



CHINA BRIEFING

The Practical Application of China Business July/August 2003

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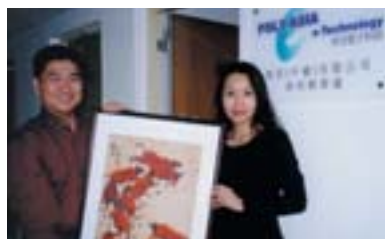


The Practical Application of China Business

Chris Devonshire-Ellis

Managing Director, China Strategic Ltd.

Senior Partner, Dezan Shira & Associates Ltd., and Publisher of "China Briefing"



Poly-Asia in Shenzhen - new office - Poly-Asia's Paul Chan pictured with Tracy Ying from Dezan Shira & Associates



Pobeda Systems in Shanghai - Michael Shaker (centre) with Pobeda's team (right) and Dezan Shira's team (left) successful licencing in just two months.



Helena Shen (left) and Lynn Liu (right) new Dezan Shira & Associates staff in Shanghai



QTEK Manufacturing of Ireland, new South China factory, QTEK's Christie O'Mooney (left) with Alberto Vettoretti of Dezan Shira & Associates

Welcome to the summer July/August issue of China Briefing, and a thorough look at China's West. Our theme is "Way Out West" and we're looking at it not just from a geographical perspective but also a look at markets you may not have considered - those of Central Asia. We look at the region in some detail, including five of the "stans" Uzbekistan, Kazakhstan, Kyrgyzstan, Tajikistan & Turkmenistan. We'll show you what products get bought and even how to access them. If you're considering establishing operations in China's West, and are interested in learning what the West offers and the traditional markets that are served from this enigmatic region - then this is the definitive piece. We Handle China on a National basis - and here we show our understanding of the country as a whole. We Get Out There.

Well Done To Poly-Asia Technology, Hong Kong, new office in Shenzhen

Congratulations to Poly-Asia - providing business software solutions and computerized business systems to SME's and MNC's in China - setting up a new office in Shenzhen. Handled by Dezan Shira & Associates Shenzhen office, please contact them on +86 755 8366 4120, or email to Alberto Vettoretti at alberto@dezshira.com for info about setting up in South China. Need software help in China? Contact PolyAsia via www.polyasia.com.

Congratulations to Pobeda Systems, USA, new office in Shanghai

Sticking with I.T; also well done to Pobeda, integrated e-business solution

providers with offices in Chicago, Boston, Cleveland and now Shanghai - to service both their existing US clients plus explore some new opportunities in the growing China market. If in need of e-business solutions you can view their site at www.pobedasystems.com, if wanting to set up in Shanghai, please contact Lulu Zhang there at lulu@dezshira.com.

Welcome to Helena Shen, Brandy Wu and Lynn Liu, Dezan Shira & Associates Shanghai

Our tax consulting practice, Dezan Shira & Associates continue their on-going expansion this year with new personnel in Shanghai in the form of Helena Shen, Office Manager, who joins us from Fedex, Brandy Wu on business registrations who joins us from a local consulting company, and Lynn Liu, Accountant, joins us from GKI, a JV between IBM and Great Wall Computers. She'll be helping us with accounting work for our clients in the I.T. sector. Welcome to all of you!

Irish Investments with QTEK in Guangdong

Well done to QTEK, establishing a manufacturing WFOE in South China - they are a single source supplier of Cleaning consumables for electronics manufacturing and related industries. Set up by Dezan Shira Guangdong, contact Alberto Vettoretti at alberto@dezshira.com for further advise on setting up in South China.

New staff at China Strategic

A major shake up at China Strategic with the departure of Operations Director Jamie Gwynn, replaced by

Parker Fairfield, a Mandarin speaking New Yorker from Taiwan, Anthony Robinson on Business Development from Tokyo and Shirley Zhu as new Project Co-ordinator in Shanghai. This issue is very much research based - so if you need to know what's really going on and how to pitch - these are the guys to talk to. Check out their website at www.chinastrategic.com

Yolles Architects in Shanghai

Well done to Yolles, who although active in China for some time have recently set up their office in Shanghai. Handled by Dezan Shira & Associates regional office, Yolles will be providing services to clients in this increasingly in-demand and competitive industry.

Who We Are

We set up our China tax consultancy, Dezan Shira & Associates in Shenzhen, South China, in 1989. Followed by Shanghai, in 1994 and Beijing in 1995, Dezan Shira & Associates provide business registration, licencing & tax and accounting

services to international companies throughout China.

Website: www.dezshira.com

In 1995 we established China Strategic, to handle market research work for pre-entry, expansion, and evaluation work throughout China. Some is related to sourcing, others are related to business positioning and market entry.

The company now has it's own offices in Beijing, Shanghai and Shenzhen.

Website: www.chinastrategic.com

China Briefing publication is owned by us and exists to both showcase our companies capabilities and provide a free introductory service to the international businessman interested in China. If you think what's written here makes sense - please call us.

cai

Chris Devonshire-Ellis

Dezan Shira China Group Chairman



Shirley Zhu (left) and Brandy Wu - Shirley new China Strategic Project Co-Ordinator and Brandy new Business Registrations Assistant in Shanghai for Dezan Shira & Associates.



Richard Kwan of Yolles together with his local staff and Dezan Shira & Associates Shirley Mao (right) - new office in Shanghai.

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The China Briefing website contains all the archived issues for the past three years, including:

- All of China Strategic's Industry Sector Market Overviews;
- Dezan Shira & Associates complete articles about Establishing Business in China
- China Regional Business Cost Comparisons
- Full explanations about China's Taxes
- All you need to know about setting up offices or factories
- A full range of City Guides

Plus much much more - just click on, register, and access the most comprehensive source of business information on the web!

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Dealing with Applications in China's Remote Regions

By Chris Devonshire-Ellis, Dezan Shira & Associates

This is an area of business that needs patience and understanding. Often the local officials, while friendly, may not be so familiar with China's investment law, and often they are far more knowledgeable about local laws and regulations than you will be. Old style "Communist" theory often pre-dominates, and the ability to see through the murky world of local priorities and get your risk assessed properly is a pre-requisite.

China's remote regions require a sensitivity not often provided for in most China consultants who are used to getting fat on earnings from Beijing and Shanghai. Choose someone to hold your hand with care and sensitivity and who knows their way around the "Commune" and "Village Township" regulations. You're a long way from Beijing and things are a lot different out here...

