

The China Investment Guide: 1984-1985, by the China International Economic Consultants, Inc.

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Recommended Citation

Nicholas V. Chen, *The China Investment Guide: 1984-1985, by the China International Economic Consultants, Inc.*, 9 Md. J. Int'l L. 323 (1985).

Available at: <http://digitalcommons.law.umaryland.edu/mjil/vol9/iss2/30>

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THE CHINA INVESTMENT GUIDE: 1984-1985. In association with China International Economic Consultants, Inc. Chicago, Ill.: Longman Group USA Inc., 1984, 608 pp., \$65.00.

The Anglo-Chinese War of 1839-42, commonly known as the Opium War, marks what many historians consider the beginning of the "modern" period of Chinese history.¹ It was at the conclusion of this conflict, in which China was defeated, that some elements of Chinese society first realized the need to "imitate Western methods."² Since that time, during each of the Ch'ing Dynasty (ended 1911), the Republic (founded 1911) as well as the People's Republic (founded 1949) the propriety and the degree to which *yangwu* [*yang-wu*]³ or "foreign matters" should be pursued as government policy has been the focus of attention and debate at the highest echelons of the Chinese government.⁴

Since the founding of the People's Republic of China, the government's domestic and international economic policies have often been subject to the periodic pendular, shifting of emphasis between "red" and "expert." With the recent emergence of China from the Cultural Revolution and the rejection of the technological stagnation, political extremism, and economic and social instability that characterized the Cultural Revolution, China has undertaken a new "opening to the world." The current Four Modernizations program has many parallels to the "imitate the West" movements of the past; but is distinguishable qualitatively and quantitatively in that the current drive to modernize China is geared more to systematically integrating Western methods, technology and know-how into China's concrete realities, rather than to piecemeal measures directed toward isolated industries or sectors of society. Unlike prior *yangwu* [*yang-wu*] reforms which were tied to personalities such as Zeng Guofan [Tseng Kuo-fan], Li Hongzhang [Li Hung-chang], Kang Youwei [K'ang Yu-wei] and Liang Qichao [Liang Ch'i-ch'ao] and the isolated reforms these individuals were able to introduce and promote, China's Four Modernizations is based on a developing

1. L. BIANCO, *ORIGINS OF THE CHINESE REVOLUTION, 1915-1949*, at 1 (1971).

2. *Id.* at 5-6; In the preface of *HAIGUO TUZHI* [HAI-KUO T'U-CHIH] (AN ILLUSTRATED GAZETTEER OF THE MARITIME COUNTRIES), the compiler Wei Yuan states that because China suffered greatly from the Opium War, some Chinese became aware that China could not control its invaders until it had mastered their superior knowledge of technology.

3. Chinese is given first in pinyin romanization, followed by Wade-Giles in brackets where different.

4. BIANCO, *supra* note 1; LI JIANNONG [LI CHIEN-NUNG], *ZHONGGUO JINBAINIAN ZHENGZHI SHI* [CHUNG-KUO CHIN-PAI-NIEN CHENG-CHIH SHIH] (POLITICAL HISTORY OF CHINA IN THE PAST CENTURY) (1948).

legal framework which institutionalizes and protects the importation and introduction of foreign technologies into all aspects of Chinese daily life. It is in this context that the China Investment Guide 1984-1985 [hereinafter "Investment Guide"] is significant. The fact that the Investment Guide has been compiled is significant in that it is evidence that the legal framework to govern and protect direct foreign investment in China is taking hold.

The Investment Guide is the most comprehensive handbook available to date which summarizes the key information necessary for business and legal professionals to develop a basic understanding of the trade and investment infrastructure and environment of China. The Investment Guide is unique in that it has been written with the approval of the China International Economic Consultants Inc., in conjunction with an Editorial Advisory Board which includes key personnel from China's Ministry of Foreign Economic Relations and Trade, Ministry of Finance, Ministry of Justice, China International Trust and Investment Corporation, State Planning Commission, State Economic Commission, State Economic Research Center, Bank of China, People's Bank of China, Customs Bureau, and other state departments responsible for various aspects of foreign investment and trade.

The Investment Guide is divided into six sections which provide an overview of investment potential, regional and industrial sector investment profiles, channels for foreign investment, the mechanics of making an investment, investment protection and taxation issues, and a compilation of the basic foreign investment laws and regulations. The first section of the Investment Guide presents a general overview and survey of the demographics, political structure, and the economic, financial, auditing, monetary, legal and insurance systems which exist in China. In addition to the wealth of general data and statistics such as the volume of trade statistics and a comprehensive listing of China's trade agreements and protocols which may prove useful for potential China traders and investors, pricing policies, price control, a description of the domestic market, including commodity circulation, purchasing power, retail markets, rural markets, raw materials, and labor are also discussed. By reading this section newcomers and potential newcomers to the China business can also gain a basic understanding of the guiding principles by which China pursues its foreign trade and foreign economic relations.

