BUT NOT LIMITED TO THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, RELATING TO THIS AGREEMENT, PERFORMANCE UNDER THIS AGREEMENT, THE REPORT. Icon Group makes no warranties regarding the completeness, accuracy or availability of the Report.

Limitation of Liability. In no event shall Icon Group, its employees or its agent, resellers and distributors be liable to User or any other person or entity for any direct, indirect, special, exemplary, punitive, or consequential damages, including lost profits, based on breach of warranty, contract, negligence, strict liability or otherwise, arising from the use of the report or under this Agreement or any performance under this Agreement, whether or not they or it had any knowledge, actual or constructive, that such damages might be incurred.

Indemnification. User shall indemnify and hold harmless Icon Group and its resellers, distributors and information providers against any claim, damages, loss, liability or expense arising out of User's use of the Report in any way contrary to this Agreement.

Sources: This report was prepared from a variety of sources including excerpts from documents and official reports or databases published by the World Bank, the U.S. Department of Commerce, the U.S. State Department, various national agencies, the International Monetary Fund, the Central Intelligence Agency, and Icon Group International, Inc.

E N D