Land Use Rights

These may often be in the name of a village township or collective. What this means is that the village owns the land, but is not a legal entity in its own right. It's a curious throwback to the old 'commune' days, and you need to be familiar with the implications. For example, decisions need to be taken by the village or township committee. Whoever signs and chops these - well you need to check with the local branch of MOFTEC that indeed they are authorized to do so. Collectives will have a certificate showing their legal status - you need to see who is the legally responsible person, that the certificate is up to date and the nature of their land use rights. Note also the

penalties that can be incurred if using land that traditionally has been agricultural and turning it instead into a factory. You are required by law to claim back from 'uncultivable' status an equivalent amount of land to the one you've just rendered as such (by building a factory on it for example) and this can seriously affect the amount you have to pay in rights. Ideally you shouldn't be using land allocated for cultivated purposes at all - so look out and ensure when discussing where you want your operations to be the status of the land isn't using some of China's precious agricultural ground. 20% of the World's population, 5% of its arable land. The Central Government does not want what it has turned into concrete slabs, and monies for doing so will flow from your pocket into the locals if you make a mistake. Again, get in a consultant who is familiar with such situations and has experience of dealing with remote areas and understands regulations as they affect township collectives - it's a lot different from dealing with the better developed areas such as Shanghai, Beijing and Guangdong.

Local Officials

Will be delighted to see you and probably take you for a banquet to demonstrate how enthusiastic they are. Often this is part of a seduction technique. Don't be fooled. Even though they are often genuinely decent people, they may lack experience in dealing with foreign investment. They see you as injecting money, jobs and taxes into the local community. Thoughts of you

actually making money or getting it back home are secondary. They may not even be aware of China's own investment laws. We met one MOFTEC official in a township in Hebei who was not aware there were two types of Joint Venture structure. There are - Equity Joint Ventures, and Co-Operative Joint Ventures (see China Briefing Archives, September 2000 for details). He'd been setting up only Equity JV's for all investments into the area, which was more expensive and in some cases we suspect downright unsuitable for some of the foreign investors. But because that's all he knew - that's what got done. Usually they will take a very basic draft contract or articles for your JV or WFOE and just use that. No detail about profits repatriation, usually massive enhancement of the role of the (local) management and poor

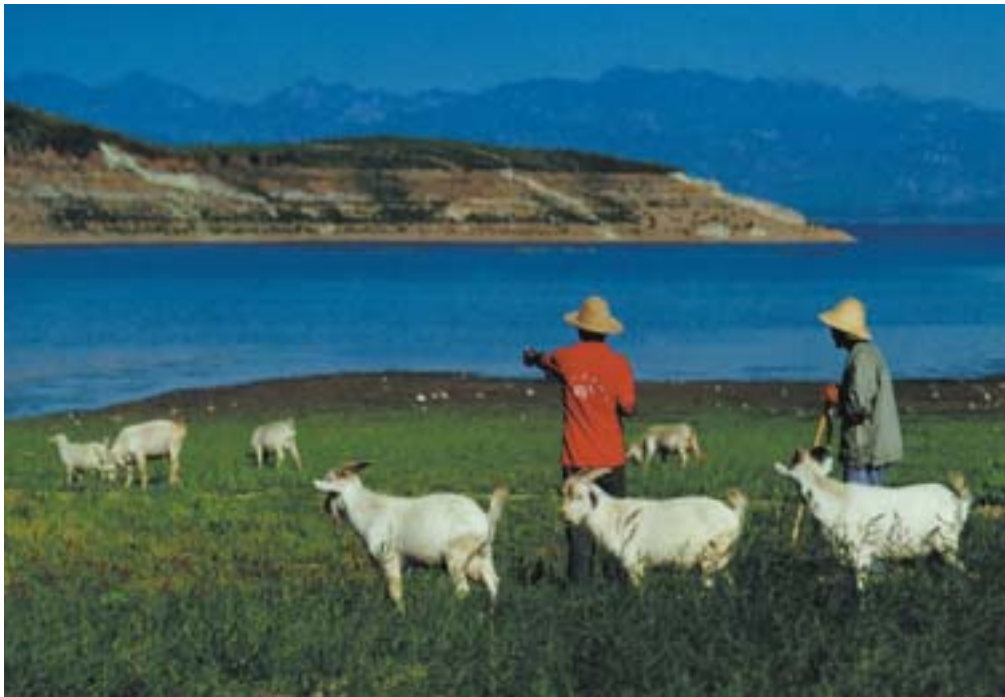


Tobacco harvesting in Yunnan. New foreign investment now in the world's largest market.

structuring for the foreign investor, meaning increased expenses and less profit. No wonder people shy away from the West. It doesn't have to be that way. Get in a consultant who knows the territory, knows how they operate and has the patience to provide a bit of free education. Also be wary of being introduced to local consultants handling applications for you. They are Government owned and have targets to meet - they want to secure your investment rather than structure it properly. Great paperwork and filing - no practical sense over enhancing your business prospects such as incorporating profits repatriation techniques. (China Briefing Archives, May 2003 "Getting More Bang For Your Buck")

Employing Staff

Due to the extremes of China's weather conditions, many, and especially unskilled staff, are temporary labour employed only during the summer months. This obviously has repercussions on labour contracts and similar issues, there is no need to hire permanent staff for example in agriculture when the land is frozen solid for four-six months of the year. Growing seasons can be short - but highly productive. Crops can yield two or even three harvests in the summer months. Ensure you know local labour law then and do not get committed to employing manual labour year round - temporary staff are available and you can engage them as such leaving packing, processing and other more technical skills to your factory staff during the winter. Some may work in the fields in summer months and revert to factory work in the winter - but either way, get to know the local habits, regulations and so on in order not to be supporting staff just lying around at home when the weather gets frigid.



From Agriculture to Water Management in the West - you need to know how to deal with the local variations and differences in conducting business.

Local Regulations

These can vary - will vary - so be prepared to have to do some legwork to find out the real deal. Sometimes local regulations may be contrary to official policy so it makes sense to have someone on your side that can make quick checks back to Beijing to make sure that what you're being told is correct. Key here really is the ability to discuss your plans at Ministerial level, certainly for major projects, and at Provincial level for smaller operations - you need again someone with that balance and expertise.