The second section of the Investment Guide focuses on the four special economic zones ("SEZ's") of Shenzhen, Zhuhai, Shantou, and Xiamen, the fourteen open coastal cities, Hainan Island, the provinces, municipalities and autonomous regions, and the major industrial sectors. The preferential legislation available to foreign investors in the SEZ's include favorable tax rates to which individuals and enterprises are subject, land use fees, labor rates, and the import and export tariffs. Each of the SEZ's, the fourteen open coastal cities, Hainan Island, the provinces, municipalities and auto-

mous regions is described in its own section. Each region has its geography, products and resources, infrastructure, foreign investment, and foreign investment control organizations summarized, and in most cases, local maps, addresses, telephone numbers and telex numbers of key foreign trade and investment organizations are provided.

The second section of the Investment Guide also provides extensive information about the energy, transportation, agriculture, raw materials, engineering, food and light industry, medical products, tourism, and technological transformation sectors. The coal, petroleum, and offshore oil industries as well as the hydropower, thermal power, nuclear power, and power networks and the strategy for their future development are dealt with at some length. China's transportation infrastructure including railway network, road systems, seaports, and civil aviation networks are summarized. Iron and steel, non-ferrous metals, chemicals and petrochemicals, and building materials are summarized in the raw materials section. The chapter on engineering may be of special interest to potential foreign investors that specialize in technology transfer since machine building, ship building, motor vehicles, civil aviation, locomotives and rolling stock, electric power transmission and transformation equipment, computers, special electronic equipment and devices, telecommunications, postal services, and the various development targets for these sectors are described at length in the chapter. Since much of China's economic strength depends on the agricultural, food, and light industry sectors, the Investment Guide also addresses cereals, cash crops, animal husbandry, timber, aquaculture, food processing, textiles, durable consumer goods, packaging and decoration, and the paper industries.

In the third section of the Investment Guide, the reader will discover descriptions of all of the major foreign investment and trade organizations, their addresses and telex numbers. In a society where the "bureaucracy" of state workers encompasses the vast majority of the population, and where market forces are being steadily introduced into an increasingly decentralized economy, the foreign investor, trader and lawyer can expect the channels of foreign investment to be a complex, multi-layered network consisting of various central government ministries, trust and investment corporations, and major consultancy and specialized organizations. Foreign investors, traders and lawyers in China can obtain basic information about the range of Chinese counterparts that may be responsible for the supply of needed labor and materials, approval of ventures, exchange controls, customs and taxation matters.

The section of greatest interest to the Western lawyer or businessperson is probably the section which concerns the forms of doing business with China. Joint ventures are perhaps the primary mechanism for direct foreign investment in China. Contractual joint ventures, popularly called "cooperative management" in China, refer to a contract in which the liabilities,

rights and obligations of the two partners are stipulated. The common practice in a contractual joint venture is for the foreign partner to provide the needed capital, equipment, and technology while the Chinese side provides the premises, work force, and services, and the two sides run the enterprise jointly. This section contains a chapter on joint venture negotiations which discusses such key items as export and domestic sales, management and control, foreign exchange control, and labor and wage management. The mechanics of setting up a joint venture, from choosing a Chinese partner, to making the initial contact, to the face-to-face discussions, to the feasibility studies, and the approval process, are also discussed. Case studies of joint ventures including hotel projects, catering projects, joint wine production, and the establishment of tourist centers are described. A complete listing of joint ventures concluded between 1979-83 describing Chinese and foreign partners, total investment and terms of the joint venture provides an excellent overview of the scope and types of investment currently being undertaken. Both the equity joint venture and contractual joint venture are described at length and prior joint ventures in which foreign parties have made significant monetary investments are listed.

Compensation trade is another form of direct foreign investment through which Chinese enterprises purchase technology and equipment from foreign investors on credit and pay off the principal and interest of the purchase price with products produced with the technology and equipment by installments or on deferred terms. The four specialized leasing companies in China and leasing as a unique way of raising funds by combining commodity credit with various loan structurings are briefly described. Processing of supplied materials, sometimes referred to as co-production, refers to a form of cooperation in which the Chinese enterprises use the raw materials, subsidiary materials, components, and parts supplied entirely or in part by foreign firms for processing and assembling in conformity with the foreign firms' requirements concerning quality, design, and other specifications. A general description of licensing agreements, technical services, and assistance is also included in this section.

The section on investment protection and double taxation focuses on the application procedures and requirements for the granting of patent rights and registration of trademarks under the new Chinese patent law which went into effect April 1, 1985, and the trademark law, which went into effect on March 1, 1983. A brief section discusses the bilateral investment protection agreements between the Chinese and foreign governments of Romania, Sweden, the Federal Republic of Germany, and the Belgium-Luxembourg Economic Federation. The section on protection against double taxation is relatively brief and summarizes the taxation agreements China has signed with Japan, the United States, and France.

The final section of the Investment Guide is a compilation of the major

foreign investment laws and regulations promulgated by China.⁵ It should be noted by readers that the English text of all legislation is an unofficial translation and the Chinese text should be regarded as definitive in case of any discrepancy.

With the establishment and development of a new legal and regulatory system concerning foreign economic and trade relations and the encouragement of direct foreign investment by the government of China, the investment and trading opportunities for the Western business community are unprecedented. The Investment Guide is an unparalleled general reference and is "must" reading for everyone considering or already engaged in trade and investment with the People's Republic of China.

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5. For a more complete compilation of both Chinese and English statutory texts, see *COLLECTION OF LAWS AND REGULATIONS OF CHINA CONCERNING FOREIGN ECONOMIC AND TRADE RELATIONS* (1983).

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