Investment Environment

All this aside however, you can gain tremendous benefits from being the biggest fish in town. I'd advise being a bit more socially responsible out here - maybe going the extra mile and providing some free English language lessons or a village community social centre. If you get the locals on your side by being seen to care then longer term you've got far more protection. Give a little, and you may get a whole lot more back in return.

It's different - but that doesn't mean you can't turn this too your advantage. Be creative and fair and you'll succeed. Good luck!



Relevant To You? We've Done This:

Business Registrations in the West we have conducted include as some examples:

- Urumqi (Xinjiang) : Representative Office applications, Pharmaceuticals, Agriculture, JV: Gas, Petrochemicals
- Lhasa (Tibet) : Tax Registrations, Education, Charity
- Zunyi (Guizhou) : JV closure, Battery Production
- Chengdu (Sichuan) : WFOE applications, Aerospace, Automotive, Pharmaceuticals, Agriculture, Water Treatment, Environmental.
- Lanzhou (Gansu): JV: Petrochemical, Gas Pipeline, Construction, Mining.
- Baotao (Inner Mongolia): JV: Wind Power Turbines, Gas Pipeline

Contact: Dezan Shira & Associates : info@dezshira.com

Western Regions Government Relations

By Chris Devonshire-Ellis, Dezan Shira & Associates



**DEZAN SHIRA
& ASSOCIATES**

China Law & Tax Structuring

When dealing especially in the remote regions of China it is important to have those Government connections in place to ensure that any hurdles, difficulties or even promotional and incentive requests can be dealt with from the very top. Over the past few years our policy has been to reach out to Provincial Government leaders, Mayors and Vice-Mayors and we have built up a significant number of contacts not just in the West, but at State level and in other areas and regions as well. An interesting observation here is just how many of China's new leadership were educated abroad - the US, UK and Canada especially seem to have lead the way, which leads to a greater understanding of international affairs and how things work from China's party and Government officials today. Many are also extremely pragmatic and down to earth - have spent careers in engineering or the sciences these indeed are people who know how things work and how to get things done. Sticking with the West for this issue these are some of the contacts we've made over the past three years (we've been busy!) :



Dr. Ning Jizhi, Director-General, Western Regional Development Office, State Council.

Very jovial and well educated academic, reports directly Premier Wen Jiabao, and is responsible for overseeing and implementing all Western regional development. A fascinating job. Dr. Ning is a kindly and generous man, well used to banquets and explaining the key areas of Western incentives to investors. A really charming Gentleman, we both spoke at a West Regions Development conference in Chongqing.



Li Da Chang, Vice Governor, Sichuan (left) and Chongqing Director of Planning Wu Yuande (right)

We're lucky in that we've been able to develop our business to cater for far more than the usual investment areas of South China & Shanghai, and most of the staff at both Dezan Shira & Associates and China Strategic have traveled extensively in China servicing our clients. I always get a kick out of visiting Sichuan, especially in the late summer when you fly into Chengdu and all you can see from the air are people drying chillis in their courtyards everywhere. The Provincial Government of Sichuan is quite young and forward looking and we always enjoy doing business there. Chongqing is a separate municipality now but is developing strongly as a logistics hub - Wu Yuande is the person to know about getting approvals and knowing how the Government is thinking about the future.



With Lanzhou City Tax Officials, Gansu Province, discussing Investment Incentives available to Western Oil & Gas exploration companies conducting inland surveys. Did you know that both oil and water look almost identical when being surveyed and that the only way to find out what it really is, is to drill? Most of the world's Oil companies actually discover far more water than Oil. It's an expensive business to prospect, but China is energy short and needs to bring in more foreign investment in this field.



Investor's Banquet hosted by Mr. Abdul Rexiti, President of Xinjiang

We were one of the first consulting companies to ever do any business in Xinjiang, we immediately saw it's potential as a Central Asian hub. Mr. Rexiti is a charming host, he laid on a huge banquet at Government House in Urumqi for us - all we'd done was set

up a Rep. Office for a German pharmaceutical company! This is a whole roast lamb which we washed down with gallons of local wine. Tremendous. Again, great potential in Xinjiang and a wonderful place to visit.



Guo Jinlong, Tibet Party Secretary

We were given red carpet treatment by the Tibetan Government and got to see a lot of areas usually off limits to foreigners. It's a very complex issue, but with the Dalai Lama now holding talks with Beijing maybe we can soon see some progress made. Guo Jinlong, the Party Secretary, has effectively run Tibet for many years, even when Hu Jintao was Governor, he spent most of his time in Beijing and Mr. Guo ran it. Ethnically Tibetan, and quite candid, he's acutely aware of the problems and in my view does a difficult and at times thankless job remarkably well. We conduct tax filing work in Lhasa for some smaller businesses.



Toasting the success of investments co-ordinated by Dezan Shira into Xi'an, with The Governor of Shaanxi, Mr. Chen An Dong

Mr. Cheng has now retired, but was a great host. One of the old school, but

very down to earth he spotted me amongst about 70 guests and got me to stand up and down with him about half a bottle of maotai and sing a song (I chose the Beatles "Hard Days Night") before we were allowed to start our dinner. Xi'an is a happening place for engineering excellence but steer clear of ex-Governors bearing alcohol during investment banquets!



Xiao Cheng Zang, Qinghai Planning Commission

Qinghai's getting pretty much out there but we were invited to assess part of the environmental impact on the Lhasa-Golmud railway. Very difficult project, engineering wise. China's largest inland lake is in Qinghai, and as an avid birdwatcher, I quizzed Mr. Xiao about this. Lo and behold he is too and we spent most of the conference talking about Black Necked Cranes rather than the rail project. Fortunately it still seems to be on target!



With the Governor of Gansu, Mr. Han Xiu Guo

We've been promoting the West and making contacts for so long I look about 25 in this photo! Obviously doing business in the West suits us - it

knocks 20 years off your true age. Gansu is strategically very important and is also the site of China's nuclear and aero-space industry so a lot of high tech and military applications are led by the Government here. Mr. Han was a cordial host and very keen to attract Western investment. Paul Gascoigne turned out (briefly) for the local soccer team here - and 30,000 turned up to watch. Mining, Oil, and Gas industries predominate.



Discussions regarding Foreign Investment policy with the Vice Governor of Yunnan, Shao Qiwei

Mr. Shao must be one of China's fittest Government officials, he's a keen mountaineer and with the Tibetan peaks partially in his province he gets the opportunity. Unbelievably fit guy, good golfer too. Typical dinner, I'm rather florid in this photo as I've been plied with alcohol little knowing I'm also about to be interviewed by Kunming TV. Mr. Shao loftily waves a hand and says "Chris can do it!" although I have no idea what the population of Yunnan felt when I came onto their screens. Probably not a lot. Seriously though this is a dynamic Government and Yunnan has a lot going for it. 

This article relevant to you?

Dezan Shira conduct a lot of Government research, not in just in West but on a national basis and at Ministerial level in Beijing. Contact our Senior Partner: Chris Devonshire-Ellis: chris@dezshira.com



China's Western Regions

By Parker Fairfield, Dezan Shira & Associates

Dezan Shira & Associates have long had an affiliation with the Western regions of China - we've traveled extensively throughout the region and conducted research and analysis into many different areas of business as far away as Urumqi, Kunming and Lanzhou.

As China's new Government leaders have extensive connections in the area, and now that the "Go West" campaign is some three years old we re-visit the region and have a look at what it's all about, what it can offer and new markets that can be reached from this enigmatic and vast land mass.

All the Provinces mentioned are part of the Go West campaign and can offer increased investment incentives over and beyond the developed regions.

THE NORTH WEST

Shaanxi

Shaanxi is an important province in China's history, the ancient capital Chang'an was located here (close to today's Xi'an) being the Eastern most point of the Silk Road. Shaanxi's population is some 36 million, with about 3 million in Xi'an the capital city. Shaanxi covers an area of some 195,000 sq. km. Topographically, the Province can be divided into two, with the Northern part being steppe plateau, and the South comprising the Huang

plain, bordered by the Qinling Mountain range. Tourism is a major industry with Xi'an being the home of the world famous Terracotta Warriors, (more properly known as the Mausoleum of the Emperor Qin Shihuang) which are a Unesco World Heritage Site, amongst other attractions. Xian is a walled and moated city, covering some 17 miles around the city proper. Besides tourism, the Province has heavy industry, coal and oil processing, in addition to agriculture, fruits, grains and some hi-tech industry. Shaanxi borders Inner Mongolia, Ningxia, Gansu, Sichuan, Hubei, Henan & Shanxi Provinces, which could assist with it's development as a central distribution or collection point for goods entering or exiting from the port of Tianjin, or as a manufacturing base for products to be then distributed internally into China's central regions. The Province has development zones offering special tax incentives to the foreign investor in Xi'an, Baoji, Xianyang, Weinan & Yangling, covering the hi-tech, titanium processing, electronics, fertilizer, chemical and agriculture industries.

Inner Mongolia

Inner Mongolia is an autonomous region, with the Provincial Capital at Hohhot. The Province possesses a lengthy border with Mongolia, and part of Russia to the east, with Provincial borders with Xinjiang, Gansu, Ningxia, Shaanxi, Shanxi, Hebei, Liaoning, Jilin and Heilongjiang, the province running across most of the Northern part of China proper. Covering some 12 million sq km, with a population of 23 million, the area consists largely of desert (The Gobi) and steppe land, being centred on the Mongolian plateau at an average elevation of 1000 metres. About half of the region is set aside for grazing lands (mainly sheep and goats but also cattle, horses and camels) with a large proportion of the population being nomadic. Industry exists in the form

of coal mining, iron and steel works, as well as chromium and copper mining, in addition to salt and soda extraction from the Gobi salt lakes. The only fertile region is the Valley of the Yellow River, which flows for hundreds of kilometres through the province, land close to it is given over to agriculture such as cereals, sugar beet, maize, & potatoes. There is a short growing season as Inner Mongolia is only frost-free on 130 days a year. There are several investment areas in Inner Mongolia, sited at Hohhot, Baotao, Chifeng, Tongliao, Erlian, Hailaer, Manzhouli, Erenhot, Hulunbuir, Higgan, Wuhai, Jelin, Xilin, Ulanqab, Ihu, and Bayannur, in the main involved in the raw material and building industries.

Ningxia

Ningxia is an autonomous region, comprising of the Muslim Hui people, and is China's smallest province geographically, covering some 66,500 sq km with a population of some 5 million. The North of the Province is considered the Granary of North West China, growing rice, millet and other grains, while fruits and other agriculture dominate. Coal mining is also a significant industry. Much of Ningxia is desert, with the Liupan Mountains to the South. The Provincial capital is at Yinchuan, with a population of about 500,000. There is a Development Zone, offering incentives to the Foreign Investor, at Yinchuan.

Gansu

Gansu covers some 450,000 sq km, with a population of some 26 million, 1 million of which are centred in the Provincial Capital, Lanzhou. It is China's centre most province geographically, but is considered one of the Western regions. It has no Country borders but shares Provincial boundaries with Xinjiang, Inner Mongolia, Qinghai, Ningxia and Shaanxi. About 5% of the population is Muslim. Part of the province covers the Gobi Desert, it is also the site of



New infrastructure to bring western products to the domestic and international markets.



Timber resources and processing - China lacks and is a major importer.

two important cultural sites, the Mogao Grottoes at Dunhuang, which are a Unesco World Heritage Site, and the Western end of the Great Wall. Principal industry is fruit, agriculture & textiles. Lanzhou has an inland customs bureau, which can seal containers for export via Tianjin. Lanzhou itself has several investment zones, offering preferential tax incentives for foreign investors, located at Lianhai, Baiyin, Jinchang, Linxia, Xicheng, Dunhuang, & Ningwozhuhang, covering a variety of specific industries including metal extraction, trading, tourism packaging and pharmaceuticals.

Qinghai

Qinghai borders the Provinces of Xinjiang, Tibet, Gansu, and Sichuan, and has the second lowest Provincial population density after Tibet, being some 4.8 million in a region covering some 720,000 sq km. The Province is characterized by being part of the Tibetan plateau, with the Taklimikan Desert, and the Kunlun Mountains dominating. Only 2% of the area is forested. The Provincial capital is Xining. Main industries are agriculture, textiles (cotton) and fruits. Grains are also grown, livestock farming is a staple employment. The local Government is trying to attract foreign investment, and is looking for co-operation in the following areas: Agriculture, Energy, Transportation, Raw Materials, Light Industry and Food products.

Xinjiang

Xinjiang is China's largest Province by area, covering some 1.65 million square kilometres, and it's most Western, bordering with Mongolia, Russia, Kazakstan, Kirghizia, Pakistan, and India. It shares Provincial borders also with Gansu,

Qinghai, and Tibet. Its capital city is Urumqi. Xinjiang's population is roughly 16 million, with about 1.5 million in the capital. Its topography encompasses both desert - the Gobi and the Taklimikan - and high mountain ranges with the Tianshan and Kunlun mountains, in addition to steppe and plains. Due to its Northern proximity summer daylight hours are long, establishing the region as the forefront for China's fruit growing industry. Its status marks it out as one of China's "Autonomous Regions", meaning that Beijing recognizes the minority population there (in this case, the Uigyr - pronounced "Wewur" people - ethnically Caucasian and mainly Muslim) and affords the Provincial Government far more local decision-making power than is normally the case. This can affect some investment policies so it is wise to be aware of these - examples are the ability for Insurance companies to form Joint Ventures, and for Granted Land Use rights to be approved by the Provincial, and not Central Government. The standard port of entry/exit for goods is Tianjin, (excepting those destined for Central Asia) goods can be custom cleared for export in Urumqi. Most of Xinjiang's foreign investment potential lies in establishing light industry manufacturing facilities for export to the Central Asian republics and the Province offers substantial incentives for Foreign Investors to do so. The Province is also wealthy in minerals, Oil and Natural Gas and is a major inland drilling and processing centre for China's Petro-Chemical industry. Urumqi has two investment development zones, offering preferential tax conditions, at Sanping and Diwopu.

THE SOUTH WEST

Guangxi

Guangxi is an autonomous region, with a level of self-governance, sited West of Guangdong Province, bordering Hunan & Guizhou to the North, and Yunnan to its West. It's south is a lengthy coastline with the South China Sea, up to Vietnam with which it also shares a 1,000 km border, with Hainan Island lying due South East. It covers an area of 240,000 sq km, with a population of some 50 million. The Provincial Capital is

Nanning. 85% of the region is mountainous karst stone, giving rise to spectacular scenery in many parts of the Province, often considered the most beautiful in China. Guangxi's industry is centered on sugar processing, metallurgy, chemicals, engineering, electronics and cement production. Mineral resources include crude oil, natural gas, coal, iron, zinc, nickel and bauxite. Agriculture is a major industry, with bananas and pineapples the dominant crops. Rice (two annual harvests) is also grown, while some timber industry exists producing sandalwood and cork. Fishing is also an important industry here. There are several investment areas located in the capital, catering for biotechnology, biomedicine, electronics, synthetic material production, textiles and some hi-tech industry. Guiyang also has an investment zone, as does the island of Wuzhou, which possesses good harbour facilities and is a strategic point for distribution to Guangxi, Guizhou and Sichuan. It's closeness to the navigable waterways of the Pearl and Xinjian Rivers also make it a valuable location. Beihai, on the coast, has been developed as a tourist resort, in addition to its harbour facilities. It also is a centre for the Energy, petrochemical and metal processing industries. Guangxi's tourism industry is focused on Guilin, which has an international airport, being famous for its karst limestone mountain scenery



Getting Product To Market - this lady had Colgate and Palmolive products in her yurt (tent). It can be achieved if you know how.



Eco-Tourism and Medicinal Herbs - opportunities even in Tibet



Looks barren - but bright sunshine and clever irrigation can yield up to three crop harvests in the summer.



The Naddam Festival in Inner Mongolia - 10th-13th July.



Threshing Grain in Gansu

and with the meandering River Li being likened to a “Ribbon of blue silk weaving through a landscape of jade” - a trip up the River to nearby Yangshou becoming a must do on many tourist schedules.

Guizhou

Guizhou covers an area of some 170,000 sq km, with a population of some 36 million. It borders Sichuan and Yunnan to the North and West, and Hunan and Guangxi to the East and South. The capital city is Guiyang. 85% of the Province is high plateau crossed by Mountain ranges, dropping down in stages from East to West, creating a dense network of rivers and valleys, with a large amount of rainfall. Industry is concentrated in the iron and steel, engineering, electronics, cement, fertilizers and tyre manufacturing areas, with mercury, coal, bauxite and manganese all being mined. Agriculture is centred on crops such as rice, wheat, maize, rape, potatoes and tobacco, with the silk industry also being of some importance. The area is famous for the production of Mao Tai liquor. Foreign investment is concentrated in the areas of agriculture, infrastructure, chemicals, electronics, minerals, the optical industry and energy. Development Zones offering incentives to Foreign investors are located in Guiyang and Zunyi.

Sichuan

Sichuan is China's most heavily populated Province, some 125 million people in a region covering 570,000 sq km. The Province is surrounded on all sides by high mountains, the Dabashan Range to the North, the Qinghai Highlands to the West, the Wushan in the East, the Guizhou Plateau to the South, with a massive central plain with fertile soil, rich mineral deposits and mild climate. The provincial capital is Chengdu. Sichuan is rich in Natural Gas, Coal, Oil, Sulphur, Manganese, Iron Ore and Salt deposits are all being exploited, giving rise to major industries such as engineering, vehicle manufacturing, iron smelting, chemical production in addition to cotton and staple food production. Agriculture includes production of rice, maize, wheat, millet, sugar cane, tea, yams and soya, while silk production and livestock breeding are also major industries. Chengdu (pop: 4.5 million) is an

important centre for rice and wheat growing, and is well connected to all other major Chinese cities, including links to Lhasa in Tibet. It also is a major tourist destination, with two World Heritage Sites to the North, Huanglong and Jiuhai, both natural beauty spots in addition to a variety of other cultural attractions close by. Chongqing (pop: 7 million) lies to the east of the province, at the meeting of the Chanjiang and Jialingjiang Rivers, giving it strategic importance for the distribution of goods further inland via river. It is recognized itself as a municipality, giving it the same status as a Province. Chongqing possesses mines as well as large shipyards, and also boasts a renowned University. It is the political and commercial centre for South West China. Tourism is also a fairly major industry with many cultural sites including the 50,000 stone carvings at nearby Dazu in addition to various other historical sites, some dating back more than 2,000 years, and the World Heritage site at Mount Emei, a peak of some 3,099 metres with the closely Leshan Giant Buddha, which stands 71 metres tall carved into the Qiulan Mountain, taking 90 years to complete in the Tang Dynasty some 1,300 years ago. Chongqing has investment zones, offering incentives to the Foreign Investor, located at Nanping and Juilongpo, covering a wide range of industries.

Tibet

Tibet is an autonomous region covering an area of some 1.22 million sq km, with a population of some 2.6 million people. It borders India, Nepal, Bhutan and Burma, with provincial borders with Xinjiang, Qinghai, and Sichuan. The whole region covers the Tibetan plateau, averaging some 4000 metres above sea level and some of the most spectacular mountain scenery in the world. Most of North Tibet is uninhabited, with the Southern plateau home to the capital, Lhasa. The Potala Palace is a World Heritage Site. With a well-known history and the World religious centre for Buddhism, Tibetan industry comprises electric power stations, coal mining, timber and agriculture such as barley, wheat, pulses and some fruit and vegetable production. Tourism is a major industry in Lhasa and Xigaze. 25% of the population is nomadic. Tibet does

enjoy a more free reign over it's internal Government than most people realise, being an autonomous region since 1965 and with a programme of re-investment and reform, including religious freedoms and the re-privatization of agriculture, being enacted since 1980. There is a small flow of Foreign Investment into Tibet, including solar power research, tourism and herbal medicine. The Provincial Government has a Foreign Trade Department in Lhasa. The China Briefing "Tibet" issue - September 2002 refers (see archives on the website at www.china-briefing.com)

Yunnan

Yunnan lies in China's Southwest, sharing a common border with Vietnam, Laos, and Burma, and provincial boundaries with Guangxi to the East, Guizhou and Sichuan to the North, and Tibet to the North West. The Mekong River flows through Yunnan from North to South. It covers an area of 400,000 sq km, with a population of 46 million. The Provincial Capital lies at Kunming. Most of Yunnan lies on the Qinghai-Tibet plateau, in the form of terraced steppes, averaging some 10,000 ft above sea level, with high peaks in the northwest to 22,000 feet. The Mekong, Nushan, Yuanjiang and Xijiang Rivers have carved out deep valleys through these mountains. Rich mineral deposits are found in Yunnan, with mining thus being a major industry.

Tin, Copper, coal, iron and phosphorus are all extensively mined. Only 6% of the total land is agriculturally fertile, with this producing rice, maize, wheat, sugar beet, yams, tobacco and coffee. Foreign investment is particularly encouraged in road and infrastructure construction, mineral exploration, processing of non-ferrous metals, rubber, & fruits, cattle and plant breeding, and tourism. Kunming is the site for the International Horticultural show, once a year in the spring, with it's flower growing industry a serious competitor to the previously world trading centre in Holland. Kunming itself has investment zones, while others exist at Chuxiong, Qujing, Yanglin, & Yuxi, all offering favourable terms for foreign investment. Tourism is developing in the towns of

Lijiang, Dali and Jinghong, favoured mountain getaways previously the peaceful preserve of backpackers but now generating more international exposure. Lijiang is a World Heritage site, a Ming dynasty town with cobbled streets, traditional low roof houses with the spectacular backdrop of the snowcapped Yulong Mountains. It has recently opened an airport to expand its tourism facilities. Yunnan and Kunming especially will become more important as the Singapore-Kuala Lumpur-Kunming railroad is completed in 2004 giving ASEAN countries far more access to China overland and vice versa for Chinese products, especially from the South West being able to access South East Asia.



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Just in Case You Get Sent to: The Gobi Desert



*I'm sure my house was around here
somewhere*



Baby You Can Drive My Camel



*Genghis Khan was here.
(Ruins at Gaocheng)*

Everyone has heard about the Gobi, but it doesn't regularly feature on maps, you can't fly to the Gobi airport, and no-one's even exactly sure where it is.

Here then, just in case you do get sent to the Gobi - is the guide about what it is, where it is, and what to do when you get there.

The Gobi covers an area of some 1.3 million sq km, being about 1,600 km in length and varying between 500-1,000 km wide. It covers then a huge area of both China and Mongolia. Broadly in China it extends from Xinjiang right across China to the western border of Heilongjiang just north of Beijing and extends further North into Inner Mongolia and Mongolia itself. Much of it is made up of dry steppe and rock as opposed to sand, but it's the very fine dusty sand that blows about and causes problems in early spring for much of the region including Beijing. Temperatures can range from -40 in winter to +40 in summer, legend has it the Gobi was created by a Mongolian Chief, practiced in black magic and being persued by Chinese warriors, cast a spell and turned the land between himself and his enemies into arid land thereby making his escape. It possesses an interesting array of wildlife from the wild Bactrian Camels, the worlds only desert bear, antelopes, wild asses and wild horses so is not quite as barren as it appears.

Part of the fascination of the Gobi lies in its ancient history - part of the silk road cut across the Gobi on the way to Xi'an, the old capital of China, and legends are still handed down today of long lost cities and caravans, full of riches from trading that just disappeared, swallowed up by the desert. Places to see some of these ancient cities and recovered artifacts include the excellent Provincial Museum at Urumqi, while the ruined

cities of Gaocheng and Jiaohe can be easily reached from Turpan. Both were sacked by Genghis Khan, and remain eerie, desolate places full of ghosts. Broken pottery shards remain poking out of the dust.

Going further back into legend, the city of Karahot which was sited on the then banks of the Hei He River in the Altai Mountain range is well referred to in ancient Chinese texts as being a thriving capital of the region, but was lost in a Mongolian-Chinese skirmish 700 years ago and remains abandoned and unexplored. Rumours exist of large treasures still buried in the sands. Going still further back, many new species of dinosaur have recently been discovered from various archeological digs in certain parts of the desert, and specifically the extremely rich site at Ukhaa Tolgod, still under dig and visitable, with some of the new species now on display at museums in Beijing, and Ulaan Bator.

A good place to base yourself from is Urumqi, places to stay include: the Holiday Inn (0991 281 8788) and the glitzy Hoi Tak (0991 232 2828) both providing high standard five star accommodation and facilities and centrally located.

To really get out there it is strongly advisable to join a professional expedition tour, the Gobi apart from areas around Turpan and Dunhuang on the tourist track (but still fascinating) requires serious planning and know-how to be able to get out into the more interesting and further flung reaches. We recommend viewing the following websites for travel companies offering tours of the region:
www.gobiexpeditions.com
www.samarmagictours.com
www.mongoliahunts.com
www.mircorp.com

Happy Exploring! ☞



China's Trade with Central Asia

By Sacha Cody, Dezan Shira & Associates

Central Asia comprises the countries of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. The entire area is an important region to China for many reasons, such as a source of resources, especially Oil & Gas, and it is not surprising to see that bilateral trade, as well as government relations, between the region and China has grown in the last decade. In this article we have a closer look at this part of the world, an area often overlooked, and analyse China's economic relationship with these five fascinating countries.

China shares about 3,700 kms of border with these countries. Urumqi, the capital of Xinjiang province, is the hub for most of China's trade with Central Asia. Indeed, it is pivotal Government policy to develop Urumqi to become the centre through which all China's exports to Central Asia pass through. It's very much more of the capital trading city for all of Central Asia than just a mere backwater provincial capital; you'd be surprised at the wealth and industrious nature of this enigmatic city.

There are some interesting aspects of the trade relationship between China and the region. As China is partially driven by its demand for energy, since 2001 the central government has made it policy to access the largely untapped reserves of oil and gas in Central Asia. This is also made possible with the plans to link China's East and West, and transport some of the 20 billions tons of oil and 10 trillion m³ of natural gas from Xinjiang to the prosperous Eastern cities. The pipes that will be laid to facilitate this will then open up the opportunity to access resources in Kazakhstan and Turkmenistan.

Central Asian states are hoping to develop rail links with China in the hope that they can turn themselves into an intercontinental transit hub for trade. Leading the pack is Kazakhstan, which began in 1999, in partnership with the Asian Development Bank, to



invest in rail development. This has hit some problems recently but the reality is that the countries will be better inter-linked from now on in terms of trade processing between the two.

Let's take a look more closely at these five countries now.

Kazakhstan



Capital:	Astana
Population:	14.8 million
Official languages:	Kazakh
Main industries:	Natural resources, agriculture
Imports from China:	US\$ 601 million
Exports to China:	US\$ 1.4 billion

Kazakhstan is the largest of the Central Asian republics, gaining independence in 1991. It is a large country, roughly the size of China's Xinjiang, Qinghai and Gansu provinces combined. Religion is split between Muslim and Russian Orthodox, and China shares a border of 1,700 kms in length with Kazakhstan. Kazakhstan is an Observer government of the WTO, meaning that they are required to commence application procedures

within five years. Although announcing their intentions in 1996, their last working party meeting took place recently in December 2002.

Kazakhstan is China's 48th largest export destination and 30th largest source of imports. By comparison, Kazakhstan ranks ahead of other export destinations such as New Zealand, Norway and North Korea, and of other import origins including New Zealand, South Africa and Vietnam.

With over US\$ 600 million of exports to Kazakhstan in 2002, the bilateral relationship is one that is not ignored by the Chinese government or the Kazakhstan Head of State, President Nursultan Nazarbayev. In 2002, China exported over US\$ 100 million worth of footwear to Kazakhstan and US\$ 76 million of woven apparel, such as suits and overcoats, tracksuits, and other clothing items. Knitted apparel, at US\$ 62 million, complete the top three imports and make up a massive US\$ 238 million of clothing items exported to Kazakhstan, placing the country in China's top 30 export destinations for these goods. For comparison, for these three categories, the U.S., China's top export destination, imported US\$ 8.7 billion and Mexico, China's 20th largest export destination, imported US\$ 611 million of the same goods.

In 1999, China and Kazakhstan signed a Joint Statement, emphasising their wishes to strengthen bilateral relations and cooperation in the 21st century.

Machinery and electrical machinery are exported in large amounts (US\$ 61 & 46 million, respectively) especially boring and sinking machinery, machines for lifting and loading, televisions, and television parts. Oil & Gas are additional major areas of trade and investment, with China National Petroleum (CNPC) recently acquiring the remaining stake in CNPC-Aktobemunaigaz it did not already own, making it a 100% shareholder and the biggest Chinese investor in Kazakhstan. The company has 1.4 billion barrels of oil reserves, and has also expressed interest in buying 51% of another Kazak Oilfield, outbidding Texaco and Amoco in their desire to acquire strategic supplies. The two countries have additionally re-activated talks over building a 3,000 km oil pipeline following Hu Jintao's recent visit.

Kyrgyzstan



Capital:	Bishkek
Population:	4.9million
Official languages:	Kyrgyz, Russian
Main industries:	Small machinery, textiles, food processing
Imports from China (2002):	US\$ 146 million
Exports to China (2002):	US\$ 56 million

Bordering China, Kazakhstan, Tajikistan, and Uzbekistan, Kyrgyzstan is about the same size as Shaanxi province and is China's 79th largest export destination (ahead of Mongolia, and Laos) and also the 79th largest source of imports, beating Greece, Bangladesh, and Sri Lanka. Kyrgyzstan became a member of the WTO since 1998, and is also party to a number of international organisations including the ILO, the WHO, and UNESCO. WTO membership has proved difficult as none of Kyrgyzstan's neighbours are members. Now that China has joined,

this may improve; indeed, China is one of Kyrgyzstan's main trading partners, sharing a border of 858 kilometres with China. Kyrgyzstan has been one of the fastest movers in liberalising its economy, though is still battling to make good large industrial segments left over from the Soviet Union that are not optimal.

Special woven fabrics are exported to Kyrgyzstan, such as woven piles and chenille fabrics, at an amount of US\$ 31 million (the same value as, say, Chinese sugar exports to the U.S. or U.S. stone and cement exports to China). US\$ 15 million of manmade staple fibres was exported in 2002, including woven fabrics and sewing threads. To compare, this is the same value as Chinese ship and boat imports from the U.K. during the same time period. Kyrgyzstan imported US\$ 15 million of footwear from China in 2002, as well as US\$ 9 million of plastics such as tableware and other household articles and floor and wall coverings. US\$ 3.2 million of machines for making pulp and paper was bought from China in 2002. Woven apparel, which was exported to Kyrgyzstan in large amounts, has declined in the last few years, as has Chinese exports of inorganic chemicals and manmade filaments.

Germany is Kyrgyzstan's largest export destination and Russia the largest source of imports.

Tajikistan



Capital:	Dushanbe
Population:	6.2 million
Official languages:	Tajik, Russian, Uzbek
Main industries:	cotton
Imports from China:	US\$ 7 million
Exports to China:	US\$ 6 million

Tajikistan is more or less the same size as Shanxi province and is made up mainly of Tajiks, with populations of Russians and Uzbeks. Tajikistan (full name the Republic of Tajikistan) is predominantly an Islamic country gaining independence in 1991. Tajikistan is a poor country, with the lowest per capita GDP amongst the

former Soviet republics. Mineral resources are rich and varied, though in small quantities, and the country is, to a certain extent, dependent on donations from Russia, Uzbekistan and the IMF. Cotton, its main export commodity, is itself subject to large price fluctuations, although aluminium, zinc, lead, chemicals and fertilizers, and cement are also relatively strong industries. Agriculture constitutes about 20 percent of the country's GDP, while industry and services make up 25 and 55 percent, respectively. However, more than 65 percent of the labour force is engaged in agricultural work. Interestingly, China has a similar GDP breakdown and labour force breakdown. Tajikistan is an Observer government of the WTO, announcing their intentions recently in 2001.

China exported US\$ 7 million of goods to Tajikistan in 2002, ranking the country as China's 163rd largest export destination. Encouraging is that this figure has remained relatively stable over the last few years. 35 percent of this was electrical machinery, such as telephonic machinery and televisions. Woven apparel and footwear was, predictably, also amongst the top three items. However, China also exported almost half a million dollars of yeasts and baking powders to Tajikistan in 2002, highlighting the country's economic situation: Tajikistan was only at 45 percent of pre-independence GDP levels until recently. In 2002, China imported US\$ 2.5 million of iron and steel, this predominantly being waste and scrap. The second largest import from Tajikistan was woven cotton fabrics, valued at US\$ 1 million last year.

President Emomali Sharipovich Rakhmonov of Tajikistan visited Beijing in March of this year, and help talks with Jiang Zemin. This resulted in the signing of a number of documents regarding bilateral relations and trade issues.

Turkmenistan



Capital:	Ashgabat
Population:	4.4 million
Official languages:	Turkmen
Main industries:	
	Cotton, oil and gas
Imports from China:	
	US\$ 87 million
Exports to China:	US\$ 1 million

Turkmenistan, slightly larger than Gansu province, and only 5 percent the size of China, shares borders with Afghanistan, Iran, Kazakhstan, and Uzbekistan. A sub-tropical country, Turkmenistan has resources of petroleum, natural gas (fifth largest resource in the world), coal, sulphur, and salt. China established diplomatic relations with Turkmenistan in 1992, and in the last decade both sides have made numerous governmental visits. Hi Jintao visited Turkmenistan as early as 1995, and the Chinese government has occasionally provided loans to Turkmenistan, such as a loan of RMB 1 million in 2000. Turkmenistan has no formal relationship with the WTO.

When diplomatic relations were established, bilateral trade was valued at US\$ 4.5 million, greatly in China's favour (China exported US\$ 4.09 million). Six years later, in 1998, this figure had increased to US\$ 12.52 million, which China exporting US\$ 10.29 million. In 2002, China exported US\$ 87 million of goods to Turkmenistan, up from US\$ 12 million in 2000 and US\$ 31 million in 2001. The largest category of goods last year was machinery, in particular boring and sinking machinery, used for oil and gas drilling. This was valued at US\$ 52 million in 2002, more than double 2001's figure and 10 times larger than 2000's figure. China also sold US\$ 4 million of special purpose motor vehicles to Turkmenistan, mainly being mobile drilling derricks. Iron and steel products were the third highly valued export, at US\$ 5 million.

These were mainly construction materials such as tubes and pipes. Imports into China from Turkmenistan included plastics such as polymers and silk waste products.

In 2000, China and Turkmenistan signed a MOU outlining cooperation in petroleum and gas between the two countries. China's National Petroleum & Gas Corporation is the major party to this agreement.

Uzbekistan



Capital:	Tashkent
Population:	25.1 million
Official languages:	Uzbek
Main industries:	
	Cotton, gold, natural gas, chemicals
Imports from China:	
	US\$ 104 million
Exports to China:	
	US\$ 27 million

China established diplomatic relations with Uzbekistan in 1992, and since then bilateral relations have ventured from not only trade issues but also to cultural exchanges, such as football matches, academic circle gatherings, and International Friendship Relations events. More recently Uzbekistan has been researching and learning from China's highway systems and the development of townships along inter-province highways. Uzbekistan, the size of Heilongjiang province, is China's 92nd largest export destination (ahead of Lithuania, Bulgaria, and Slovenia) and 95th largest source of imports, ranking ahead of Cambodia, Bulgaria, and Laos. Though not a member of the WTO (Uzbekistan is also an Observer government), Uzbekistan is party to many inter-

national bodies such as the U.N., UNESCO, and the WHO.

China exported US\$ 104 million of goods to Uzbekistan in 2002, a figure greater than the previous two years combined. Nearly 40 percent was machinery, the majority of which was boring or sinking machinery for oil and gas drilling. There was nearly US\$ 15 million of gas, liquid and electricity supply meters and parts exported, the majority of which were coal gas meters. This category was negligible in the previous two years. US\$ 9 million of coffee, tea and spices was sold to Uzbekistan from China, mainly being China's famous green tea. Plastics, electrical machinery and vehicles were also exported in considerable volumes as compared with other products. In 2002, China imported US\$ 27 million of goods from Uzbekistan. Over 85 percent of this was cotton. Of note is US\$ 1 million of aircraft and spacecraft parts that was imported into China from Uzbekistan in 2002 for the first time.

Jiang Zemin met with the President Islom Karimov of Uzbekistan in 2002 during a summit in St. Petersburg, Hu Jintao following this up just recently at this years conference last month.

Conclusion

There were exports of US\$ 945 million in 2002, representing less than 1 percent of China's exports in value. Imports from the region in 2002 were valued at US\$ 1,445 million, about half a percent of China's total imports. Although seemingly small, there are intangible aspects of the bilateral relationship that are just as important. The countries of Central Asia are viewed with increasing importance in China, and it is an area that should be researched further.

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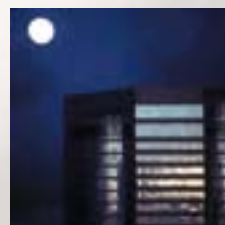
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